



## Gov. Inslee's 2020 Supplemental Operating Budget Would Tap the Rainy Day Fund

### Briefly

*Economic growth since the 2019 legislative session ended means that the Legislature has \$1.016 billion more to work with over four years than it did when the biennial budget was adopted.*

*Gov. Inslee has proposed a 2020 supplemental operating budget that would appropriate \$318.7 million from the budget stabilization account (BSA, or rainy day fund) for homelessness programs. While homelessness is a serious problem in our state, it does not meet the definition of an emergency established in the state constitution for purposes of the BSA. Thus, making these appropriations would require a three-fifths vote of the Legislature.*

*On top of the proposed appropriations from the BSA, Gov. Inslee's proposal would increase appropriations from funds subject to the outlook and the workforce education investment account by \$847.3 million. These appropriations would largely increase spending on human services. The proposal does not include general tax increases.*

### 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).

After all was said and done last year, the Legislature increased appropriations from funds subject to the outlook (NGFO) and the new workforce education investment account (WEIA) by 18.4 percent. Several new taxes were enacted to help pay for that spending. Meanwhile, since the biennial budget was enacted, the Economic and Revenue Forecast Council (ERFC) has increased its NGFO revenue estimates for 2019–21 and 2021–23. The Legislature now has \$1.016 billion more to work with than it did when the 2019 session ended.

Although the Supreme Court in 2018 found the state compliant with the McCleary decision on school funding, the 2019–21 budget nevertheless significantly increased spending on public schools, including for employee health benefits and special education. Gov. Inslee's 2020 supplemental proposal would shift focus from public schools to homelessness and human services.

Gov. Inslee has proposed a 2020 supplemental budget that does not increase

general taxes. His proposal would increase 2019–21 NGFO+WEIA appropriations by \$847.3 million. Additionally, it would appropriate \$318.7 million from the budget stabilization account (BSA, or rainy day fund) to fund homelessness programs. Altogether, NGFO+WEIA+BSA appropriations would increase by \$1.166 billion, or 2.2 percent, over originally enacted 2019–21 appropriations. (This would represent an increase of 20.3 percent over final 2017–19 appropriations from the NGFO+WEIA+BSA.)

### NGFO Balance Sheet

*Revenues.* Economic growth since the 2019–21 budget was enacted has increased the revenue estimate over the four-year period by \$1.016 billion. Gov. Inslee's supplemental budget would not increase taxes. Indeed, the main revenue change in his proposal is an NGFO reduction of \$4.7 million due to his proposal to permanently ban flavored vapor products. Total NGFO resources for the biennium would be \$53.464 billion.

*Spending.* The governor's proposal would increase NGFO appropriations by \$814.1 million. Of that, maintenance level changes (the cost of continuing current services) would increase spending by \$478.3 million and new policy changes would increase spending by \$335.7 million. (Spending from the WEIA, not shown in the balance sheet, would increase by \$33.2 million. Of that, \$28.1 million is maintenance level and \$5.1 million is policy level.) Including estimated reversions (unspent appropriations) of \$354 million, 2019–21 NGFO spending would be \$52.959 billion.

*Reserves.* Under the governor's proposal, the unrestricted NGFO ending balance

would be \$505 million in 2019–21. The governor proposes appropriating \$318.7 million from the BSA; this would leave a BSA balance of \$1.859 billion. Total reserves would be \$2.364 billion.

### Spending Details

Of the NGFO+WEIA maintenance level increases, 64.2 percent occur in the Health Care Authority (HCA). Most of the HCA's maintenance level increases are due to increased spending on rates for managed care and behavioral health organizations.

Unless otherwise noted, the spending details described below are policy changes, in terms of the NGFO+WEIA.

*Homelessness.* Much of the focus of Gov. Inslee's proposal is homelessness, and the funds would come from the BSA. In 2019–21, Gov. Inslee would appropriate \$66.4 million to fund 2,100 shelter beds, \$26.1 million for the housing and essential needs program to provide rental assistance to an additional 2,300 people, and \$15.4 million to provide supportive housing assistance to an additional 1,080 people who are chronically homeless.

