

## Senate- and House-Passed Capital Budgets Include About \$1 Billion for Public Schools

### Briefly

- The Senate and House have both passed 2017–19 capital budgets.
- The Senate would appropriate \$3.995 billion.
- The House would appropriate \$4.152 billion.
- The budget area in which the two chambers are farthest apart is governmental operations.
- Both budgets would appropriate \$97.1 million for public works assistance account loans to local governments.
- The House would appropriate an additional \$105.0 million for PWAA loans in 2019.
- Both budgets would provide \$118.0 million for drinking water construction loans.
- Both budgets would appropriate \$210.0 million for the water pollution control revolving program at the Department of Ecology.
- The Senate would appropriate \$857.3 million and the House would appropriate \$802.4 million for higher education.
- For public schools, the Senate budget would appropriate \$1.087 billion and the House budget would appropriate \$1.095 billion.

Washington has three budgets:

- The operating budget funds day-to-day operations.
- The capital budget funds acquisition and maintenance of buildings, public lands, etc.
- The transportation budget funds construction and maintenance of transportation projects.

Budgets are adopted on a biennial basis. Supplemental budgets make changes to the adopted biennial budget to account for caseload or economic changes.

The regular session of the Legislature ended April 23; because legislators did not finish their business, Gov. Inslee called a special session that began April 24. While the main problem is the lack of agreement on an operating budget, the Legislature has also not agreed on a capital budget. (The Legislature did pass an \$8.655 billion transportation budget during the regular session; ESB 5096 awaits the governor's signature.)

The Senate has passed a 2017–19 capital budget that would appropriate \$3.995 billion (including \$2.538 billion that would be financed by general obligation bonds). The House has passed a capital budget for 2017–19 that would appropriate \$4.152 billion (including \$2.470 billion that would be financed by general

obligation bonds). Neither chamber has passed its bond authorization bill (SHB 1080 and SSB 5090). The appropriations in each budget are comparable to appropriations in the enacted 2015–17 capital budget (including the 2016 supplemental), which totaled \$4.095 billion.

### Spending Details

The numbers here are new appropriations and include alternative financing (e.g., Certificates of Participation). Alternative financing would be used for \$171.1 million of total appropriations in the Senate capital budget and \$172.1 million of total appropriations in the House budget.

*Governmental Operations.* The budget area in which the two chambers are far-

**General obligation (GO) bonds** are backed by the full faith, credit, and taxing power of the state.

**Certificates of Participation (COPs)** are debt instruments similar to bonds, but they are not a general obligation of the state; instead, COPs are backed by agency appropriations. They are an alternative financing method and are not subject to the state debt limit.

these apart is governmental operations. The Senate would appropriate \$581.3 million for governmental operations, and the House would appropriate \$794.4 million.

The Department of Commerce accounts for most of the appropriations in this budget area. It would receive \$441.4 million in the Senate budget and \$649.6 million in the House budget. Some programs of interest within Commerce are:

- Public works assistance account (PWAA) construction loans to local governments—\$97.1 million in both budgets (and they would fund the same projects).
- PWAA preconstruction and emergency loans—\$19.0 million in the House budget.
- PWAA construction loans for 2019 (pursuant to the new process outlined in HB 1677, which has not been passed)—\$105.0 million in the House budget.
- Housing trust fund program (affordable housing)—\$96.6 million in the Senate budget and \$106.4 million in the Senate budget.
- Local and community projects—\$90.7 million in the Senate budget and \$62.7 million in the House budget.
- Behavioral health community capacity

expansion—\$20.0 million in the Senate budget and \$75.6 million in the House budget.

- Clean energy technology projects—\$30.0 million in the Senate budget and \$48.0 million in the House budget.

Additionally, for the Military Department, the Senate would appropriate \$59.8 million and the House would appropriate \$64.8 million. (That includes, in both budgets, \$41.6 million for the Thurston County Readiness Center.) For the Department of Enterprise Services, the Senate would appropriate \$53.0 million and the House would appropriate \$50.2 million.

*Human Services.* The Senate would appropriate \$346.5 million for the human services budget area and the House would appropriate \$294.8 million. The Department of Health is the largest part of this budget area—\$182.1 million in the Senate budget and \$168.0 million in the House budget. In the Department of Health, both the Senate and the House would provide \$118.0 million for drinking water construction loans and \$42.0 million for the drinking water assistance program.

For the Department of Social and Health Services, the Senate would appropriate \$88.2 million and the House would appropriate \$65.2 million. For the Department of Corrections, the Senate would

Table: 2017–19 Capital Appropriations (Including Alternative Finance Projects, Thousands of Dollars)

	Senate-Passed		House-Passed	
	Debt Limit	All Funds	Debt Limit	All Funds
Governmental Operations	370,548	581,348	447,606	794,421
Human Services	156,370	346,450	106,218	294,798
Natural Resources	614,016	1,110,399	591,628	1,160,721
Higher Education	493,029	857,314	419,158	802,371
K-12 and Other Education	<u>903,888</u>	<u>1,099,379</u>	<u>904,906</u>	<u>1,100,037</u>
<b>Total</b>	<b>2,537,851</b>	<b>3,994,890</b>	<b>2,469,516</b>	<b>4,152,348</b>

appropriate \$54.8 million and the House would appropriate \$42.3 million.

