

TRENDS IN STATE SPENDING

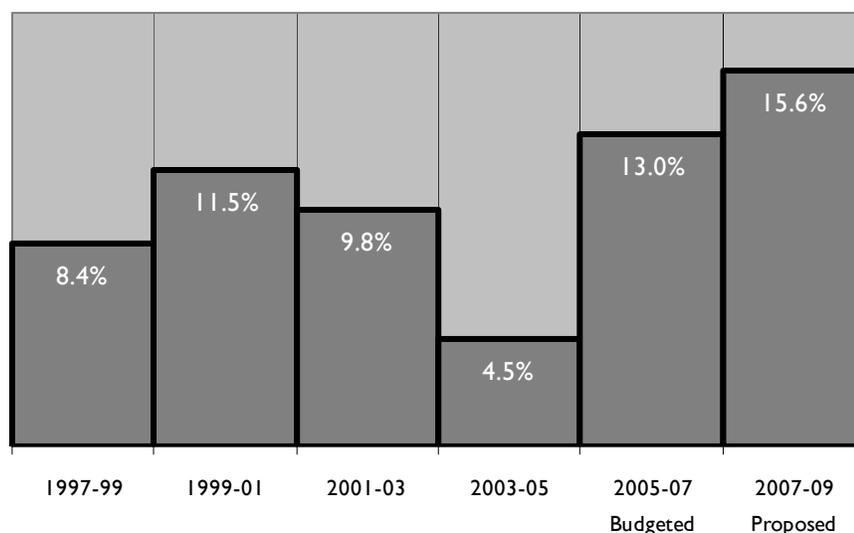
THE BOTTOM LINE

Writing budgets involves making choices, and the choices made implicitly reveal the priorities of budget writers. Based on the spending trends, the highest priorities in recent years have been in human services.

With the release of the March revenue forecast, legislators' attentions are increasingly focused on the state budget. On March 20th the house appropriations committee released its budget; on March 28th the senate ways and means committee followed with its own version.

To provide a backdrop, this brief reviews trends in state spending since the mid 1990s. Our attention is on a complex of nine accounts called the *near general fund-state* (NGFS), which includes the general fund itself (GFS) and eight *related accounts*: the health services account, the student achievement account, the education legacy trust account, the public safety and education account and its equal justice sub-account, the violence reduction and drug enforcement account, the water quality account, and the pension funding stabilization account. Traditionally, analyses of the state budget have focused on the general fund alone. In recent years, however, legislators have increasingly routed funding for general government purposes through dedicated accounts rather than the general fund. To ignore these accounts would give a misleading picture of spending trends (WashACE 2006; WRC 2007).

