

HOUSE WAYS & MEANS CHAIR'S PROPOSED 2012 SUPPLEMENTAL

BRIEFLY

The House W&M chair's proposal solves a \$1.05 billion problem by increasing revenues by \$114.5 million, transferring \$53.7 million into the general fund, reducing policy level spending by \$476.6 million, and shifting \$404.8 million of school payments. It would leave ending reserves of \$504 million.

Since the early action supplemental, new revenue and caseload estimates have reduced the budget problem.

When Gov. Gregoire released her supplemental budget proposal in November, the estimated shortfall in the 2011–13 budget was \$2 billion, assuming reserves of \$600 million. During the December special session, legislators solved \$480 million of the problem, leaving the remainder for the regular session.

Since the enacted early action supplemental, new revenue and caseload estimates have reduced the size of the budget problem by about \$425 million. The House Ways and Means Committee (HW&M) chair has now proposed a supplemental budget (PSHB 2127) that would leave an ending reserve of \$504 million.

To address the gap, the HW&M chair's proposal would increase revenues by \$114.5 million, transfer \$53.7 million into the general fund from other accounts, make policy level reductions totaling \$476.6 million, and shift \$404.8 million in school payments.

Spending Changes

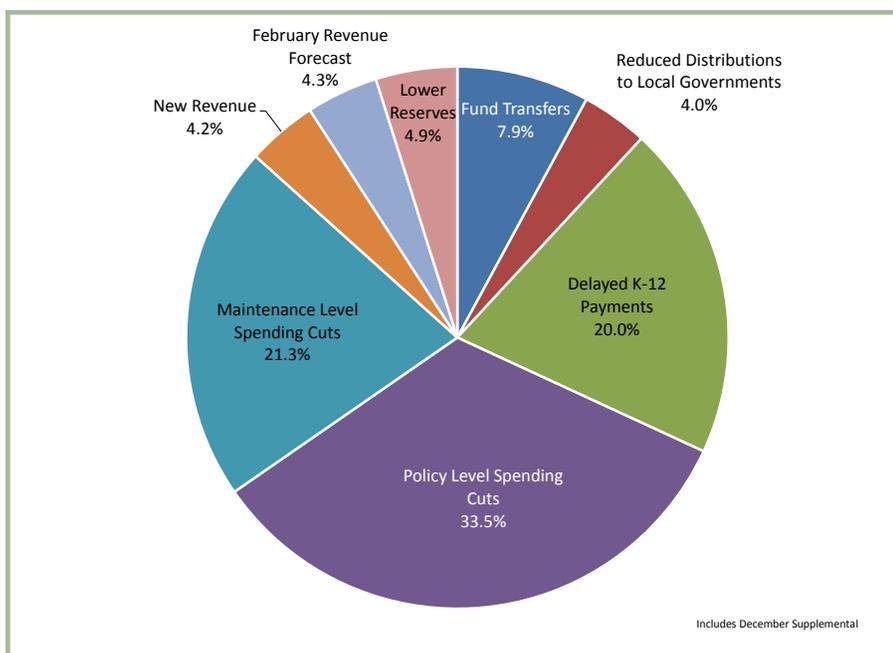
Expenditure reductions under the proposal total \$1.216 billion (near general fund–state plus opportunity pathways, NGFS+). Of that, \$334.9 million is from maintenance level reductions, and \$404.8 million is merely a shift in payments to school districts from fiscal year (FY) 2013 to FY 2014. That leaves \$476.6 million in policy reductions. Every budget area would see net cuts. (The numbers below are policy changes only. See Table 2 for a break-out of policy and maintenance level changes by budget area.)

Legislative. The legislative budget area would be reduced by \$2.9 million. Legislative support functions would be consolidated into a single office (saving \$366,000). Voluntary salary reductions for members of the legislature would save \$183,000.

