



BRIEFLY

The legislature's final budget mitigates some of the effects of I-695, partially and temporarily, and pushes more money to K-12 education.

I-601 survived, at least until the next legislative session.

Final Legislative Budget Good Enough

Putting the budget to bed last month took all the diplomacy and skill lawmakers could muster. In the end, no one gloated.

Many of the issues generating the most early passion – property tax relief, weakening the spending limit, creating new dedicated accounts – slipped away long before negotiators wrapped up the budget.

No one expected much more than I-695 mitigation from this legislature. Lawmakers chose to do more, boosting operations and construction spending for the public schools. (I-695 repealed the Motor Vehicle Excise Tax, reducing funds available for transit programs, highway construction and ferry operations, and various local government assistance programs.)

Addressing the revenue losses from MVET repeal proved to be as great a challenge as I-695 opponents expected. The transit and transportation mitigation was partial and temporary. Local government received partial and ongoing mitigation, with public health programs nearly fully restored.

Education scored on two fronts. The newly created “Better Schools” program pushes some more general fund money to the schools. Efforts to create a permanent off-budget fund with dedicated funding outside the I-601 limit were defeated. Nonetheless, finding \$57.5 million for class size reductions and staff development represents an accomplishment for lawmakers seeking to boost school spending. A greater long-term win for the schools comes from legislation amending I-601 to accelerate school construction funding.

I-601 survived intact, despite several attempts to weaken or evade it. In any event, the future of the spending limitation will be determined by the fall elections. A simple majority of the next legislature can do what it likes with I-601, which was passed seven years ago and reaffirmed by the voters in 1998 in Referendum 49.

As the balance sheet indicates, general fund spending increased from \$20.573 billion to \$20.850 billion with passage of the supplemental budget. The expenditure hike was accommodated by raising the I-601 spending limit in accord with the initiative's rules for handling transfers of program responsibility.

The new spending reduced reserves by about \$135 million. A change in the I-601 formula driving funds to school construction drops emergency reserves even further. Still, lawmakers expect about \$883 million in reserve accounts at the end of the 1999-2001 biennium.

The following discussion highlights major activity in I-695 mitigation and education funding, as well as the effect of the supplemental budget on I-601.

I-695 Mitigation. Passage of I-695 reduced earmarked revenues for transit, state transportation and local government programs. The MVET had been expected to bring in \$750 million this year and grew at an annual rate of more than 5 percent. These are the major actions lawmakers took to restore funding:

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❑ *Transit* received \$80 million in a one-time appropriation from the general fund. This level of transit funding provides a transitional cushion for the first year of MVET loss.

❑ The *ferry system* received an ongoing, annual \$20 million appropriations commitment. Though described as ongoing, this funding may be rescinded by future legislatures.

❑ Although not affected by I-695, *Sound Transit* picked up \$15 million in a one-time appropriation. Key legislators spoke of this as a “down payment” on future appropriations to extend light rail service to Northgate, but there is no guarantee of any additional funding.

❑ Permanent funding for *transportation* programs came from the dedication of \$35 million per year in interest from the emergency reserve fund to support debt service, enough to support \$440 million in bonding over six years.

❑ *Local governments* receive about \$102 million in direct general fund support (\$36 million to counties, \$66 million to cities). For the current biennium, these funds replace about 53% of the counties’ MVET loss and 37% of the cities’ loss. In addition, public health districts will get \$33 million from the Health Services Account, restoring 90% of the funds lost from MVET repeal.

