

SENATE WAYS AND MEANS CHAIR'S PROPOSED 2014 SUPPLEMENTAL INCREASES EDUCATION SPENDING, REDUCES TAXES

BRIEFLY

The Senate Ways and Means Chair has proposed a supplemental operating budget that would increase education spending while providing an overall net reduction in NGFS+ spending.

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

Beginning Balance	156
Revenue	
November Revenue Forecast	33,576
February 2014 Forecast	60
Senate Chair Proposal	
Tax Incentives	(10)
Budget Driven Revenue	7
<i>Total Revenue</i>	33,633
Other Resource Changes	
Transfer to Budget Stabilization Acct.	(312)
Previously Enacted Transfers	421
Prior Period Adjustments	41
Senate Chair Proposal	
Transfers	51
Other Changes	(4)
<i>Total Other Resource Changes</i>	197
<i>Total Resources</i>	33,987
Spending	
Enacted Appropriations	33,642
Projected Reversions	(140)
Senate Chair Proposal	
Maintenance Level Changes	44
Policy Level Changes	52
<i>Total Spending</i>	33,597
Unrestricted Ending Fund Balance	389
Budget Stabilization Account Balance	582
<i>Total Reserves</i>	972

Although a supplemental operating budget is not required this year—there's no shortfall to plug—Senate Ways and Means (SW&M) Chair Andy Hill has proposed a supplemental that would increase education spending while providing an overall net reduction in near gen-

eral fund–state plus opportunity pathways (NGFS+) spending. If the Legislature adopts the budget, biennial state spending would drop slightly to \$33.597 billion for 2013–15.

(For more on the enacted 2013–15 budget, see "[2013–15 Operating Budget Mostly Avoids New Taxes, Prioritizes Education](#)." Gov. Inslee also proposed a supplemental, which would have spent \$33.754 billion. See "[Minimal Changes to 2013–15 Budget in Gov. Inslee's Proposed Supplemental](#).")

Revenues. The SW&M Chair proposes extending the business and occupation tax credit and the sales and use tax deferral for high technology research and development to 2025, but the credit would be limited to taxpayers with less than \$50 million in gross business income and the deferral would be capped at \$1 million per project per year. The credit and deferral programs are scheduled to expire this year. State analysts project that the limited extension would reduce revenues by \$7.8 million from the baseline were the programs to sunset this year. Note: In "[Supporting Research and Development with Responsible Tax Policy](#)" we conclude that the programs are common among the states, economically justified, and should be extended indefinitely without the proposed limitation.

The proposal also includes a sales and use tax exemption and a retail marijuana excise tax exemption for medical marijuana purchases, which would reduce revenues by \$2.0 million. Additionally, the

proposal would eliminate the 17 percent spirits retail license fee that is imposed when retailers sell liquor to businesses for on-premise consumption, which would reduce revenues by \$1.2 million.

Other Resource Changes. The proposal would transfer \$34.3 million from the life sciences discovery fund to the education legacy trust account, and it would reduce the local government distribution of the liquor excise tax by \$6.7 million.

Spending. The SW&M Chair’s proposed supplemental would increase NGFS+ spending by \$95.7 million, including about \$5 million for SB 6523 (the Real Hope Act), which was passed by the Senate and the House earlier this year. Of the proposed spending, \$52.1 million is due to policy level changes. Maintenance level increases—spending required to maintain current services—account for \$43.5 million. Assumed reversions would reduce spending by \$140 million. Altogether, these changes would reduce NGFS+ spending for 2013–15 to \$33.597 billion.

Reserves. The proposal would leave an unrestricted ending fund balance of \$389 million and total reserves (including the budget stabilization account) of \$972 million.

Spending Details

Public Schools. The proposal would increase net NGFS+ spending on public schools by \$31.4 million. \$38.2 million is added for technology enhancements—part of the materials, supplies, and operating costs that must be funded pursuant to the state Supreme Court’s *McCleary* decision.

Higher Education. NGFS+ spending on higher education would be increased by \$39.1 million. Most of this is due to an increase of \$25 million for the opportunity scholarship program. The proposal would continue to prohibit resident undergraduate tuition increases for the 2014–15 school year.

