House Appropriations Chair’s Proposed Operating Budget Would Increase Spending by $8 Billion

Briefly

The House Appropriations Committee Chair has proposed a 2019–21 operating budget that would appropriate $52.811 billion from funds subject to the outlook (NGFO). This is an increase of $8.150 billion (18.2 percent) over 2017–19 appropriations. This increase would be the largest in at least 25 years, after a 17.9 percent increase in 2005–07 and a 16.9 percent increase in 2017–19.

Of the increase, $5.834 billion is a historically large maintenance level (the cost of continuing current services, primarily due to the response to the McCleary decision on school funding, which is fully paid for the first time). Another $2.316 billion comes from newly proposed policies. (On top of this, $389.6 million would be appropriated outside of the NGFO for higher education programs. Including these funds, the proposal would appropriate $53.201 billion.)

Despite $5.6 billion in new revenue growth since the supplemental budget was adopted last March, the Chair proposes a significant tax package to help fund new policies. Included in the package is a capital gains tax. As proposed, the budget would balance over four years. However, that balance depends on capital gains tax collections. In the event of a legal challenge (which could take years to resolve), it is unlikely the state would collect capital gains revenues in 2019–21. This would put the budget out of balance in 2019–21, even if there is no economic downturn. With many economists indicating that a downturn is somewhere on the horizon (perhaps within the four-year balanced budget timeframe), legislative leaders would be wise to consider the sustainability of such historic spending increases.

Funds Subject to the Outlook (NGFO)

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.)

State spending from funds subject to the outlook has increased 44 percent since 2008, largely driven by the McCleary decision on school funding. Revenues have matched this spending growth, thanks to a strong economy and some tax increases.

The state is in full compliance with the McCleary decision as of the second year of 2017–19, so 2019–21 is the first biennium in which McCleary is fully funded for two years. Although the maintenance level of the upcoming 2019–21 biennium is unusually high as a result, the 2018 supplemental budget balanced over four years (including the McCleary increases). The March revenue forecast significantly increased estimated revenues for both 2017–19 and 2019–21, enabling additional increases in spending for 2019–21.

The House Appropriations Chair has proposed a 2019–21 operating budget that would increase appropriations from funds subject to the outlook (NGFO) by $8.150 billion over enacted 2017–19 appropriations. To help balance the budget, a proposed tax package would increase NGFO revenues by $979 million in 2019–21 (not including a $390 million targeted business and occupation tax increase dedicated to higher education that is technically outside of the NGFO).

Revenues and Other Resources

2019–21 revenues are estimated to be
$50.555 billion, an increase of 9.6 percent over 2017–19 revenues (as estimated in the March revenue forecast). The budget proposal is accompanied by a tax package that would increase revenues by $979 million in 2019–21 and $2.173 billion in 2021–23.

**HB 2156.** The bill would impose a 9.9 percent tax on capital gains over $100,000 for individuals and $200,000 for couples filing joint tax returns. The tax would not apply to residential real estate sales, retirement accounts, assets sold due to eminent domain, certain livestock sales, certain agricultural land sales, certain timber sales, and sales of certain personal property used in business.

The bill would also change the state’s real estate excise tax to make its rate graduated. The current rate is 1.28 percent on sales of real property. Under the bill, the rate would be cut to 0.9 percent for properties with selling prices less than or equal to $1.5 million; 2.0 percent for any portion of the price between $1.5 million and $7 million; and 3.0 percent for any portion of the price that is greater than $7 million. Together, these proposals are estimated to increase revenues by $911.0 million in 2019–21 and $2.097 billion in 2021–23.

**HB 2157.** The bill would increase business and occupation (B&O) and sales taxes for bullion and B&O taxes for travel agents, and it would change the nonresident sales and use tax exemption to a refund program. It would also expand the property tax exemption for senior citizens and reauthorize the Legislature’s tax structure work group (which was authorized in the 2017–19 budget and made recommendations to the Legislature in December). Altogether, the bill would increase revenues by $68.3 million in 2019–21 and $76.0 million in 2021–23.