Judicial. The judicial budget area would be cut by \$20.0 million, largely from cuts to the Administrative Office of the Courts and the Office of Public Defense. The Becca/Truancy program would be eliminated April 1, 2012 (saving \$8.7 million), and the state would no longer contribute to the salaries of district court judges or elected municipal judges (saving \$4.0 million). Trial court level indigent defense assistance would be cut (saving \$8.3 million), but \$6.1 million would be provided for the representation of indigent respondents in sexually violent predator civil commitment cases (these had been funded through the special commitment center).

Governmental Operations. The governmental operations budget area would be reduced by \$8.9 million. The Office of the Attorney General would receive \$5.7 million for legal costs associated with sexually violent predator civil commitment cases. Numerous programs within the Department of Commerce would be reduced (many up to 36 percent) or eliminated, with a net reduction of \$8.8 million. The Office of Financial

Chart 1: The HW&M Chair's Solution to the \$2 billion Shortfall



Management would save a net of \$3.2 million by reducing staff and transferring salary funding for certain staff to transportation and capital accounts.

Department of Social and Health Services (DSHS). DSHS would be cut by \$186.7 million. Regional Support Networks (RSN) Medicaid rates would be reduced (saving \$7.9 million), and RSN non-Medicaid funding would be reduced by 7.5 percent (saving \$9.6 million). Two wards at Western State Hospital would be closed (saving \$5.9 million). State-only employment and day services would be eliminated January 30, 2013 (saving \$7.7 million), and rates would be reduced for community residential providers who serve clients with developmental disabilities (saving \$7.4 million). One-time savings of \$7.8 million would be realized in FY 2012 from under expenditures in community and institutional services. Initiative 1163 (the long-term care training and certification initiative approved by voters in 2011) would

be funded (\$14.4 million).

Nursing home rates would be reduced, and the safety net assessment fee would be increased. According to the budget documents, “on average, nursing facilities will see approximately an 1.5 percent per day rate increase in overall rates.” These nursing home provisions would save \$16.0 million.

Under expenditures in the Temporary Assistance for Needy Families and Working Connections Child Care programs would be realized (saving \$77.0 million). The Economic Services Administration would save \$8.1 million through one-time staffing under expenditures.

Other Human Services. Funding for the other human services budget area would be reduced by \$59.4 million. Indigent Assistance Disproportionate Share Hospital program payments would be eliminated (saving \$13.1 million). The methodology for reimbursements to critical access hospitals would be changed (saving \$13.5 million).

The Criminal Justice Training Commission would save \$4.6 million by requiring cadets’ training (at the Basic Law Enforcement Academy, Corrections Academy, and Juvenile Corrections Officer Academy) to be funded by their local agencies or themselves effective July 1, 2012. In the Department of Corrections, the length of offender supervision would be reduced to 12 months (supervision of sex offenders would be reduced from 36 months to 24 months), to save \$3.2 million. Additionally, a structured community supervision violation process would be implemented (saving \$15.8 million). Chemical dependency funding reductions would save Corrections \$5.1 million. The proposal would provide \$3.1 million to install narrowband radios and implement prison safety measures.

Natural Resources. The natural resources budget area would be reduced by \$38.6 million. The Department of Ecology would eliminate management staff (saving \$1.8 million). General fund funding of the Environmental Assessment Program would be reduced and offset with funds from the State Toxics Control Account (saving \$5.6 million), and funding for watershed planning technical assistance to local governments and tribes would be reduced (saving \$3.3 million). The Conservation Commission would be eliminated July 1, 2012 (saving \$5.2 million). The Department of Fish and Wildlife would suspend payments in lieu of property taxes to counties for the biennium (saving \$1.8 million), and funding for aquatic lands management would shift to the

Table 1: 2011–13 Balance Sheet, NGFS+ (Dollars in Millions)

