



## State Operating Appropriations for 2019–21 Increase by 18.3 Percent, Topping \$50 Billion

### Briefly

*Operating appropriations for 2019–21, as passed by the Legislature, are \$52.852 billion—an 18.3 percent increase over 2017–19 appropriations. This is the largest increase in at least 25 years, and it comes after significant increases of 13.6 percent in 2015–17 and 16.9 percent in 2017–19.*

*A major contributor to the increase in appropriations for 2019–21 is an exceptionally high maintenance level. The cost of just continuing current services is expected to increase by 13.0 percent. On top of that, the Legislature increased appropriations for new policy by \$2.367 billion.*

*Major areas of new spending include employee compensation, public schools, and higher education. Collective bargaining agreements and K–12 health benefits are funded. Appropriations for special education, financial aid, and behavioral health are boosted.*

*A series of large spending increases, combined with the likelihood of an economic downturn sometime in the future, make this budget unlikely to be sustainable.*

### NGFO Plus WEIA

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.)

In 2019, the Legislature created the workforce education investment account (WEIA) to fund higher education programs. As these programs would typically be funded through the NGFO, it is appropriate for budget transparency purposes to roll up the WEIA with the NGFO (though the WEIA is not included in the four-year balanced budget requirement).

This policy brief provides details on the spending levels approved by the Legislature (the governor has not yet signed the budget bill or all the accompanying legislation). We provided an overview of the budget deal in [“Legislature Adopts New Taxes to Increase 2019–21 Spending by 18.3 Percent.”](#) Next week, we will provide details on revenue changes.

### Maintenance Level

The maintenance level is the cost of continuing current services (adjusted for caseload, inflation, and enrollment changes) into the next biennium. For 2019–21, the maintenance level is \$50.485 billion from funds subject to the outlook (NGFO). This \$5.824 billion increase over 2017–19 includes the costs of the state’s response to the McCleary decision on school funding. Indeed, maintenance level changes for public schools make up 67.8 percent of total maintenance level changes. The state fully funded the response to McCleary

for the first time in fiscal year (FY) 2019, the second year of the 2017–19 biennium. So for 2019–21, the maintenance level includes the cost of fully funding McCleary for both years of the biennium.

### New Policy Spending

The Legislature passed three bills that make operating appropriations for 2019–21. The budget bill (ESHB 1109) appropriates \$52.419 billion from funds subject to the outlook. ESHB 2163 appropriates \$58.4 million from the NGFO for hold-harmless payments to school districts (after transferring this amount from the rainy day fund). E2SHB 2158 appropriates \$374.7 million from a new workforce education investment account (WEIA), mainly for higher education. Altogether, NGFO plus WEIA appropriations total \$52.852 billion. (Because the new WEIA funds education programs that would typically be funded through the NGFO, the spending numbers in this brief are in terms of the NGFO plus

WEIA.) Net new policy accounts for \$2.367 billion of that.

*Compensation.* The budget funds collective bargaining agreements (CBA) with state and higher education employees and extends them to non-represented employees. Generally, the agreements provide a 3 percent wage increase for FY 2020 and another 3 percent increase for FY 2021. The employer premium for employee health benefits will be \$939 per employee per month in FY 2020 (a 2.5 percent increase over FY 2019) and \$976 in FY 2021. (Employers will continue to contribute 85 percent of the premiums and employees will contribute 15 percent.) Altogether, appropriations for employee compensation increase by \$460.8 million. (That figure includes \$7.2 million for a 2 percent wage increase for University of Washington employees that is contingent on successful negotiation of amendments to the CBA.)

Additionally, the budget funds collective bargaining agreements with non-employee care providers. It appropriates \$72.4 million for individual providers of in-home care (and another \$22.8 million

