



Gov. Inslee's 2016 Supplemental Operating Budget Proposal Would Increase 2015–17 Spending by 1.4 Percent

Briefly

- Costs for firefighting and other services are significantly higher than anticipated when the original 2015–17 budget was enacted.
- The proposal would increase 2015–17 spending by \$520.5 million.
- An additional \$178.2 million would be spent from the Budget Stabilization Account for fire costs.
- The proposed budget would not balance over four years.

NGFS+

In recent years, legislative fiscal committee staffs have based budget presentations on the near general fund–state (NGFS), a synthetic “account” that rolls up the general fund–state (the state’s primary budget account) with the education legacy trust account, because they believed that the NGFS better reflected the entire budget situation. They are now using a broader rollup, the NGFS+.

In 2010 the Legislature established the opportunity pathways account, and dedicated proceeds from the lottery to this account with the stipulation that the funds be spent for education. The NGFS+ combines the NGFS and the opportunity pathways account.

In 2012 legislation was enacted requiring four-year balanced operating budgets. A positive ending balance is required in the current biennium on an NGFS+ basis. Additionally, projected resources must be sufficient to cover projected maintenance level expenditures in the second biennium.

The 2015–17 operating budget, which was enacted last June, significantly increased funding for education. Although there’s more to be done ahead of the 2018 deadline for complying with the state Supreme Court’s McCleary decision, any additional education spending will likely take place in the 2017–19 budget, not the 2016 supplemental.

Indeed, the main theme of Gov. Inslee’s proposed 2016 supplemental budget is that the costs of fighting fires and providing other services are higher than were expected when the original budget was enacted. His proposal would increase near general fund–state plus opportunity pathways (NGFS+) spending for 2015–17 by \$520.5 million. Revised appropriations would total \$38.740 billion, a 1.4 percent increase. (For more on the 2015–17 budget as originally enacted, see our report [“Improving Economy Allows for Significant Spending on Education Without New Taxes.”](#))

In addition to his supplemental budget, Gov. Inslee proposes that the Legislature increase pay for teachers in order to help recruit and retain teachers in Washington. He proposes closing or limiting four tax exemptions to pay for his plan. We will write about this proposal in a separate

report.

Balance Sheet

Revenues. The May 2015 revenue forecast (on which the enacted 2015–17 budget was based) estimated that revenues for 2015–17 would total \$37.451 billion. Since then the Economic and Revenue Forecast Council (ERFC) has increased its forecast by \$464.5 million. Gov. Inslee does not propose additional revenue increases as part of the supplemental.

Other Resource Changes. The proposal would transfer \$41.8 million to the NGFS+ from other funds. These include \$14.0 million in marijuana revenue collections that were higher than anticipated in fiscal year (FY) 2015, \$10.0 million from the performance audit account, and \$5.0 million from the financial services regulation account. The enacted 2015–17 budget transferred \$73.0 million from the public works assistance account (PWAA) to the general fund; the proposed supplemental would transfer an additional \$10.0 million from the PWAA. (The PWAA is currently in the red, but it is expected to have a balance of more than \$10 million by the end of the biennium.)

Table 1: NGFS+ Balance Sheet (Dollars in Millions)

	<i>2015-17</i>
Beginning Balance	1,011
Revenue	
Nov. 2015 Revenue Forecast	37,916
<i>Total Revenue</i>	<i>37,916</i>
Other Resource Changes	
Transfer to Budget Stabilization Acct.	(373)
Transfers in Original Budget and Other Adjustments	219
Inslee Proposal	
Fund Transfers	42
<i>Total Other Resource Changes</i>	<i>(113)</i>
<i>Total Resources</i>	<i>38,814</i>
Spending	
Enacted 2015-17 Budget	38,219
Assumed Reversions	(173)
Inslee Proposal	
Fire Suppression Maintenance Level Changes	149
Other Net Maintenance Level Changes	371
Use of BSA for Fire Costs	(170)
Other Net Policy Changes	170
<i>Total Spending</i>	<i>38,567</i>
Reserves	
Unrestricted Ending Fund Balance	247
Budget Stabilization Account Balance	893
Inslee Proposal	
Fire Costs	(178)
Budget Stabilization Account Ending Balance	714
<i>Total Reserves</i>	<i>961</i>

Spending. The proposal would increase NGFS+ spending by \$520.5 million. (This does not include \$178.2 million that would be spent from the budget stabilization account for fire costs.) Maintenance level changes (the costs of providing current services) total \$520.3 million; of that, \$148.9 million is due to higher than expected fire suppression costs in the 2015 wildfire season. Policy level increases of \$170.4 million are offset by policy level reductions of \$170.2 million, as certain fire costs would be covered by the budget stabilization account (BSA) rather than the NGFS+. Net policy level changes total \$260,000.

Reserves. The proposal would leave an unrestricted ending fund balance of \$246.9 million. The BSA would have a balance of \$892.5 million, but Gov. Inslee proposes using \$178.2 million of that for fire costs, as noted above. The ending balance of the BSA would be \$714.2 million and total reserves would be \$961.2 million.

Spending Details

Fires. The Office of Financial Management notes that fighting the fires of the 2015 season cost the state \$178 million—about \$150 million more than originally budgeted (OFM 2015). In order to cover these costs, funds would both be increased and shifted from the NGFS+ to the BSA and the disaster response account. As noted above, the governor proposes appropriating \$178.2 million from the BSA for fire costs. Because of this funding, the proposal would reduce policy level NGFS+ spending in the Department of Natural Resources (DNR), the Department of Fish and Wildlife (DFW), and the Washington State Patrol (WSP).