Chart 1: Growth in Total NGFS Spending from Previous Biennium



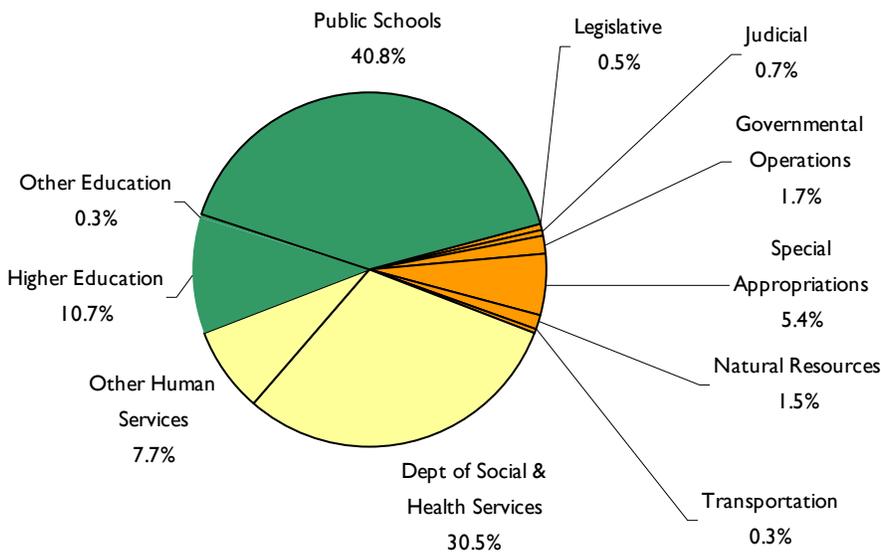
NGFS GROWTH BY BIENNIUM

For the 1995–97 biennium, Gary Locke's first full biennium as governor, NGFS spending totaled \$18.4 billion. For 2005–07, Christine Gregoire's first full biennium, \$28.9 billion is currently budgeted, an increase of 57 percent over 1995–97. (To avoid double counting, we exclude from 2005–07 spending \$825 million appropriated from GFS to other NGFS accounts.) The budget for 2007–09 that Governor Gregoire submitted to the legislature in December proposes to spend \$33.4 billion from NGFS, an increase of 81 percent from 1995–97. While legislators will modify the governor's budget somewhat, their changes will only have a small im-

impact at the level of detail we show in this brief.

Chart 1 shows the growth in NGFS spending for each biennium since 1995–97, including the governor's proposal for 2007–09. For the first three biennia shown, growth averaged 9.9 percent. Growth in the 2003–05 biennium was restrained by the recession to 4.5 percent. The budgeted

Chart 2: Distribution of NGFS Spending 2005-07



growth for 2005–07 is 13.0 percent and proposed growth for 2007–09 is even higher, 15.6 percent.

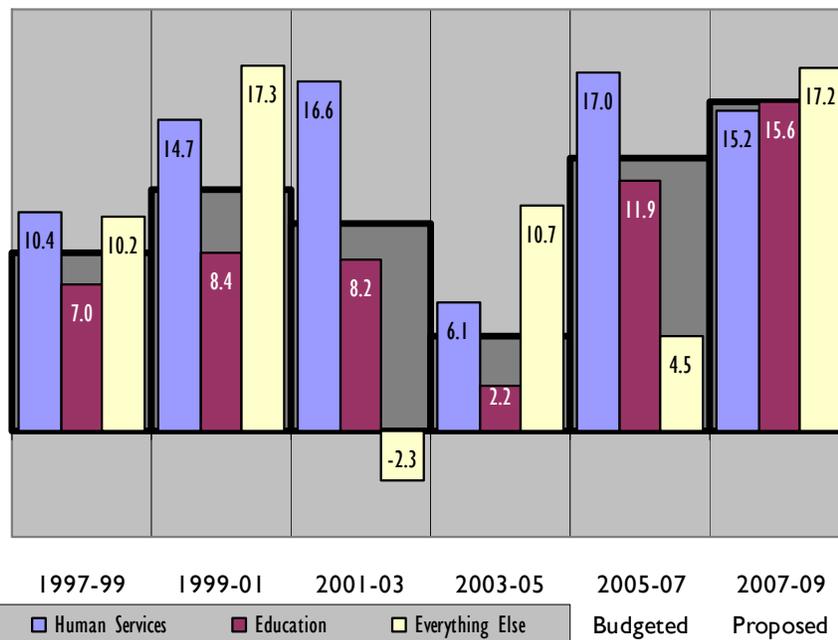
Most of NGFS spending goes to either education or human services.

State budget documents customarily break spending into 11 high-level categories, as shown on Chart 2. Education comprises three of these eleven categories: *public schools*, *higher education* and *other education*. (Other education includes the department of early learning, the state schools for the deaf and the blind, and the state historical societies.) Together the three education categories account for 51.8 percent of NGFS spending for 2005–07.

Education’s share of spending has fallen steadily since 1995–97, when it stood at 56.6 percent of NGFS.

Human services comprise two of the eleven categories shown on Chart 2: the *department of social and health services* and *other human services*. (Other human services includes, among other things, the department of corrections, the health care authority and the department of health.) The two human services categories account for 38.2 percent of 2005–07 NGFS spending. This is up from 33.3 percent in 1995–97.

