

INCREASING THE 2011–13 CAPITAL BUDGET

BRIEFLY

The 2012 supplemental capital budget, in contrast with the operating budget supplemental, increases 2011–13 appropriations. The supplemental adds \$1.075 billion, including bonding authority of \$512.3 million.

- General obligation (GO) bonds are backed by the full faith, credit, and taxing power of the state.
- Certificates of Participation (COPs) are debt instruments similar to bonds, but they are not a general obligation of the state; instead, COPs are backed by agency appropriations.

In the second special session, in addition to passing a supplemental operating budget, the legislature passed a 2012 supplemental capital budget (ESB 6074) and an associated bond bill (ESB 5127). The originally-enacted 2011–13 capital budget (June 2011) appropriated \$2.859 billion (of which \$1.148 billion was financed by general obligation bonds). The 2012 supplemental increases appropriations (including alternative finance projects) by \$1.075 billion (and bonding authority by \$512.3 million).

Passed with strong bipartisan support, the capital budget bill was explicitly linked with job creation. Bill sponsors cite nonpartisan legislative staff estimates that show the \$1 billion in capital spending generating 18,000 construction jobs and a sustained employment gain of 8,000.

Gov. Chris Gregoire continued the theme. “Jobs are the way out of this recession,” she said at the bill signing. “I’m proud to sign a package that makes our state stronger, and invests in Washington’s future.”

Employment estimates are based on past experience and standard modeling analysis. The timing and magnitude of the job growth will vary. Ultimately, the value of the capital budget derives from the value of the projects enabled by the increased funding. It is signif-

icant that in a cash-strapped budget year, lawmakers rallied to make a substantial increase in capital spending and bonded indebtedness.

2012 Supplemental

The capital budget makes appropriations for construction and repairs; the bond bill helps finance those appropriations.

Funding comes from a combination of new GO bonds, existing GO bonds, dedicated cash accounts, and COPs. GO bonds pay for 47.7 percent of the total appropriated, COPs pay for 17.5 percent, and the Public Works Assistance Account pays for 16.5 percent. (See Table 2.)

Five budget areas are served by the capital budget: governmental operations, human services, natural resources, higher education, and other education. The supplemental increases net appropriations to each of them.

Governmental Operations. Appropriations are increased by \$465.9 million, most of which occurs in the Department of Commerce. \$32.6 million is appropriated for economic development, innovation and export grants through the Community Economic Revitalization Board (for “improvements that enable and encourage private sector business creation or expansion, the redevelop-

Table 1: Capital Appropriations
(Including Alternative
Finance Projects, Dollars
in Thousands)

	2011-13 Appropriations		Enacted 2012 Supplemental		Revised 2011-13 Appropriations	
	Debt Limit Bonds	All Funds	Debt Limit Bonds	All Funds	Debt Limit Bonds	All Funds
Governmental Operations	119,014	545,519	222,638	465,938	341,652	1,011,457
Human Services	79,650	150,171	23,860	53,170	103,510	203,341
Natural Resources	245,443	915,657	124,491	213,295	369,934	1,128,952
Higher Education	290,390	512,609	111,569	320,069	401,959	832,678
Other Education	413,652	734,949	29,722	22,584	443,374	757,533
Total	1,148,149	2,858,905	512,280	1,075,056	1,660,429	3,933,961

opment of brownfields, and to enhance the vitality and livability of the community”). \$60.0 million is appropriated for the Drinking Water State Revolving Fund Loan Program (a federal program that helps fund infrastructure improvements to public water systems). Funds for weatherization and energy efficiency grants total \$63.0 million. Housing programs (for, e.g., families with children and the homeless) receive a total of \$62.6 million. \$152.8 million is provided for Public Works Assistance Account Program projects, including \$10.0 million each for four projects: the Everett conveyance project, the Everett water pollution control facility expansion, the Hoquiam water transmission pipeline replacement, and the Clark Regional Wastewater District discovery corridor wastewater transmission system. \$33.2 million will fund port and export related infrastructure (including \$7.0 million for the Tacoma-Puyallup River Bridge replacement).

