



**BRIEFLY**

The House Democrats' spending plan pushes hard on the I-601 spending limit and substantially increases spending.

# House Democrats Present Budget: Spending Up, 601 Challenged

House Democrats announced their proposed 2000 Supplemental Operating budget yesterday, emphasizing K-12 spending and I-695 mitigation.

The proposal lifts general fund state (GFS) spending by \$205 million, primarily for transit, transportation and local government assistance. In addition, tax credits, transfers and tax relief reduce available revenues by \$163 million. Finally, the Democratic proposal transfers \$220 million from the emergency reserve fund (ERF) to support transportation and school construction projects. (The plan anticipates legislation reducing the ERF from 5 percent of biennial spending to 5 percent of *annual* spending.) All together, increased spending and transfers from the GFS (including the ERF) total \$558 million.

The budget challenges I-601 in ways similar to the Governor's budget proposal last December: local option sales tax credits, asymmetric adjustments in the spending limit, plus a new wrinkle – appropriations from the emergency reserve fund.

As a result of transfers and adjustments, the I-601 spending limit under the Democratic budget proposal increases by \$191 million. Total reserves fall to \$749 million, with \$393 million left in the emergency reserve fund.

As Figure 1 details, the Democratic budget makes a series of revenue adjustments.

**House Democratic Proposal  
2000 Supplemental Budget  
General Fund - State  
(Dollars in Millions)**

<b>RESOURCES</b>		
	<b>1999-01</b>	<b>2001-03</b>
Unrestricted Beginning Balance	462	393
HB 3043 Adjust Deposit to Emergency Rese	67	-
<b>Revised Unrestricted Beginning Balance</b>	<b>529</b>	<b>393</b>
February Revenue Forecast	20,843	22,554
Better Schools Fund Transfer (Lottery)	(58)	(232)
Seniors Property Tax Cut	(20)	(75)
Property Tax Value Averaging	-	(25)
Transportation Tax Credit	(30)	(93)
Sound Transit Tax Credit	(30)	(70)
Shorelines Tax Credit	(25)	(50)
Net Revenue	20,680	22,009
<b>Total Resources</b>	<b>21,209</b>	<b>22,402</b>
<b>SPENDING LIMIT AND APPROPRIATIONS</b>		
Official 601 Spending Limit	20,651	
Net Adjustments to Limit	191	
<b>Revised 601 Expenditure Limit</b>	<b>20,842</b>	<b>21,828</b>
Operating Budget, ESSB 5180	20,573	
2000 Supplemental	(8)	
Local Government Assistance	83	
Local Transit Districts	80	
Transportation Fund Transit Liability	50	
<b>Total General Fund - State Appropriations</b>	<b>20,778</b>	<b>21,828</b>
Spending Compared to Limit	(65)	-
<b>UNRESTRICTED GENERAL FUND RESERVES</b>		
Beginning Balance	462	393
Change in Reserves	(69)	(14)
<b>Unrestricted Ending Balance</b>	<b>393</b>	<b>379</b>

FIGURE 1



Lottery money is transferred to a new “better schools fund,” resulting in a \$58 million shift in the current biennium. More than \$520 million in new revenue is estimated to flow from the transfer through FY 2005. The fund would support class size reduction, extra learning opportunities and necessary facilities. The proposal is tied to a referendum for the November ballot.

As well, three different tax credits are created: the transportation tax credit (\$30 million in the first year and totaling \$215 million over five years) for local transportation improvement projects; the Sound Transit tax credit (\$30 million initially, \$214 million over six years) for the regional transit system; and the shorelines tax credit (\$25 million initially, \$125 million over five years) for county habitat restoration and preservation.

GFS revenues are also reduced by two measures to provide property tax relief, a value averaging proposal and a tax cut for seniors.

In direct appropriations, the budget takes advantage of the savings derived from lower enrollments and caseloads, as well as savings initiatives including staff reductions in the Department of Social and Health Services (DSHS), Medicaid fraud and abuse detection, and other directed efficiencies in DSHS and other state agencies. Savings in the K-12 budget resulting from lower-than-anticipated enrollments are offset by a number of new appropriations, including grants for professional development, extended learning, school security, and civil liberties and character education programs. Additional relatively minor sums are appropriated for a variety of health, social service, environmental, and public safety programs, for technology training and for electronic commerce initiatives.

The major new GFS appropriations are principally for I-695 mitigation, and total \$213 million. Local governments receive \$73 million to replace lost MVET money (\$40.8 to counties and \$32.1 to cities). Most of this funding is targeted for criminal justice assistance. An additional \$4.7 million is designated to settle a lawsuit brought by counties relative to costs imposed on them by “Becca” legislation for runaway youth. Another \$5.2 million pays for legal services for indigents in child dependency proceedings. The budget also provides \$33.2 million to public health districts from the health services account to restore 90 percent of lost MVET dollars.

In an unusual move, the budget transfers money directly from the emergency reserve fund to fund transportation and school construction programs.

The transfers reduce the ERF by \$220 million. The \$120 million transportation, ferry and rail funding is targets freight mobility and replaces funding lost to the ferry system with passage of I-695. The \$27 million ferry system transfer is split: \$10 million for operations and \$17 million for capital. The remaining \$93 million

FIGURE 2

<b>EMERGENCY RESERVE FUND</b>		
Beginning Balance	536	355
New Deposit	38	195
HB 3043 Correct Deposit to Emergency Reserve	(67)	-
Transfer to State Transportation and Ferry Programs	(107)	-
Transfer to Rail Programs	(13)	-
Transfer to K-12 Construction	(100)	(200)
Interest Earnings	68	36
<b>Emergency Reserve (Assumes 5% Annual Threshold)</b>	<b>355</b>	<b>386</b>



is primarily dedicated to projects identified by the freight mobility strategic investment board. For school construction, the budget transfers \$100 million from the ERF to the common school construction account.

Under the Democratic budget plan, the I-601 limit is increased by \$158 million dollars to account for shifts of the costs of local government programs to state government. An additional \$33 million increase in the limit reflects other budget-driven adjustments.

Adjustments to I-601 Expenditure Limit (dollars in millions)	
	<u>1999-01</u>
<b>Official I-601 Spending Limit</b>	<b>20,651</b>
Local Government Assistance	73
Indigent Defense for Dependency Hearings	5
Transit District Costs	80
Budget Driven Adjustments	<u>33</u>
<b>Revised I-601 Expenditure Limit</b>	<b>20,842</b>

**Discussion.** The budget interprets Initiative 601 quite liberally. The limit is raised, as is appropriate, when the state accepts responsibility for funding the costs of local government programs, but it is not lowered to reflect the diversion of state revenues through the device of the so-called local option tax credits. This is asymmetrical and wrong. Local option tax credits totaling \$85 million should reduce the limit by a like amount. Transfers from the ERF are

FIGURE 3

indistinguishable from appropriations and clearly violate I-601. (See our Policy Brief, “Fiscal Proposals Threaten the Spending Limit,” for a more complete discussion of these issues.)

At this time, the House Republican and Democratic proposals appear to be farther apart than the difference in spending levels suggests. While there’s some agreement on transit, public health and local government, the Democratic plan pushes hard on the spending limit and substantially increases spending. The Republicans hew closer to the 601 line, emphasize longer-term infrastructure investment through debt financing, and avoid the fiscally risky strategies of local option tax credits.

Ultimately, the philosophical commitment to I-601 and expenditure constraint is likely to pose a greater obstacle to bipartisan compromise than disagreements about spending priorities.



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