Chart 3: Percentage Growth in NGFS Spending: Education, Human Services and Everything Else



The rest of NGFS activities fall under the remaining six categories: *legislative*, *judicial*, *governmental operations*, *natural resources*, *transportation* and *special appropriations*. All together these six categories are just 10 percent of NGFS spending for 2005–07.

Chart 3 shows the percentage growth by biennium for education, human services and all other NGFS spending, against a backdrop of the growth in overall NGFS spending. For five of the six biennia, the growth rate for human services greatly exceeds that for education. Only in the final biennia does education modestly exceed human services. The growth rate for everything else is much more volatile, in part because it is a smaller share of spending than the other two slices. Over the six

biennia, spending on this catchall category grew by 5 percent more than education.

HUMAN SERVICES

Charts 4 and 5 provide more detail on the growth in human services spending.

Sixty-two percent of the increase in human services spending from 1995–97 to 2007–09 is concentrated in health care and corrections, which together rose from 45 percent of human services spending in 1995–97 to 53 percent in 2007–09.

Chart 4: Percentage Growth in NGFS Human Services: Health Care and Corrections

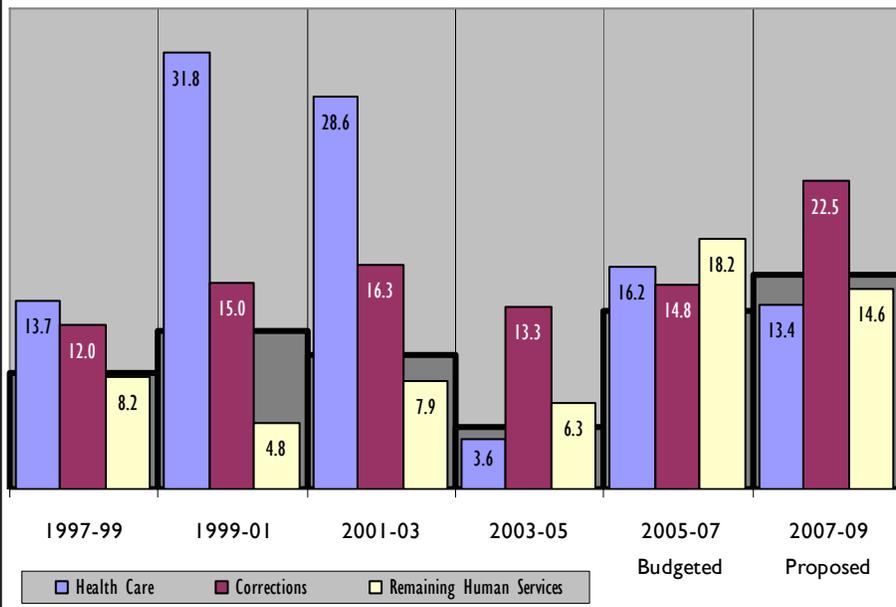


Chart 4 shows the percentage growth in NGFS health care and corrections spending by biennium. The health care grouping, which represents a bit more than 39 percent of human services in 2005–07, includes medical assistance payments through the department of social and health services, the healthcare authority (including the basic health plan) and the department of health. Corrections is a bit more than 13 percent of NGFS in 2005–07.

The percentage growth in health care spending was particularly large in 1999–01 and 2001–03. Growth in these years was a product of both increased enrollments and expansion in medical costs.

The lower level of growth in 2003–05 reflected both one-time cost containments and cuts in eligibility. (The basic health plan enrollment target was decreased to 100,000; the scope of dental coverage for adults on medical assistance was reduced by 25 percent; medical assistance’s medically indigent program was eliminated; eligibility screening for medical assistance was tightened.) In recent years medical cost pressures have lessened. With less pressure from medical costs, there has been renewed emphasis on broadening eligibility and targeted efforts to expand reimbursements in 2005-07 and 2007–09.

