

GOVERNOR'S 2012 SUPPLEMENTAL BUDGET PROPOSAL

BRIEFLY

Governor Gregoire's proposed 2012 supplemental budget uses a combination of spending cuts, fund transfers, and reductions in local government distributions to bring the 2011–13 budget in line with expected revenues. Additionally, she recommends several options for raising revenues.

The proposal would reduce appropriations by \$1.732 billion.

Following enactment of a 2011–13 budget in May, the Economic and Revenue Forecast Council has reduced its revenue estimate three times. The state budget now has a serious shortfall. Consequently, additional cuts in the 2011–13 biennium (which began in July) are required. As signed, the 2011–13 operating budget includes general fund–state (GFS) appropriations totaling \$31.721 billion. The reduced revenue estimates have left a gap between planned spending and expected revenues of \$1.4 billion. Allowing for a modest reserve, the state has a \$2 billion problem.

The governor called lawmakers to Olympia for the special session that began November 28 and proposed a 2012 supplemental that would address the issue through a combination of spending reductions, fund transfers, and reductions in local government

distributions. Under her proposal, GFS appropriations for 2011–13 would total \$29.989 billion, leaving a projected ending balance of \$601.5 million.

Although this represents spending cuts of \$1.732 billion from the enacted budget, GFS spending under the proposal would still be \$235.9 million greater than in 2009–11. (In that biennium, \$2.3 billion in federal stimulus funds were used to offset state spending; if those funds are considered, enacted 2011–13 expenditures are less than 2009–11 spending.) The governor's proposal is \$1.582 billion less than GFS spending in 2007–09. The governor has also proposed several options for raising revenues in order to buy back some of the cuts.

Expenditure Reductions

Appropriations in the proposed supplemental would be reduced by \$1.732 billion. GFS spending would be cut in all budget areas except legislative, judicial, and special appropriations. The cuts would be borne largely by public schools, higher education, the Department of Social and Health Services (DSHS), and other human services.

Public Schools. Spending on public schools would be cut by \$710.0 million (a 5.17 percent reduction from the enacted 2011–13 budget). However, this includes \$340.0 million in apportionment payments shifted from the last business day of June 2013 to the first business day of July 2014 (meaning that the payment would be made in the 2013–15 biennium rather than the current one). The proposal would also restructure levy equalization to save \$151.9 million; reduce the school year by four days (beginning with the 2012–13 school year) to save \$99.2 million; delay school bus depreciation payments to save \$49.0 million; and reduce the monthly allocation for K-12 employee health benefits from \$768 per month to \$745, to save \$19.9 million.

Table 1: 2011–13 Balance Sheet
General Fund–State
(Dollars in Millions)

Beginning Balance	(92)
Revenue	
September 2011 Revenue Forecast	30,311
November 2011 Update	(122)
Total Revenue	30,188
Other Resource Changes	
Transfer to Budget Stabilization Acct.	(265)
Use of Budget Stabilization Acct.	265
Fund Transfers Enacted in Original 2011-13 Budget	244
Proposed Fund Transfers	176
Proposed Reductions in Local Revenue Distributions	74
Total Other Resource Changes	494
Total Resources	30,591
Spending	
2011-13 Enacted Appropriations	31,721
Governor's Proposed Supplemental Budget	(1,732)
Total Spending	29,989
Projected Ending Balance	602

Other Human Services. Appropriations for other human services would be reduced by \$443.2 million (a 6.98 percent drop). The Health Care Authority would take a \$390.4 million hit. That includes eliminating Disability Lifeline medical programs to save \$89.6 million; eliminating the Basic Health Plan to save \$44.5 million; establishing a state drug formulary (emphasis on generics) to save \$19.5 million; and eliminating all non-emergency dental care services to save \$8.6 million. In the Department of Health, funding for public health protection programs would be cut by \$6.6 million. The Department of Corrections would be cut by \$28.7 million. That includes reducing supervision for all offenders to save \$27 million and releasing low- and moderate-risk offenders 150 days early to save \$14.2 million.

