Washington Research Council

Policy Brief

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Senate Ways and Means Committee Chair's Proposed Operating Budget Would Increase Spending by $7.5 Billion

Briefly

The 2019–21 operating budget proposed by the Senate Ways and Means Committee Chair would increase appropriations from funds subject to the outlook by $7.511 billion (16.8 percent) over 2017–19. Of that, $1.667 billion is due to spending on new policy, while maintenance level changes (the cost of continuing current services, including the response to the McCleary decision on school funding) make up the rest.

Like the House budget proposal, the Senate Chair's proposal includes a tax package. It would increase revenues by $518 million in 2019–21, largely due to increases in the real estate excise tax for properties with selling prices over $1 million. Senate Democrats have also proposed a capital gains tax in conjunction with the budget; revenues from the capital gains tax would be used to reduce other taxes and create a working families tax credit.

Although this proposal would increase spending by less than the House proposal and relies on less risky revenue sources, it still represents a substantial increase over 2017–19. This is on top of a 16.9 percent increase in 2017–19 and a 13.6 percent increase in 2015–17. Should an economic downturn occur in the next few years, this significant increase in spending could prove to be unsustainable.

Funds Subject to the Outlook (NGFO)

In recent years, legislative fiscal committee staffs have based budget presentations on a synthetic "account" that rolls up the general fund–state (the state's primary budget account) with the education legacy trust account and the opportunity pathways account, because they believe that it better reflects the entire budget situation. Previously called the near general fund–state plus opportunity pathways (NGFS+), it is now more simply called "funds subject to the outlook" or the near general fund–outlook (NGFO). (Under the four-year balanced budget requirement, a positive ending balance is required in both the current and following biennium on an NGFO basis.)

The Senate Ways and Means Committee Chair has proposed a 2019–21 operating budget that would appropriate $52.172 billion from funds subject to the outlook (NGFO). This would be an increase of $7.511 billion (16.8 percent) over enacted 2017–19 appropriations.

Despite the increased revenues estimated in the March revenue forecast, this budget proposal includes a tax package that would increase NGFO revenues by $518 million in 2019–21. Separately, the Senate Ways and Means Chair proposes to impose a tax on capital gains; her operating budget, however, is not built around revenues from this tax.

Revenues and Other Resources

As estimated in the March revenue forecast, 2019–21 revenues are expected to reach $50.555 billion (an increase of 9.6 percent over 2017–19 revenues, as currently estimated). The Chair's budget proposal includes several tax changes that would increase revenues by $518 million in 2019–21 and $561 million in 2021–23.

SB 5991. The budget proposal assumes passage of SB 5991, which would increase the real estate excise tax (REET) for some taxpayers while reducing it for others. Currently the REET rate is 1.28 percent of the selling price of a property. Under the bill, the rate would be cut to 0.75 percent if the selling price is less than $250,000. For properties with selling prices of $250,000 or more but less than $1 million, the tax rate would stay at 1.28 percent. The rate would increase to 2.0 percent if the selling price is between $1 million and $5 million and to 2.5 percent if the selling price is $5 million or higher. This would increase NGFO revenues by $421.1 million in 2019–21 and $457.3 million in 2021–23.

Additionally, under current law, 4.1 percent of REET collections are directed to the education legacy trust account (ELTA). SB 5991 would increase that amount to 19.64 percent in fiscal year 2020 and to 20.8 percent in FY 2021, 2022, and 2023. After that, the amount dedicated to the ELTA would drop to 16.7 percent. (Of the $421.1 million in estimated 2019–21 revenues, $392.7 million would go to the ELTA. Those funds would thus not be subject to constitutionally-required transfers to the rainy day fund.)

SB 5997. This bill would change the sales and use tax exemption for nonresidents to a refund program and increase business and occupation taxes for travel agents and tour operators. The bill would increase NGFO revenues by $63.6 million in 2019–21 and $70.1 million in 2021–23.

SB 5988. This bill would increase the business and occupation tax on warehousing and reselling prescription drugs. The bill would increase NGFO revenues by $38.5 million in 2019–21 and $40.2 million in 2021–23.

Other Resources. The budget proposal would transfer $74.6 million from other funds to the general fund–state in 2019–21. This includes $52.6 million from the disaster response account.

Insurance Premium Surtax. The budget proposal assumes passage of SB 5996, which would increase the tax on property and casualty insurance premiums from 2.0 percent to 2.52 percent. The revenues from the increase would be deposited in a new wildfire prevention and suppression account. This is estimated to increase non-NGFO revenues by $90.6 million in 2019–21.

