Washington Research Council

Policy Brief

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Senate-Passed 2017–19 Operating Budget Would Increase Spending by $4.9 billion

Briefly

- The Senate-passed operating budget would increase revenues by $1.581 billion in 2017–19.
- A new state property tax would supplant some local levies.
- The budget would transfer $196.5 million from other funds to the NGFS+ in 2017–19.
- NGFS+ maintenance level spending is $41.631 billion.
- Policy level spending would increase by a net of $1.683 billion.
- Policy spending for public schools would increase by $1.790 billion.
- The unrestricted ending fund balance would be $815 million.
- The budget would appropriate $700 million from the budget stabilization account (the rainy day fund) to make an early contribution to the Public Employees' Retirement System (PERS) plan 1 unfunded liability.
- It would make significant changes to local public works funding.

NGFS+

In recent years, legislative fiscal committee staffs have based budget presentations on the near general fund–state (NGFS), a synthetic "account" that rolls up the general fund–state (the state's primary budget account) with the education legacy trust account, because they believed that the NGFS better reflected the entire budget situation. They are now using a broader rollup, the NGFS+.

In 2010 the legislature established the opportunity pathways account, and dedicated proceeds from the lottery to this account with the stipulation that the funds be spent for education. The NGFS+ combines the NGFS and the opportunity pathways account.

In 2012 legislation was enacted requiring four-year balanced operating budgets. A positive ending balance is required in the current biennium on an NGFS+ basis. Additionally, projected resources must be sufficient to cover projected maintenance level expenditures in the second biennium.

In February 2016, the Economic and Revenue Forecast Council (ERFC) expected near general fund–state plus opportunity pathways (NGFS+) revenues of $37.837 billion in 2015–17 and $40.892 billion in 2017–19 (the 2016 supplemental was based on these figures). Since then, the economy has grown, and the ERFC estimates that the Legislature now has $1.831 billion more to work with for 2015–17 and 2017–19.

The Senate has passed a 2017–19 operating budget proposal that would increase NGFS+ spending by $4.861 billion over the enacted 2015–17 budget. Of that increase, 77.0 percent comes in public schools. As part of the Senate's effort to complete compliance with the state Supreme Court's McCleary decision, the budget would increase revenues by implementing a new state property tax that would take the place of some local levies.

Balance Sheet

Revenues. The Senate-passed budget would increase revenues by a net of $1.581 billion in 2017–19. Of that, $1.521 billion would come from the "local effort levy," a new state property tax that would take the place of some local maintenance and operation levies that are currently used to fund education. Revenues would also increase due to an employer surcharge based on early payment of unfunded pension liabilities, and they would decrease (by $7.9 million) due to the extension of certain tax incentives.

Other Resource Changes. The budget would transfer $196.5 million from other funds to the NGFS+ in 2017–19. That includes $127.4 million from the public works assistance account (PWAA). The four-year outlook also assumes that another $20.0 million would be transferred from the PWAA to the NGFS+ in 2019–21. According to the summary documents, this "leaves sufficient PWAA resources for approximately $100 million in new projects in the 2017–19 biennium and $100 million in new projects for the 2019–21 biennium" (SW&M 2017).

Other transfers to the general fund–state (GFS) include $33.8 million from the disaster response account and $12.0 million from the state treasurer's service account.

Spending. For 2017–19, NGFS+ maintenance level spending (the cost of continuing current services, accounting for caseload, enrollment and inflation changes) is $41.631 billion. The Senate budget would further increase policy level spending (the cost of new legislation) by $1.683 billion. Altogether, NGFS+ spending would total $43.314 billion in the new biennium.

Reserves. The Senate budget would leave an unrestricted ending fund balance of $815 million. Total reserves, including the budget stabilization account (BSA, or the rainy day fund), would be $2.023 billion. The budget would appropriate $700 million from the BSA to make an early contribution to the Public Employees' Retirement System (PERS) plan 1 unfunded liability.

