Washington Research Council

Policy Brief

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Comparing House and Senate Supplemental Budgets

Briefly

The House and Senate have each passed 2012 supplemental budgets. Both include the usual mix of spending reductions, fund transfers, and revenue. The Senate reduces appropriations by $1.134 billion. The House reduces appropriations by $1.148 billion, but that includes a large school payments shift.

Elements of both budgets depend on legislation that has not yet been adopted.

In the closing days of the 60-day legislative session, the state Senate passed its supplemental budget proposal. Three Democrats joined the Republicans to deliver the 25 votes needed for passage, bringing the budget to the floor and passing it early in the morning of March 3. The effort highlighted sharp partisan differences in how to proceed to close a $1 billion budget shortfall in the current biennium. The conflicting visions and the rare use of parliamentary procedure to wrest control of the budget process added to the difficulties legislators faced in completing their work by midnight March 8.

As this brief is being finalized, yet another proposal has been prepared by the House Ways and Means Committee chair. Given the tight legislative deadlines, we expect a special session will be required to complete budget action. Going into the special session, legislators will have to bridge philosophical differences, as well as reconcile some conflicting spending priorities. In this policy brief we provide a high-level comparison of the budgets that have been passed by the House and Senate as of March 7.

Elements of both budgets depend on legislation that has not yet been adopted. In making this comparison, we accept the assumptions underlying the budget proposals. It should be noted, however, that failure to pass legislation necessary to implement the budget make those assumptions untenable. Presumably, once legislators agree to the budget, they will make the required statutory changes.

Balance Sheet

Table 1 presents a balance sheet comparison. Reflecting the complexity of the budget challenges this year, the balance sheet includes more information than is customary. We have separately noted changes made in the December special session, delayed apportionment payments, transfers, shifts in local government distributions, and other changes that affect the funds available for appropriation in the 2011–13 biennium.

We have also made a pair of changes to the balance sheet published by Senate staff. Policy level appropriations in the published balance sheet include a $25 million appropriation from the general fund–state (GF-S) to the education legacy trust account. Since this just moves money between subaccounts of the near general fund–state plus opportunity pathways (NGFS+), it should not count as spending on an NGFS+ balance sheet. To offset this inappropriate appropriation, the published balance sheet includes an offsetting transfer of $25 million under "Other Resource Changes." Our balance sheet excludes both the appropriation and the transfer.

The biennium began with a deficit of $60 million in the NGFS+. In November, the Economic and Revenue Forecast Council projected that revenue for the biennium would total a bit less than $31 billion.

Revenue Changes

During the December special session, the legislature enacted SHB 2169, which accelerates the sale of unclaimed stocks and bonds turned in to the state. This change is expected to add $51 million to 2011–13 revenue. The February forecast update added another $87 million.

Revenue Distributions to Local Governments. Both budgets reduce local governments' share of revenue from liquor distribution and retailing license fees imposed by Initiative 1183 (the liquor privatization initiative approved by voters in November); this would provide $42 million to the state over the remainder of the biennium. Both budgets would redirect the local share of liquor profits tax to the state (in the case of the House budget, this redirection is delayed until January 1, 2013); this would provide $14 million for the House budget and $29 million for the

Senate budget. Beginning January 1, the House budget eliminates distributions to cities and counties of GF-S revenues for criminal justice assistance and of beer taxes, and eliminates the credit against state tax for the 0.09 percent rural-county sales tax for economic development purposes; these changes would provide $39 million to the state.

Other Revenue Legislation. The House would allow "roll-your-own" cigarette machines; this is projected to generate $13 million for the state over the remainder of the biennium. The House also would narrow the business and occupation (B&O) tax deduction for first mortgages, so that it only applies to banks that do business in nine or fewer states ("community banks"); this is expected to generate $18 million over the remainder of the biennium. The Senate would allow industry groups to redirect a portion of the B&O tax paid by their members to support collective innovation efforts; this is expected to reduce state revenue by $5 million over the remainder of the biennium. The Senate would allow "whistle blowers" to bring suit in cases of Medicaid fraud and receive a portion of any funds recovered for the state; this is projected to reduce state revenue by $45 million. The Senate would redirect the solid waste tax to the GF-S; this is projected to add $71 million.

Budget Driven Revenue. Both include $1 million from using higher fees to replace GF-S funding for the Department of Labor and Industries' factory assembled structure program and $0.5 million from closing obsolete funds and accounts. The House expects to gain $1 million from habitat conservation fund distributions. The Senate expects to gain $10 million from efficiencies and other changes at the state lottery, $15 million from the sale of the liquor distribution center and $10 million related to distributions from the forest development account.