Another \$4.0 million would be appropriated from the BSA for grants to local governments for removing solid, hazardous, and infectious waste from homeless encampments and to remove waste from encampments on state land along I-5.

*Human Services.* In the Department of Social and Health Services (DSHS), \$17.1 million would be appropriated to improve safety at Western State Hospital and \$15.3 million would be appropriated "to better align nursing facility Medicaid payment rates with facility operating costs by moving to an annual rate rebase and adding an economic inflation factor." Additionally, \$20.0 million would be appropriated to continue implementation of ESSB 6199 (enacted in 2018), which created the Consumer Directed Employer (CDE) program. For administrative purposes, these CDEs will be the legal employer of individual providers of in-home care services (the state is the

Table 1: NGFO Balance Sheet (Dollars in Millions)

	<i>2019-21</i>
Beginning Balance	1,981
Revenue	
Nov. 2019 Revenue Forecast	51,733
<b>Gov. Inslee's Proposal</b>	
<b>Revenue Legislation</b>	<b>(5)</b>
<b>Budget Driven Revenue</b>	<b>(3)</b>
<i>Total Revenue</i>	<i>51,725</i>
Other Resource Changes	
Transfer to Budget Stabilization Account	(503)
Other Enacted Fund Transfers	209
Prior Period & CAFR Adjustments	41
<b>Gov. Inslee's Proposal</b>	
<b>Fund Transfers</b>	<b>10</b>
<i>Total Other Resource Changes</i>	<i>(243)</i>
<i>Total Resources</i>	<i>53,464</i>
Spending	
Enacted 2019-21 Appropriations	52,499
Actual/Assumed Reversions	(354)
<b>Gov. Inslee's Proposal</b>	
<b>Maintenance Level Changes</b>	<b>478</b>
<b>Policy Changes</b>	<b>336</b>
<i>Total Spending</i>	<i>52,959</i>
Unrestricted Ending Fund Balance	505
Budget Stabilization Account Balance	1,618
Transfers from GFS and Interest Earnings	559
<b>Gov. Inslee's Proposal</b>	
<b>Appropriations from the BSA</b>	<b>(319)</b>
Projected BSA Ending Fund Balance	1,859
<i>Total Reserves</i>	<i>2,364</i>

Note: Details may not sum due to rounding.

employer for collective bargaining purposes).

Under federal law, states must make disproportionate share hospital (DSH) payments to hospitals serving large numbers of Medicaid clients and uninsured patients. In turn, the federal government makes annual payments to the states. Under the Affordable Care Act, these federal payments were to be reduced, beginning in FY 2014. These reductions have been delayed multiple times (CRS 2019). They are currently scheduled to begin in FY 2020, but a continuing resolution was enacted in November that extended federal appropriations through Dec. 20, 2019 and that included a delay in the DSH payment reductions. Additional delays could also be adopted. Gov. Inslee's budget assumes that the federal government will continue to delay the reductions, which means state savings of \$83.1 million (in DSHS and the HCA).

In the HCA, the proposal would appropriate \$32.0 million because Medicaid program integrity savings that were assumed in the 2019–21 budget will not be realized in FY 2020.

*Natural Resources.* Gov. Inslee proposes increasing hunting and fishing license fees by 15 percent. This would allow the

Department of Fish and Wildlife to add and maintain programs from the state wildlife account, including those that provide fishing and hunting opportunities.

*Public Schools.* The proposal would increase funding for pupil transportation by \$68.5 million, and it would require the Office of Financial Management to report on the pupil transportation funding system. Additionally, 2019–21 is the first biennium in which school employee health benefits are consolidated in the School Employees' Benefits Board. The health benefit rates funded in the 2019–21 budget have been updated to reflect actual data from the first open enrollment, resulting in a savings of \$37.3 million.

