



**PB 98:1**  
**January 30, 1998**

## General Fund Overview

*The 1997 Legislature approved a two-year spending plan for the state, covering the period from July 1, 1997 through June 30, 1999. The 1998 legislative session began on January 12 and is scheduled to last 60 days. Legislators have the opportunity to revise the decisions that they made last spring. Revenue forecasts have been revised upwards since the 1997 session, but there is only modest room available for additional spending under the Initiative 601 spending cap. Thus only minor changes should be expected.*

### ***The adopted budget***

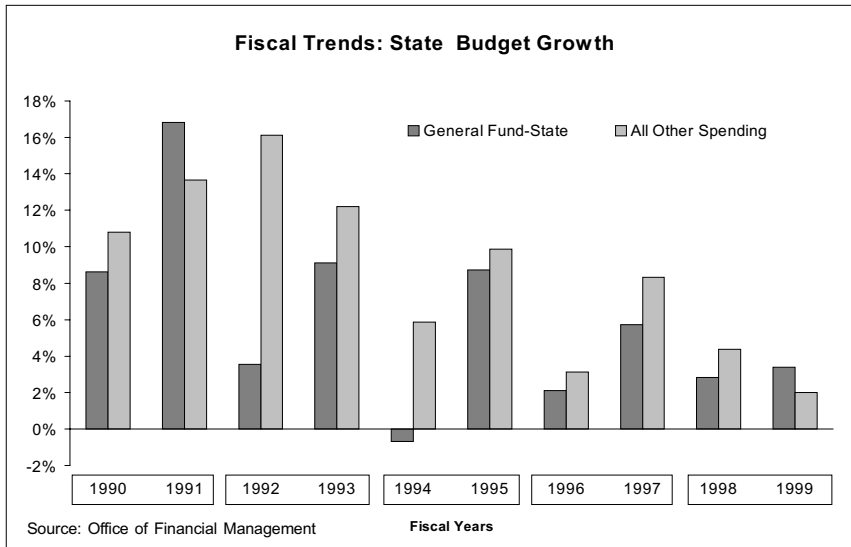
The operating budget for the 1997-1999 biennium enacted in the 1997 session provided for \$19,084.6 million in general fund-state (“GFS”) spending authority for state operating expenses.

Changes in circumstances since the legislature enacted this budget suggest that it will cost approximately \$100 million less in general fund-state spending to accomplish the objectives embraced by this budget.

For example: the Office of Financial Management has reduced forecasts of public school enrollments by 5,524 for the 1997-98 school year and 7,643 for 1998-99. This reduces expected expenditures by \$46.4 million. Similarly, a reduction in the forecast of caseloads for the state General Assistance program reduces expected expenditures by \$49.3 million. (Most of this reduction is due to federal legislation extending the eligibility of some legal immigrants for the Supplemental Security Income program.) Additionally, the share of Medicaid costs covered by the federal government has increased and the federal government has increased payments to hospitals that serve a high proportion of Medicaid patients. Together these Medicaid changes will provide an additional \$68 million to the state.

	<b>The 1997-1999 Operating Budget Enacted in the 1997 Session</b>	
	Dollars Expressed in Thousands	
	1997-99	
	GFS	All Funds
Legislative	112,884	119,618
Judicial	59,988	119,614
Governmental Operations	338,414	1,319,460
Department of Social and Health Services	4,934,256	10,933,504
All Other Human Services	1,013,051	2,610,342
Natural Resources and Recreation	231,215	806,087
Transportation	24,507	1,214,737
Public Schools	8,868,051	9,586,996
Higher Education	2,202,787	2,261,973
All Other Education	49,235	89,342
All Other Expenditures and Special Appropriations	1,250,226	2,736,717
<b>Total</b>	<b>19,084,614</b>	<b>31,798,390</b>

Includes all operating appropriations, including Transportation agencies  
Source: Office of Financial Management



**Long term trends**

Budgeted expenditures have increased over the past ten years with a marked decrease in the rate of growth since fiscal year 1992. This reduction in the rate of increase began with the budget crunch of 1993 and continued under the restraint of the Initiative 601 spending limit. Policy and legislative actions may cause expenditures in specific areas to increase faster than the budget as a whole while other areas may decline to enable overall expenditures to remain within the I 601 limitations.

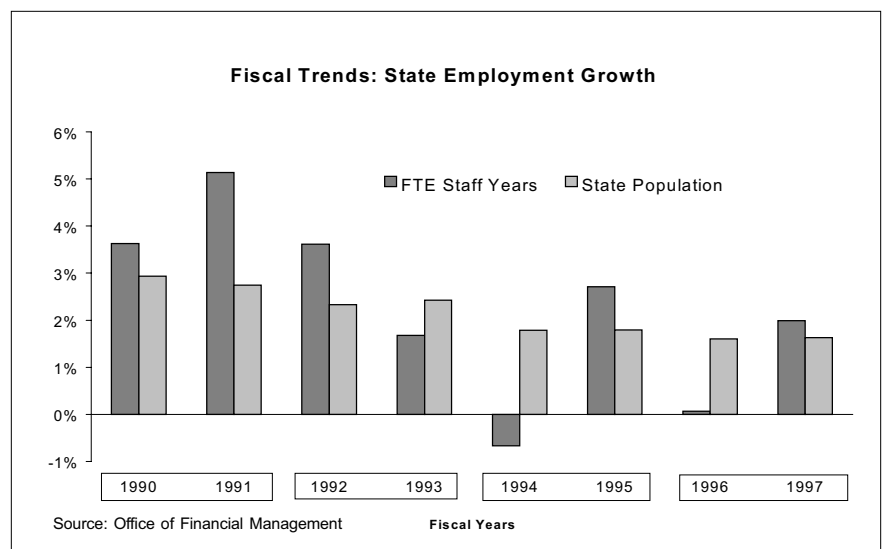
In recent years spending outside of the general fund has grown more rapidly than general fund spending.