Capital Gains Tax. In conjunction with the budget proposal, Senate Democrats also proposed creating a new capital gains tax. There is very little public information about it, and there is no bill language yet. According to the Senate Democratic Caucus, a tax rate of 8.9 percent would be paid on certain capital gains of more than $250,000. The operating budget proposal itself does not use any revenues from the proposed tax; instead, revenues would be used to fund a working families tax credit, a reduction in business and occupation taxes for small businesses, a property tax reduction for seniors, and the elimination of sales tax on certain products that are considered non-discretionary (such as feminine hygiene products). There is no fiscal note

Table: NGFO Balance Sheet (Dollars in Millions)

	2017-19	*2019-21*
Beginning Balance	1,149	1,809
Revenue		
March 2019 Revenue Forecast	46,106	50,555
Senate Chair's Proposal		
SB 5991 (Graduated REET)		**421**
SB 5997 (Tax Preferences)		**64**
SB 5988 (Prescription Drug Warehousing)		**39**
Budget Driven and Other Revenue	**(3)**	**(22)**
Total Revenue	*46,103*	*51,056*
Other Resource Changes		
Transfer to Budget Stabilization Account	(441)	(497)
Transfer to BSA (Extraordinary Revenue Growth)	(1,759)	
Transfer from BSA (Extraordinary Revenue Growth)	1,078	
Other Enacted Fund Transfers	162	
Prior Period & CAFR Adjustments	85	41
Senate Chair's Proposal		
Fund Transfers	**73**	**75**
Total Other Resource Changes	*(802)*	*(381)*
Total Resources	*46,451*	*52,484*
Spending		
2017-19 Appropriations	44,661	
Senate Chair's Proposal		
Actual/Assumed Reversions	**(198)**	**(252)**
Maintenance Level Changes	**87**	
2019-21 Maintenance Level		**50,506**
Policy Changes	**91**	**1,667**
Total Spending	*44,641*	*51,920*
Unrestricted Ending Fund Balance	1,809	564
Budget Stabilization Account Balance	1,638	1,794
Transfers from GFS and Interest Earnings	2,241	614
Transfer to the GFS	(1,078)	
Transfer to the Pension Stabilization Account	(925)	
Appropriations from the BSA	(41)	
Senate Chair's Proposal		
Appropriations from the BSA	**(41)**	**1**
Projected BSA Ending Fund Balance	1,794	2,409
Total Reserves	*3,603*	*2,972*

for the capital gains tax proposal; the Senate Democratic Caucus notes only that it would increase revenues by $780 million in 2021 (SDC 2019).

Spending

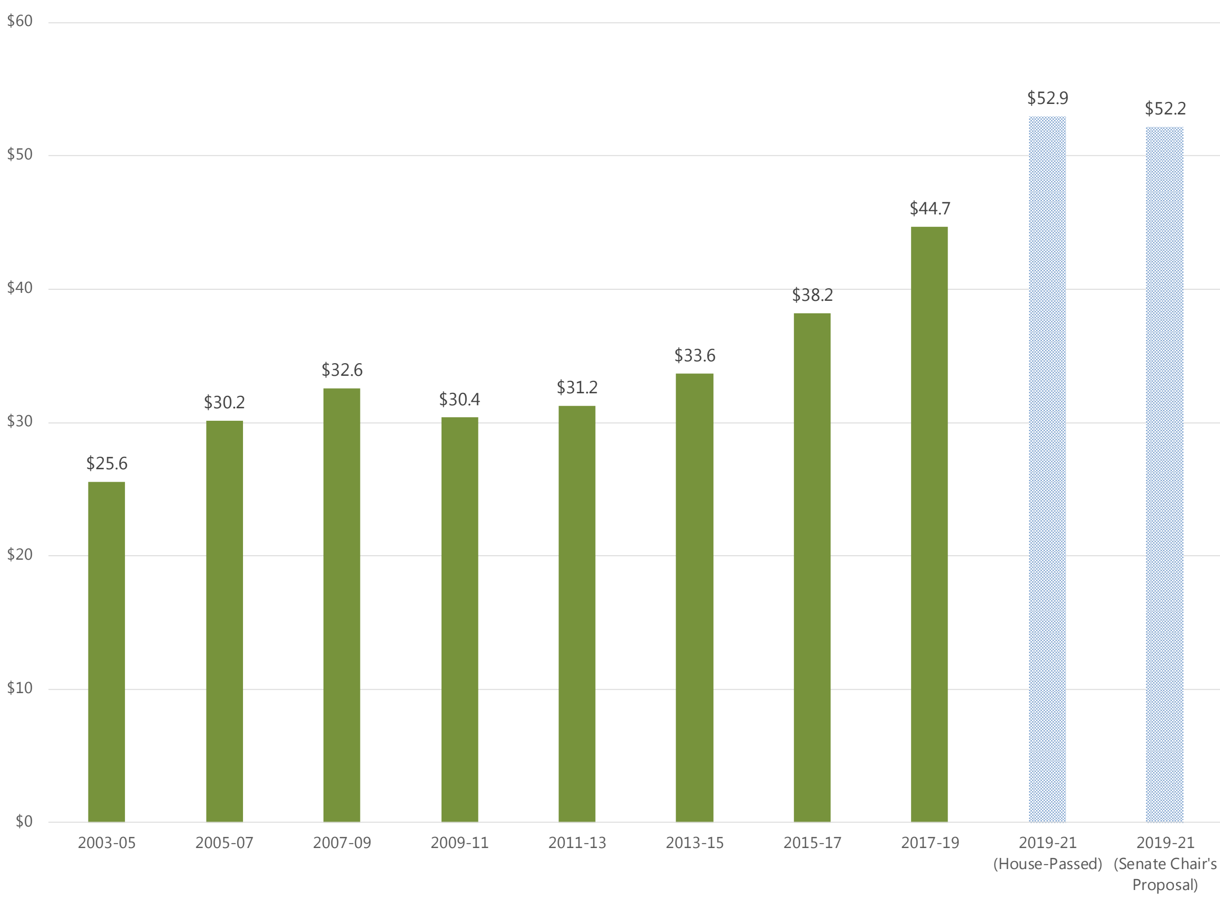
The Chair's proposal would increase spending by $7.511 billion over enacted 2017–19 appropriations. Of that, $5.844 billion is from maintenance level changes (the cost of continuing current services) and $1.667 billion is from new policy.

