House Supplemental Budget Has Familiar Look

House Democrats released their proposed supplemental budget February 21. In key aspects – overall spending and reserves – it resembles the budget adopted by the Senate last week. Under both budget plans, the state can anticipate finishing the next budget cycle in the red.

As the balance sheet shows, the House adds about $477.6 million in ongoing spending (“maintenance and other”), bringing total appropriations to $26,430.0 million for 2005-2007. With additional appropriations to reserve accounts and other funds, the spending level rises to $27,280.0 million. When the unrestricted ending balance of $237.5 million is added to the various reserve dedications, the House leaves about $984.9 million available for spending in the coming biennium – about what the Senate set aside.

Nearly 90 percent of what the balance sheet labels “maintenance and other” spending is “other” – discretionary (“policy adds”). Only about $52 million of the new spending fits the traditional definition of “maintenance” level spending required by changed conditions.

REVENUES

With the upbeat February revenue forecast adding $107.3 million to the amount available to spend in the 2005-2007 budget cycle, the House had the budget room to increase spending. Slightly different assumptions about revenue legislation account for a slight difference between the House and Senate projections of total resources. The House figures on having about $27,517.6 million; the Senate, $27,521.6 million.

Both budgets assume an array of tax relief measures, agreeing on tax relief for aerospace businesses, public utility tax credits, adjustments in excise tax due dates and elimination of assessment penalties. With the $51.5 million revenue increase anticipated from clarification of existing practice with respect to insurance premiums, the House budget assumes a net revenue loss of $2.5 million.

RESERVES

The House follows the governor and Senate in making several large appropriations to new reserve funds and other accounts. The Student Achievement Fund receives $200 million, as does the Health Services
Account. A $100 million appropriation is made to a debt service reserve. The new Pension Funding Stabilization Account gets a $350 million appropriation.

Not all of this money will be retained for the 2007-2009 biennium. After 2005-2007 expenditures, the Health Service Account is expected to carry $146 million forward for the coming biennium; the pension stabilization account is expected to carry $301.4 million forward.

These appropriations do not solve all of the problems anticipated for the next budget cycle. Analysts predict that the perennially – and biennially – troubled Health Services Account will again show a deficit of more than $150 million in 2007-2009. The appropriation to the pension reserve falls well short of the actuary’s recommendation.

### SPENDING

The budget plan increases policy-related spending by about $425 million, concentrating primarily on education and social services. This is about $25 million more than the Senate included for policy additions. To accommodate the increased spending, the House mimics the Senate’s manipulation of the spending limit.

Increased spending in the supplemental budget carries forward, typically doubling when calculated over the next two-year budget period. That’s one reason to treat the supplemental budget carefully, using it to make the necessary adjustments to reflect changed conditions (enrollments, caseloads) and little more. In addition, items in the supplemental often receive less scrutiny, as decision-making tends to be more ad hoc in the shorter, second year of the biennium.

That said, much of the new spending is directed to programs and services that have generally been high priorities for the Legislature and governor.

### Education

The House plan funds the required maintenance items associated with higher cost-of-living increases for teachers and increased enrollments. In addition, responding to widespread concern with the Washington Assessment of Student Learning (WASL) graduation requirement, the budget provides $31.3 million for remediation programs for students who fail to pass tests in one or more WASL subject areas. Another $3.4 million
is directed for specific math remediation. The Senate provided fewer dollars for WASL support, while adding money for a “learning improvement day” that is not a part of the House plan.

Funding is also provided for school breakfasts, the Navigation 101 counseling program, the new cabinet-level early learning department proposed by the governor, and – notably – a one percent salary increase ($4.8 million) for teachers with at least 25 years experience. The one percent bump is not in the Senate budget.

The House includes $3.7 million for high demand enrollments. A workforce education program receives $5.2 million. And the House provides funding for the University of Washington’s bioengineering and genome building (not included in the Senate budget) and a higher level of funding for a new global health research program at the UW.

**Health and Human Services.** The House provides $50.5 million to balance a shortfall in the WorkFirst program.

As did the Senate, the House plan includes $18 million to cover the cost of prescription drug Medicare co-payments for low-income elderly and disabled citizens whose drug costs had been covered by Medicaid. The House also provides $7.7 million to expand medical and dental coverage for children whose immigration status makes them ineligible for Medicaid.

Other priorities include increased funding for foster care, breast and cervical cancer screening, a boost in home care worker pay, and additional funding for nursing homes. The House would also phase-in an additional 200 child welfare workers to achieve a goal of face-to-face contact with children, parents and caregivers every 30 days.

For mental health, the House budgets from the general fund $20 million to implement a strategy for improved delivery and $11 million for community mental health services; the Senate made similar provisions. To comply with a court ruling, $14.5 million is appropriated to settle a financial award to Pierce County and to open two additional wards at Western State Hospital.

From the Health Services Account, the House would appropriate $600,000 to the Health Care Authority to provide annual reports to the Legislature on the employment status of enrollees in state-funded health care programs.

**Pensions.** The House budget moves $49 million from the newly-created Pension Funding Stabilization Account to pension reserves. Nothing is done to reduce the state’s gainsharing obligations (see earlier WRC policy brief, “Misguided Pension Benefit May Cost Billions”).

**DISCUSSION**

Assuming the House passes a budget closely resembling that proposed February 21, it’s likely that the differences between the two chambers can be resolved smoothly by March 9, when the session is scheduled to end. Ideally, budget writers would have resisted the urge to increase spending this year, despite the growth in available revenues. The best forecasts for
the coming biennium show that the new spending cannot be sustained. And the state’s revenue flows are susceptible to a slowdown in housing sales and construction.

When one party controls both houses of the Legislature, it’s easy to overlook the suggestions of the minority party. Often, the minority’s proposals are viewed as being tailored more to political than policy interests. Sometimes, the misgivings are justified.

This year, however, a “truth in budgeting” proposal offered by House Republicans deserves bipartisan consideration. Several of the suggestions are consistent with established Research Council recommendations.

In particular, they call for a reduction in the use of dedicated funds and an increase in budget transparency. With a budget that makes appropriations to four separate reserve accounts and the easy transfer of dollars between the general fund and closely associated accounts (e.g., the Education Legacy Trust Account and the Health Service Account), taxpayers trying to understand the budget face frustrating obstacles. It is past time for budget reform designed to increase accountability and clarity.

House Republicans also argue for a “sunshine” law, requiring a seven-day waiting period between the time a budget is proposed to the time it can be passed out of the chamber of origin. This policy becomes even more important as fund dedications and transfers confound easy understanding.

Finally, a constitutional rainy day fund would help assure stability in the fiscal system.

An opaque budget process fuels taxpayer suspicion, eroding already fragile confidence in government. With future shortfalls already foreseeable, the “truth in budgeting” recommendations can help build public understanding of the very real budget challenges facing the next legislature.

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