Budgeted full time equivalent staff increases above the rate of population growth have long been criticized by state budget watchers. Since fiscal year 1993, the rate of budgeted staff growth has generally been below the growth in state population. The trend coincides with the slower rate experienced in spending noted above. As with expenditures, staffing may increase in specific areas at a greater rate depending on policy and legislative demands. Staff levels are not appropriated in the same sense as dollars. Generally policy decisions are used to control changes in staffing levels rather than legislative appropriations. Decreases in the rate of growth related to staffing beginning with fiscal year 1993 can be attributed to a combination of a slow economy, management policies, and the I 601 spending limitations.

The largest increases in staff growth usually occur in odd-numbered fiscal years when new programs enacted in the prior regular legislative session become fully operational.

**Revenue Update**

Each quarter, the Office of the Forecast Council prepares economic and revenue forecasts for the state. The most recent forecasts were issued in November. The economic forecast predicts that the state's economy will remain strong, with the 1997-99 biennium the strongest since 1989-91. The November general fund-state revenue forecast is \$19,432.5 million for the 1997-99 biennium. Altogether, the three forecasts since the close of the 1997 legislative session have increased expected general fund state revenues by over \$440 million dollars.





**Fiscal Trends: General Fund State Collections**

Cash Basis  
(Millions of Dollars)

<b>Biennium</b>	<b>Current Dollars</b>	<b>Percent Change</b>	<b>1992 Dollars</b>	<b>Percent Change</b>
1985-87	9,574.6	16.7%	12,249.6	9.2%
1987-89	10,934.1	14.2%	12,941.7	5.6%
1989-91	13,308.9	21.7%	14,343.5	10.8%
1991-93	14,865.2	11.7%	14,877.1	3.7%
1993-95	16,564.6	11.5%	15,738.3	5.8%
1995-97	17,637.7	6.5%	15,969.0	1.5%
1997-99f	19,432.5	10.2%	16,905.2	5.6%

f = November 1997 Forecast  
Source: Office of Financial Management

Many analysts are apprehensive of the effect of the economic crisis in Asia on the Washington economy. State revenue collections in the November 11 – January 10 period fell \$50.7 million short of the estimate in the November forecast. Chang Mook Sohn, the Executive Director of the Office of the Forecast Council, notes that “collections are volatile on a monthly basis,” and that this weakness may be reversed in coming months. Nevertheless this shortfall is bothersome in light of the uncertainties in Asia. Revised forecasts will be issued in mid February.

***The Governor’s Supplemental Budget***

The governor’s supplemental budget proposal includes \$104.5 million in spending for new policy proposals and a \$25 million general fund appropriation to transportation. This would represent a net increase of \$33.3 million over the budget adopted last spring, after accounting for the changes in enrollments, caseloads and federal funding.

The greatest share of this is in education where the governor proposes spending an additional \$58.4 million general fund-state. For K-12 the largest single initiative is Washington Reading Corps (\$25 million) which would provide tutoring to low scoring students in grades two to five. For higher education, notable proposals include \$8.2 for computer networking and distance learning and \$5.6 million to increase funding for financial aid.

The Governor’s proposal also includes \$245 million in tax cuts. The largest of these is a reduction in the Motor Vehicle Excise Tax, which would reduce revenues by \$100.3 million for the biennium. (This cut will be discussed in more detail in our brief on transportation spending.) Also notable are sales tax exemptions on labor in government construction projects for public schools, higher education, and transportation, which would reduce revenue by \$25.5 million and a system of B&O tax credits for employers who provide training and child-care to employees (\$15 million). Of course, these sales tax exemptions and B&O credits could be seen as spending programs rather than tax cuts.

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## INITIATIVE 601 LIMITS STATE SPENDING

Initiative 601 adopted by the voters in 1993 limits General Fund State (GFS) expenditure increases to a “growth factor.” The factor is equal to a three-year moving average of population growth and inflation. The initiative limits, not mandates, expenditures. Both the 1995 and 1997 legislatures adopted biennial budgets below the maximum allowed

The determination of the base (“rebasings”) occurs every November. By basing the limitation for the coming fiscal year on “actual expenditures” in the past year, the language of the initiative creates a “skipping” pattern. That is, the computation for fiscal year 1998, established in fiscal year 1997, is based on 1996 actual expenditures, 1999 on 1997, and so on.

In the past, fund transfers from the GFS to other funds have been used as an “off-budget” financing mechanism. Although authorized by the legislature, they did not appear as operating budget expenditures. Initiative 601 requires “If the cost of any state program or function is shifted from the state general fund on or after January 1, 1993, to another source of funding, or if moneys are transferred from the state general fund to another fund or account, the office of financial management shall lower the state expenditure limit to reflect the shift.”

In November 1997 the Office of Financial Management established \$19,270.4 million as the limit for the 1997-99 biennium. This number is likely to be revised during the 1998 legislative session as a result of shifts in federal funding and transfer of funding responsibility from the GFS to other funds. The changes in eligibility of immigrants for SSI, Medicaid reimbursement rates, and federal payments for hospitals (as discussed earlier) will lower the I 601 limit by \$122.1 million, the amount they reduce GFS spending.

The chart shows the expenditure limit established for each fiscal year 1996-2003 and the corresponding actual/appropriated GFS expenditures 1996-1999.