Transfers. The House budget transfers a total of $54 million to the GF-S from seven accounts (the educational savings account, the public service revolving account, the treasurer services account, the financial services regulation account, the worker and community right-to-know account, fair account, and the manufacturing innovation and modernization account). The Senate transfers a total of $87 million from ten accounts (the education savings account, the department of retirement systems account, the financial services regulation account, the treasurer's services account, the coastal zone protection fine account, the waste reduction and recycling account, the flood control assistance account, the water quality account, the oyster reserve land account and the state nursery account).

Table 1: 2011–13 Balance Sheet, NGFS+ (Dollars in Millions)

	House Passed	*Senate Passed*
Beginning Balance	(60)	(60)
Revenue		
November Revenue Forecast	30,569	30,569
December Revenue Action (Unclaimed Property)	51	51
February Forecast Update	87	87
March 2012 Proposed		
Reductions to Local Government Distributions	**95**	**71**
Other Revenue Legislation	**31**	**61**
Budget Driven Revenue & Other	**3**	**29**
Total Revenue	*30,835*	*30,867*
Other Resource Changes		
Transfer to Budget Stabilization Acct.	(265)	(265)
Other Transfers in Original Budget	244	244
December Transfers	106	106
March 2012 Proposed Transfers	**54**	**87**
Total Other Resource Changes	*139*	*173*
Total Resources	*30,914*	*30,979*
Spending		
Original Enacted Appropriations	32,200	32,200
December Supplemental		
Maintenance Level Changes	(96)	(96)
K-12 Bus Depreciation Delay	(49)	(49)
Other Policy Level Changes	(178)	(178)
March 2012 Proposed		
Maintenance Level Changes	**(335)**	**(336)**
K-12 Apportionment & Levy Equalization Delays	**(405)**	
Suspension of Plan 1 Pension Contributions		**(133)**
Other Policy Level Changes	**(408)**	**(666)**
Total Spending	*30,729*	*30,742*
Unrestricted Ending Fund Balance	*185*	*237*
Budget Stabilization Account Balance	*265*	*265*
Total Reserves	*450*	*502*

Overall Spending

The original budget for the biennium appropriated $32,200 million NGFS+. The December supplemental budget reduced appropriations by $323 million. The supplemental delayed $49 million in payments to school districts for bus depreciation from October 2012 to August 2013. (The state's fiscal year begins July 1 and ends June 30, while school district fiscal years start September 1 and end August 31. The delay thus changed the state fiscal year in which the payment was made but not the school district fiscal year in which the payment was received.) Other policy changes in the December supplemental reduced appropriations by $96 million.

The House supplemental budget reduces NGFS+ appropriations by $1,148 million (net). Of this, $335 million is at the maintenance level, $330 million is a delay in school district apportionment payments from June 2013 to July 2013, $75 million is a delay in school district levy equalization payments from May and June to July, and $408 million are other policy level changes. The Senate budget reduces NGFS+ appropriations by $1,134 million. Of this, $336 million is at the maintenance level, $133 million comes from suspending Plan 1 pension contributions, and $666 million are other policy level changes. The Senate budget does not delay payments to school districts.

Reserves

The House leaves a total of $450 million in reserve. The Senate leaves $502 million.

