



BRIEFLY

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House Republicans' Supplemental Budget Provides Transportation Funding, Relief to Local Government

The supplemental spending plan offered by House Republicans last Friday focuses on mitigating the effect of Initiative 695, which repealed the state Motor Vehicle Excise Tax and sharply cut into local government budgets for public health, transit and public safety, as well as state transportation programs. At the same time, it generally hews to the Initiative 601 expenditure limit.

With the 49-49 split in the state House of Representatives, the Republicans and Democrats are offering separate budget proposals this session. The Democratic plan should be out shortly, and negotiations within the House will begin.

In the House Republican plan, total general fund-state (GFS) spending increases just \$28 million, while transfers to transportation and local government amount to \$153 million. An additional cut in property taxes would reduce revenue by about \$89 million. The property tax proposal will be the subject of a later *Policy Brief*.

Key features of the Republican plan involve transportation, I-695 mitigation, education enhancements, and adjustments to the I-601 expenditure limit.

Transportation. To provide \$1.6 billion in bond and revenue capacity over six years, the Republican supplemental dedicates sales-tax revenues from motor vehicle-related

FIGURE 1

Resources		
	1999-2001	200-2003
Unrestricted Beginning Balance	462	399
February Revenue Forecast	20,843	22,534
Sales tax transfer to Transportation	(104)	(222)
Sales tax equalization transfer	(49)	(81)
Property taxes: state share cut & sr. credit	(89)	(337)
Net Revenue	20,601	21,894
Total Resources	21,063	22,293
Spending Limit and Appropriations		
Official 601 Spending Limit	20,651	
<i>Net Adjustments to Limit</i>	2	
Revised 601 Expenditure Limit	20,653	21,657
Operating Budget ESSB 5190	20,573	
2000 Supplemental	(171)	
Local Public Safety	99	
Transit Districts (one-time)	50	
Transportation Fund Liability	50	
Total GFS Appropriations	20,601	
Spending Compared to Limit	(52)	
Reserves		
Unrestricted Ending Balance	399	399
Emergency Reserve Beginning Balance	536	668
Deposit + Interest	132	317
Emergency Reserve Ending Balance	668	985



transactions (e.g., sales of new and used cars, parts and maintenance). The revenues, about \$104 million, are transferred from the general fund to transportation accounts and used to support an annual appropriation of \$20 million to the ferry system and to back a \$1.3 billion bond issue for transportation projects.

FIGURE 2

	I-695 Impact	1999-01			
		Governor	% Funded	House R	% Funded
Cities	(129.6)	32.1	25%	106.2	82%
Counties	(63.7)	51.5	81%	41.6	65%
Public Health Districts	(36.9)	34.1	92%	33.2	90%
Public Transit	(349.7)	199.8	57%	50.0	14%

I-695 mitigation. Figure 2 compares the Republican proposal with the governor’s I-695 mitigation plan, as prepared by House committee staff.

□ **Cities.** Of the \$106 million in assistance provided to cities, the Republican plan provides \$66 million in criminal-justice assistance and \$40 million in sales-tax equalization funding. Both are provided on an

ongoing basis: the criminal-justice assistance as a transfer of responsibility from city to state government, the sales-tax equalization program as a dedicated distribution of a share of the state sales tax. Details of the distribution formula are not yet available.

□ **Counties.** Counties receive \$33 million for criminal justice programs through a transfer of responsibility to the state and \$8.6 million of sales-tax equalization funds.

□ **Public Health.** Ongoing funding of \$33.2 million is appropriated from the Health Services Account to public health districts.

□ **Transit.** A total of \$100 million is provided for transit districts, of which \$50 million covers existing state obligations.

Adjustments to the Spending Limit. As shown in Figure 3, a series of fund transfers proposed by House Republicans has the net effect of increasing the expenditure limit by about \$2 million.

