

# Washington Research Council

= Public Policy Brief =

May 1990

## Supplemental budget sets stage for 1991-93

State general fund spending of \$14.0 billion will be necessary in 1991-93 to maintain the level of spending established by the recently approved supplemental budget, according to preliminary estimates by the state Office of Financial Management (OFM, see figure below). That is \$1.2 billion, or about 10 percent, higher than the \$12.8 billion in state general fund spending approved for the current biennium. In comparison, growth between 1987-89 and the initial 1989-91 budget was 20 percent.

Major components of the spending increase include workload increases (primarily caseloads and school enrollments), inflation and what is referred to as bow wave — the full biennium costs of programs in place for only a portion of the current biennium. Examples of this include the recently approved welfare grant increase, which will be in effect for only 6 months this biennium and a full 24 months in 1991-93, and selected salary increases, which go into effect Jan. 1, 1991.

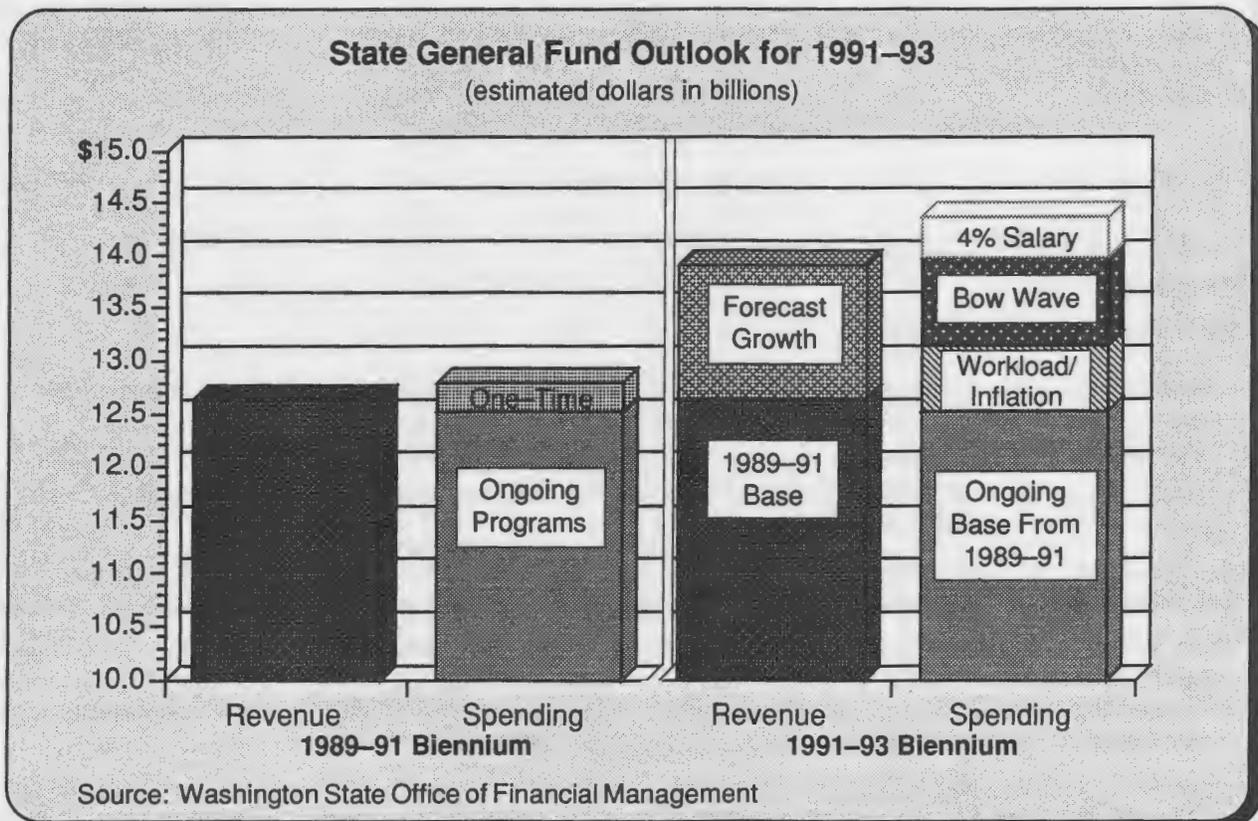
The projected spending for 1991-93 does not include salary or benefit increases for state workers or public school teachers or any new programs, nor does it reflect revised K-12 enrollment or welfare caseload forecasts, which are being updated currently by the governor's budget office.

