

Fiscal Report



Washington Research Council

June 17, 1998

Key Budget Actions: The Supplemental Budget

Slight Increase in Capital Spending Voters Will Decide Transportation Package

Introduction

The 1998 legislature made few changes in state spending and tax policy, an appropriate outcome of the short, election-year legislative session. Last year, the Washington Research Council wrap-up of the 1997 session (*Key Budget Actions: Revenues and Expenditures*, August 8, 1997) described the 1997 sessions as “a success for advocates of responsible fiscal policy.” We cited tax relief, a prudent general fund budget and a good capital plan as notable achievements. With that record behind them, there was simply less for legislators to do in 1998.

But what remained, remained difficult. Transportation finance dominated legislative discussions, and again a key fiscal measure awaits voter approval (as did property tax relief in 1997).

In this *Fiscal Report*, the Washington Research Council looks at the changes made in the state’s two-year biennial general fund-state (GFS) budget, the capital budget, and transportation spending.

1997-99 Balance Sheet

General Fund State
(Dollars in Millions)

Resources	
Beginning Balance	512.9
February 1998 Revenue Forecast	19,445.8
1998 Legislative Changes	(24.9)
Referendum 49 MVET Transfer and Reductions	(33.9)*
Total Resources (Revenues/Fund Balance)	19,899.9
Expenditures	
1997-99 Appropriations (After Vetoes)	19,084.6
1998 Supplemental Budget	
Original Legislative Budget	0.0
Effect of Governor's Vetoes	(1.0)
Appropriations in Other Bills	0.1
Revised 1997-99 Appropriations	19,083.7
Balances	
Loan to Fish & Wildlife	(3.5)
Ending Balance	812.7

*Assumes passage of Referendum 49 in the November election
Source: Office of Financial Management

1998 Supplemental Operating Budget

Senator Jim West, Senate Ways and Means Chairman and Rep. Tom Huff, chairman of the House Appropriations Committee . . . pledged to hold total spending to the level established the previous year. In the end, they met their goals.

Budget discipline, lower than anticipated school enrollments and welfare caseloads, and the continuing strength of the state economy combined to keep state spending in check in 1998. The odd-year legislative sessions are used to write the two-year state budget, while the short, even-year sessions are primarily for budget adjustments through passage of the supplemental budget.

This year, the terminology seems wrong. There was little supplementary in the 1998 general fund budget, which held to the line drawn by legislative budget writers last year.

To review: The 1997-99 budget projected biennial spending of \$19.1 billion, nearly \$160 million below the Initiative 601 expenditure limit. In November 1997 the limit was determined to be \$19,270.2 million (this would be subsequently adjusted to reflect budget-related changes and federal reimbursement decisions).

Because school enrollments, welfare caseloads and inflation rates were below last year’s projections, about \$100 million of anticipated spending was not required and the resulting “savings” could be reallocated.

Salmon restoration and K-12 reading programs received the bulk of the new spending.

The following chart summarizes the adopted legislative budget.

Adopted Legislative Budget	
(Dollars in Millions)	
Original Appropriations	\$19,084
Legislative	1
Judicial	0
Government Operations	11
Other Human Services	7
Dept. of Social and Health Services	(21)
Natural Resources	14
Transportation	15
Public Schools (K-12)	(50)
Higher Education	5
Other Education	1
Special Appropriations	17
Net supplemental Proposal	0
Other Legislation	0
Total Proposed Spending Authority	\$19,084

Senator Jim West, Senate Ways and Means Chairman and Rep. Tom Huff, chairman of the House Appropriations Committee began the session with four criteria for supplemental budget adjustments. To make it into the budget, an item had to a) reflect an unanticipated, unmanageable change in an entitlement caseload or workload; b) correct a serious technical error in the original appropriation; c) deal with an emergency; or d) address an opportunity that would not be available in the next biennium.

And they pledged to hold total spending to the level established the previous year. In the end, they met their goals. Beyond addressing salmon restoration and reading programs, the supplemental budget made additional appropriations to social services, criminal justice and corrections programs, and technology initiatives.

Governor Locke signed the legislative budget, with vetoes affecting overall spending by less than \$1 million in the GFS.

Major items in the supplemental budget are discussed below.

Public Schools. A priority of the governor and of legislative leaders, reading improvement programs were the dominant education initiative of the session. The supplemental budget provides \$17.0 million GFS for the "Successful Readers Program." The money will fund in-service training and support (\$9.0 million) and teacher training of volunteer tutors and mentors. Savings resulting from changes in enrollments, staff mix, etc., were used to fund the program. K-12 budget authority was reduced a net \$50 million. Enrollment growth is below estimates by about 7,000 students in the 1997-98 school year and about 8,600 for 1998-99.

Higher Education. Increased funding for higher education (partially offset by lower-than-anticipated enrollments on several campuses) includes appropriations to enable participation in research and development of telecommunications technologies, increased funding for the pre-paid tuition program, and support for reorganization of higher education in the Spokane area.