FIGURE 3

Adjustments to 601 Spending Limit	
Official 601 Spending Limit	20,651
Sales tax equalization tax transfer	(49)
Sales tax transfer to transportation	(104)
Local government public safety costs	99
Transit district costs	50
HB 3121 adjustment for transfers	(28)
Budget driven adjustments	33
Net Adjustments to limit	2
Revised 601 Spending Limit	20,653

The spending limit is lowered to reflect transfers for sales-tax equalization and for transportation and increased to reflect program responsibilities shifted from local government to the state. (For details on the ways the limit is adjusted for transfers of revenues and responsibilities see our Policy Brief of February 10, 2000 *Fiscal Proposals Threaten Spending Limit*).

The Republicans have proposed separate legislation (HB 3121) that they say will strengthen the spending limit. Key elements of the proposal include formation of a “state expenditure limit committee” to make



adjustments in the expenditure limit. The committee includes representatives of the office of financial management (OFM), the state treasurer, and the chairs of the Senate Ways and Means Committee and House Appropriations Committee. Currently adjustments are made by OFM. HB 3121 also requires that the spending limit be increased to reflect transfers to the GFS of program costs or revenues from other funds or accounts. This provision is intended to make it easier to fold dedicated funds into the GFS by allowing the limit to expand to accommodate the fund transfer. The bill also clarifies that transfers of revenues from the GFS to other accounts require that the limit be lowered. In other words, the so-called local-option tax credits used for the stadiums and proposed by the governor for his Learning Improvement Tax Credit program would result in a lowering of the 601 limit to reflect lost revenues.

Other budget considerations. The Republican budget proposal uses \$41 million of tobacco settlement money for local public health districts and the Air Quality program. It provides \$35.4 million for K-12 education, including stipends for “lead teachers,” performance pay incentives, school safety, extended learning programs to help students meet new academic standards, and assistance to charter schools for start-up costs. The charter school appropriation keeps alive legislation authorizing charter schools. Small amounts of additional funding are also provided for higher education, salmon recovery and watershed programs, and a number of human service programs.

The budget benefits from savings resulting from lower-than-expected public school enrollments, declining welfare caseloads and strong pension fund investment returns – all savings reflected in the governor’s budget. Republicans are calling for a number of other savings, including a 20 percent reduction in welfare caseworkers to reflect the decline in caseloads since the 1997 welfare reform, additional reductions in staffing and administration in the Department of Social and Health Services; time limits on individuals’ ability to receive cash assistance from a particular welfare program, and a variety of savings targets for various state agencies.

The budget also calls for more contracting out of state services and reflects anticipated savings. Among the privatization objectives are contracting for private operation of a state prison, for custodial work on the capitol campus, and for maintenance, food and laundry services. Realization of these savings requires passage of authorizing legislation.

Discussion. In presenting their own budget proposal this year, House Republicans took advantage of their opportunity to distinguish themselves from the governor and their Democratic counterparts. Given the composition of the legislature, the adopted budget will be a compromise. The Republican proposal, however, contains a number of elements that should be incorporated in the legislature’s final fiscal product.

In the wake of I-695, the first challenge before the legislature is to provide transitional assistance to local governments to allow them to adapt to the loss of – in many instances – a significant share of their budget revenues. The Republican plan does that.

Adequately funding transportation capital investment is the legislature’s second challenge. Again, the Republican plan does that.



As well, the Republican budget avoids the dangerous local option tax credit mechanism, handling local government assistance in a more straightforward manner. The adjustments to the expenditure limit for program transfers, similar to those proposed in the governor's budget recommendation, are more tightly defined.

Further, the budget maintains reserves at an adequate level, \$400 million in the unrestricted balance and about \$670 million in the emergency reserve account.

Use of tobacco settlement funds for the public health districts may face opposition, but seems appropriate given both the nature of the programs provided by local health districts and the extraordinary hit they take under I-695.

The Washington Research Council has long supported privatization and contracting out of state services. The savings projected can be achieved, although major obstacles face legislative proponents of these strategies, common in many other states.

In all, the House Republican plan presents a realistic, conservative response to I-695 and provides a framework on which the final compromise budget can be built.



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