

THE 2014 SUPPLEMENTAL BUDGET INCREASES EDUCATION SPENDING, HOLDS LINE ON NEW TAXES, AND FAILS TO EXTEND R&D CREDITS

BRIEFLY

On the last day of the regular session, the Legislature passed a 2014 supplemental operating budget that increases 2013-15 NGFS+ spending by \$155.1 million. The Legislature failed to extend the high technology research and development tax credits.

Table 1: 2013-15
NGFS+ Balance Sheet
(Dollars in Millions)

Beginning Balance	156
Revenue	
November Revenue Forecast	33,576
February 2014 Forecast	60
March 2014 Passed	
Revenue Legislation	3
Budget Driven Revenue	9
Total Revenue	33,650
Other Resource Changes	
Transfer to Budget Stabilization Acct.	(312)
Previously Enacted Transfers	421
Prior Period Adjustments	41
March 2014 Passed	
Transfers	27
Other Changes	(10)
Total Other Resource Changes	167
Total Resources	33,973
Spending	
Enacted Appropriations	33,642
Projected Reversions	(140)
March 2014 Passed	
Maintenance Level Changes	89
Policy Level Changes	61
Appropriations in Other Legislation	5
Total Spending	33,657
Unrestricted Ending Fund Balance	316
Budget Stabilization Account Balance	583
Total Reserves	899

Note: The Legislature's conference report balance sheet includes a new tax exemption for medical marijuana; that bill was not passed by the Legislature, so it is not included in this balance sheet.

The 2014 legislative session ended March 13, on time. Although the Legislature did not pass a transportation package or a capital budget, it did pass a supplemental operating budget—despite the fact that, because there was no shortfall to address, a supplemental was not strictly required this year.

As passed by the Legislature, the 2014 supplemental increases near general fund—state plus opportunity pathways (NGFS+) spending to \$33.657 billion for 2013–15. It avoids the controversial items that had been passed by one house but not the other, and it adds \$58 million in basic education funding.

Balance Sheet

Revenues and other resources. The supplemental excludes marijuana from existing tax preferences, increasing revenue by \$2.8 million. It transfers \$20.0 million from

the life sciences discovery fund to the education legacy trust account.

The supplemental does not include a tax package that had been passed by the House, which would have narrowed the extracted fuel exemption to apply only to biomass fuel, applied the sales tax to bottled water, increased the tax rate for prescription drug resellers, and changed the sales tax exemption for out-of-state residents to a refund program. It also does not include the House's proposal to apply the tobacco products tax to e-cigarettes.

Additionally, the supplemental does not extend the business and occupation tax credit and the sales and use tax deferral for high technology research and development, which will now expire at the end of this year. We supported the extension. See "[Supporting Research and Development with Responsible Tax Policy](#)" for why these programs are important.

Spending. As passed by the Legislature, the supplemental increases NGFS+ appropriations by \$155.1 million (including \$5.0 million for the previously enacted Real Hope Act). Supplemental spending to maintain current services (maintenance level) totals \$89.2 million, while policy level spending totals \$60.7 million. The supplemental assumes spending reversions totaling \$140 million. Together, these changes increase biennial NGFS+ spending to \$33.657 billion.

Reserves. The supplemental leaves an unrestricted ending fund balance of \$316

	Original 2013-15 Appropriations		2014 Supplemental		Revised 2013-15 Appropriations	
	NGFS+	All Funds	NGFS+	All Funds	NGFS+	All Funds
Legislative	141,400	155,455	(106)	285	141,294	155,740
Judicial	237,851	299,190	4,467	11,521	242,318	310,711
Governmental Operations	459,114	3,499,248	4,362	47,312	463,476	3,546,560
Other Human Services	6,116,392	16,764,364	93,425	753,620	6,209,817	17,517,984
DSHS	5,786,677	11,917,266	(32,321)	127,593	5,754,356	12,044,859
Natural Resources	262,680	1,587,441	7,764	16,165	270,444	1,603,606
Transportation	69,582	180,937	(233)	499	69,349	181,436
Public Schools	15,208,877	17,097,327	55,846	120,060	15,264,723	17,217,387
Higher Education	3,073,070	12,203,622	11,678	(17,266)	3,084,748	12,186,356
Other Education	204,674	588,624	(109)	4,111	204,565	592,735
Special Appropriations	2,065,974	2,222,531	5,170	13,170	2,071,144	2,235,701
Total Budget Bill	33,626,291	66,516,005	149,943	1,077,070	33,776,234	67,593,075
Other Appropriations	15,483	16,961	5,150	5,150	20,633	22,111
Total Appropriations	33,641,774	66,532,966	155,093	1,082,220	33,796,867	67,615,186

Table 2: 2013-15 Appropriations (Dollars in Thousands)

million. Total reserves (including the budget stabilization account) total \$899 million.

Spending Details

Public Schools. The supplemental increases NGFS+ spending for public schools by a net of \$55.8 million. Materials, supplies, and operating costs allocations are increased by \$58.0 million. Due to reduced enrollment, maintenance level spending is decreased by \$6.7 million. The Initiative 732 cost-of-living adjustment for school employees is not funded.

Higher Education. NGFS+ spending on higher education is increased by a net of \$11.7 million. That includes \$25.4 million for the opportunity scholarship program. Of the employee health insurance savings (see “other,” below), \$30.1 million occurs in higher education. The supplemental holds resident undergraduate tuition levels steady for 2014–15.