**HB 2158.** This bill would impose a “workforce education investment surcharge” of 20 percent, in addition to business and occupation taxes, on businesses in certain sectors in the service and other activities category (e.g. computer software and engineering). There is no fiscal note for the bill yet, but all the revenues would be deposited in a new “workforce education investment account” that would technically be outside of the NGFO.

Other Resource Changes: The proposal would transfer $202 million to the NGFO, including $160 million from the public works assistance account and $28 million from the disaster response account.

### Spending
The proposal would appropriate $52.811 billion from funds subject to the outlook,
an increase of $8.150 billion (18.2 percent) over 2017–19 appropriations. Of
that increase, $5.834 billion is maintenance level (the cost of continuing cur-
rent services) and $2.316 billion is new policy.

(Another $389.6 million would be appropriated outside of the NGFO for higher
education programs. These programs would typically be funded within the
NGFO were it not for the proposed dedicated funding source mentioned above.
Including these funds, the budget would appropriate $53.201 billion.)

Public Schools. NGFO appropriations for K–12 would make up 51.6 percent of the
NGFO budget. Policy level changes in the proposal would increase spending on
public schools by $634.7 million. That includes $453.3 million for school em-
ployee health benefits, $77.1 million for local effort assistance, and $69.7 million
to increase the special education multi-
plier.

Higher Education. Policy level changes
would increase NGFO spending on higher
education by $128.6 million. That in-
cludes $45.1 million in operating support
for the institutions, $25.1 million to main-
tain the state need grant, and $10.8 mil-
lion for the Washington State University
medical school.

Separately from the proposed budget,
and outside of the NGFO, HB 2158
would appropriate $389.6 million for
higher education and career connected
learning purposes.

Social Services. Policy changes would
increase spending for the Department of
Social and Health Services and other hu-
man services by $826.1 million. The pro-
posal would appropriate $90.1 million
for state hospital operations and $50.5
million to increase managed care rates. It
would expand the Early Childhood and
Education Assistance Program (ECEAP)
($23.0 million), increase the ECEAP rate
($14.9 million), and increase the child
care center rate ($24.6 million).

The budget would fund collective bar-
gaining agreements with family child
care providers ($52.8 million), adult fami-
ly home caregivers ($37.6 million), and in-
home providers ($72.4 million), and it
would provide parity for agency provid-
ers ($22.8 million).

Other. The proposal would fund the col-
lective bargaining agreements with state
employees and extend them to non
represented employees ($532.4 million
including higher education employees).
Also, the budget would appropriate
$37.5 million for debt service on new
capital projects.

Reserves and Outlook
The proposal would leave an unrestrict-
ed NGFO ending balance of $209 million
in 2019–21 (this is a very small ending
balance for the first biennium). At the
end of 2019–21, the budget stabilization
account (BSA, or the rainy day fund)
would total $2.450 billion. The proposal
would not make new appropriations
from the BSA. Additionally, under the
proposal, capital gains tax collections
would go to the education legacy trust
account, so they would not be subject to
constitutionally-required transfers to the
BSA.
The budget would balance over four years, leaving an unrestricted ending balance of $104 million in 2021–23. In that biennium, the BSA balance would be $3.160 billion.

Comment
The House Appropriation Committee Chair’s budget proposal is historically large; the 18.2 percent increase in spending would be the highest increase in at least 25 years. Despite strong revenue growth that fully covers very large maintenance level costs, enormous pressure for spending outside of K–12 education drove budget writers to propose significant tax increases.

Estimated revenues for 2019–21 are $50.555 billion—just more than the $50.496 billion maintenance level (and that’s not including the $1.690 billion beginning balance). That high maintenance level is the result of policy choices made by the Legislature last year. The House Appropriation Committee Chair’s budget proposal would add $2.316 billion on top.

To help fund the policy increases, the budget depends on the enactment of a new capital gains tax; if those revenues could not be collected, the budget would not balance over two years, much less four. Since the tax would certainly be challenged as unconstitutional, it is highly unlikely that revenues could be collected in 2019–21, regardless of its constitutionality.

At some point, we will experience an economic downturn. The Legislature should enact a 2019–21 budget that maintains a sustainable level of spending and doesn’t rely on questionable revenue sources.

References