Beginning Balance	(60)
Revenue	
November Revenue Forecast	30,569
February Forecast Update	87
December Revenue Action (Unclaimed Property)	51
HW&M Chair Proposed	
Tax Increases & Budget Driven Revenue	33
Reductions to Local Government Distributions	82
Total Revenue	30,821
Other Resource Changes	
Transfer to Budget Stabilization Acct.	(265)
Other Transfers in Original Budget	244
December Transfers	106
HW&M Chair Proposed Transfers	54
Total Other Resource Changes	139
Total Resources	30,899
Spending	
Original Enacted Appropriations	32,200
December Supplemental	
Maintenance Level Changes	(96)
Policy Level Changes	(227)
HW&M Chair Proposed	
Maintenance Level Changes	(335)
Policy Level Changes	(882)
Total Spending	30,661
Unrestricted Ending Fund Balance	239
Budget Stabilization Account Balance	265
Total Reserves	504

	Policy	Maintenance	Total
Legislative	(2,872)	89	(2,783)
Judicial	(20,040)	(11)	(20,051)
Governmental Operations	(8,947)	(19)	(8,966)
Other Human Services	(59,354)	(247,109)	(306,463)
DSHS	(186,691)	(4,731)	(191,422)
Natural Resources	(38,579)	(51)	(38,630)
Transportation	(11,832)	(46)	(11,878)
Public Schools*	(21,062)	(73,129)	(94,191)
Higher Education	(59,337)	(216)	(59,553)
Other Education	(3,809)	(2)	(3,811)
Special Appropriations	(64,087)	(9,713)	(73,800)
Statewide total	(476,610)	(334,938)	(811,548)

*Adjusted for the school payment shifts

Table 2: Changes in the HW&M Proposal (NGFS+, Dollars in Thousands)

Aquatic Lands Enhancement account (saving \$4.3 million). Three salmon hatcheries would be closed or reduced (saving \$1.3 million). The Department of Agriculture would save \$2.2 million by increasing food safety fees paid by the dairy, egg, food processing, and food storage industries.

Transportation. Transportation would be reduced by \$11.8 million. Reduced staffing for the Washington State Patrol would save \$5.6 million. Additionally, the Bureau of Forensic Laboratory Services would begin charging local jurisdictions for sample analysis (saving \$6.3 million).

Public Schools. Public schools funding would be reduced by \$425.9 million; however, \$404.8 million of that represents shifts in payments. First, the proposal would shift apportionment payments to school districts from the last business day of June 2013 to the first business day of July 2013 (and into the 2013–15 biennium). \$340.0 million would be shifted, but \$10.0 million would be provided in 2011–13 as contingency funds. Second, the proposal would shift May and June 2013 levy equalization payments to July 2013 (moving \$74.8 million into the next biennium).

The proposal would also reduce the minimum number of certificated instructional staff for small high schools (saving \$11.5 million). It would eliminate math and science professional development in school year (SY) 2012–13 (saving \$3.5 million). For SY 2011–12, National Board bonuses would be reduced (saving \$8.3 million).

Higher Education. Higher education would be reduced by \$59.3 million. The proposal would create a new Student Achievement Council, to which funding for the Council for Higher Education and Office of Financial Assistance would be transferred.

Funding for the four-year institutions would be reduced by 3 percent (except Western Washington University, whose funding would be reduced by 2.5 percent), to save a total of \$30.0 million. Funding for the community and technical college system would also be reduced by 3 percent (saving \$35.0 million). The percent of a full-time state need grant award would be reduced for SY 2012–13 (saving \$10.0 million). The proposal would fund educational opportunities in science, technology, engineering and math (STEM) in the community and technical college system (\$2.0 million) and provide \$4.4 million for a STEM degree incentive program through the Student Achievement Council.

Other Education. The other education budget area would be reduced by \$3.8 million. State funds used for child care subsidies to seasonal agricultural workers through nonprofits would be eliminated (saving \$2.1 million).

Special Appropriations. Special appropriations would be cut by \$64.1 million. Agencies would realize information technology savings (\$12.5 million). Also, the Public Employees’ Benefits Board funding rate would be reduced from \$850 per employee per month to \$800 for FY 2013 (saving \$33.1 million).

Public Health Funds. The proposal would eliminate funding for public health that is distributed to local health jurisdictions (saving \$9.0 million in the Department of Health and \$12.0 million in Special Appropriations). These funds would be partially offset by redirecting the local share of liquor excise taxes to local public health (\$14 million for 2011–13).

