

**BRIEFLY**

The House Appropriations co-chairs unveiled their 2001-2003 budget plan yesterday. The House Budget comes closer than budgets proposed by the governor and the Senate to meeting the test of sustainability – keeping spending at a level that can be maintained in the next budget cycle within existing revenues.

# House Drops \$22.7 Billion “Reality” Budget Sets Stage for Negotiations

The other shoe dropped yesterday, this one a little tighter, when the House Appropriations co-chairs unveiled their 2001-2003 budget plan. The proposal is expected to pass the Appropriations Committee today and be adopted by the full House tomorrow.

Like the budgets proposed by the governor and the Senate, this budget reduces reserves, pulls back on social services, requires public employees to pay an increased share of their health care coverage, and maintains local government support in partial mitigation of the repeal of the motor vehicle excise tax (MVET).

The House proposal, however, spends less, leaves more in reserves, and relies less on one-time revenues to pay for ongoing operations. Of the three, the House budget comes closest to meeting the test of sustainability – keeping spending at a level that can be maintained in the next budget cycle within existing revenues.

**Balance Sheet.** As Figure 1 shows, resources for the biennium are down slightly from those anticipated in the November forecast. Most of the decline is due to the state’s slowing economy, as the March revenue forecast cut projected income for the biennium. In addition, about \$16 million in tax cuts are included in the projections, most of them minor, including support for energy assistance programs, rural economic development, and some agricultural exemptions. Somewhat offsetting the decline is projected budget-driven revenue of \$107.8 million, primarily from stepped-up audit and compliance work at the department of revenue.

FIGURE 1  
**2001-03 General-Fund State Balance Sheet**  
**House Budget Proposal**  
(Dollars in Millions)

<b>Resources</b>	
Beginning Fund Balance	599.7
November Revenue Forecast	22,300.6
March 2001 Changes	(111.6)
Revenue Legislation	(16.3)
Budget Driven Revenues	107.8
<b>Current Revenue Totals</b>	<b>22,280.5</b>
Revenue Transfers	135.2
<b>Total Resources</b>	<b>23,015.4</b>
<b>Expenditures</b>	
<b>2001-2003 Biennial Appropriation</b>	<b>22,722.7</b>
<b>I-601 Expenditure Limit</b>	<b>22,761.9</b>
<b>GFS Balance</b>	
Total Ending Balance	292.7
<b>Emergency Reserve Fund</b>	
Beginning Balance	528.6
ERF Transfer to Transportation	(70.0)
Earthquake & drought related appropriations	(25.0)
Interest earnings	64.0
<b>Emergency Reserve</b>	<b>497.6</b>

Source: House Office of Program Research



The House would also transfer \$135.2 million from accounts outside the general fund, roughly \$127 million from the Health Services Account and \$8 million from the Violence Reduction and Drug Education (VRDE) account. The surplus in the Health Services Account can be used, say budget writers, because the Basic Health program will be capped for the next biennium (see below).

The House budget would appropriate \$22.7 billion for the 2001-2003 biennium, an increase of \$1.7 billion, or eight percent, from the 1999-2001 budget level (including this year’s adopted supplemental budget) of just over \$21 billion. The appropriations level is about \$120 million lower than the budget approved last month by the Senate.

Unobligated reserves drop from \$600 million to \$293 million, as expenditures exceed current revenues; the Senate left \$253 million. The emergency reserve fund drops from \$529 million to \$498 million, as \$95 million in transfers and appropriations are offset by \$64 million in interest earnings; the Senate left about the same in the ERF.

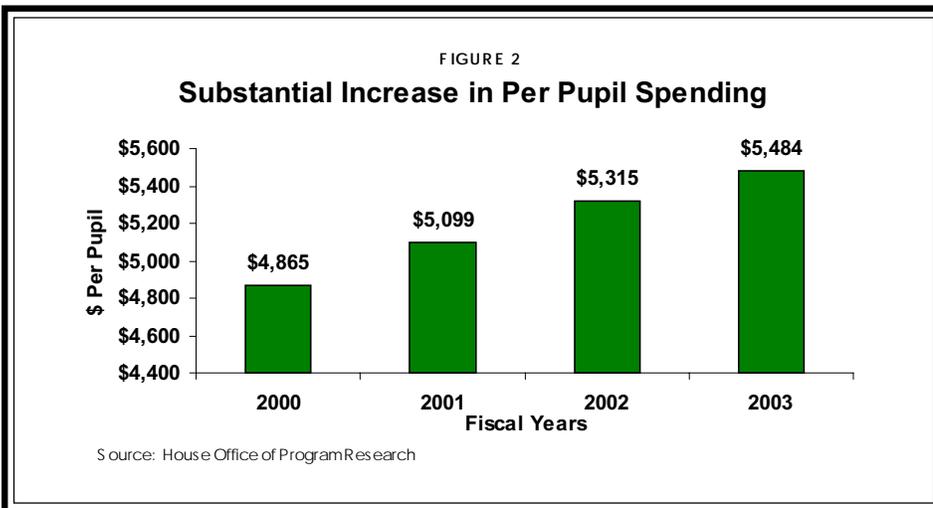
**Initiative 601.** A series of fund transfers combines to raise the spending limit by \$52 million in the first year of the biennium and \$58.1 million in the second. The largest impact is from the transfer from the Health Services Account, raising the limit by \$103 million in 2002. Offsetting the increases are a number of reductions as a result of transfers out of the GFS, the largest of which reflects the transfer of transit obligations back to local governments.

