

House-Passed Supplemental Operating Budget Would Increase Spending, Increase Taxes, and Tap the Rainy Day Fund

Briefly

- As passed by the House, the supplemental would increase 2015–17 NGFS+ spending by \$478.4 million.
- Of that, \$99.0 million would be spent to recruit and retain teachers and school staff.
- The budget assumes enactment of \$123.8 million in tax increases.
- It would transfer \$64.0 million from other funds to the NGFS+.
- It would appropriate \$466.4 million from the budget stabilization account (the rainy day fund).
- Accounting changes allow the budget to balance over four years.

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

	2015-17
Beginning Balance	1,011
Revenue	
Feb. 2016 Revenue Forecast	37,837
2016 Proposal Revenue Legislation Budget Driven Revenue	124 (6)
Total Revenue	37,955
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	64 (90)
Total Other Resource Changes	(90)
Total Resources	38,877
Spending	
Enacted 2015-17 Budget	38,219
Assumed Reversions	(173)
2016 Proposal Net Maintenance Level Changes Net Policy Changes	219 259
Total Spending	38,525
Reserves	
Unrestricted Ending Fund Balance	352
Budget Stabilization Account Balance	890
2016 Proposal Fire Costs Levies Homelessness K-12 Construction	(190) (91) (37) (149)
BSA Ending Balance	423
Total Reserves	775

The House passed a supplemental operating budget on Feb. 25. It would increase near general fund–state plus opportunity pathways (NGFS+) spending for 2015–17 to \$38.525 billion. The proposal would increase taxes, and it would appropriate an additional \$466.4 million from the budget stabilization account (the rainy day fund).

Balance Sheet

Revenues. The House assumes enactment of HB 2996, which would increase revenues by \$123.8 million in 2015–17. It would apply the real estate excise tax to certain foreclosures (\$34.4 million), require nonresidents to apply for a sales tax refund rather than receive an immediate exemption (\$23.9 million), apply the sales tax to bottled water (\$25.3 million), increase the business and occupation (B&O) tax rate for resellers of prescription drugs (\$18.0 million), increase the B&O tax rate for travel agents and tour operators (\$5.9 million), and increase the B&O tax rate for inter-

national investment services (\$16.3 million). (HB 2996 has not yet been acted on by the Finance Committee.)

Other Resource Changes. The House would transfer \$64.0 million to the NGFS+ from other funds. This includes \$14.0 million from the dedicated marijuana account, \$10.0 million from the public works assistance account, and \$10.0 million from the performance audit account. It also includes \$21.0 million that would be transferred from the general fund–state (GFS) to the education legacy trust account (both part of NGFS+) to pay the penalty imposed by the state Supreme Court in the McCleary case.

Spending. The House would increase 2015–17 spending by \$478.4 million. Of that, maintenance level changes (the costs of maintaining current services) would increase spending by \$219.1 million. Policy level changes add \$259.3 million. The proposal assumes reversions (authorized spending that is not expected to occur) of \$172.5 million. Altogether, these changes would increase biennial NGFS+ spending to \$38.525 billion in the House-passed supplemental.

Reserves. The House supplemental would leave an unrestricted ending fund balance of \$352 million. The House would spend down the budget stabilization account (BSA). Assuming enactment of SHB 2988, it would appropriate \$189.7 million for fire costs, \$90.6 million for local effort assistance, and \$37.2 million for homelessness during 2015–17. The proposal also assumes enactment of HB 2968, which would appropriate half of the 1 percent of general state revenues that are transferred to the BSA (\$148.9 million in 2015–17) from the BSA for K–12 school construction—this would occur on an ongoing basis. After making these appropriations, the BSA balance would total \$423.2 million. Together with the unrestricted ending fund balance, total reserves would be \$775.2 million.

Spending Details

Public Schools. The House would provide \$98.5 million to recruit and retain teachers and other school staff. This would include increasing beginning teacher salaries to \$40,000 and adding a new year to the state salary allocation model, and it would increase classified staff salaries by 1 percent. New bonuses for teachers would be funded, and spending would be increased for mentoring and

professional development.