New Revenue

Additionally, the HW&M chair proposes \$114.5 million of new revenue. Of that, \$80.3 million would come from permanent reductions in distributions to local governments (not including the local share of liquor excise taxes that would be redirected to public health). Making up the \$80.3 million:

- A modification of liquor profits sharing, consistent with Initiative 1183 (\$41.8 million)
- County Criminal Justice Assistance (\$18.4 million)
- Rural County Sales Tax Credit (\$10.3 million)
- Municipal Criminal Justice Assistance (\$7.3 million)
- Beer Tax (\$2.5 million)

These reductions represent a new policy “that changes the relationship between state and local governments by reducing state support . . . while giving local governments additional local taxing authority to offset, at least in part, the reduction in state support.” A contingency fund of \$7.0 million is provided in the proposal to assist local governments that have used the new tax authority but cannot maintain critical services without one-time help.

Under the proposal, counties with less than 250,000 people would be able to impose a 0.2 percent sales and use tax, with 85 percent of the receipts going to the county and 15 percent to its cities. Counties with 250,000 or more people (Clark, King, Kitsap, Pierce, Snohomish, Spokane, Thurston, and probably Yakima) would be able to impose a 0.1 percent sales and use tax, with 55 percent of the receipts going to the county and 45 percent to its cities. Should a county opt not to impose the tax by Jan. 1, 2013, its cities may do so.

Additionally, cities and counties would be able to impose a 0.5 percent sales tax on food and beverages sold by restaurants, taverns, and bars. Currently, counties may levy 0.3 percent local public safety and use taxes; under the proposal, the taxes would no longer require voter approval. Counties would be able to impose a 6 percent utility tax, but counties with more than 1.5 million people (King) would not be able to tax natural gas.

Other significant proposals that are part of the \$114.5 million in new revenue are: a proposal to limit the business and occupation tax deduction for mortgages that would affect only banks with business in 10 or more states (\$18.1 million), and a proposal (HB

2565) that would consider owners of roll-your-own-cigarette machines to be manufacturers of cigarettes under the Master Settlement, tobacco product manufacturers, and cigarette taxes statutes, and that would consider the product of such machines to be cigarettes (\$13.1 million).

Fund Transfers

The proposal would transfer \$53.7 million from various accounts to the general fund. The bulk of this is \$37.5 million from the Education Savings Account. Other accounts are: Public Service Revolving, Treasurer Services, Fair, Financial Services Regulation, Worker and Community Right-to-Know, and Manufacturing Innovation and Modernization.

GOP Striking Amendment

The HW&M ranking minority member has released a proposed striking amendment. It addresses the same problem of \$546 million, but it would leave an ending reserve of \$625 million, making the total problem \$1.17 billion. The striking amendment includes new revenues (\$127.0 million), fund transfers (\$66.5 million), spending reversions (\$160.0 million), and policy level spending reductions (\$817.2 million).