Department of Social and Health Services. NGFS+ spending is reduced by a net of \$32.3 million. Maintenance level spending is reduced by \$54.6 million (due in part to Temporary Assistance for Needy Families and Working Connections Child Care caseload adjustments), and employee health insurance savings

(see “other,” below) reduce DSHS spending by \$14.8 million. Funding the child care collective bargaining agreement with family home providers and increasing the child care center provider rate increases spending by \$23.2 million. The supplemental also funds the children’s mental health lawsuit settlement (\$8.2 million) and various mental health enhancements (\$7.3 million).

Other Human Services. Spending is increased by \$93.4 million, largely due to maintenance level increases in the Health Care Authority and Department of Corrections. Adjustments to the hospital safety net assessment save \$25.0 million and maintaining managed care rates at 2014 levels saves \$10.7 million. To increase prison capacity, the supplemental increases spending by \$5.4 million.

Other. The supplemental increases spending by \$10.0 million to restore previously assumed health care savings, and it assumes \$10.0 million in savings from LEAN management efficiencies.

The supplemental includes savings from reducing the state contribution for public employee health insurance (by utilizing a Public Employees Benefits Board fund surplus). This item is distributed to each

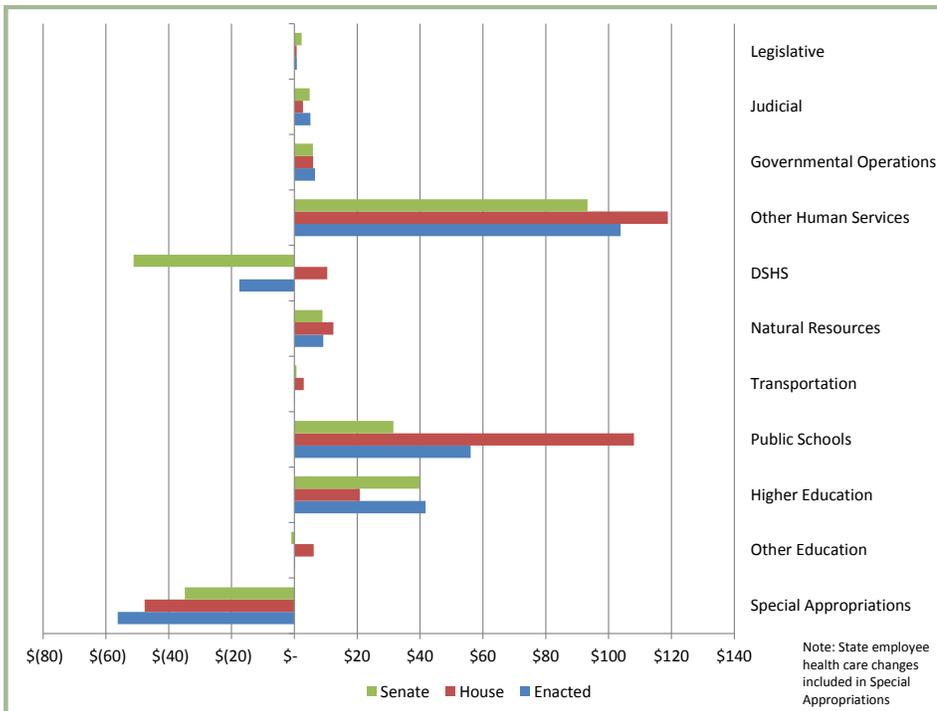


Chart: Comparing Versions of the 2014 Supplemental (Dollars in Millions)

agency or program area in the discussion above (altogether it totals \$61.4 million). (As the House- and Senate-passed supplementals had entirely classified this item under special appropriations, the chart shows all of the health insurance savings in special appropriations, for the sake of comparison.)

Outlook

The 2013–15 biennium was the first in which the Legislature was required to adopt a budget that balanced over four years. The [legislation](#) that enacted that requirement specified that operating appropriations bills must leave a positive ending fund balance in the NGFS+. Additionally, NGFS+ maintenance level appropriations must not exceed available fiscal resources for the following biennium. The legislation defined “available fiscal resources” as the greater of the official NGFS+ revenue forecast for the next biennium or the NGFS+ forecast for the second year of the current biennium increased by 4.5 percent.

This supplemental budget meets these requirements. It is estimated to leave a 2015–17 unrestricted ending fund balance of \$31.9 million. This is based on the 4.5 percent growth rate assumption, as required by the law. If you calculate it based on the current 2015–17 revenue

forecast, the 2015–17 unrestricted ending fund balance is *negative* \$58.8 million. In the grand scheme of the biennial budget, \$58.8 million does not amount to a problem. Indeed, the balanced budget legislation specified that the ending balance be based on the greater of the forecast or 4.5 percent (the long-term average growth rate) because the option helps to insulate spending decisions from out-year revenue forecast error. Additionally, the purpose of the four-year balanced budget was to prevent legislators from enacting legislation for which spending would be minimal in the current biennium but bow wave in future biennia.

Comment

When Gov. Inslee introduced his 2014 supplemental proposal before the session, he called it a “hold-steady budget in a get-ready year” (Garber). The supplemental passed by the Legislature is even more so. It makes mostly minor changes to the 2013–15 operating budget while increasing spending for public schools—a prelude to next session’s likely focus on meeting the state’s McCleary obligations.

References

Garber, Andrew. 2013. “[Inslee submits ‘hold steady’ budget.](#)” *Seattle Times*. December 17.

Senate Ways and Means Committee. 2014. “[2014 Supplemental Operating Budget Overview: Conference Proposal.](#)” March 13.

Washington Research Council. 2014. “[Supporting Research and Development with Responsible Tax Policy.](#)” PB 14-06. February 13.