Table 1: NGFS+ Balance Sheet (Millions of Dollars)

	2015-17	*2017-19*
Beginning Balance	1,011	915
Revenue		
March 2017 Revenue Forecast	38,962	41,597
Senate Budget		
Local Effort Levy		**1,521**
Other Revenue Legislation		**51**
Budget Driven Revenue	**(1)**	**10**
Total Revenue	*38,961*	*43,178*
Other Resource Changes		
Transfer to Budget Stabilization Acct.	(382)	(408)
Transfer to BSA (Extraordinary Revenue Growth)	(822)	
Transfer from BSA (Extraordinary Revenue Growth)	75	
Other Enacted Fund Transfers	207	
Actual/assumed prior period & CAFR adjustments	70	41
Senate Budget		
Fund Transfers		**197**
Total Other Resource Changes	*(852)*	*(171)*
Total Resources	*39,120*	*43,923*
Spending		
2015-17 Appropriations	38,454	
Senate Budget		
Actual/Assumed Reversions	**(227)**	**(206)**
Maintenance Level Changes	**(105)**	
2017-19 Maintenance Level		**41,631**
Policy Changes	**84**	**1,683**
Total Spending	*38,205*	*43,108*
Unrestricted Ending Fund Balance	915	815
Budget Stabilization Account Balance	513	1,473
Transfers from GFS, Interest Earnings, Reversions	1,248	435
Transfer to the GFS	(75)	
Appropriations from the BSA	(189)	
Senate Budget		
Appropriations from the BSA	**(24)**	**(700)**
Projected BSA Ending Fund Balance	1,473	1,208
Total Reserves	*2,388*	*2,023*

Note: Totals may not sum due to rounding.

Revenue Details

The new local effort levy would increase state revenues by $1.521 billion in 2017–19. We wrote about this new property tax levy in depth in a policy brief on SSB 5607, the Senate's education funding plan ("Senate-Passed Bill Would Overhaul and Increase School Funding"). Since then, the Senate has passed ESSB 5875, which amends SSB 5607. In CY 2018, the levy rate would be $0.45 per $1,000 of assessed value. After that, it would be $1.55/$1,000 (unless reduced in the budget). (It was originally $1.80/$1,000.)

Additionally, the budget assumes enactment of SSB 5900, which would make a lump sum payment to the Public Employees' Retirement System (PERS) plan 1 (the $700 million that would be appropriated from the BSA). This would result in lower contribution rates for employers, so SSB 5900 would require PERS employers to pay a surcharge so that the state would reap the savings from the lump sum contribution. (The surcharge would be the difference between the rate employers pay under current law and the rate they would pay due to the lower liability; thus, local employers would not pay more under the bill.) GFS revenues would increase by $56.0 million in 2017–19.

The budget assumes enactment of ESSB 5033 (which was passed by the Senate March 23). It would not affect revenues in 2017–19, but it would increase revenues by $250.7 million in 2019–21. In 2013, the Legislature redirected portions of the retail excise tax, public utility tax, and solid waste tax from the PWAA to the education legacy trust account. Those actions are scheduled to expire June 30, 2019. (WRC 2013) ESSB 5033 would make these redirections permanent. (The bill would also allow the state to issue bonds for local projects and guarantee local government borrowing for infrastructure.)

Finally, the budget also assumes passage of SJR 8204, which would amend the state constitution to prohibit income taxes.

The Senate would increase spending for public schools by a net of $1.790 billion.

Spending Details

Maintenance level spending would increase in 2017–19 by $3.177 billion over enacted 2015–17 appropriations. (Of the maintenance level changes, $1.954 billion are in public schools, $556.5 million are in the Department of Social and Health Services and $311.2 million are in the Health Care Authority.) The Senate budget would increase policy level spending by an additional $1.683 billion. The spending items discussed below are NGFS+ policy changes.

Public Schools. The Senate budget would increase state spending for public schools by a net of $1.790 billion. The budget funds the Senate-passed education funding plan (SSB 5607, passed by the Senate on Feb. 1), as amended by SSB 5875 (passed by the Senate on March 23). We wrote about SSB 5607 in detail in "Senate-Passed Bill Would Overhaul and Increase School Funding." Basically, beginning in school year (SY) 2018–19, the plan would use a per-pupil funding model rather than the current model, which allocates funds based on what is needed to operate a prototypical school, scaled to enrollment. (The current model focuses more on the number of adults needed in a school.) Under the Senate plan, per-pupil funding would be at least $12,500. Included in that would be a basic per-pupil guarantee. This guarantee would take the place of general apportionment, levy equalization, pupil transportation and local levies, and it would be supplemented with additional funds for special circumstances (special education, for example). SSB 5875 would reduce the basic per-pupil guarantee from $10,000 to $9,200 in SY 2018–19. The guarantee would increase to $10,200 in SY 2019–20 and it would be increased by inflation after that.