*Natural Resources.* For the largest capital budget area, the Senate would appropriate \$1.110 billion and the House would appropriate \$1.161 billion. Of this, the Senate would appropriate \$517.8 million and the House would appropriate \$582.4 million for the Department of Ecology. Some Ecology programs of interest are:

- Water pollution control revolving program (which provides local governments low-interest loans for water quality projects)—\$210.0 million in both budgets.
- Stormwater financial assistance program (grants to local governments to improve water quality)—\$60.1 million in the Senate budget and \$40.0 million in the House budget.
- Catastrophic flood relief (projects developed by the Governor’s Chehalis Basin Work Group)—\$52.5 million in the Senate budget and \$60.0 million in the House budget.
- Floodplains by Design (a public-private partnership that works to reduce flood risk and protect habitats)—\$16.3 million in the Senate budget and \$51.4 million in the House budget.
- Volkswagen settlement funded projects (for various, non-specified clean vehicle projects)—\$13.0 million in the Senate budget and \$75.0 million in the House budget.

Additionally, for the Recreation and Conservation Funding Board, the Senate would appropriate \$274.9 million and the House would appropriate \$280.1 million. Of that, the Senate would appropriate \$70.0 million and the House would appropriate \$69.7 million for Salmon Recovery Funding Board programs. Both the Senate and the House would provide \$80.0 million for Washington Wildlife Recreation Program grants—but they would fund different projects. (These grants are for acquiring lands for conservation and recreation. Applications are

ranked by citizen evaluation committees and prioritized by the Recreation and Conservation Funding Board (OPR 2017).)

For the Department of Natural Resources, the Senate would appropriate \$125.5 million and the House would appropriate \$130.9 million. As part of that, both budgets would appropriate \$61.0 million for trust land replacement.

*Higher Education.* The Senate would appropriate \$857.3 million and the House would appropriate \$802.4 million for higher education purposes. For the community and technical college system, the Senate would appropriate \$428.3 million and the House would appropriate \$433.0 million. For the University of Washington, the Senate would appropriate \$152.5 million and the House would appropriate \$131.5 million. For Washington State University, the Senate would appropriate \$110.9 million and the House would appropriate \$82.7 million. Some higher education projects of interest are:

- UW’s Burke Museum replacement—\$24.2 million in both budgets.
- WSU’s Global Animal Health Building—\$23.0 million in the Senate budget and \$38.1 million in the House budget.
- WSU’s Plant Sciences Building—\$52.0 million in the Senate budget.
- EWU’s Interdisciplinary Science Center—\$60.0 million in the Senate budget and \$67.0 million in the House budget.
- CWU’s Nutrition Science facility—\$23.0 million in the Senate budget.
- Edmonds Community College’s Science, Engineering, and Technology Building—\$37.8 million in both budgets.
- Big Bend Community College’s Professional-Technical Education Center—\$35.1 million in both budgets.
- Clark College’s Student Recreation Center—\$35.0 million in both budgets.

*K–12 and Other Education.* Reflecting the state’s recent focus on increasing funding for education, the Senate would appropriate \$1.099 billion and the House would appropriate \$1.100 billion for this budget area. Most of these appropriations would be for public schools: \$1.087 billion in the Senate budget and \$1.095 billion in the House budget. Some items of interest are:

- School construction assistance program grants—\$965.4 million in the Senate budget and \$1.034 billion in the House budget.
- K–3 class size reduction grants—\$17.5 million in the Senate budget.
- Distressed schools—\$21.2 million in the Senate budget (for Seattle Public Schools and the Black Diamond elementary school) and \$15.0 million in the House budget (for renovations of up to three elementary schools in districts with enrollment of more than 45,000 students—that is, Seattle Public Schools).
- Small, rural school district modernization grants (as created by SSB 5453, which has not been passed, they would

help rural school districts with enrollment of 1,000 or less modernize facilities)—\$40.0 million in the Senate budget (\$23.8 million of that is earmarked for Mount Adams, South Bend and Lopez Island school districts and \$16.2 million would be for smaller modernization projects) and \$15.0 million in the House budget.

- STEM classrooms and labs—\$15.0 million in the House budget.