*Higher Education.* The Workforce Education Investment Act replaced the state need grant with the Washington college grant and made it an entitlement. Increased caseloads associated with the grant increase maintenance level spending by \$28.1 million. Gov. Inslee chose to use the WEIA for this spending. (Further, the proposed budget bill includes a provision stating that the WEIA may supplant other higher education spending in this biennium and in the future, contrary

Table 2: NGFO, WEIA, and All Funds Appropriations (Dollars in Thousands)

	Original 2019-21 Appropriations		Proposed 2020 Supplemental		Revised 2019-21 Appropriations	
	NGFO+WEIA	All Funds	NGFO+WEIA	All Funds	NGFO+WEIA	All Funds
Legislative	190,001	220,755	2,221	2,239	192,222	222,994
Judicial	332,748	418,511	2,523	2,529	335,271	421,040
Governmental Operations	689,950	4,606,909	35,676	267,316	725,626	4,874,225
DSHS	6,393,519	13,806,755	111,661	136,307	6,505,180	13,943,062
Health Care Authority	5,779,026	21,245,905	295,006	1,462,815	6,074,032	22,708,720
Other Human Services	4,336,537	8,601,510	276,504	401,082	4,613,041	9,002,592
Natural Resources	438,313	2,137,583	8,237	42,791	446,550	2,180,374
Transportation	120,869	259,256	3,884	9,273	124,753	268,529
Public Schools	27,245,910	29,287,911	62,724	78,552	27,308,634	29,366,463
Higher Education	4,038,399	15,447,416	40,485	(13,375)	4,078,884	15,434,041
Other Education	68,794	141,960	744	1,562	69,538	143,522
Special Appropriations	<u>2,806,132</u>	<u>3,091,849</u>	<u>7,591</u>	<u>443</u>	<u>2,813,723</u>	<u>3,092,292</u>
<b>Total Budget Bill</b>	<b>52,440,198</b>	<b>99,266,320</b>	<b>847,256</b>	<b>2,391,534</b>	<b>53,287,454</b>	<b>101,657,854</b>
Appropriations in Other Legislation	433,086	439,644	0	318,676	433,086	758,320
<b>Statewide Total</b>	<b>52,873,284</b>	<b>99,705,964</b>	<b>847,256</b>	<b>2,710,210</b>	<b>53,720,540</b>	<b>102,416,174</b>

ty” or if employment growth is less than 1 percent (article VII, section 12). While homelessness is a serious problem in Washington, withdrawals for that purpose do not fall under these exemptions from the supermajority requirement.

As the chart shows, the BSA has grown significantly since the Great Recession. Even with the proposed appropriations, the balance in 2019–21 would still be higher than in 2017–19. But if the appropriation is made, the BSA balance for 2019–21 as a percent of NGFO+WEIA revenues would decline from an estimated 4.2 percent (as estimated in the November outlook) to 3.6 percent.

**Compensation.** The proposal would increase spending by \$6.0 million in 2019–21 to increase pensions by 1.5 percent for retirees in the Public Employees’ Retirement System Plan 1 and Teachers’ Retirement System Plan 1. The maximum increase would be \$22 per month.

**Use of Rainy Day Fund**

As noted above, Gov. Inslee proposes using \$318.7 million from the BSA to fund homelessness programs. (Of that, \$30.0 million would be used in the capital budget.)

Using the BSA for this purpose would require a three-fifths vote of the Legislature. Under the state constitution, BSA funds may be withdrawn with a simple majority “if the governor declares a state of emergency resulting from a catastrophic event that necessitates government action to protect life or public safe-

ty” or if employment growth is less than 1 percent (article VII, section 12). While homelessness is a serious problem in Washington, withdrawals for that purpose do not fall under these exemptions from the supermajority requirement.