### Spending Highlights.

**K-12 Education.** Understanding state spending has always been somewhat compromised, as most observers focus on the general fund, paying little or no attention to the significant spending occurring in various dedicated funds. When the dedicated accounts do not duplicate activity in the general fund, the problem is more easily managed. When duplication occurs, however, it’s easy to get a distorted picture of the state commitment, because the general fund spending understates the amount of money flowing to a particular program.

With passage of Initiative 728, significant general fund revenues were shifted to special accounts to be distributed to the public schools. These funds

(\$393.3 million to the Student Achievement Account plus an additional \$76.7 million to the Education Construction Account) do not show up in Figure 1, having been transferred from the GFS. Wanting to be sure the public understands how much money the state spends to support public schools, the House prepared a chart showing how per pupil spending increases in their budget proposal (see Figure 2). The graph shows the substantial jump in per pupil spending from the current biennium to the next.





The House budget eliminates the Better Schools Program for a savings of \$126 million. The program was established last year to accomplish some of the objectives of Initiative 728 without having to take the matter to the ballot. I-728 backers believed it was not enough, and the voters adopted the initiative. Since I-728 passed, House budget writers believe the Better Schools funding is no longer required.

Public school employees paid by the state receive the cost of living allowance (COLA) mandated by I-732. The budget provides for 3.7 percent in the first year, and assumes the second year will come in at 2.6 percent, the same increase assumed in the governor's budget. The actual inflation rate will not be known for another year. (The Senate assumed 3.1 percent, but the funding level will be set by the Seattle CPI, as per the initiative.) As the Senate did, the House provides the means for employees supported by federal funds and local levies to receive a corresponding COLA.

**Higher Education.** The House funds 3,679 new enrollments in state colleges and universities. Three thousand of the new slots are allocated for the community and technical colleges. Colleges are given limited tuition flexibility. For 2001-2002, tuition could be increased up to 6.9 percent; in 2002-2003, it could go up an additional 5.9 percent. Tuition for law school and graduate business school programs could increase up to 12 percent each year.

College staff members covered by I-732 – many community college employees – would receive the increases dictated by the initiative (3.7 percent in the first year, actual inflation increase in the second). For other faculty and staff, the COLA is set at 3.0 percent in the first year and 2.6 percent in the second (the level assumed by the budget for I-732 purposes). An additional \$5 million is provided to bring part-time community and technical college faculty compensation closer to that received by full-time faculty.

**Social Services.** General fund spending for low-income medical assistance programs climbs \$592 million in the House budget, by far the largest expenditure growth in social services. Overall, \$6 billion will be spent to provide health care services for about 835,000 low-income Washingtonians in the 2001-2003 biennium, up 27 percent. The increase in health care spending is one of the major budget drivers confronting lawmakers this year. The House proposes freezing the Basic Health Plan, which provides subsidized health insurance, for a savings of \$103 million. Enrollments are expected to drop from about 133,000 to 100,000 through attrition over the biennium; no one is expected to be forced to leave the program.

**Local Government Assistance.** Continuing to mitigate the effects of MVET repeal on local government, the House budget provides \$76 million to cities and towns, \$41 million to counties and \$49 million to public health districts and counties.

**Compensation.** Disappointing striking public employees, the House does not follow the Senate's lead by giving state workers the same COLA increase as I-732 mandated for public school employees. The budget provides for 3.0 percent in 2002 and 2.6 in 2003. Additional funding (\$31 million from the general fund) is provided to increase compensation for employees in hard-to-fill jobs, particularly nursing, mental health and other direct care positions. Another \$3

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million is set aside to increase salaries of assistant attorneys general.

The employer-paid share of health insurance costs for state workers will also increase from about \$436 per month to \$456 in 2002 and \$494 in 2003. The cost of the increase is expected to cost the general fund about \$51 million. The employee share is slated to increase from 6 percent to 8 percent in 2002 and to 10 percent in 2003.

*Comments.* With the House budget out, the pieces are in place for constructive negotiations to bring about a swift conclusion to the special session. The passage of time has not made the work of budget writers any easier. Since the session began, the economy has softened. With the exception of the health services account transfer, the budget relies primarily on sustainable revenues. As well, the requirement that employees accept a larger share of their health care costs – also required by the Senate – is reasonable. Private sector employees often have to bear a much higher share of the burden. The tradeoffs between employee compensation and maintaining essential public services are stark. Balancing these interests will doubtless be the toughest challenge facing negotiators in the days ahead.



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