Revenue with which to pay for this increased level of spending is projected at \$13.9 billion, according to the first "unofficial" revenue forecast for the 1991-93 biennium by the Revenue Forecast Council. This is an increase of about 10 percent over revenue for the current biennium and would leave the state with a potential operating deficit for the biennium of \$62 million. Estimated reserves of \$303 million would be available to offset the shortfall.

Over the coming months revised spending and revenue estimates for the 1991-93 biennium will emerge. A new state general fund revenue forecast will be available in mid-June. And, as the 1991 session draws near, spending requests by both state agencies and interest groups will be released.

### Salary Increases Would Add to Cost

Salary increases for state workers and K-12 teachers are generally addressed during odd-year legislative sessions, when the initial spending plan for the coming biennium is approved. The Washington Education Association, the union for the teachers, lobbied for a piece of the \$720 million revenue "surplus" during the 1990 session to pay for smaller classes and higher salaries. Some salary increases for selected teachers were approved (see *Some Compensation In-*



## 1989-91 State General Fund Budget

(dollars in millions)

Operating Revenue	February '90 Forecast	March '89 Forecast	Change from March '89 to Feb. '90	
			Dollars	Percent
General fund revenue forecast	\$12,697.8	\$12,060.6	\$637.2	5.3%
Retail sales and use tax	6,656.6	6,237.9	418.7	6.7
Business and occupation tax	2,246.9	2,118.2	128.7	6.1
Property tax	1,390.4	1,327.9	62.5	4.7
Debt service	(494.6)	(508.9)	14.3	(2.8)
Other	2,898.5	2,885.4	13.1	0.5
Other revenue/1	(93.3)	(14.1)	(79.2)	562.1
<b>Total</b>	<b>\$12,604.5</b>	<b>\$12,046.5</b>	<b>\$558.0</b>	<b>4.6%</b>

Operating Expenditures	1989-91 Total	Original Base	Supple- mental/2	Pct Growth From Base	Percent of Total
General Government	\$389.1	\$380.9	\$8.3	2.2%	3.0%
Legislative	98.8	97.9	0.8	0.8	0.8
Judicial	59.7	58.2	1.5	2.5	0.5
Executive	230.7	224.7	6.0	2.7	1.8
Human Resources	3,712.6	3,545.3	167.3	4.7	29.0
Dept. of Social and Health Services	3,076.0	2,958.7	117.3	4.0	24.0
Other Human Resources	636.6	586.6	50.0	8.5	5.0
Natural Resources	382.2	347.7	34.5	9.9	3.0
Transportation	51.1	48.1	3.0	6.2	0.4
Total Education	7,932.9	7,767.2	165.8	2.1	61.9
Public Schools	5,932.2	5,780.7	151.5	2.6	46.3
4-year	1,279.5	1,276.5	3.0	0.2	10.0
Community Colleges	635.3	631.1	4.2	0.7	5.0
Other Education	85.9	78.9	7.0	8.9	0.7
All other/3	349.2	318.4	30.8	9.7	2.7
<b>Total</b>	<b>\$12,817.2</b>	<b>\$12,407.5</b>	<b>\$409.7</b>	<b>3.3%</b>	<b>100.0%</b>
Net from Operations	(212.7)	(361.0)	148.3		
Beginning Fund balance	455.9	380.8	75.1		
Budget Stabilization Acct transfer	(200.0)	—	(200.0)		
<b>Unobligated balance</b>	<b>\$43.2</b>	<b>\$19.8</b>	<b>\$23.4</b>		
<b>Budget Stabilization Acct balance</b>	<b>\$260.0</b>	<b>\$60.0</b>	<b>\$200.0</b>		

1/ Includes amounts reserved for loans, transfers (about \$65 million of which are considered appropriations by the legislative fiscal committees) and budget driven revenue.

2/ Includes spending authorized in legislation other than the appropriations act.

3/ Includes appropriations held in reserve, special appropriations to the governor, and salary and benefit changes in the supplemental budget.

Note: Totals may not add due to rounding

Source: Office of Financial Management

creases, below). The association expects to come back next year with requests for additional salary increases. However, according to Karen Davis of the WEA, a specific dollar figure or percentage increase has not yet been set.