In particular:

- The supplemental budget provides \$6.9 million from the Education Savings Account to the Department of Information Services to begin operation of the K-20 technology network.
- The University of Washington was provided \$3.0 million GFS for staff and equipment necessary to connect to a very high performance Backbone Network Service. Connection will allow the University and the state to actively participate in the research and development for the next generation of telecommunications technologies. \$2.5 million of the amount represents a one-time investment for equipment.
- The Pre-Paid Tuition Program was provided an additional \$1.3 million GFS, bringing the GFS investment in the program to \$1.6 million, the estimate for the 1997-99 start-up costs. The funds received for application fees and interest are expected to be available to repay the GFS in the 1999 supplemental budget.

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Department of Social and Health Services. Caseload reductions allowed the legislature to fund several initiatives within the agency while reducing overall GFS appropriations by about \$22.0 million.

Responding to rising costs and increased caseloads, the legislature increased funding for services to the developmentally disabled by about \$46 million, \$24.5 of which was from the GFS. The money provides for increased employment and training opportunities for adults, as well as daily living assistance and residential programs for adults and children.

In addition, \$10 million in GFS, plus about \$20 million in federal funds, is set aside, contingent on waivers, for welfare to work activities.

Community-based long-term care programs will receive an additional \$6.7 million GFS to address a growing client population. Originally estimated to grow by 9 percent, current data indicate a 12 percent growth rate.

Other Human Services. Basic Health Plan enrollments have not kept pace with original expectations. The original 1976-99 budget targeted enrollment at 137,200 by July 1998. Higher premium rates, reduced savings from financial sponsors, and the need for additional plans all contributed to the lower than expected growth. To accelerate enrollments to meet targets, an additional \$11 million from the Health Services Account (HSA) will be spent. While not directly impacting the GFS this session, thin balances in the HSA portend problems in the next biennium.

Natural Resources. Both houses of the legislature and the governor proposed general fund support for salmon recovery efforts to be led by the Department of Fish and Wildlife. The supplemental budget includes \$10.5 million in GFS funding, with an additional \$16.6 million provided from other funds. (The department's dramatic budget problems, associated in part with inadequate revenue estimates, are an on-going saga, addressed in part this last session by a \$3.5 million loan to Wildlife Fund and expenditure reductions.)

Further, the Department of Ecology was provided a net \$1.1 million in additional GFS authority. The additional funding is directed towards several minor items, none of which exceed \$400,000. Significantly, the supplemental redirects \$5 million originally appropriated for watershed management grants to local planning groups. The appropriation was contingent on passage of specific sections in the Water Resource Planning Act. Governor Locke vetoed the original appropriation proviso in 1997. The funds were reallocated to provide technical assistance staff and grants to local watershed planning groups.

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Transportation. The critical transportation finance debate of the session will continue through the fall as voters determine the fate of Referendum 49, which cuts motor vehicle excise taxes and transfers the general fund share of the tax to the state transportation fund to pay for major transportation improvements. (See an upcoming Washington Research Council *Policy Brief*, PB 98:5 for a more complete discussion of the referendum.) The governor vetoed a \$25 million loan from the general fund to the motor vehicle fund, which he said was apparently for preliminary work on new projects in anticipation of the referendum's passage. The governor wrote that the transportation department "can proceed with that type of work without a 'loan.'"

Other. The Secretary of State was provided \$1.8 million to continue public affairs broadcasting by TVW. Included is a requirement a contract be entered into with TVW providing continued broadcasting of public affairs proceedings through Fiscal Year 2003.

1998 Supplemental Capital Budget

The supplemental capital budget represents a minor mid-course correction in the state's capital construction program. Spending in the budget increased just \$62.4 million, of which \$17.7 million was earmarked to come from general obligation (GO) bonds subject to the state debt limit.

A substantial portion of funding for new projects was directed towards efforts to restore salmon and steelhead runs threatened with listing as endangered species. Additionally, provisos were enacted that direct a portion of unobligated funds to be used specifically for salmon restoration projects.

Among the more important projects funded in the capital budget:

- The Office of Financial Management was provided \$3.1 million from non-debt limit bonds for allocation to state agencies and institutions of higher education to assess the Year 2000 compliance of facility management systems, control systems, and other computer systems related to capital facilities and equipment.
- The Department of Community, Trade and Economic Development was appropriated \$0.2 million from GO bonds for shoreline repairs at Ocean Shores to prevent further erosion and flooding.

The critical transportation finance debate of the session will continue through the fall as voters determine the fate of Referendum 49, which cuts motor vehicle excise taxes and transfers the general fund share of the tax to the state transportation fund to pay for major transportation improvements.

Although major transportation improvements will rely on new money (possibly through passage of Ref. 49), the supplemental transportation budget provided \$91.0 million of current law revenue for several priority projects.