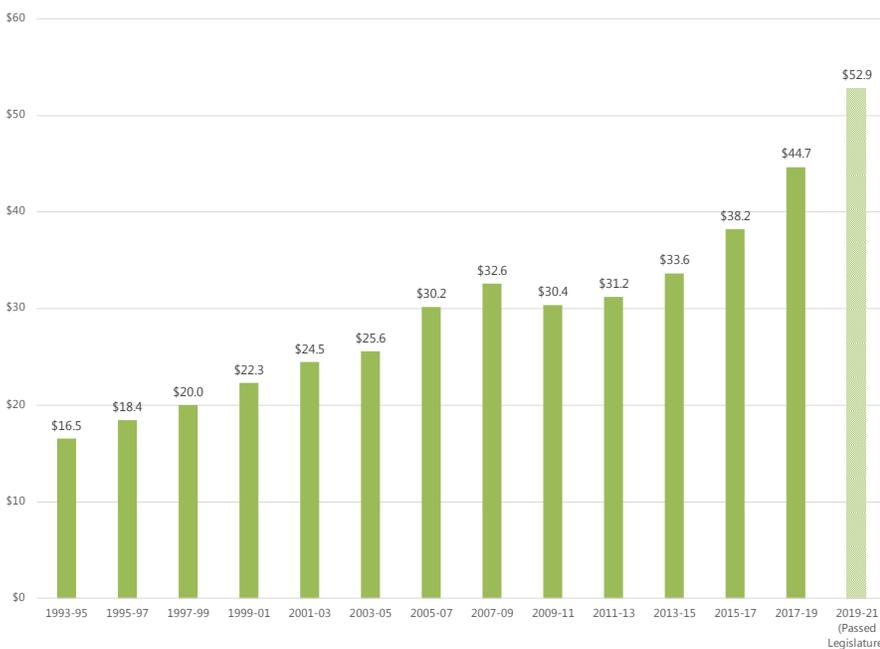
to provide parity for agency providers), \$52.8 million for family child care providers, \$37.6 million for adult family homes, and \$635,000 for language access providers.

*Public Schools.* Policy changes increase spending on public schools by \$668.7 million. As passed by the Legislature, K-12's share of the NGFO plus WEIA budget is 51.6 percent in 2019-21 (up from 50.8 percent in 2017-19, and up from 42.6 percent in 2009-11, the biennium before the McCleary case was decided and the funding response began).

As part of the McCleary response, the Legislature opted to consolidate school employee health benefits into the School Employees' Benefits Board (SEBB). School employees bargained with the state for these benefits for the first time last year (for the 2019-21 biennium). The budget appropriates \$318.7 million to fund the benefits at rates of \$994 per employee per month in FY 2020 and \$1,056 in FY 2021. (Another \$10.0 million is provided for SEBB start-up costs elsewhere in the budget.)

Appropriations for special education are increased by \$155.2 million. This includes \$81.5 million to increase the multiplier (the method by which the state allocates special education funds to districts) from 0.9609 to 0.995 in school year (SY) 2019-20 and to implement a tiered multiplier beginning in SY 2020-21. Under the tiered model, the multiplier will be 1.0075 for eligible students who are in the general education setting for at least 80 percent of the day and 0.995 for other students (pursuant to E2SSB 5091). The special education funding also includes \$32.7 million for safety net awards (for districts with demonstrated special education funding needs that exceed the amounts provided via the multiplier) in SY 2018-19 and SY 2019-20 and \$16.0 million to lower the threshold at which schools qualify for federal safety net awards from special education funding of 2.7 times average per-pupil spending to 2.3 times average per-pupil

Chart: Spending from Funds Subject to the Outlook Plus WEIA (Dollars in Billions)



spending. Finally, the Legislature also appropriated \$25.0 million for professional development to help teachers educate special education students in general education classrooms.

The budget also appropriates \$61.6 million for local effort assistance, \$58.4 million in hold-harmless payments to districts (as noted above, these funds were first transferred from the rainy day fund), and \$12.0 million for two days of paraeducator training in school year 2019–20. Additionally, under a rule change last year, forest revenues will no longer be deducted from school districts' state funding allocations. The budget appropriates \$26.4 million to account for this change.

*Higher Education.* Substantial spending increases are also made in higher education, as policy changes increase appropriations by \$532.6 million.

To maintain the State Need Grant (SNG) at current levels in 2019–21, the budget increases appropriations by \$17.0 million. Under E2SHB 2158, the SNG will be replaced by the Washington College Grant. Appropriations are increased by \$139.1 million to reduce the waiting list for grants by one-third in FY 2020, to increase the grant to pay for full tuition and fees, and to fund grants for apprenticeship programs.