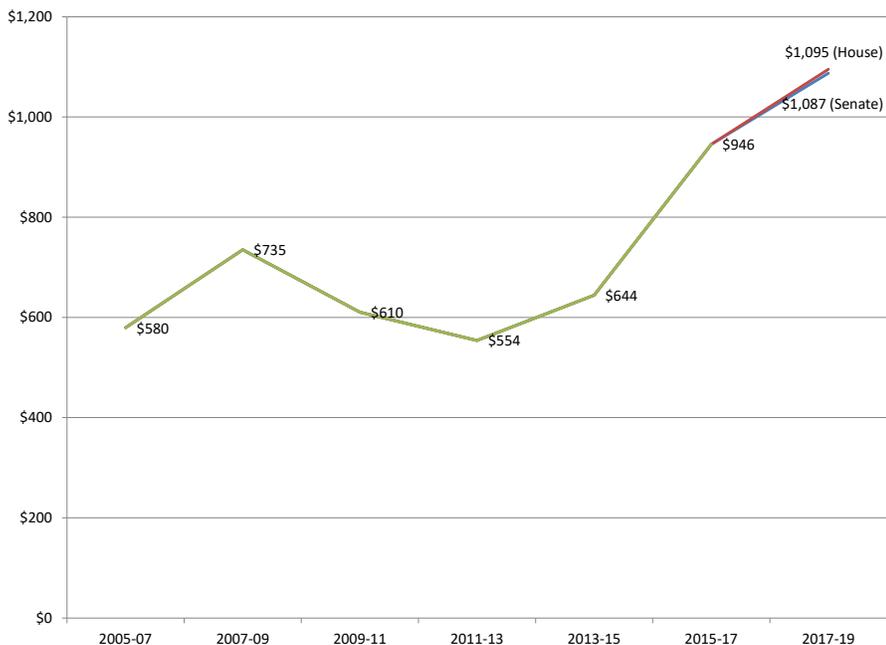
**Public Works Assistance Account**

The Public Works Assistance Account (PWAA) funds loans to local governments for public works projects. Before fiscal year 2014, portions of the state’s revenues from the real estate excise tax, public utility tax and solid waste collection tax went to the PWAA. But, in 2013, the Legislature redirected these public utility tax revenues and some of the real estate excise tax revenues to the education legacy trust account and suspended the solid waste collection tax deposit through June 30, 2019. Currently the PWAA is funded with 2 percent of real estate excise tax revenues and loan repayments.

Appropriations from the PWAA are made in the capital budget (see the governmental operations section above), but the operating budgets in recent years have used the funds as well. For example, in 2015–17, the Legislature transferred \$89 million from the PWAA to the state general fund. This has affected the amount of new loans—according to the Office of Program Research, no new loans for projects have been issued since 2013–15 (OPR 2017).

The Senate-passed 2017–19 operating budget would transfer \$127.4 million from the PWAA to the education legacy trust account in 2017–19. According to the Senate, about \$100 million would remain in the PWAA for new projects in 2017–19. The Senate operating budget also assumes enactment of ESSB 5033, which would make permanent the 2013 changes that redirected revenue sources

Chart: Total Capital Appropriations for Public Schools (Millions of Dollars)



away from the PWAA. (WRC 2017)

The House-passed 2017–19 capital budget, on the other hand, specifies that “[f]uture funding for local government infrastructure grants is dependent on” these taxes reverting back to the PWAA as currently scheduled.

### Debt Service

Over half of total capital appropriations are financed with bonds. The debt service costs on those bonds are paid through the operating budget.

The Senate capital budget estimates that the debt service costs of the new appropriations would be \$42.0 million in 2017–19, \$259.6 million in 2019–21 and \$361.9 million in 2021–23. (The Senate-passed operating budget would appropriate \$2.342 billion for bond retirement in 2017–19, including \$52.0 million related to new bonds.)

The House capital budget estimates that these costs would be \$40.9 million in 2017–19, \$252.7 million in 2019–21 and \$352.7 million in 2021–23. (The House-passed operating budget would appropriate \$2.342 billion for bond retirement, including \$51.8 million related to new bonds.)

### Comment

Apparently one reason the Legislature hasn’t yet come to an agreement on a capital budget is that it hasn’t yet addressed the state Supreme Court’s 2016 Hirst decision (Whatcom County v. W. Wash. Growth Mgmt. Hrg’s Bd.).

In that case, the Court held that Whatcom County was not ensuring “an adequate water supply before granting a building permit.” As the Associated Press reports, “the Hirst decision prompted some counties to temporarily halt certain rural development and left hundreds of property owners who wanted to build homes in limbo” (Le 2017).

The Senate has passed E2SSB 5239 to address the problem, but the House has not. The Columbia Basin Herald writes

that Sen. Jim Honeyford, who has charge of the capital budget for the Senate Ways and Means Committee,

*... said after the lead budget negotiators create an education package and operating budget, he intends to stall the last piece, the capital budget, until the House votes on a solution to Hirst.*

*“I’m just saying, before we can negotiate a capital budget,” Honeyford said. “We need a Hirst fix.”* (White 2017)

The Senate and House are only \$157.5 million apart in total capital appropriations. Further, both budgets would appropriate about \$1 billion for school construction projects, in keeping with the need to comply with the state Supreme Court’s McCleary decision on school funding this session.

### References

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