- The State Conservation Commission received \$4.5 million in GO bond funds and \$0.5 million from other sources for the Conservation Reserve Enhancement Program. This funding is for the restoration project component of the program. \$1.0 million GFS was provided the agency for technical support in the Operating Budget.
- The Department of Fish and Wildlife was provided \$0.8 million from GO bonds and \$5.0 million from other sources for fish barrier projects.

The supplemental Capital Budget required that no less than 25 percent of specified unobligated funds are to be used for eligible projects benefiting the recovery of salmon and steelhead stocks. These provisos apply to the Centennial Clean Water Fund (Water Quality Account), and the total capital appropriations for the Departments of Fish and Wildlife and Natural Resources. The date for determining the level of unobligated funds is July 1, 1998 for the Centennial Clean Water Fund and Department of Natural Resources and March 1, 1998 for the Department of Fish and Wildlife.

1998 Supplemental Transportation Budget

Although major transportation improvements will rely on new money (possibly through passage of Ref. 49), the supplemental transportation budget provided \$91.0 million of current law revenue for several priority projects. Among them:

- \$27.0 million for statewide freight mobility, economic development, and partnership projects from funds vetoed by the governor last session. The six-year project cost will be about \$43 million.
- \$60.0 million provided to fund emergent economic development issues (\$13.0 million), corridor studies (\$2.0 million), and preliminary right of way studies (\$45.0 million). Funds involved include transportation revenue, federal revenue and money from a general fund transfer.
- \$2.0 million was transferred to the Advanced Environmental Revolving Account. This account is used to purchase and develop sites to meet environmental requirements on future projects. Use of this type of “environmental land banking” was recommended in the recent audit of the Department of Transportation.

In addition, the current law budget provides nearly \$50 million, including the following:

- Ferry terminal preservation projects received \$3.5 million additional expenditure authority. Pre-construction activities associated with four passenger-only ferries and the related docking facilities were funded at \$3.0 million.
- The Department of Transportation in conjunction with the Washington State Patrol, State of Oregon, and the United States Department of Transportation will install the Commercial Vehicle Information Systems and Network. The pilot site will be at Ridgefield, Washington. This system will allow the rapid exchange of information between a number of networks. The system will improve regulatory procedures, improve the efficiency and movement of goods, and allow commercial vehicles with proper credentials and a good safety record to bypass weigh stations. \$2.7 million was provided to the Department of Transportation for staff and coordination between the partners.
- To match the federal commitment, \$4.0 million was provided for improvements to passenger rail service between Seattle and Vancouver, B.C.

An additional \$44.2 million of the supplemental budget funding is contingent on passage of the transportation funding referendum in November. This amount is earmarked for a variety of minor (less than \$1.0 million) projects in addition to two significant items. Six million dollars were identified for additional passenger rail infrastructure and facilities. Thirty five million dollars were placed in reserve to be used for pre-construction activities.

Washington State Transportation Budget			
Total Operating and Capital Budget			
Total Appropriated Funds			
(Dollars in Thousands)			
	1997-99 Orig	1998	1997-99
	Approps	Supplemental	Revised
Jt Leg Audit & Review Committee	1,500	0	1,500
Legislative Transportation Comm	3,022	1,150	4,172
LEAP Committee	420	0	420
Joint Legislative Systems Comm	111	0	111
Special Approps to the Governor	2,000	0	2,000
Dept Community, Trade, Econ Dev	252	(126)	126
Office of Financial Management	116	(58)	58
Board of Pilotage Commissioners	275	0	275
Utilities and Transportation Comm	222	0	222
WA Traffic Safety Commission	6,657	250	6,907
County Road Administration Board	87,268	0	87,268
Transportation Improvement Board	221,031	0	221,031
Marine Employees' Commission	354	0	354
Transportation Commission	804	0	804
State Parks and Recreation Comm	4,431	0	4,431
Department of Agriculture	304	10	314
Washington State Patrol	251,035	(8,079)	242,956
Department of Licensing	140,893	2,638	143,531
Department of Transportation	2,175,348	185,133	2,360,481
Total Appropriation	2,896,043	180,918	3,076,961
Bond Retirement and Interest	245,854	39,840	285,694
TOTAL	3,141,897	220,758	3,362,655

Source: Legislative Transportation Committee

An additional \$44.2 million of the supplemental budget funding is contingent on passage of the transportation funding referendum in November.

In all, then, the total supplemental budget for the transportation department, including Referendum 40 money, totals about \$185.1 million.

The Transportation Budget for the Washington State Patrol was reduced by \$12.4 million to reflect the shift to GFS for funding of certain activities. These activities were considered to be general government activities and not specifically transportation related. A total of \$12.4 million was transferred to GFS funding from the Transportation Budget and is reflected in the 1998 Supplemental Operating Budget.

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Washington Research Council	
	108 S Washington St, Suite 406 Seattle WA 98104-3408 (206) 467-7088 or 1-800-294-7088 fax (206) 467-6957 http://www.researchcouncil.org

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