Salary increases are also a top priority for state employees. According to Tim Welch of the Washington Federation of State Employees, what they will push for will depend on the outcome of the 1990 salary survey, due out in September.

The federation generally lobbies for full funding of the salary survey, although Welch said that it rarely happens. They also expect to ask for full funding of health insurance and possibly a benefit increase.

Each 1 percent salary increase for teachers and other school employees beginning September of each school year would cost about \$59 million. For state workers it would cost the state general fund an additional \$30 million for 1 percent

salary increases on Jan. 1 of 1992 and 1993. If the 1991 Legislature chose to increase salaries by 4 percent each on each date for all employees it would add about \$355 million to the 1991–93 budget, for potential 1991–93 spending of \$14.3 billion (see figure on page 1).

### **Supplemental Budget Brings Biennial Spending to \$12.8 Billion**

The \$410 million state general fund supplemental budget, passed by the 1990 Legislature for the current (1989–91) budget cycle, establishes a spending level of \$12.8 billion for the biennium (see table on page 2). That's about 24 percent more than was spent during 1987–89. This supplemental budget is the equivalent of about 3 percent of the state general fund operating budget. In addition, about \$65 million is being transferred out of the general fund for spending on other programs, such as school construction and the Housing Trust Fund. For accounting reasons these transfers show up as deductions from revenue on the table.

To pay for state programs, the state expects to collect \$12.6 billion in general fund revenue during the 1989–91 biennium, according to the February revenue forecast. That falls short of approved spending by \$213 million, however, collections for January and February have exceeded forecast levels and OFM officials expect the June forecast to be higher.

Operation within the legally mandated balanced budget is made possible by use of more than \$450 million in funds left over from previous biennia. In addition, about \$280 million of the spending approved for the current biennium is for one-time only expenses, such as equipment purchases, and does not add to the ongoing spending level (see figure on page 1).

### **Allocating the 1989–91 Revenue "Surplus"**

The 1990 Legislature distributed the projected \$720 million revenue surplus for the 1989–91 biennium into three general categories. The additional spending approved put an estimated \$183 million (25 percent of the surplus) into one-time only expenses such as school construction and \$293 million (41 percent) into ongoing programs, leaving about \$243 million (34 percent) of the revenue surplus unspent. About \$65 million of the spending is in the form of transfers from the general fund. These show up as other revenue on the table at the right and are not included in the \$410 million figure for supplemental spending.

### **Money for Children's Programs**

The supplemental budget provides \$273 million for programs that benefit children. A substantial portion of this money is for school construction. The budget provides \$100 million from the state general fund for "timber land purchases and common school construction." Through timber sales and land transfers, this is anticipated to generate about \$86 million for school construction projects.

The money provided by the supplemental state general fund budget for school construction, combined with increased timber revenues, is expected to provide about \$156 million

that can be committed in state matching funds for school construction during the biennium — adequate money to fund the state's share of all the construction projects ready to go on July 1 of this year, as well as some modernization projects, according to Mike Roberts, supervisor of school facilities and organization for the Office of the Superintendent of Public Instruction. This should nearly eliminate the backlog of projects for which local funds have already been approved, Roberts said.

Other one-time education costs included in the supplemental budget were for instructional materials (\$38 million) and equipment for vocational programs (\$5 million).

Funding is also provided to reduce class sizes in both kindergarten through 12th grade (K–12 — \$13 million) and vocational programs (\$2 million). The K–12 funding is targeted to K–3 and may be used to hire either certificated instructional staff or classified instructional assistants. Other education enhancements include magnet programs in Tacoma and Seattle to encourage racial integration of schools through voluntary transfers (\$1.5 million), expansion of early intervention and prevention services provided through the Fair Start program (\$4.5 million), start-up grants for before and after school care programs (\$1 million) and expanding enrollment in the early childhood education preschool program (\$3 million, through the Department of Community Development).

### **Higher Welfare Grants, Vendor Payments**

The supplemental budget includes a 6 percent increase in welfare grant payments to aid families with dependent children (AFDC). The \$10 million budgeted for the last 6 months of the current biennium has a bow wave impact of about \$38 million for the full 1991–93 biennium. A 2 percent increase was provided on Jan. 1, 1990.