K-12 Education. Surprisingly, the legislature chose to re-open the public schools budget in a supplemental budget year already complicated by I-695 effects, and after substantial funding hikes for education in the biennial budget adopted last year. The teachers’ union was disappointed by its inability to gain additional salary dollars, but other education groups generally praised the budget. Enrollment declines and a drop in pension costs freed up some K-12 dollars for reallocation. The two major funding increases are:

❑ The *Better Schools Program* provides \$57.5 million in new fund appropriations. About \$20 million is set aside for professional development and \$37.5 million targeted for class

**2000 Supplemental Budget Comparison
1999-01 General Fund -- State Balance Sheet
(Dollars in Millions)**

| RESOURCES | |
|--|---------------|
| | Final |
| Unrestricted Beginning Balance | 462 |
| Adjust Deposit to Emergency Reserve | 0 |
| Revised Unrestricted Beginning Balance | 462 |
| February Revenue Forecast | 20,843 |
| Revenue Legislation | (3) |
| Net Revenue | 20,840 |
| Total Resources | 21,302 |
| SPENDING LIMIT AND APPROPRIATIONS | |
| Official 601 Spending Limit | 20,651 |
| Net Adjustments to Limit | 262 |
| Revised 601 Expenditure Limit | 20,914 |
| Operating Budget, ESSB 5180 | 20,573 |
| 2000 Supplemental | (2) |
| Local Government Assistance | 102 |
| Sound Transit, Rail, Ferries | 48 |
| Transit Districts | 80 |
| Transit Liability | 50 |
| Total GFS Appropriations | 20,850 |
| Spending Compared to Limit | (63) |
| UNRESTRICTED GENERAL FUND RESERVES | |
| Beginning Balance | 462 |
| Change in Reserves | (96) |
| Unrestricted Ending Balance | 366 |
| EMERGENCY RESERVE FUND | |
| Beginning Balance | 536 |
| New Deposit (Revenue > Limit) | 86 |
| Transfer to Transportation/Ferries | (35) |
| Interest Earnings | 68 |
| Emergency Reserve | 517 |
| Deposit to Education Construction | 138 |
| TOTAL RESERVES (UNRESTRICTED + EMERGENCY) | 883 |

Does not reflect June revenue forecast



size reduction and extended learning programs. No new dedicated account is established, nor are specific revenues earmarked, but the legislature’s intent is to make this an ongoing appropriation.

❑ **School construction** picks up \$35 million in appropriations from the Education Construction Fund (not the General Fund) to the Common School Construction Account, and nearly \$7 million from the Education Savings Account. Because of a change in the I-601 reserve formula (dropping the threshold for deposits in the reserve fund from 5 percent of forecast *biennial* revenues to 5 percent of *annual* revenues), more than \$138 million will be deposited in the Education Construction Fund.

I-601. Several significant changes in I-601 (RCW 43.135) were made in the legislative session. Various budget proposals floated during the session threatened to render I-601 meaningless. Here’s how I-601 fared at the end of the session.

When the supplemental budget was adopted, the legislature also passed HB 3169 to strengthen I-601. The bill made four major changes in I-601.

❑ **Handling fund transfers.** The device of so-called local option tax credits to skirt the expenditure limit has been used to fund a number of local programs (stadia and convention centers, rural assistance) and figured prominently in the governor’s proposed learning improvement tax credit (see e-Brief: “*Fiscal Proposals Threaten Spending Limit*”). HB 3169 clarifies that such transfers are covered by the I-601 provision that any shift of revenues or expenditures from the general fund require that the limit be lowered.

❑ **The State Expenditure Limit Committee.** Currently, the Office of Financial Management calculates the limit. With passage of HB 3169, that responsibility shifts to a committee made up of executive and legislative members.

❑ **The Emergency Reserve Fund and School Construction.** Under I-601, when revenues coming into the general fund exceed the spending limit, the excess flows to the Emergency Reserve Fund. When the balance in the ERF equals 5 percent of forecast biennial revenues, any additional deposits go to the Education Construction Fund and are available for appropriation to public school and higher education construction. No deposits have been made to the Education Construction Fund, as the ERF had not reached 5 percent of biennial revenues. HB 3169 lowered the requirement by roughly half, to 5 percent of annual revenues, immediately freeing about \$138 million to flow to the Education Construction Fund.

❑ **Raising the Limit for Transfers to the General Fund.** I-601 prescribes that the spending limit should be lowered when funds are transferred out, but does not raise the limit when revenues or costs are transferred in. This has made it difficult to eliminate dedicated funds by pulling them into the General Fund. HB 3169 changes the statute so that transfers to the general fund result in the limit being increased.



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