DSHS. Appropriations for DSHS would be reduced by \$337.8 million (a 5.89 percent reduction). This includes delaying implementation of Involuntary Treatment Act changes until July 1, 2015 (it had been scheduled to be implemented January 1, 2012) to save \$22.6 million in 2011–13; closing the Rainier School Residential Habilitation Center to save \$6.1 million; increasing the nursing home safety net assessment from \$11 per day to \$19 per day to offset GFS \$23.5 million; eliminating Disability Lifeline medical programs to save \$24.2 million; reducing state-subsidized child care to save \$50 million; reducing time limits for eligibility for the Temporary Assistance for Needy Families (TANF) program from 60 months to 48 to save \$17.5 million; and

eliminating the State Food Assistance program to save \$13.9 million. Additionally, the supplemental would provide funding (\$15.3 million) for Initiative 1163, the long-term care training and certification initiative that was passed by voters in November. There was no funding source attached to the initiative (WRC 2011).

Higher Education. Spending on higher education would be reduced by \$170.5 million (a 7.10 percent reduction). That's on top of \$349.3 million cut in the 2011–13 budget, as compared to the 2011 supplemental. Net GFS reductions total \$36.8 million for the University of Washington, \$22.5 million for Washington State University, \$7.4 million for Western Washington University, \$6.2 million for Eastern Washington University, \$5.8 million for Central Washington University, \$3.1 million for the Evergreen State College, and \$80.6 million for the community and technical college system. These reductions are largely due to service cuts in fiscal year (FY) 2013—each university and the Evergreen State College would be reduced by 17 percent, and the community and technical college system would be reduced by 13 percent. Additionally, the supplemental proposal would provide funding to increase engineering degrees at UW and WSU (\$3.8 million for each).

Governmental Operations. Spending on governmental operations would be reduced by \$82.0 million (a 17.29 percent drop). The Department of Commerce would be cut by \$61.1 million, including eliminating funding

Table 2: The 2012 Supplemental Proposal
General Fund–State
(Dollars in Thousands)

	2011-13 Appropriations		Governor Proposed 2012 Supplemental		Proposed 2011-13 Appropriations	
	GFS	All Funds	GFS	All Funds	GFS	All Funds
Legislative	142,344	149,429	201	259	142,545	149,688
Judicial	221,808	274,987	1,014	2,142	222,822	277,129
Governmental Operations	474,248	3,707,655	(81,978)	(37,327)	392,270	3,670,328
Other Human Services	6,349,037	15,172,782	(443,214)	(745,864)	5,905,823	14,426,918
DSHS	5,730,775	11,171,470	(337,752)	(300,024)	5,393,023	10,871,446
Natural Resources	309,303	1,490,117	(14,796)	16,871	294,507	1,506,988
Transportation	78,272	176,473	(4,036)	(2,439)	74,236	174,034
Public Schools	13,732,987	15,915,437	(709,957)	(873,527)	13,023,030	15,041,910
Higher Education	2,401,749	11,126,495	(170,489)	(185,562)	2,231,260	10,940,933
Other Education	86,323	503,435	(6,857)	1,958	79,466	505,393
Special Appropriations	2,194,154	2,355,947	36,243	47,243	2,230,397	2,403,190
Total	31,721,000	62,044,227	(1,731,621)	(2,076,270)	29,989,379	59,967,957

for the housing and essential needs program (to save \$45.7 million).

Employee Compensation. In addition to the savings from reducing state allocations for K-12 employee health benefits (mentioned above), the governor proposes reducing the employer funding rate for Public Employees Benefits Board premiums from \$850 per employee per month to \$825. This would save \$16.0 million. Reducing contribution rates to the LEOFF Plan 2 pension system to align it with other state plans would save \$18.1 million.

Fund Transfers

The governor proposes to make \$176.0 million in transfers to the GFS from other funds. This includes \$40.3 million from the Local Toxics Control Account, \$12.6 million from the State Treasurer's Service Account, \$10.0 million from the MultiModal Transportation Account, \$44.6 million from the Savings Incentive Account, and \$31.9 million from the Education Savings Account.

