

## Gov. Inslee's 2018 Supplemental Operating Budget Would Increase Spending by \$960.8 Million

### Briefly

- Gov. Inslee's proposed supplemental operating budget would increase NGFS+ spending by \$960.8 million, raising 2017-19 appropriations to \$44.7 billion.
- State funding for school staff salaries would increase by \$761.4 million.
- The unrestricted ending fund balance would be \$759 million, with total reserves of \$2.2 billion.
- The governor states that his budget will balance over four years, complying with the statutory balanced budget requirement.
- The proposal would transfer about \$476 million out of the rainy day fund in 2019–21.

In the 2017 legislative session lawmakers concentrated on complying with the state Supreme Court's McCleary decision on school funding. The major unfinished objective was the need to increase state allocations for school staff salaries.

The 2017–19 operating budget included \$1.099 billion to increase school staff salaries, and the Legislature planned to spend \$4.212 billion for that purpose in 2019–21. In November, the Court said that the Legislature remains out of compliance in the case because the salary increases won't be fully phased in by the Sept. 1, 2018 deadline.

Gov. Inslee proposes a 2018 supplemental operating budget that includes appropriations to fully fund those salaries for SY 2018–19. Altogether, the proposal would increase near general fund-state plus opportunity pathways (NGFS+) spending by \$960.8 million. Revised 2017–19 NGFS+ appropriations would total \$44.669 billion.

### Balance Sheet

*Revenues.* The enacted 2017–19 budget was based on the June revenue forecast, which expected revenues of \$41.677 billion for the biennium. Since then, the Economic and Revenue Forecast Council (ERFC) has increased its estimate by \$2.685 billion. Gov. Inslee does not propose increasing taxes for the biennium. He did, however, say that he would present a carbon tax bill in January. More on that below.

*Spending.* The proposal would increase NGFS+ spending by \$960.8 million. Maintenance level changes (the costs of providing current services) would increase appropriations by \$81.8 million. Policy level changes would increase spending by \$879.0 million.

*Reserves.* The unrestricted ending fund balance would be \$759 million. The budget stabilization account (BSA, or the rainy day fund) would have an ending fund balance of \$1.395 billion. Together, reserves would total \$2.154 billion. Note

that EHB 2190 (passed in June) required the transfer of the entire extraordinary revenue growth BSA deposit back to the general fund–state (GFS)—up to \$1.078 billion. At the time, the extraordinary revenue growth deposit was expected to be \$898 million. Now it is expected to be \$1.306 billion; consequently, the balance sheet shows a transfer to the GFS from the BSA of \$1.078 billion. The governor does not propose new transfers from the BSA during this biennium.

### Spending Details

*Public Schools.* NGFS+ spending for public schools would increase by a net of \$173.3 million. The proposal would fully

fund the new salary allocations put in place by the Legislature earlier this year in SY 2018–19, as ordered by the state Supreme Court. This will cost about \$950 million; because two months of the school fiscal year fall in the 2019–21 biennium, 2017–19 appropriations would increase by \$761.4 million.

Additionally, the proposal would change the school district apportionment schedule (RCW 28A.510.250). The state fiscal year is July 1 to June 30, but the school district fiscal year is Sept. 1 to August 31. This difference provides an opportunity for the state to save funds within the budget window without reducing funding for districts. In the education funding bill passed this year (EHB 2242), the Legislature increased the amount of state funds that are apportioned to districts in July and August from 20 percent to 22.5 percent, effective Sept. 1, 2019 (in 2019–21). The governor’s supplemental proposal would increase the July and August amount to 25 percent and make it effective in state FY 2019. This would save the state \$604.5 million in 2017–19.

*Human Services.* The proposal would increase spending for the Health Care Authority (HCA) by \$705.0 million. Of that, \$556.3 million is transferred from the Department of Social and Health Services (DSHS). Under 2SSB 6312 (passed in 2014), physical and behavioral health care services for Medicaid clients must be integrated by 2020. This transfer would be part of that integration.

The proposal would increase spending for state psychiatric hospital operations and staffing by \$93.3 million. It would also increase spending for state hospitals by \$20.2 million to comply with a systems improvement agreement made with the Centers for Medicare and Medicaid Services.

*Other.* The enacted 2017–19 budget used BSA funds to pay for contributions to public employee retirement plans, saving \$426.6 million in the NGFS+. The savings were accounted for in the other appropriations section of the budget.