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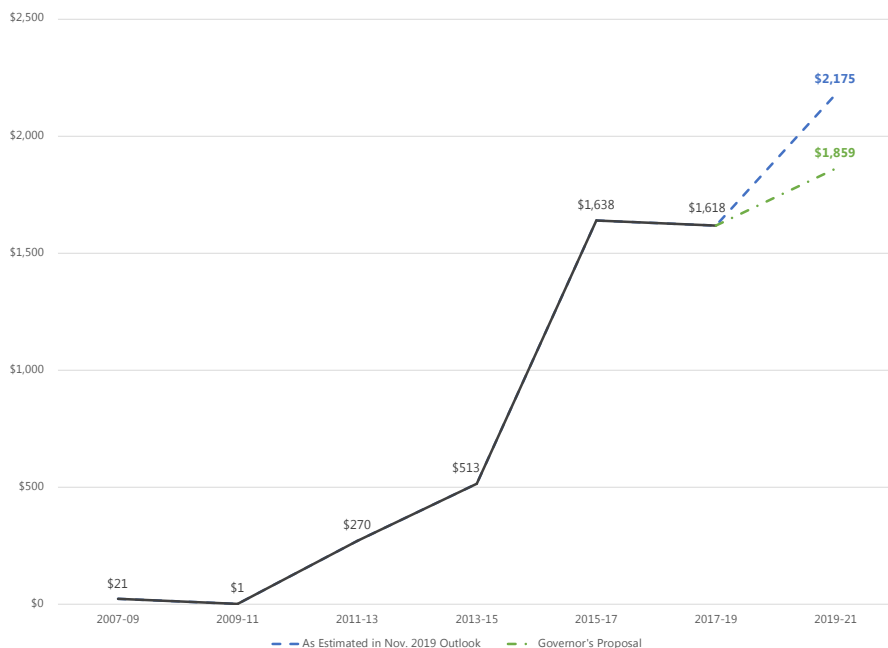
As we noted in a 2019 report on budget sustainability, there is no single rule-of-thumb for gauging the adequacy of state reserves (WRC 2019a). Under the constitution, when the BSA balance reaches 10 percent of general state revenues, a simple majority of the Legislature may vote to appropriate the amount over 10 percent to the education construction fund. If \$2.175 billion remains in the BSA at the end of FY 2021, the balance would be 8.5 percent of general state revenues; if the balance is \$1.859 billion, it would be 7.3 percent of general state revenues.

**Comment**

The governor’s supplemental budget proposal is a stark change from the budgets of the last several biennia, with only a small proportion of the supplemental spending increases going to public schools. Given the end of the McCleary case, this is to be expected. He has also broken with past budgets by not proposing large tax increases.

Legislators will also likely look to direct funding to areas of the budget outside of K–12. As they do so, they should be mindful of the possibility of a recession in the coming years and moderate any spending increases. Indeed, the sustainability of the enacted 2019–21 budget, which increased spending by 18.4 percent, is already questionable (WRC

Chart: BSA Ending Fund Balance (Dollars in Millions)



2019b). More spending at this point would heighten those concerns.

The state has experienced substantial revenue growth coming out of the Great Recession. But the ERFC expects that growth to slow. In the event of a recession, a healthy rainy day fund will be essential.

In the press conference announcing the budget proposal, Gov. Inslee said that he proposes using the BSA for homelessness spending rather than proposing new taxes because the BSA funds are available immediately, whereas it would take time to implement and collect any new taxes. While that is true, any use of the BSA is one-time only and would not be available to fund homelessness programs in the future. This type of budget maneuver leads to bow wave spending that cannot be sustained in future years.

Moreover, if BSA funds are used for this purpose, they won't be available for use in the case of a recession. In such an

event, if the BSA is not sufficient to cover the revenue losses, spending would have to be cut or taxes would have to be raised. The BSA balance may be enticingly high (at least relative to past balances), but with the prospect of a recession sometime in the future, now is not the time to draw it down.

## References

- Congressional Research Service (CRS). 2019. "[Medicaid Disproportionate Share Hospital \(DSH\) Reductions.](#)" Nov. 14.
- Washington Research Council (WRC). 2019a. "[Washington's Budget Sustainability Requirements Work When Followed.](#)" PB 19-02. Jan. 4.
- . 2019b. "[Legislature Adopts New Taxes to Increase 2019-21 Spending by 18.3 Percent.](#)" PB 19-10. May 8.