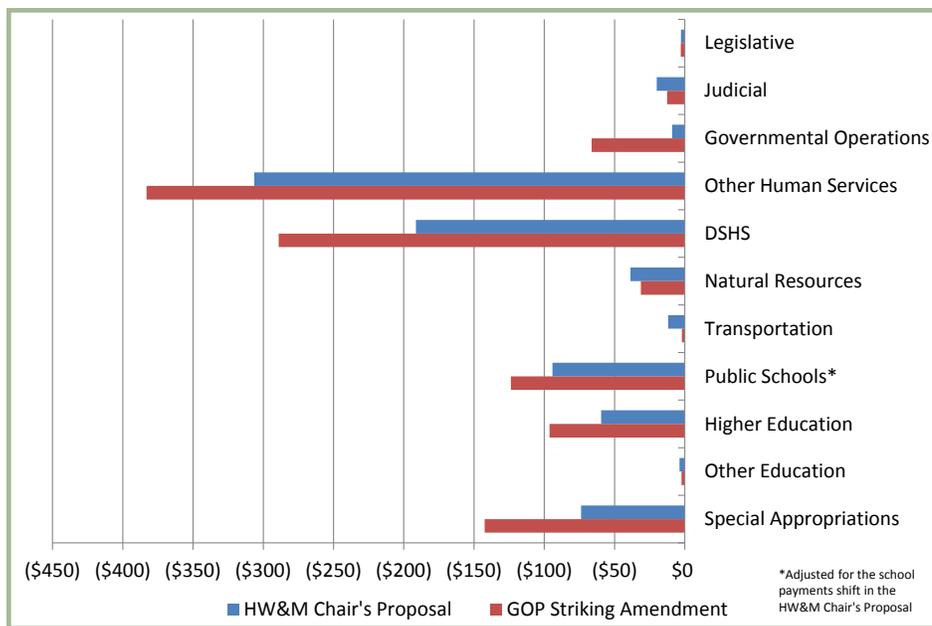
Discussion

Since the governor’s proposed supplemental, the shortfall problem eased somewhat as a result of reduced projections of caseload costs and increased expected revenues. While those developments lessened the pressure for increased taxes, the proposal does make higher local taxes possible, if not probable.

Additionally, the HW&M chair’s proposal, like the governor’s earlier supplemental budget plan, makes heavy use of a timing shift in payments to school districts. The proposal cuts and defers enough spending to leave a healthy ending reserve, but it rolls a substantial shortfall into the 2013–2015 biennium. Given the 40 percent probability that revenues will come in below the level projected in the February forecast, this is imprudent.

The budget also fails to address the issue of programs that remain on the books, unfunded. In our earlier policy brief, *The Drag of Unfunded Mandates*, the Research Council recommended repealing such provisions. Programs like Initiatives 728 and 732 are not funded in this budget, but they are also not repealed. They, and the school payment timing shift, are left to be dealt with in

Chart 2: Comparing the Changes in the HW&M Proposal and the GOP Striking Amendment (Dollars in Millions)



	2011-13 Appropriations (Early Action Supplemental)		Chair's Proposed 2012 Supplemental		Revised 2011-13 Appropriations	
	NGFS+	All Funds	NGFS+	All Funds	NGFS+	All Funds
Legislative	142,367	149,452	(2,783)	(2,783)	139,584	146,669
Judicial	222,072	276,405	(20,051)	(18,531)	202,021	257,874
Governmental Operations	462,400	3,685,914	(8,966)	(14,192)	453,434	3,671,722
Other Human Services	6,221,406	14,833,990	(306,463)	(347,493)	5,914,943	14,486,497
DSHS	5,675,485	11,199,569	(191,422)	(72,452)	5,484,063	11,127,117
Natural Resources	301,473	1,492,188	(38,630)	(5,465)	262,843	1,486,723
Transportation	74,934	175,048	(11,878)	(5,282)	63,056	169,766
Public Schools	13,708,437	15,677,072	(499,032)	(494,632)	13,209,405	15,182,440
Higher Education	2,750,007	11,116,976	(59,553)	(53,514)	2,690,454	11,063,462
Other Education	166,325	511,753	(3,811)	14,520	162,514	526,273
Special Appropriations	2,152,159	2,294,143	(73,800)	(72,407)	2,078,359	2,221,736
Total	31,877,065	61,412,510	(1,216,389)	(1,072,231)	30,660,676	60,340,279

Table 3: Dollars in Thousands
(Includes the school
payment shifts)

2013–15.

As this brief is written, proposals for reforming pensions, tackling unfunded mandates, and requiring sustainable budgets remain under consideration. Next week, the senate is expected to release its own budget proposal. Budget politics have been substantially complicated by the rolling crises of the Great Recession. Lawmakers this year have

an opportunity to reform spending for long-term sustainability. The HW&M chair's budget plan should be seen as a starting point. In the remaining days of the legislative session, steps must be taken to adopt lasting expenditure and policy reforms. Otherwise, we can anticipate another deficit-driven budget session next January, if not before.