Funding the basic per-pupil guarantee would increase spending by $2.346 billion. Supplemental funding for students in the learning assistance, bilingual, highly capable and special education programs would increase spending by $201.8 million. The Senate budget would save $255.7 million by repealing the Initiative 732 cost-of-living adjustment for school staff. It would also save $82.7 million by no longer funding bonuses for teachers certified by the national board for professional teaching standards.

Higher Education. The Senate would increase higher education spending by a net of $28.9 million. That includes $28.8 million to increase resident undergraduate enrollment at the four-year institutions (70 percent of the new enrollment would have to be for science, technology, engineering and math majors). The budget would also reduce appropriations to the four-year institutions and the community and technical college system by $19.9 million, with the assumption that the funds would be replaced by tuition. (Currently the institutions can, to an extent, waive tuition for certain students. The budget assumes they would reduce such waivers.)

The Senate would increase spending by $37.6 million to maintain the state need grant at current levels. Also, WorkFirst funds would replace some state funding for financial aid, saving $47.2 million in the general fund.

The University of Washington would get $10.0 million to continue and expand the

Washington, Wyoming, Alaska, Montana, Idaho (WWAMI) medical program in Spokane. Washington State University would get $10.0 million for its new medical college in Spokane.

Department of Social and Health Services. Appropriations for DSHS would be increased by a net of $16.7 million. Spending would increase by $52.7 million to bring the state psychiatric hospitals into federal compliance. Vendor rates for people providing services for individuals needing long-term care or with developmental disabilities would be increased, totaling $76.2 million. Funding for Temporary Assistance for Needy Families would be reduced by $32.7 million, including by reducing the number of people exempt from work requirements. Funding for Working Connections Child Care would be reduced by $31.9 million, including by exempting people with children under two years old from work requirements. Additionally, $63.3 million would be saved in the GFS by using available federal funds in the WorkFirst fund.

Health Care Authority. Policy changes would reduce HCA spending by $90.4 million. A portion of the revenues from marijuana taxes would be used to pay for Medicaid managed care payments in lieu of general fund dollars, saving $79.0 million in the GFS. The HCA would implement a standard preferred drug list and act as pharmacy benefits manager, which is estimated to save $42.8 million. To pay for Hepatitis C treatment for more Medicaid clients, the budget would increase spending by $41.1 million.

Other Human Services. Spending for the Department of Corrections would be reduced by $38.9 million. This includes $21.5 million in savings from reducing community supervision of offenders. Additionally, the budget specifies that no health district or county with a safe injection site would receive county public health assistance. King County is currently the only jurisdiction that authorizes these sites; it would not get $25.4 million in state funding during the biennium. (This is related to SSB 5223, which was passed by the Senate March 2.)

Governmental Operations. In the Department of Commerce, spending would be reduced for the Housing and Essential Needs program, saving $49.8 million. In the Office of the Attorney General, $21.0 million would be saved by using some of the Volkswagen consumer protection

Table2: NGFS+ and All Funds Appropriations (Thousands of Dollars)

	2015-17 Biennium		2017-19 Biennium: Maintenance Level		2017-19 Biennium: Senate-Passed	
	NGFS+	All Funds	NGFS+	All Funds	NGFS+	All Funds
Legislative	156,347	176,454	160,279	181,489	161,411	184,415
Judicial	269,241	340,990	281,570	315,781	258,717	329,290
Governmental Operations	509,927	3,891,226	539,865	3,815,423	433,773	3,846,912
DSHS	6,405,389	14,184,650	6,961,930	15,131,955	6,978,660	15,418,846
Health Care Authority	4,016,072	16,553,505	4,327,268	16,731,048	4,236,890	16,795,983
Other Human Services	2,091,361	4,645,866	2,173,201	4,724,041	2,144,108	4,746,532
Natural Resources	287,107	1,748,041	307,707	1,779,445	309,091	1,762,280
Transportation	83,338	201,704	85,331	193,183	85,988	199,355
Public Schools	18,197,434	20,110,525	20,151,182	22,084,718	21,941,601	23,877,238
Higher Education	3,557,824	13,902,354	3,645,932	14,103,624	3,674,830	14,157,333
Other Education	349,134	747,193	373,032	768,743	387,163	796,640
Special Appropriations	2,529,840	2,896,345	2,623,701	2,818,145	2,701,678	2,998,143
Total Budget Bill	**38,453,014**	**79,398,853**	**41,630,998**	**82,647,595**	**43,313,910**	**85,112,967**
Other Appropriations	500	189,986	0	0	0	700,000
Statewide Total	**38,453,514**	**79,588,839**	**41,630,998**	**82,647,595**	**43,313,910**	**85,812,967**