Department of Social and Health Services. NGFS+ spending would be reduced by a net of \$55.5 million. This is mostly due to maintenance level reductions, (for example, according to the [overview document](#), maintenance spending is reduced by \$87.8 million due to declining participation in Temporary Assistance to Needy Families and other public assistance programs, and it is reduced by \$15.9 million due to a decline in long term care clients). Policy changes would increase spending by \$32.6 million. Spending would be increased by

Table 2: NGFS+ and All Funds Appropriations (Dollars in Thousands)

	Original 2013-15 Appropriations		Proposed 2014 Supplemental		Revised 2013-15 Appropriations	
	NGFS+	All Funds	NGFS+	All Funds	NGFS+	All Funds
Legislative	141,400	155,455	2,295	2,699	143,695	158,154
Judicial	237,851	299,190	4,147	11,322	241,998	310,512
Governmental Operations	459,114	3,499,248	2,977	43,648	462,091	3,542,896
Other Human Services	6,116,392	16,764,364	92,553	739,760	6,208,945	17,504,124
DSHS	5,786,677	11,917,266	(55,489)	33,644	5,731,188	11,950,910
Natural Resources	262,680	1,587,441	8,761	21,663	271,441	1,609,104
Transportation	69,582	180,937	688	1,907	70,270	182,844
Public Schools	15,208,877	17,097,327	31,364	95,769	15,240,241	17,193,096
Higher Education	3,073,070	12,203,622	39,138	39,744	3,112,208	12,243,366
Other Education	204,674	588,624	(245)	8,492	204,429	597,116
Special Appropriations	2,065,974	2,222,531	(35,682)	(58,211)	2,030,292	2,164,320
Total Budget Bill	33,626,291	66,516,005	90,507	940,437	33,716,798	67,456,442
Other Appropriations	15,483	16,961	5,150	5,200	20,633	22,161
Total Appropriations	33,641,774	66,532,966	95,657	945,637	33,737,431	67,478,603

Table 1: King County, 2012

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.

\$8.2 million “to develop and implement a statewide Wraparound with Intensive Services (WISe) delivery model for home and community-based mental health services for high needs youth” (in accordance with the children’s mental health settlement). Given the collective bargaining agreement with family home child care providers, \$17.9 million would be provided to cover associated increased costs (an additional \$7.6 million would be provided for this purpose under the Department of Early Learning).

Other Human Services. Spending would be increased by a net of \$92.6 million. This is mostly due to maintenance level increases; policy changes would reduce spending by \$36.9 million. Changes to the hospital safety net assessment program would reduce spending by \$25.0 million. Maintaining managed care rates at the 2014 level would reduce spending by \$10.7 million.

Other. Because of a larger than anticipated surplus in the public employees and retirees insurance account, the state contribution for employee health insurance can be reduced from \$763 per employee per month to \$703, saving \$36.5 million. The change does not affect employee benefits and funds the health benefits under the collective bargaining agreement for 2015.

Comment

In introducing the bipartisan proposal, Sen. Hill said that a supplemental budget is not “a second bite at the apple.” Because last year’s budget took a restrained approach—a restraint imposed in part by the new four-year balanced budget requirement—and because state revenues are coming in as forecast, no major changes were required this year. Yet, the most recent revenue forecast made it possible to increase education spending while accommodating the various maintenance level adjustments typical in the second year of a biennium.

The increased higher education and K-12 funding will be welcome, with the latter allowing lawmakers to take another step toward meeting the state’s *McCleary* ob-

ligations. Senate Democrats today have proposed increasing education funding by \$139.6 million this year. They would pay for that increase by taxing recycled fuel, applying the sales tax to bottled water, changing the sales tax exemption for out-of-state residents to a refund program, and increasing the tax rate for prescription drug resellers. The higher taxes were proposed last year by the House and again proposed by Gov. Inslee last month.

As noted above, we have concluded that the R&D incentive programs are justified, for both economic and competitive reasons. The restrictions proposed in the SW&M Chair’s plan are, therefore, a matter of concern.

The modest spending adjustments made in the SW&M proposal are sustainable in the next biennium. The targeted education funding reflects the right priorities. Although there will doubtless be different emphases in the anticipated House budget, the Senate budget provides a solid framework for the eventual negotiations. A repeat of last year’s budget stalemate is unnecessary and unlikely.

References

- Senate Ways and Means Committee. 2014. “[Proposed Senate 2014 Supplemental Operating Budget Overview.](#)” February 24.
- Washington Research Council (WRC). 2013. “[2013-15 Operating Budget Mostly Avoids New Taxes, Prioritizes Education.](#)” PB 13-10. July 12.
- . 2014. “[Minimal Changes to 2013-15 Budget in Gov. Inslee’s Proposed Supplemental.](#)” PB 14-02. January 14.
- . 2014 “[Supporting Research and Development with Responsible Tax Policy.](#)” PB 14-06. February 13.