Public Schools. Under the proposal, appropriations for public schools would represent 52.1 percent of the NGFO budget. Public schools spending accounts for more than 67 percent of the total 2019–21 maintenance level, largely because the state will be paying the full cost of complying with the McCleary decision on school funding for the first time. New policy would increase spending by $530.3 million. That includes $328.7 million for school employee health benefits, $155.9 million for special education, and $21.1 for paraeducator training.

Higher Education. Policy level changes would increase spending on higher education by $183.5 million. That includes $80.5 million to reduce the waiting list for the state need grant in FY 2020 and 2021 (the outlook assumes that the waiting list will be eliminated in FY 2022) and $17.0 million to maintain current state need grant service levels. It also includes $42.8 million in foundational support for the higher education institutions and $10.8 million for the Washington State University medical school.

Social Services. The proposal would fund collective bargaining agreements with family child care providers ($52.8 million), adult family homes ($37.6 million),

Chart: Actual and Proposed Spending from Funds Subject to the Outlook (Dollars in Billions)



and individual providers of in-home care ($72.4 million), and it would provide parity for agency in-home care providers ($22.8 million).

It would appropriate $55.0 million to increase staffing at the state hospitals and $58.0 million for community long-term inpatient beds. It would increase the rate for working connections child care providers ($28.0 million), expand the early childhood education and assistance program (ECEAP) by 760 slots ($12.7 million), and increase the ECEAP rate ($13.0 million). Spending would be reduced by $101.8 million due to savings in the Health Care Authority's managed care program.

Other. The proposal would fund the collective bargaining agreements with state and higher education employees and extend them to non-represented employees. These and other compensation items would increase spending by $462.0 million. Appropriations would increase by $45.7 million for debt service on new capital projects.

NGFO funding for wildfire costs would be reduced by $31.8 million and transferred to the new wildfire prevention and suppression account mentioned above. The proposal would save $52.4 million from funds subject to the outlook due to efficiencies in state spending (overtime costs, professional service contracts, travel, goods and services, and capital outlays would be lowered by 1.5 percent in FY 2020 and 3 percent in FY 2021 for many agencies).

Reserves and Outlook

The budget would balance over four years. It would leave a relatively low unrestricted NGFO ending balance of $564 million in 2019–21 and $77 million in 2021–23.

The proposal would appropriate about $41 million from the budget stabilization account (BSA, or the rainy day fund) in 2017–19 for wildfire costs. (That's in addition to the $41.5 million that has already been appropriated from the BSA for that purpose in the biennium.)

Additionally, due to the efficiencies in state spending noted above, $937,000 in BSA funds would be saved in 2019–21, adding to the BSA balance for the biennium. All told, the BSA balance would be $2.409 billion in 2019–21 and $3.118 billion in 2021–23.

Comment

The Senate Ways and Means Committee Chair's operating budget proposal would continue the pattern of substantial increases in state spending that has characterized the past few biennia. The proposal's appropriations increase (16.8 percent) is about the same as the spending increase in 2017–19, which was the second highest spending increase in at least 25 years.

Much of that is due to a very high 2019–21 maintenance level (including the full costs of compliance with the McCleary decision on school funding). On top of that, the Chair's proposal would increase spending on new policy by $1.667 billion—a substantial sum, but lower than what has been proposed in the House.

In another improvement on the House proposal, the Senate Chair's proposed budget does not depend on revenues from a capital gains tax. As we wrote about the House proposal, the Legislature should take care to write a budget that is sustainable in the years to come. Given the likely end of this remarkable period of economic expansion, spending and tax increases should be limited lest they prove to be unsustainable.

References

Senate Democratic Caucus (SDC). 2019. "Senate Democrats' introduce 'Fix Our Tax Code' plan." March 29.

Washington Research Council (WRC). 2019. "House Appropriations Chair's Proposed Operating Budget Would Increase Spending by $8 Billion." PB 19–05. March 27.

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