Chart 5: Percentage Growth in NGFS Human Services

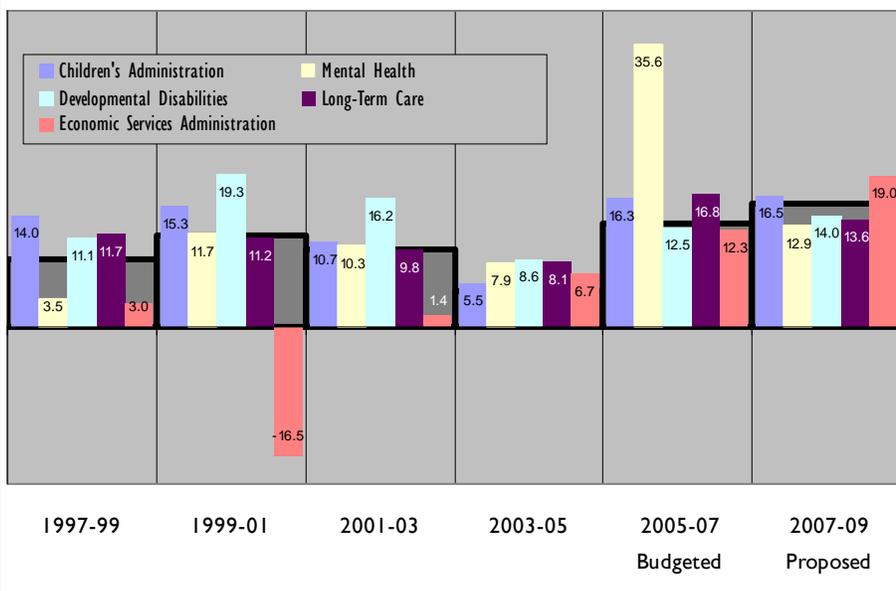


Chart 5 shows five additional categories of human services spending, which together account for a bit more than 41 percent of human services spending in 2005–07. The economic services category has been the slowest growing of the five categories by far. Economic services includes the state’s main welfare programs, the federal/state TANF (temporary assistance for needy families) program and the state GA (general assistance) program. As the result of the welfare reform initiated in the mid-1990s,

welfare rolls shrank dramatically in the first three biennia shown, and overall economic services spending fell.

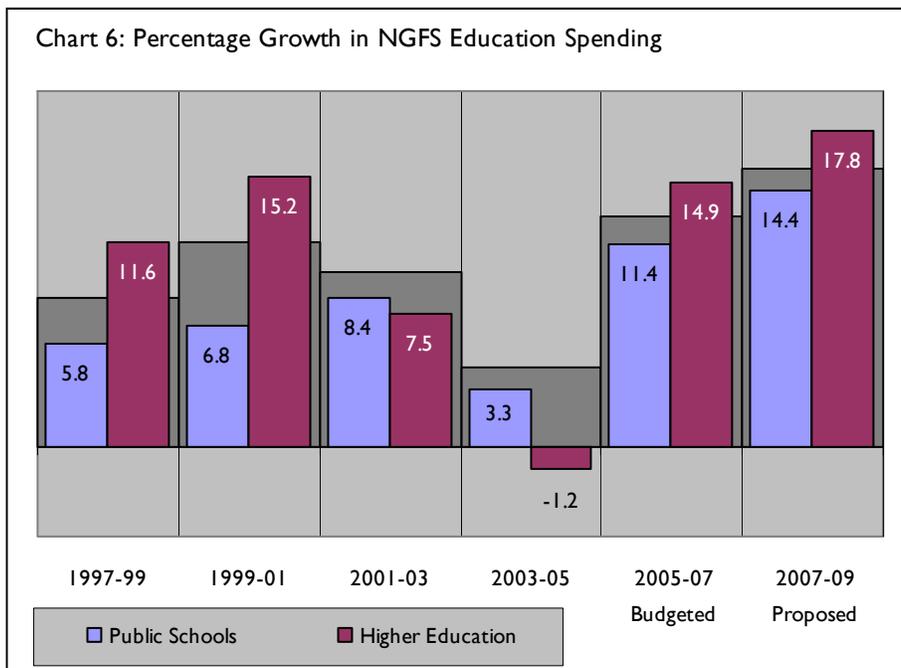
The remaining four categories, the children’s administration, mental health (including the special commitment center), developmental disabilities and long-term care, all grew by more than NGFS spending over the period as a whole, though in each case the growth was considerably less than health care or corrections.