Human Services. Appropriations are increased by \$53.2 million. In the Department of Veterans’ Affairs, \$45.6 million is provided for the Walla Walla nursing facility. In the Department of Health, \$11.6 million is appropriated for safe reliable drinking water grants.

Natural Resources. Appropriations are increased by \$213.3 million. The Department of Ecology receives \$74.7 million, including \$24.1 million for the statewide stormwater grant program and \$14.5 million for stormwater retrofit and low-impact development competitive grants. The Department of Fish and Wildlife receives \$66.5 million, including \$34.8 million for hatchery improvements. The Department of Natural Resources receives \$47.8 million, including \$13.0 million for the Puget Sound Corps (“for water quality and habitat protection and restoration projects that benefit Puget Sound recovery and that are primarily on public lands”).

Higher Education. Appropriations are increased by \$320.1 million. The University of Washington receives \$62.9 million for construction of the Bothell phase 3 project (a new academic building). That amount includes authorization of a \$30.0 million bond “to be financed from building fee and trust land revenues.” Washington State University receives \$37.1 million for construction of the Riverpoint biomedical and health sciences building in Spokane, including authorization of a \$29.8 million bond also “to be financed from building fee and trust land revenues.” The Community and Technical College System (CTCS) receives a total of \$206.6 million, including \$39.1 million for the Health Careers Center at Tacoma Community College. The CTCS sum also includes several financing contract authorizations, including \$30.6 million for an academic and student services building at Skagit Valley Community College, \$38.6 million for a health and science building at Lower Columbia Community College, and \$50.0 million for the state board for community and technical colleges for an administrative system replacement project.

Other Education. Appropriations are increased by \$22.6 million. In Public Schools, the 2011–13 school construction assistance program is reduced by \$104.8 million. Additionally, distressed schools (John Marshall, Boren, and Van Asselt in Seattle; Orcas Island schools; and the Grand Coulee Dam school) receive a total of \$27.4 million. \$40.0 million is provided for energy efficiency grants for schools, and a total of \$53.7 million is provided for various skills centers around the state.

Debt Limit

Article 8, section 1 of the state constitution sets a limit on the debt the state may contract: “The aggregate debt contracted by the

Table 2: Sources of Funding in ESB 6074 and ESB 5127 (Dollars in Thousands)

New GO Bonds	500,461
Existing GO Bonds	11,819
Subtotal GO Bonds	512,280
Dedicated Cash Accounts	
Public Works Assistance Account	177,581
Drinking Water Assistance Repayment Account	60,000
Local Toxics Control Account	47,036
General Fund-Federal	32,275
State Toxics Control Account	24,509
UW Building Account	12,963
Water Pollution Control Revolving Account	7,939
Cleanup Settlement Account	7,200
Capitol Building Construction Account	3,500
Aquatic Lands Enhancement Account	3,000
CTCS Capital Projects Account	2,700
EWU Capital Projects Account	2,540
WWU Capital Projects Account	1,530
Drinking Water Assistance Account	832
CWU Capital Projects Account	703
Fire Service Training Account	644
Charitable, Education, Penal & Reformatory Institutions Account	(3,808)
Common School Construction Account	(6,052)
Subtotal Cash Accounts	375,092
Certificates of Participation	187,684
Total	1,075,056