Table 1: NGFS+ Balance Sheet (Millions of Dollars)

	<i>2017-19</i>
Beginning Balance	1,149
Revenue	
November 2017 Revenue Forecast	44,362
<b>Gov. Inslee’s Proposal Revenue Legislation</b>	<b>(5)</b>
<i>Total Revenue</i>	<i>44,357</i>
Other Resource Changes	
Transfer to Budget Stabilization Account	(435)
Transfer to BSA (Extraordinary Revenue Growth)	(1,306)
Transfer from BSA (Extraordinary Revenue Growth)	1,078
Other Enacted Fund Transfers	328
Prior Period & CAFR Adjustments	41
<b>Gov. Inslee’s Proposal Fund Transfers</b>	<b>(1)</b>
<i>Total Other Resource Changes</i>	<i>(295)</i>
<i>Total Resources</i>	<i>45,211</i>
Spending	
Enacted Budget	43,708
Actual/Assumed Reversions	(217)
<b>Gov. Inslee’s Proposal Maintenance Level Changes</b>	<b>82</b>
<b>Policy Changes</b>	<b>879</b>
<i>Total Spending</i>	<i>44,452</i>
Unrestricted Ending Fund Balance	759
Budget Stabilization Account Balance	1,638
Transfers from GFS and Interest Earnings	1,779
Transfer to the GFS	(1,078)
Transfers to Other Accounts	(944)
Projected BSA Ending Fund Balance	1,395
<i>Total Reserves</i>	<i>2,154</i>

The governor's proposal accounts for these NGFS+ savings in the various agencies. The result is a maintenance level increase in other appropriations, and maintenance level reductions elsewhere. This accounting change is particularly visible in higher education (-\$154.4 million), DSHS (-\$128.8 million), and the Department of Corrections (-\$88.2 million).

### Outlook

Although Gov. Inslee does not propose making new transfers from the BSA in 2017–19, his proposal would draw down the unrestricted ending fund balance. But, commendably, it abides by the four-year balanced budget requirement (RCW 43.88.055). As Gov. Inslee said in announcing the budget, "It's smart for us to be prudent and have a reserve in the second two years, and it's required by the rules and that's what we're doing" (TVW 2017).

For 2019–21, Gov. Inslee does propose making a transfer from the BSA. The Washington constitution (Article 7, Section 12) requires the annual transfer of 1 percent of general state revenues to the BSA. The governor's supplemental proposal would transfer the 1 percent BSA

deposit back to the GFS in 2019–21. This is estimated to total \$476 million. To withdraw funds from the BSA, three-fifths of the Legislature must approve (unless the governor has declared a state of emergency or employment growth is expected to be less than 1 percent, in which cases a simple majority suffices).

According to the proposal,

*... current projections indicate the state would need to spend much of its reserves to cover increasing costs in the next biennium (2019–21). ... While it will be necessary to use reserves to sustain critical education and social service safety net funding, the state cannot prudently use one-time reserves for ongoing expenditures for long. (OFM 2017)*

In January, Gov. Inslee will propose a "carbon pollution tax." Some of the revenues from the tax would provide "a temporary infusion of revenue" in 2019–21, "to the extent it is necessary to protect vital services and maintain modest budget reserve levels" (OFM 2017). His comments have been interpreted by some as a signal that the carbon tax proceeds would be used to backfill the with-

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

	Original 2017-19 Appropriations		Proposed 2018 Supplemental		Revised 2017-19 Appropriations	
	NGFS+	All Funds	NGFS+	All Funds	NGFS+	All Funds
Legislative	173,344	196,166	(8,435)	733	164,909	196,899
Judicial	290,429	364,011	8,839	16,887	299,268	380,898
Governmental Operations	543,005	4,052,647	12,365	118,146	555,370	4,170,793
DSHS	6,990,590	15,374,920	(399,633)	(1,060,320)	6,590,957	14,314,600
HCA	4,191,058	17,343,844	704,988	2,152,486	4,896,046	19,496,330
Other Human Services	2,898,723	6,110,156	(21,556)	64,848	2,877,167	6,175,004
Natural Resources	315,433	1,848,973	38,805	77,815	354,238	1,926,788
Transportation	93,970	210,379	(62)	17,756	93,908	228,135
Public Schools	21,968,576	23,905,236	173,262	221,778	22,141,838	24,127,014
Higher Education	3,832,786	14,544,483	(153,058)	(96,971)	3,679,728	14,447,512
Other Education	225,823	480,679	688	3,221	226,511	483,900
Other Appropriations	2,184,644	3,842,919	604,575	(834,788)	2,789,219	3,008,131
<b>Total</b>	<b>43,708,381</b>	<b>88,274,413</b>	<b>960,778</b>	<b>681,591</b>	<b>44,669,159</b>	<b>88,956,004</b>

drawal from the BSA, but details are as yet unavailable.

The proposed supplemental budget bill does include language stating the intent of the Legislature to transfer \$1,000,500,000 from a new “carbon pollution reduction account” to the general fund in 2019–21: “To the extent possible, these funds will be used for expenditures related to clean energy, natural resources, and the environment.”

An official outlook based on the governor’s proposal will be adopted by the ERFC in January.

## References

- Office of Financial Management (OFM). 2017. “[Proposed 2018 Supplemental Budget & Policy Highlights](#).” December.
- TVW. 2017. “[Governor Inslee Supplemental Budget News Conference](#).” December 14.
- Washington Research Council (WRC). 2017a. “[Legislature Passes 2017–19 Operating Budget That Increases Spending by \\$5.3 Billion](#).” PB 17–12. July 18.
- . 2017b. “[Has the State Finally Closed the Book on McCleary?](#)” SR 17–05. August 17.

### 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. Additionally, projected resources must be sufficient to cover projected maintenance level expenditures in the second biennium.