The spike in mental health spending in 2005–07 reflects, in part, changes in federal Medicaid regulations. Previously the state had been able to use savings achieved through Medicaid managed care to fund the community health system. The new regulations require those savings to be retained within the Medicaid program. The 2005 budget provided \$80 million in state funds to backfill almost all of this loss. In addition the 2006 supplemental budget provided \$11 million to increase Medicaid managed care payments for community mental health services and \$31 million to begin implementation of a new strategy for delivering services to people with severe mental illness. Together these three increases account for half of the 2005–07 growth.

EDUCATION

Chart 6 shows growth rates for public schools and higher education. Together these two categories account for 99 percent of state spending on education.

State spending on public schools grows at a lower rate than overall NGFS spending in each of the biennia shown. Over the period, school enrollments have generally grown at a slower rate than has population.



In four of the six biennia, higher education spending grew a bit more than overall NGFS spending. The exceptions are the two biennia affected by the recession, 2001–03 and 2003–05. In 2003–05 state support for higher education actually dropped. In these biennia in particular, college and university budgets were propped by tuition increases.

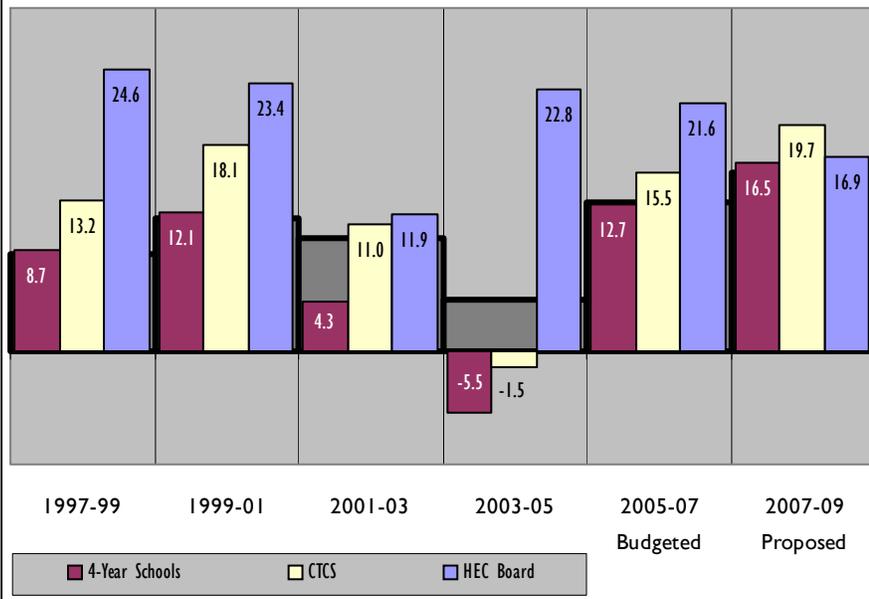
Chart 7 takes a closer look at higher education, divided into three categories, direct funding of the four-year schools (University of Washington, Washington State University, Central Washington University, Eastern Washington University, Western Washington University and the Evergreen

State College; and also including the Spokane Intercollegiate Research and Technical Institute), direct funding to the community and technical college system (CTCS) and funding to the higher education coordinating (HEC) board. Most of the HEC board funding goes to financial aid.