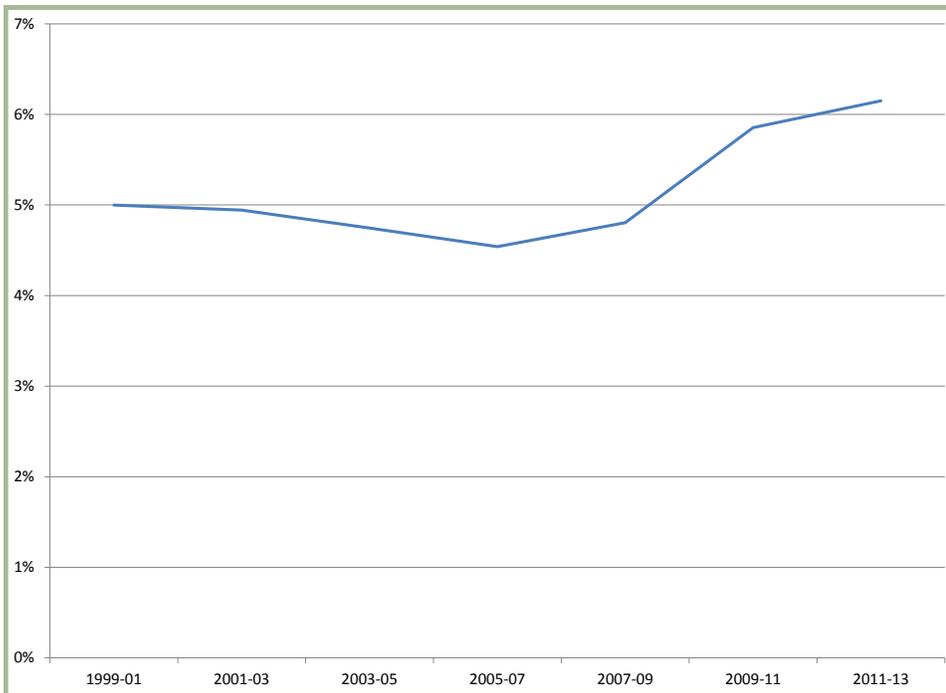


Chart: Bond Retirement Appropriations as a Percent of the NGFS+ Operating Budget

state shall not exceed that amount for which payments of principal and interest in any fiscal year would require the state to expend more than nine percent of the arithmetic mean of its general state revenues for the three immediately preceding fiscal years as certified by the treasurer.”

General state revenues are essentially all revenues to the general fund except property taxes. COPs are not subject to the debt limit. Washington has been using a working debt limit of 8.75 percent, which is essentially where the state’s debt stands given the supplemental.

Impact on the Operating Budget

Debt service on bonds authorized in the capital budget is paid in the operating budget. The 2012 supplemental operating budget increases near general fund–state plus opportunity pathways (NGFS+) 2011–13 appropriations for bond retirement and interest by \$920,000. Revised NGFS+ 2011–13 appropriations for debt service are \$1.922 billion (6.2 percent of the operating budget).

Discussion

Increasing state debt can have positive and negative consequences. As the state treasurer’s 2012 Debt Affordability Study notes, “Although the state pays interest, debt-financed capital projects can be cost-effective if borrowing costs are less than the costs associated with waiting to build. In addition, debt-financing can promote tax equity as each asset is paid for over its useful life, and not all-at-once by taxpayers in one

given year. However, by leveraging future tax revenues, debt financing depletes resources for capital projects in the future biennia.”

That the 2012 supplemental increases capital spending at a time when the operating budget is contracting is in keeping with the findings of the Commission on State Debt, which made its final report in December 2011. One of the recommendations of the commission was to allow for the working debt limit “to increase during recessions and phase back down as economic recovery takes place.”

That said, Washington’s debt is high compared to other states. The Debt Affordability Study compares rating agency measures of debt and concludes, “Washington’s debt burden places it among the top 10 states in the nation as measured by: debt per capita, debt as a percentage of personal income, debt service as a percentage of governmental expenditures, and debt as a percentage of gross state product.” High debt can affect how investors view the state’s economy, thereby raising the cost of borrowing and deepening the impact of debt on the operating budget.

WASHINGTON RESEARCH COUNCIL
 16300 Christensen Road, Ste. 207
 Tukwila, Washington 98188
 206-467-7088
 fax: 206-467-6957
www.researchcouncil.org