Spending Details

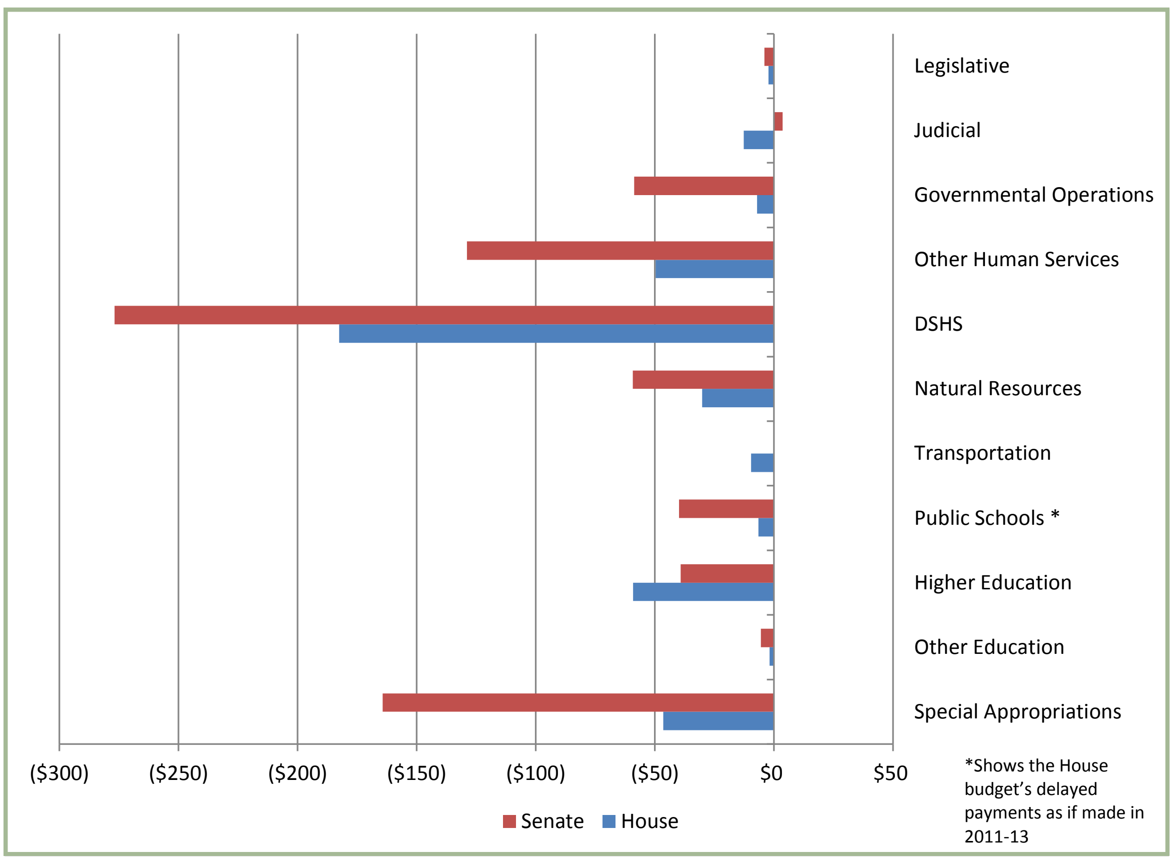
Policy differences between the budgets abound. The numbers below are in terms of NGFS+, and are policy changes only.

Legislative. The legislative budget area would be reduced by $4.0 million in the Senate-passed supplemental and by $2.3 million in the House-passed supplemental. Both supplementals consolidate legislative support functions into a single office. The Senate makes 5 percent efficiency reductions to the House, Senate, Joint Legislative Audit & Review Committee, Legislative Evaluation & Accountability Program Committee, Joint Legislative Systems Committee, and Statute Law Committee (saving a total of $3.6 million). The House includes voluntary salary reductions for members of the legislature (saving $183,000).

Judicial. The Senate increases spending in the judicial budget area by $3.6 million, while the House reduces spending by $12.6 million. The Senate increases temporary judicial stabilization trust account surcharges by $10 to save $1.4 million in the general fund. Both the Senate and the House provide $6.1 million for the representation of indigent respondents in sexually violent predator civil commitment cases. Under the House supplemental, trial court level indigent defense assistance would be cut (saving $7.7 million) and the state would no longer contribute to the salaries of district court judges or elected municipal judges (saving $4.0 million).

Governmental Operations. The governmental operations budget area would be reduced by $58.7 million in the Senate and by $7.1 million in the House. The most significant differences between them occur in the Department of Commerce. Both the House and Senate would reduce or eliminate numerous programs within Commerce. The Senate would also reduce funding for the Housing and Essential Needs program to reflect 25 percent participation (saving $42.6 million) and recognize under spending within the program (saving $10.4 million). The Senate would reduce funding for state agency audits by 10 percent and fewer audits would be performed (focusing on high-risk agencies and programs) to save $2.7 million in the auditing services revolving ac-

Chart: Comparing Senate and House Policy Changes (Dollars in Millions)



count (this has no NGFS+ effect). The Senate would provide the Department of Revenue $1.3 million to create a single web portal for businesses.

Department of Social and Health Services (DSHS). DSHS spending would be reduced by $276.9 million in the Senate and by $182.6 million in the House. Although the Senate would spend more than the House in mental health ($18.7 million more), developmental disabilities ($12.1 million more), and long-term care ($15.7 million more), the Senate would spend $135.9 million less than the House in the Economic Services Administration (ESA).

Unlike the House, the Senate would not reduce Regional Support Networks (RSN) Medicaid rates or RSN non-Medicaid funding. The Senate also would not reduce rates for community residential providers who serve clients with developmental disabilities, nor would it reduce nursing home rates. Both supplementals fund Initiative 1163 (the long-term care training and certification initiative approved by voters in 2011).