For the 2005–07 biennium, the four-year schools received 48.3 percent of state higher education funding, the community and technical college sys-

tem got 38.5 percent; and the HEC board got 12.7 percent. In each biennium, NGFS spending for the community and technical colleges grew at a

Chart 7: Percentage Growth in NGFS Higher Education



greater rate (or fell at a lower rate) than NGFS spending for the four-year schools. Cumulatively, the increase for the four year schools from 1995-97 to Governor Gregoire’s proposed budget for 2007-09 is 58 percent; for the community and technical colleges the growth is 102 percent.

Over the period, full-time-equivalent enrollments rose by 21.0 percent at the four-year schools and 15.5 percent at the community and technical colleges.

In five of the six biennia, the HEC board was the higher education category with the largest growth rate. (Governor Gregoire’s proposed budget for 2007-09 is the exception.) Total growth from 1995–97 to the 2007–09 proposal is 201 percent.

Higher levels of tuition have played a key part in the state’s strategy for growing the budgets of the higher education institutions in recent years. To protect students less able to afford higher tuition, an increasing share of the state’s spending on higher education has been channeled to financial aid, through the HEC board.

LEGISLATIVE, JUDICIAL AND GOVERNMENT OPERATIONS

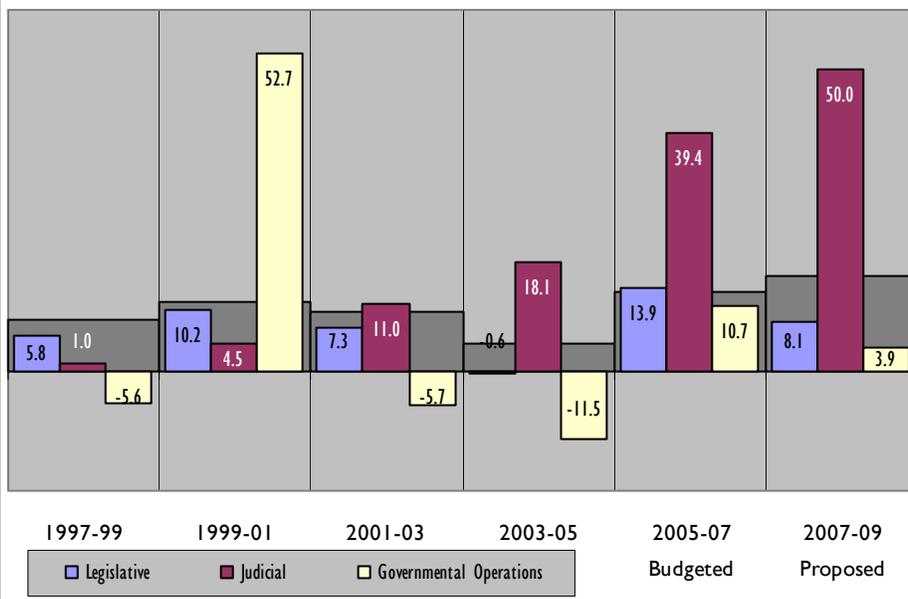
Chart 8 shows growth rates for the legislative, judicial and government operations categories. The latter category includes a broad range of functions, running from the offices of the governor, lieutenant governor, secretary of state, auditor and attorney general; the departments of revenue and

of community, trade and economic development; down to the growth management hearings boards.

Legislative and government operations spending have generally increased at lower rates than overall NGFS spending. For legislative, the one exception to this is 2005–07, but that follows a biennium in which legislative spending actually fell. Overall legislative spending rose 53 percent from 1995–97 to Governor Gregoire’s proposed 2007–09 budget.

