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Looking Ahead to the Next Biennium

Current projections for the 1997-99 general fund budget reveal no extraordinary pressures from entitlement or carry-forward spending. According to a June 10 analysis by the state Office of Financial Management (OFM), existing spending practices through the next two years would place the state just \$89 million over the Initiative 601 (I-601) spending limit and would be well within projected state revenues. Trimmed to the I-601 limit, state general fund spending for 1997-99 would leave an ending balance of \$485 million. (The June 19 revenue forecast improves this picture, as it boosts combined projections for the 1995-97 and 1997-99 biennia by about \$174 million.)

The OFM report examines the cost of maintaining current state services (adjusted for caseload and enrollment growth) through the next biennium. The projections include an inflation factor of 2.5 percent for FY 98 and 2.9 percent for FY 99.

The report “presents estimates for sizing purposes only and does not represent any actual budget decisions about what programs should be funded or not funded.” However, the projection will surely frame next year’s budget deliberations.

The two major components of what OFM calls the “spring preview” are the carry-forward budget and the maintenance budget.

The carry-forward budget pulls in the 24-month costs of programs initiated in the previous biennium and removes onetime spending from the 1995-97 appropriations level of \$17.6 billion. OFM estimates carry-forward costs will add \$261 million, about 1.5 percent above 1995-97 spending.

The maintenance budget incorporates caseload and enrollment growth plus inflation. What OFM considers mandatory caseload and enrollment increases – primarily public school students, medical assistance caseloads and corrections populations – adds \$392 million. Inflation, higher average claims costs in medical assistance, and health care benefits (plus some miscellaneous maintenance items) add another \$391 million.

Finally, salary, vendor and grant increases at the inflation rate will boost spending by \$471 million, bringing the biennial total to 19.128 billion.

The table on the back page summarizes the calculations.

A couple of observations:

First, the Legislature avoided significant “bow-wave” or carry-forward spending in the general fund, perhaps aided by the Initiative 601 spending limit. Although it is true that there has been too much reliance on dedicated funds outside the general fund, credit is due legislators for exercising restraint in the supplemental budget.

Second, as OFM notes, K-12 enrollment growth is slowing, which should ease some of the fiscal pressure that has been mounting in recent biennia. From 924,426 in the 1996-97 school year, enrollments are expected to reach 952,997 in 1998-99. Special education enrollment is expected to climb from 12.1 percent of regular enrollments in 1996-97 to 12.4 percent in 1998-99.

Third, the state budget continues to be squeezed by medical assistance costs. Rising per capita costs mitigate the benefits that might be realized from slower caseload growth. The Legislature and governor should continue to search for ways to control escalation in state health care spending.

Preliminary 1997-99 General Fund Outlook

(Dollars in Millions)

Item	Biennium
1995-97 Appropriations	\$17,612.9
Legislatively Authorized Carry-Forward	
K-12 Education Enrollment Change from 95-97	131.0
Debt Service on Authorized Bonds	99.6
K-12 Compensation Carry-Forward	32.2
Corrections 95-97 Population Increase	29.1
DSHS Medical Assistance	24.1
DSHS Workload/Caseload Increases	20.8
Higher Ed Enrollment Carry-Forward	20.1
All Other Carry-Forward	62.9
Less: Nonrecurring Items	(159.1)
Subtotal Carry-Forward	\$260.7
Mandatory Caseload and Enrollment	
K-12 Enrollment Changes	185.6
Corrections Population Forecast Increases	80.7
DSHS Medical Assistance Caseload	62.5
All Other	63.2
Subtotal Mandatory Caseload and Enrollment	\$392.0
Inflation & Other Maintenance Costs	
DSHS Medical Assistance Per Capita Costs	140.1
DSHS Long Term Care Rates	69.5
Statewide General Inflation	68.7
All Other	112.6
Subtotal Inflation & Other	\$390.9
Public Employee, Vendor & Grant Increases	\$471.2
Estimated 1997-99 Expenditures	\$19,127.7

Fourth, the estimated salary increases of \$ 369 million (\$227 million for K-12 teachers and staff; \$71 for million higher education employees; \$71 for million state employees) are in addition to step increases. Legislators will again want to consider all compensation principles for public employees, including gains that may be realized through privatization and contracting out, and downsizing.

Finally, the spring outlook should be good news for campaigning politicians as well as taxpayers. The absence of a significant budget shortfall will allow the new Legislature to establish priorities without the pressure of fiscal crisis. And the prospects for additional tax relief are bright.

Correction

Please note a correction to the Quarter 2, 1996 *Notebook*. In the article, "Legislature Made Only Minor Revisions to 1996 Supplemental Budget," the table "1996 Supplemental Budget" had been updated to reflect May estimates. However, corresponding revisions in the accompanying text were not made. The text should read: "As the table shows, general fund spending *increased about \$12.7 million* and total spending (i.e., including all state funds) increased about *\$192 million.*"

We apologize for the error.