Another \$21.2 million is appropriated to expand the income eligibility threshold for the Washington College Grant in two steps. Until SY 2020–21, students with family incomes that are 50 percent or less of the state median family income receive the maximum grant and students with family incomes that are 51 to 70 percent of the median income receive prorated grants. Beginning in SY 2020–21, students with family incomes up to 55 percent of the median income will receive the maximum grant and students with family incomes from 56 to 100 percent of the median will receive prorated grants.

Appropriations for higher education insti-

tution operating costs are increased by \$65.5 million. Another \$14.4 million is provided for the Washington State University medical school and \$10.0 million to the University of Washington for Harborview Medical Center and the UW Medical Center.

In the community and technical colleges, \$32.1 million is appropriated for the guided pathways program (which funds a redesign of curriculum into student pathways and creates student tracking systems to address real time challenges), \$40.8 million to increase nurse educator salaries, and \$20.0 million for increasing high-demand program faculty salaries.

*Department of Social and Health Services (DSHS).* The budget increases appropriations by \$66.2 million for state hospital operations. Community residential rates will be increased by 13.5 percent (\$62.2 million). For the settlement in the Trueblood et al. v. DSHS case, \$27.4 million is appropriated for competency restoration beds at the state hospitals (and for contracted beds in Yakima and at the Maple Lane facility in Thurston County) and \$10.3 million is appropriated for competency evaluators and other programs. The budget saves \$96.0 million because fines were suspended in the Trueblood case.

*Health Care Authority (HCA).* The budget appropriates \$47.3 million for community long-term inpatient beds, \$31.4 million for the Trueblood settlement (for crisis diversion, housing support, and other programs), and \$27.7 million to restore savings that will not occur in the Healthier Washington project.

It saves \$101.8 million by increasing staff to focus on reducing fraud, waste, and abuse in managed care plans and \$35.0 million due to a shift from behavioral health organizations to managed care contracts that integrate physical and behavioral health care. By assuming that a planned reduction in federal Medicaid disproportionate share hospital funding will be delayed, the budget saves \$74.8 million across HCA and DSHS.

*Other Human Services.* For the Department of Children, Youth, and Families, appropriations increase by \$24.6 million to increase child care center rates; \$21.8 million to increase behavioral rehabilitation services provider rates; \$19.6 million to expand the Early Childhood Education and Assistance Program (ECEAP) by 1,171 slots over the biennium; and \$15.2 million to increase the ECEAP rate by 6 percent. The budget saves \$43.0 million by using federal child care development funds in lieu of the general fund–state (GFS).

In the Department of Corrections, \$20.6 million is appropriated for the operating costs of capital projects that were funded in the 2017–19 capital budget and will be completed during 2019–21. For the Criminal Justice Training Commission, \$4.9 million is appropriated related to the Trueblood settlement for crisis intervention training and mental health response.

*Governmental Operations.* For the Department of Commerce, \$28.7 million is appropriated for homelessness and low-income housing programs. The Office of Financial Management gets \$15.2 million to promote the 2020 census.

*Natural Resources.* Across agencies, about \$19.5 million is appropriated relat-

ed to salmon and orca whales. Appropriations for the Department of Fish and Wildlife are increased by \$24.2 million for one-time operating budget support. In the Department of Natural Resources, \$20.7 million is appropriated to increase wildfire response capability.

*Other.* The budget appropriates \$40.5 million for debt service on new capital projects. Additionally, the Legislature created a new long-term services and supports trust program this year (2SHB 1087), through which a payroll tax will fund long-term care benefits. To prepare for the program, the budget appropriates \$16.5 million.

In 2008, Washington began to levy sales taxes based on location of the buyer rather than the location of the seller. As a result, some cities lost revenues, so the state has been making quarterly mitigation payments to them. Those payments are scheduled to end Oct. 1, 2019. According to the Department of Revenue, 2018 payments totaled \$9.2 million. The budget appropriates \$16.4 million to continue mitigation payments in 2019–21 to cities that were eligible for payments of at least \$50,000 in 2018 (12 cities could be eligible). (DOR n.d.)