NGFS government operations spending declined in three of the six biennia. The large spike in 1999–01 reflects, in part, funds

Chart 8: Percentage Growth in NGTS Legislative, Judicial and Government Operations

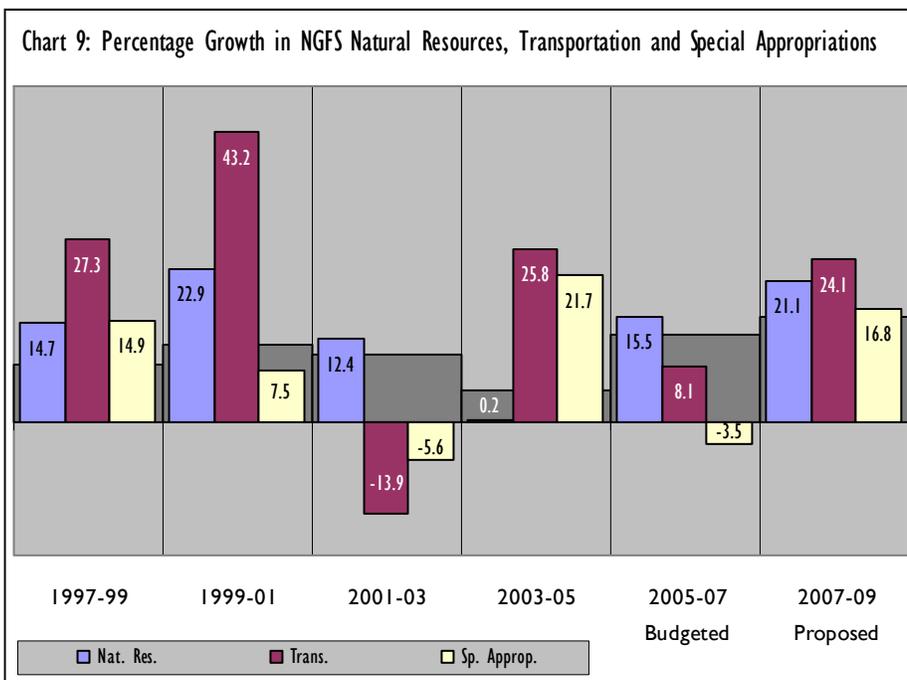


provided to local governments as backfill for motor vehicle excise tax revenues lost as the result of Initiative 695. Overall, government operations spending rose by 38 percent from 1995–07 to the governor’s proposed budget for 2007–09.

NGFS judicial spending rose less than NGFS spending overall for 1997-99 and 1999-01 and slightly more than NGFS overall for 2001–03. For 2003-05, 2005–07 and the proposed 2007–09 the rate of judicial increase greatly exceed those of the NGFS overall. (The proposed judicial budget for 2007–09 was prepared by the judicial agencies themselves and not by Governor Gregoire. The full increase shown is unlikely to survive in the enacted budget.) In all three of these biennia, there are extraordinary increases in the office of the administrator of the courts. The final two biennia see large increases in the offices of public defense and civil legal aid. Proposed 2007-09 NGFS judicial spending is up 189 percent from 1995–97.

NATURAL RESOURCES, TRANSPORTATION, AND SPECIAL APPROPRIATIONS

Chart 9 shows biennial growth rates for NGFS spending on natural resources, transportation and special appropriations. Both natural resources and transportation grew faster than overall NGFS spending over the six biennia, while special appropriations grew more slowly.



The natural resources spike in 1999–01 reflects salmon recovery expenses and some Initiative 695 backfill. Proposed 2007–09 spending is up 122 percent over 1995–97. For the department of ecology, included in natural resources, spending is up 171 percent.

NGFS transportation dollars go primarily to the state patrol, and also to the department of licensing. (Most transportation spending flows from dedicated transportation accounts such as the motor vehicle fund and the multimodal transportation fund, rather than the NGFS.) The spike in 1999–01 is again I-695 backfill. The proposed 2007–09 budget is up 165 percent from 1995–97.

The largest part of special appropriations goes to bond retirement and interest. Special appropriations also includes contributions to retirement systems. The proposed 2007–09 special appropriations budget is up 60 percent from 1995–97

DISCUSSION

Writing budgets involves making choices, and the choices made implicitly reveal the priorities of budget writers. Based on the spending trends, the highest priorities in recent years have been in human services.

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