In DNR, the maintenance level increases by \$129.1 million for fire suppression. At the policy level, for fire suppression in FY 2016, \$150.2 million would be shifted from the NGFS+ to the BSA. Additionally, for fire suppression in FY 2017, \$21.1 million would be shifted from the NGFS+ to the disaster response account.

In DFW, the maintenance level increases by \$129,000 for wildfire season costs. At the policy level, wildfire funding would be shifted to the BSA, reducing NGFS+ spending by \$344,000. For WSP, fire mobilization costs increase maintenance level spending by \$19.6 million. Policy changes include the shift of fire mobilization costs to the BSA, reducing NGFS+ spending by \$19.6 million.

Human Services. The proposal would increase spending for the Department of Social and Health Services (DSHS) by \$168.8 million NGFS+. Most of this is maintenance level spending (\$131.6 mil-

lion). In the mental health program area, policy level changes increase spending by \$41.1 million. That includes \$11.0 million to address safety and health issues at Western State Hospital and \$6.8 million to hire more nurses for Western State Hospital.

The supplemental proposal would increase spending for the Health Care Authority (which manages Washington's Medicaid programs and is part of "other human services" in Table 2) by \$272.2 million. Most of that spending occurs at the maintenance level (\$195.6 million) and is concentrated on managed care services. The governor's proposal notes,

The number of Medicaid-eligible low-income children has increased by 39,000 since last spring, and we are seeing spikes in per-capita health care costs for some of the state's most vulnerable populations — individuals who are aged, blind or disabled. Swelling health care costs are being driven largely by higher pharmaceutical expenses, especially for new specialty medications. (OFM 2015)

At the policy level, the proposal would increase spending for the Health Care Authority by \$42.7 million because the

Healthier Washington project, which was supposed to "integrate clinical models of physical and behavioral health care," was delayed; thus, assumed savings will not occur. Similarly, the federal government did not approve a Medicaid waiver the state had requested, so the proposal would increase spending by \$16.7 million to restore those assumed savings.

Other. Spending for the Department of Early Learning would increase by \$11.1 million. Of that, \$5.8 million is to provide a base rate increase, a reimbursement rate increase, and training improvements for family child care providers. The proposal would increase spending by \$16.4 million to pay the \$100,000-per-day fine imposed by the state Supreme Court in the McCleary case. The fine was imposed by an August 13, 2015 order that was effective immediately; thus, the supplemental proposal assumes the penalty would stop accruing Jan. 23, 2016. The proposal would also increase spending by \$36.1 million to pay settlement costs in the Moore v. Health Care Authority case (which was a suit brought by state employees who were not provided health insurance). At the maintenance level, updated bond debt costs would reduce spending by \$15.3 million.

Table 2: NGFS+ and All Funds Appropriations (Dollars in Thousands)

	Original 2015-17 Appropriations		Proposed 2016 Supplemental		Revised 2015-17 Appropriations	
	NGFS+	All Funds	NGFS+	All Funds	NGFS+	All Funds
Legislative	153,796	173,930	153	104	153,949	174,034
Judicial	267,132	337,921	8,063	3,482	275,195	341,403
Governmental Operations	510,107	3,792,924	(7,067)	72,225	503,040	3,865,149
Other Human Services	5,952,628	21,333,537	299,767	(158,423)	6,252,395	21,175,114
DSHS	6,381,151	13,932,885	168,838	400,916	6,549,989	14,333,801
Natural Resources	308,873	1,713,043	(41,261)	190,116	267,612	1,903,159
Transportation	80,612	195,359	2,251	29,659	82,863	225,018
Public Schools	18,156,830	20,008,166	9,164	70,627	18,165,994	20,078,793
Higher Education	3,525,134	13,826,980	3,149	(5,324)	3,528,283	13,821,656
Other Education	347,928	736,946	11,761	10,948	359,689	747,894
Special Appropriations	2,534,988	2,836,614	65,719	137,008	2,600,707	2,973,622
Total	38,219,179	78,888,305	520,537	751,338	38,739,716	79,639,643

Comment

In releasing his supplemental operating budget proposal, Gov. Inslee said that it contained “modest adjustments” (OFM 2015). The 1.4 percent proposed spending increase is fairly modest (though much larger than the 0.5 percent increase of the 2014 supplemental budget), and reserves are sufficient to cover the increase in the current biennium.

But budgets must balance over four years. Accounting for the increased maintenance level spending needed in 2016 (but not including fire suppression costs or McCleary fines), the November 2015 budget outlook produced by the ERFC estimates that the unrestricted ending fund balance in 2017–19 will be *negative* \$473 million. As Gov. Inslee’s proposal would reduce the 2015–17 unrestricted ending fund balance, unrestricted 2017–19 reserves would necessarily be even more in the red than anticipated by the ERFC.

Consequently, Sen. Andy Hill says of the governor’s proposal, “It’s not helpful for the Legislature because it doesn’t deal

with the realities of writing a budget” (Hill 2015). The Legislature will have to find a way to cover increased costs while balancing the four-year budget, with an eye toward spending more on education in 2017–19.

References

- Hill, Andy. 2015. “[Governor’s budget plan doesn’t deal with realities of writing a budget.](#)” December 17.
- Economic and Revenue Forecast Council (ERFC). 2015. “[November 2015 Outlook.](#)” November 19.
- Office of Financial Management (OFM). 2015. “[2016 Supplemental Budget Highlights: Overview.](#)” December 17.
- Washington Research Council (WRC). 2014. “[The 2014 Supplemental Budget Increases Education Spending, Holds Line on New Taxes, and Fails to Extend R&D Credits.](#)” PB 14–11. March 20.
- . 2015. “[Improving Economy Allows for Significant Spending on Education Without New Taxes.](#)” SR 15–04. July 17.