The budget saves \$22.5 million by lower-

Table: NGFO, WEIA, and All Funds Appropriations (Dollars in Thousands)

|                                     | 2019-21 Biennium  |                   |                   |                   |                    |                   |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|--------------------|-------------------|
|                                     | 2017-19 Biennium  |                   | Maintenance Level |                   | Passed Legislature |                   |
|                                     | NGFO+WEIA         | All Funds         | NGFO+WEIA         | All Funds         | NGFO+WEIA          | All Funds         |
| Legislative                         | 166,592           | 194,781           | 180,302           | 209,030           | 190,001            | 220,774           |
| Judicial                            | 289,218           | 372,713           | 306,961           | 365,410           | 332,748            | 418,511           |
| Governmental Operations             | 543,004           | 4,175,900         | 571,225           | 2,998,981         | 690,315            | 4,607,819         |
| DSHS                                | 6,418,005         | 14,141,800        | 5,965,270         | 12,939,272        | 6,393,519          | 13,806,833        |
| Health Care Authority               | 4,662,347         | 19,160,021        | 5,782,531         | 21,051,652        | 5,779,026          | 21,245,905        |
| Other Human Services                | 2,853,320         | 6,163,607         | 3,944,177         | 7,866,221         | 4,336,997          | 8,601,970         |
| Natural Resources                   | 341,509           | 1,918,445         | 328,407           | 1,937,875         | 438,722            | 2,138,532         |
| Transportation                      | 94,295            | 225,808           | 98,098            | 224,758           | 120,869            | 259,485           |
| Public Schools                      | 22,691,351        | 24,786,560        | 26,638,580        | 28,679,589        | 27,245,910         | 29,287,911        |
| Higher Education                    | 3,713,656         | 14,506,977        | 3,867,297         | 14,980,020        | 4,038,399          | 15,447,416        |
| Other Education                     | 223,408           | 481,251           | 55,962            | 128,774           | 68,794             | 141,960           |
| Special Appropriations              | <u>2,650,899</u>  | <u>1,926,720</u>  | <u>2,746,077</u>  | <u>2,907,483</u>  | <u>2,783,622</u>   | <u>3,069,339</u>  |
| <b>Total Budget Bill</b>            | <b>44,647,604</b> | <b>88,054,583</b> | <b>50,484,887</b> | <b>94,289,065</b> | <b>52,418,922</b>  | <b>99,246,455</b> |
| Appropriations in Other Legislation | 13,621            | 980,245           | 0                 | 0                 | 433,086            | 0                 |
| <b>Statewide Total</b>              | <b>44,661,225</b> | <b>89,034,828</b> | <b>50,484,887</b> | <b>94,289,065</b> | <b>52,852,008</b>  | <b>99,246,455</b> |

ing overtime costs, professional service contracts, travel, goods and services, and capital outlays by 1 percent in FY 2020 and 1 percent in FY 2021 at agencies and institutions with 100 or more employees (costs will be cut at 34 agencies). (This is one of the few instances in the budget in which spending is actually cut.)

Also, under current law, the local public safety enhancement account (RCW 41.26.800) contributes funds to an account within the Law Enforcement Officers' and Fire Fighters' Plan 2 retirement fund and distributes funds to local governments for public safety purposes. Transfers are required to be made to the local public safety enhancement account from the GFS in odd-numbered years (if general state revenues have increased by more than 5 percent), but the 2013, 2015, and 2017 transfers were suspended by the Legislature. This year, the Legislature passed HB 2144, which eliminates the transfers entirely, saving \$50.0 million in 2019–21.

#### **Comment**

The state's spending high point prior to the Great Recession occurred in 2007–09,

when the 2008 supplemental appropriated \$33.7 billion for the biennium (spending cuts began with the 2009 supplemental). As passed by the Legislature, 2019–21 appropriations are 57.0 percent higher than appropriations in the 2008 supplemental, fueled by revenue growth from a long economic expansion.

For 2019–21, the Legislature significantly increased appropriations for employee compensation, K–12 health benefits, higher education, and behavioral health.

The high level of spending in this budget, on top of substantial spending increases in the previous two biennia, leaves its sustainability in doubt.

#### **References**

Department of Revenue (DOR). No date. "[Mitigation for local governments.](#)"

Washington Research Council (WRC). 2019. "[Legislature Adopts New Taxes to Increase 2019–21 Spending by 18.3 Percent.](#)" PB 19–10. May 8.