In the ESA, the Senate would eliminate the state food assistance program (saving $13.9 million). Both the Senate and the House achieve significant savings due to under expenditures in the Temporary Assistance for Needy Families (TANF) and Working Connections Child Care (WCCC) programs, but the Senate would also make a 2 percent grant reduction, institute a 48 month time limit for TANF clients, and reduce slots in the WCCC. The House would save $77.0 million and the Senate would save $202.0 million.

Other Human Services. Funding for the other human services budget area would be reduced by $129.0 million in the Senate and by $49.7 million in the House. The differences between the supplementals fall mainly in the Health Care Authority (HCA) and the Department of Health.

In the HCA, the Senate would eliminate the Disability Lifeline medical program (saving $41.0 million). Both the Senate and the House would eliminate Indigent Assistance Disproportionate Share Hospital program payments (saving $13.1 million). The House, but not the Senate, would change the methodology for reimbursements to critical access hospitals (saving $12.6 million).

In the Department of Health, the Senate would reduce funding for family planning grants (saving $6.0 million) and for Blue Ribbon public health funds (saving $5.0 million). The Senate would also shift funding for environmental health programs to the state toxics control account (saving $16.7 million in the general fund).

In the Department of Corrections, both supplementals would implement a structured community supervision violation process (saving $15.8 million in the House and $15.2 million in the Senate).

Natural Resources. The natural resources budget area would be reduced by $59.2 million in the Senate and by $30.2 million in the House. The difference is largely accounted for in the Department of Ecology, in which the Senate would reduce funding for a number of programs. It would also shift funding for water quality, shorelands, lab services and indirect costs to the state toxics control account (saving $36.1 million in the general fund).

Transportation. Transportation would not be reduced by the Senate, but it would be reduced by $9.6 million in the House (through staffing reductions and crime laboratory changes).

Public Schools. Public schools funding would be reduced by $39.8 million in the Senate. The House would reduce funding by $411.3 million; however, $404.8 million of that represents shifts in payments. First, the House would shift apportionment payments to school districts from the last business day of June 2013 to the first business day of July 2013 (and into the 2013–15 biennium). $340.0 million would be shifted, but $10.0 million would be provided in 2011–13 as contingency funds. Second, the proposal would shift May and June 2013 levy equalization payments to July 2013 (moving $74.8 million into the next biennium). Because these state funds still support the 2012–13 school year, we believe it is appropriate to include the deferred funding in showing the impact of the proposal on K-12 education. Adjusting for these shifts to allow for comparison of the House and Senate policy reductions means that the House reduces spending by $6.5 million.

The Senate would eliminate a number of statewide programs (saving $6.6 million) and several education reform programs (saving $12.7 million). The Senate would also reduce funding for Running Start (saving $8.4 million). The House would eliminate math and science professional development in school year (SY) 2012–13 (saving $3.5 million). The Senate would provide $5.8 million to implement a new statewide teacher and principal evaluation system. Both the House and Senate would reduce National Board bonuses (saving $8.3 million in the House and $17.7 million in the

Senate). Importantly, the Senate finally eliminates funding for Initiatives 728 and 732. Previous budgets had simply not funded them for the biennium, meaning that they would come back in the base of the budget in future years.

Higher Education. Higher education would be reduced by $39.1 million in the Senate and by $59.2 million in the House. Both budgets recognize the new Student Achievement Council, to which funding for the Council for Higher Education and Office of Financial Assistance would be transferred. The Senate would increase the maximum level of authority to waive tuition by 16 percent for the University of Washington (saving $10.0 million), 14 percent for Washington State (saving $4.2 million), 10 percent for Eastern (saving $762,000), 9 percent for Central (saving $705,000), 7 percent for Evergreen (saving $332,000), 8 percent for Western (saving $821,000), and 24 percent for the community and technical college system (saving $13.1 million). The Senate would shift funding for UW's college of environment and WSU's college of agriculture, human and natural resource sciences to the state toxics control account (saving $10 million in the general fund).

The House would reduce funding for the four-year institutions by 3 percent (except Western Washington University funding would be reduced by 2.5 percent), saving a total of $30.0 million. Funding for the community and technical college system would also be reduced by 3 percent (saving $35.0 million). The percent of a full-time state need grant award would be reduced for SY 2012–13 (saving $10.0 million). The House would fund educational opportunities in science, technology, engineering and math (STEM) in the community and technical college system ($2.0 million) and Eastern, Central, Evergreen, and Western ($4.4 million).