Higher Education. The House would increase spending by \$18.0 million to maintain the state need grant at its fiscal year (FY) 2015 service level for FY 2016 and FY 2017.

Department of Social and Health Services (DSHS). The House would provide \$11.0 million in transitional support for Western State Hospital, “in response to an emergent and imminent jeopardy determination by the Centers for Medicare and Medicaid Services.” The House would also increase spending by \$33.8 million for individual provider homecare worker overtime.

Other Human Services. In the Health Care Authority (HCA), the House would restore \$26.1 million after savings expected in the Healthier Washington program did not materialize. Similarly, the House would restore \$16.7 million for unrealized savings from a federal waiver request. It would reduce HCA spending by \$32.3 million by utilizing marijuana tax revenue in lieu of GFS dollars for low-income health care and community health centers.

Other. The House would increase spending by \$32.2 million to settle claims in

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

	Original 2015-17 Appropriations		Proposed 2016 Supplemental		Revised 2015-17 Appropriations	
	NGFS+	All Funds	NGFS+	All Funds	NGFS+	All Funds
Legislative	153,796	173,930	425	379	154,221	174,309
Judicial	267,132	337,921	3,135	4,102	270,267	342,023
Governmental Operations	510,107	3,792,924	(314)	105,873	509,793	3,898,797
Other Human Services	5,952,628	21,333,537	206,888	(185,833)	6,159,516	21,147,704
DSHS	6,381,151	13,932,885	94,952	330,549	6,476,103	14,263,434
Natural Resources	308,873	1,713,043	(32,913)	37,831	275,960	1,750,874
Transportation	80,612	195,359	3,763	4,219	84,375	199,578
Public Schools	18,156,830	20,008,166	132,549	194,012	18,289,379	20,202,178
Higher Education	3,525,134	13,826,980	11,194	14,054	3,536,328	13,841,034
Other Education	347,928	736,946	(1,462)	7,551	346,466	744,497
Special Appropriations	2,534,988	2,836,614	60,220	181,164	2,595,208	3,017,778
Total	38,219,179	78,888,305	478,437	693,901	38,697,616	79,582,206

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.

the Moore v. HCA lawsuit (which was related to employee health benefits). Appropriations would also provide \$21.0 million to pay McCleary fines (at \$100,000 per day, this amount covers the penalty through March 9).

Outlook

Under state law, the Legislature is required to pass budgets that balance over four years. They do not have to balance in the ensuing biennium if money is appropriated from the BSA in the current biennium. Additionally, the law (RCW 43.88.055) specifies that in 2013–15 and 2015–17, costs related to the McCleary decision do not have to be included in maintenance level for the purposes of the four-year outlook.

The House maintains that its budget balances over four years, leaving a projected ending fund balance of \$4 million in 2017–19. But the House reduces the maintenance level for 2017–19 by \$487 million to exclude K–3 class size reduction expenditures that are planned pursuant to McCleary. The House says that these were voluntarily included in the outlook for the 2015–17 enacted budget.

Additionally, as noted above, the House would redirect half of the 1 percent transfer that is supposed to be made to the BSA. For purposes of the four-year

outlook, the House does not reduce resources by this amount in 2017–19. Thus, the reduction is accounted for in total reserves instead of in the unrestricted ending fund balance. Otherwise, the ending fund balance would be reduced by an additional \$201 million, putting it out of balance over four years.

Comment

The House-passed supplemental would significantly increase 2015–17 spending. To help the budget balance, it relies on several tax increases, many of which have been proposed several times in recent years but not enacted. Additionally, the House would use BSA funds. A majority of the Legislature may access funds in the BSA if employment growth is less than 1 percent or if the governor declares an emergency; otherwise, tapping the BSA requires a three-fifths vote of the Legislature.

The Legislature must enact budgets that balance over four years. The purpose of this law is to encourage legislators to take a longer perspective when considering spending and revenue changes. It is particularly important this year that the Legislature maintain sound fiscal footing for 2017–19, when the Legislature will have to ramp up spending to fulfill its McCleary obligations.