settlement in lieu of the GFS.

Special Appropriations. The Senate budget would not fund most of the collective bargaining agreements the governor negotiated with state employee unions. (Under state law, each biennium the governor and state employee unions negotiate new collective bargaining agreements. If the Office of Financial Management certifies that they are financially feasible, the needed funds are requested from the Legislature. The Legislature may approve or reject the agreements but may not amend them. If they are rejected, the agreements could be reopened (RCW 41.80.010).) The budget would fund the agreements with employees of the State Patrol ($3.8 million) and Department of Corrections ($75.1 million), and it would fund the agreement with the Coalition of Unions, which includes representatives of less than 500 employees each ($9.9 million). The budget would provide a general wage increase of $500 per year for other state employees ($90.0 million). It would save $21.7 million through a 10 percent reduction in agency management positions and $11.6 million by eliminating 2 percent of positions that do not directly serve the public.

The local public safety enhancement account (RCW 41.26.800) contributes funds to an account within the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 retirement fund and distributes funds to local governments for public safety purposes. Although transfers are required to be made to the local public safety enhancement account from the general fund–state in odd-numbered years (if general state revenues have increased by more than 5 percent), the 2013 and 2015 transfers were suspended by the Legislature. The Senate-passed budget would suspend the scheduled 2017 transfer of $50.0 million. (Gov. Inslee also proposed suspending this transfer.) The Senate budget also specifies that it is the intent of the Legislature to fund the portion of the 2019 transfer (if required) that is dedicated to the account within the LEOFF 2 fund "through alternate means, which may include transfers from" the LEOFF 2 retirement fund. (That is, the transfer would not come from the GFS, and the four-year outlook includes a reduction of $50.0 million for 2019–21 as well.)

Additionally, LEOFF 2 retirement benefits are funded by employee contributions (50 percent), employer contributions (30 percent) and state contributions (20 percent) (RCW 41.26.725). The Senate-passed budget would not pay the state contribution in 2017–19 (except for fire districts), saving $108.7 million. Instead, local employers would have to contribute 50 percent. The budget states that it is the intent of the Legislature to continue this policy "in subsequent biennia."

Finally, debt service on new bonds would increase spending by $52.0 million.

Outlook

As originally proposed, the budget would balance over four years, leaving an unrestricted ending fund balance of $127 million and total reserves of $1.848 billion in 2019–21. (Amendments prior to passage added $46.1 million in spending in 2017–19.) The effects of some policy changes in 2017–19 would increase significantly in 2019–21. In 2019–21, the local effort levy would increase revenues by $4.045 billion and other revenue legislation would increase revenues by $411 million. Additionally, in 2019–21 policy changes to public schools would increase to $5.911 billion and I-1351 (class-size reductions) would be repealed to save $1.914 billion.

Comment

Central to the operating budget negotiations this year is the need to complete compliance with the state Supreme Court's McCleary decision. The Senate and the House have already passed education funding plans that are quite different from each other, though both would add billions of dollars of new state spending for public schools. That said, under the Senate plan, the increase in state funding would be accompanied by a reduction in local funding. The Office of Financial Management estimates that the net effect of this interaction would be that schools would receive $871 million more than they do under current law (La Corte 2017). This is consistent with the McCleary decision in that *state* rather than *local* dollars must fund basic education.

The Senate-passed education funding plan includes a large funding source—a new state property tax coupled with lower local levies. (Some taxpayers would pay less overall and some would pay more, depending on property values and whether their districts choose to ask for local levies.) In addition to these new state dollars, the Senate-passed operating budget would prioritize education spending and make budget cuts elsewhere (particularly in human services and governmental operations).

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