Both the Senate and the House would provide $3.8 million each to UW and WSU to support engineering degree production.

Other Education. The other education budget area would be reduced by $5.5 million in the Senate and by $1.8 million in the House. Both would eliminate state funds used for child care subsidies to seasonal agricultural workers through nonprofits (saving $2.1 million).

Special Appropriations. Special appropriations would be cut by $164.3 million in the Senate and by $46.4 million in the House. Both would reduce the Public Employees' Benefits Board funding rate from $850 per employee per month to $800 for fiscal year (FY) 2013 (saving $33.1 million). In the Senate, lower employer contribution rates in the public employees', teachers', and school employees' retirement systems result from suspending a Plan 1 unfunded liability payment, eliminating reduced early retirement penalties for new plan members, and closing Plans 2 to new members (saving $133.0 million). The Senate pension reforms are consistent with our Thrive Washington recommendations and will result in substantial long-term pension savings.

Outlook

Table 2 presents rough "outlooks" for the 2013–15 biennium based on the supplemental budgets passed by the House and the Senate. These projections follow closely the projection prepared by the Office of Financial Management (OFM) based on Gov. Gregoire's November supplemental proposal, with adjustments for the specifics of the House and Senate budgets. The one deviation we have made from OFM's assumptions is in regard to the medical assistance program. We assume that per capita medical assistance costs will grow by 5 percent per year rather than the average 2 percent assumed by OFM. The most recent forecast from the U.S. Centers for Medicare & Medicaid Services projects overall state spending on Medicaid will increase 5.6 percent for calendar year (CY) 2013, 8.5 percent for CY 2014 and 6.9 percent for CY 2015.

With the House 2012 supplemental, the state is projected to face a shortfall of more than $2.5 billion in the three NGFS+ accounts (the general fund–state account, the education legacy trust account and the Washington opportunity pathways account).

Table 2: Approximate Outlook for 2013-15 (NGFS+, Dollars in Millions)

	Based Upon Supplemental Budget of:	
	House	**Senate**
Beginning Balance	136	237
Projected Revenues	*33,009*	*32,965*
Transfer to Budget Stabilization Acct.	(286)	(286)
Total Resources	32,859	32,916
Projected Expenditures	35,415	33,043
Unrestricted Ending Fund Balance	(2,556)	(127)
Budget Stabilization Account Balance	*551*	*551*
Total Reserves	*(2,005)*	*424*

Ideally, negotiators will recognize that the structural reforms assumed in the Senate budget should be incorporated in the final reconciliation.

This shortfall would be offset somewhat by $551 million in the budget stabilization account. Under the Senate supplemental, the NGFS+ shortfall is only $127 million and total reserves are positive—$424 million.

The better outlook under the Senate budget is largely due to three factors: (1) The gimmick used by the House budget to delay certain payments to school districts for school year 2012–13 from state FY 2013 to state FY 2014 throws a "bow wave" of about $400 million into the 2013–15 biennium; (2) The programmatic cuts that the Senate makes in place of this gimmick provide ongoing savings of around $800 million in 2013–15; and (3) Repealing the currently suspended Initiatives 728 and 732, as the Senate budget proposes, eliminates bow waves of nearly $1.2 billion in 2013–15.

Discussion

Overall, the Senate budget is preferable. While the Senate can be criticized for delaying a Plan 1 pension payment, the savings from the proposed pension reforms justify the risk. Similarly, the Senate proposal confronts and resolves problems associated with the unfunded mandates represented by Initiative 728 and Initiative 732. In practice, these two programs are routinely suspended by lawmakers in hard budget times. Yet, they have remained on the books, ballooning projected spending in subsequent biennia and magnifying projected deficits. In our recent report, *The Drag of Unfunded Commitments*, the Research Council recommended action similar to that proposed by the Senate.

By contrast, the House budget—by deferring the apportionment payment—immediately adds a substantial liability to be repaid in 2013–15. While the effect on education funding may be negligible, the maneuver itself continues a pattern of pushing budget problems from one biennium to the next.

While both budgets leave less in reserves than we would like to see, given the high degree of risk that revenues may come in below forecast, the Senate leaves a larger cushion. Moreover, by reducing spending more deeply and endorsing structural reforms, the Senate budget plan sets the state on a more sustainable budget path for the next biennium than does the House.

Neither of these budgets will be adopted, of course. Serious negotiations will doubtless result in changes to spending priorities. Compromise will be required. Ideally, however, negotiators will recognize that the structural reforms assumed in the Senate budget should be incorporated in the final reconciliation.

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