Reductions in Local Revenue Distributions

Additionally, the governor would reduce revenue sharing to local governments (effective July 1, 2012) by \$73.9 million. She would eliminate liquor profit sharing (\$43.9 million), eliminate liquor excise tax sharing (\$26.4 million), reduce streamlined sales tax mitigation by 10 percent (\$2.2 million), and reduce annexation sales tax credit by 10 percent (\$1.4 million).

Revenue Options

Along with her proposed supplemental budget, the governor also makes several recommendations for raising revenues. These revenues, she proposes, would serve as a means to cancel some of the cuts proposed in the supplemental.

The centerpiece of her revenue proposal is a three-year, half-cent increase in the sales tax, from 6.5 percent to 7 percent. Under her proposal, the extra half-cent would come off July 1, 2015. The increase would boost revenues \$494.1 million in FY 2013. The governor would distribute these new funds as follows:

- \$411 million for education (to keep the four days in the school year, to maintain levy equalization, and to stop most of the cuts to higher education)
- \$42 million for long-term care and developmental disability services (to keep 1,600 people from losing all services,

restore some home care and residential provider rates, and fund "programs that keep elderly and developmentally disabled individuals in their own homes")

- \$41 million for public safety (to stop early release of offenders and maintain length of post-prison supervision)

Because voters approved Initiative 1053 in 2010, this proposal would require either a two-thirds majority of the legislature or a public vote. The governor proposes putting it on the ballot. The initial responses from the legislature have been mixed.

Second, the governor recommends seven revenue-raisers that would require only a simple majority of the legislature, totaling \$59.1 million in FY 2013. They are:

- Convert securities reported as unclaimed property immediately upon receipt (they are currently held for at least three years): *\$50.6 million*
- Require local governments that issue building permits to supply subcontractor information to the Department of Revenue (to help ensure that subcontractors pay their taxes): *\$2.6 million*
- Reduce the time to claim an excise tax refund to four years (refunds must currently be claimed within five years): *\$2.1 million*
- Increase the interest rate on excise tax assessments by 2 percent to equal the federal short-term rate plus 4 percent: *\$1.2 million*
- Prohibit delinquent taxpayers from renewing liquor licenses: *\$1.0 million*
- Impose a \$10 fee per invoice issued to a taxpayer for unpaid taxes: *\$900,000*
- Impose a \$25 fee for the issuance and renewal of reseller permits: *\$700,000*

Third, the governor recommends 11 changes that would (pursuant to I-1053) require a two-thirds vote of the legislature. In all, they would increase FY 2013 revenues by \$282.1 million. They are:

- Increase the business and occupation (B&O) tax rate on oil companies with windfall profits: *\$131.0 million*
- Increase the B&O tax rate on financial institutions with windfall profits: *\$53.8 million*
- Repeal the sales tax exemption for purchases made by nonresidents from states with a sales tax of less than 3 percent: *\$23.4 million*
- Limit the B&O tax deduction for first mortgage interest to community banks (those located in 10 or fewer states): *\$18.1*

million

- Impose a 5 percent luxury tax on passenger motor vehicles if the price exceeds \$50,000: *\$14.2 million*
- Impose a 1.5 percent gross receipts tax on gambling and lottery winnings: *\$13.1 million*
- Increase the cigarette tax 25 cents: *\$12.4 million*
- Impose public utility taxes on developmental disabilities supported living services: *\$11.6 million*
- Limit eligibility for the non-residential manufacturer exclusion to the B&O tax: *\$3.5 million*
- Limit B&O tax preferences for meat processors and fruit and vegetable processors: *\$900,000*
- Require out-of-state printers selling into Washington to pay B&O tax: *\$114,000*

Should the legislature adopt any of these recommendations, the governor's priorities for the funds would be preventing cuts in non-emergency dental coverage, chemical dependency services, regional support networks, the Basic Health Plan, TANF/WorkFirst grants, community grants for crime victims, the Disability Lifeline medical program, subsidized child care, the state work study program, and juvenile parole treatment and services.

Reference

Washington Research Council (WRC). 2011. I-1163: Once, Twice, Still Not a Priority. PB 11-20. October 7.