The budget also includes higher rates for vendor services such as child care and out-of-home placements (\$12 million). Other human services enhancements that will benefit children and their families include additional child protective services staff (\$4 million), expansion of the day care subsidy program for low-income working families (\$1 million), foster care reform (\$1 million), expansion of the women, infant and children nutrition program (\$2 million), children's mental health (\$1.5 million), expanded medical care for poor children, immunizations and additional money for low income housing.

### **Some Compensation Increases**

In addition to these enhancements, \$34 million is provided for K–12 employee salary increases and health benefits. These increases are targeted for senior teachers and will affect about 19,000 teachers — about half of all teachers. According to the legislative fiscal committees, when added to the increases authorized in last year's budget, this appropriation will provide the state's teachers with an average 8 percent salary increase in the 1990–91 school year.

The budget provides \$10 million for state employee salary increases. In addition to bringing employees whose salaries

are more than 20 percent behind the prevailing rate in the private sector up to at least that level, increases are provided for specific classes of employees. Among those receiving increases will be attendant counselors at developmental disability residential facilities and nurses at state institutions.

**Other Spending**

The budget also provides \$7 million, appropriated to DNR, to purchase commercial timber lands and dedicate future timber revenues to community college capital construction.

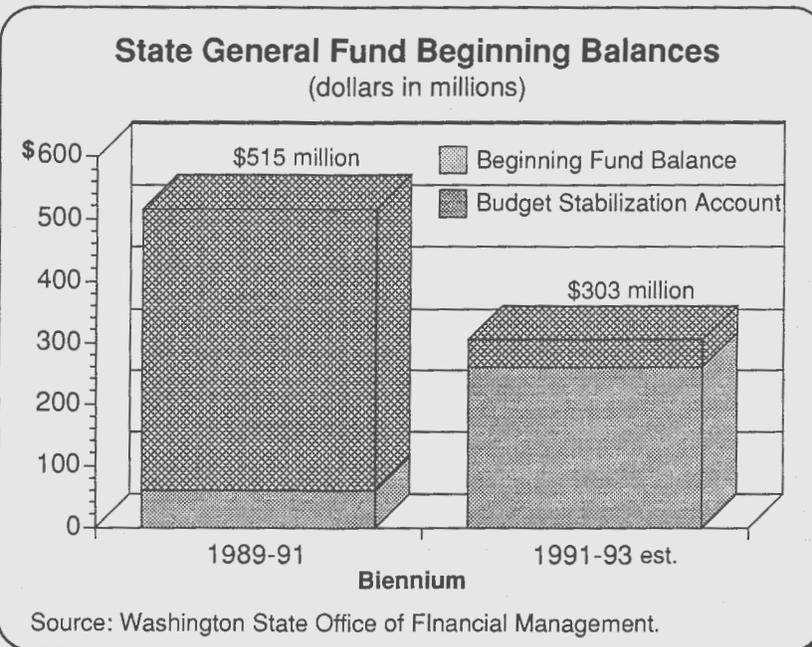
This will create a future funding source for community college construction projects that is similar to that used for the four-year colleges and universities and K-12 schools.

Funding is provided to support more than 20 new or expanded programs as a result of the legislature's sex offender legislation at a cost of \$15 million for this biennium.

An additional \$5 million is provided to support expanded local government security operations during the Goodwill Games, for a total of \$8.5 million during the biennium.

**Higher Prison Funding**

To meet the increased operating costs associated with increasing inmate populations at several state prisons, the legislature has provided \$11 million. As well, the capital budget provides funding for building several new correctional



facilities. More stringent supervision of work-release inmates and an increase in community placements will cost \$2.6 million.

The bulk of the \$10 million provided for growth strategies will help local governments begin the planning process called for in the legislature's growth strategies bill. Money will also be used to support expanded economic development in areas that need and want growth and to gather data called for in the legisla-

The state library will receive \$1.5 million to purchase material and equipment.

**Funds Kept in Reserve**

The portion of the revenue surplus not approved for spending is part of what is considered the state's budget reserve (see figure above). Two hundred million dollars were placed in the state's budget stabilization account, for a total balance in that restricted account of \$260 million. A 60 percent affirmative vote of each chamber of the legislature is necessary to spend money from the stabilization account.

Assuming no additional supplemental budgeting in 1991, an unobligated balance of \$43 million would remain at the end of the biennium, for total reserves of \$303 million. That is equivalent to about 2 percent of state general fund spending for the 1989-91 biennium.

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