



LEGISLATURE CLOSES THE 2011–13 BUDGET GAP, AT LAST

BRIEFLY

As passed by the legislature, the second 2012 supplemental budget reduces policy spending by \$295 million, increases revenues by \$178 million, makes other resource changes totaling \$263 million, and leaves \$319 million in reserve.

Given the deep disagreements among lawmakers, the compromise budget represents significant progress toward a sustainable budget.

On April 11, hours into the second special session of 2012, the legislature passed a supplemental budget that finally closed the 2011–13 budget gap. The final compromise was the sixth proposal since the first 2012 supplemental was enacted in December 2011.

Throughout the process, the proposals put forth by the Senate coalition reduced spending by more than the House versions. The Senate also focused more on long-term reforms. In the end, the legislature passed a budget with spending levels closer to those in the House versions, while incorporating versions of the reforms advanced by the Senate. The adopted budget leaves a slender balance—lower than any seen in the previous proposals. Should the economy falter in the coming months lawmakers may face yet another revision in the troubled 2011–13 biennial budget.

This brief focuses on the adopted budget. Future briefs will look more closely at the major fiscal reform bills passed as part of the budget compromise.

Balance Sheet

For a detailed description of the balance sheet (Table 1) items that predated the final April supplemental, see our March brief *Comparing House and Senate Supplemental Budgets*. The governor is scheduled to act on the budget bills May 2. Should she veto any provisions, the numbers in this brief may change.

Revenue Distributions to Local Governments. The budget reduces local governments' share of revenue from liquor distribution and retailing license fees imposed by Initiative 1183 (the liquor privatization initiative approved by voters in November) by limiting them to the minimum established under the initiative; this would provide \$45 million to the state over the remainder of the biennium. It also redirects the local share of

liquor excise tax to the general fund—state (GFS); this would provide \$29 million.

Other Revenue Legislation. The budget redirects the solid waste tax to the GFS, adding \$70 million in 2011–13. It narrows the business and occupation (B&O) tax deduction for first mortgages, so that it only applies to banks that do business in ten or fewer states (expected to generate \$15 million over the remainder of the biennium). It includes roll-your-own cigarettes in the definition of “cigarette” for excise tax purposes (expected to increase revenues by \$12 million). It allows a personal property amnesty program that is expected to generate \$6 million in the biennium.

Several revenue reduction measures were also passed. They include: extending the B&O tax exemption for certain food processors (-\$7 million), limiting port leasehold interests subject to the leasehold excise tax (-\$5 million), exempting craft distillers from license issuance fees required by Initiative 1183 (-\$200,000), extending the sales tax deferral for the Tacoma Narrows Bridge (-\$4 million), and extending the B&O tax credit for motion pictures (-\$4 million). Lastly, it allows “whistle blowers” to bring suit in cases of Medicaid fraud and receive a portion of any funds recovered for the state; this is projected to reduce state revenue by \$4.9 million.

Budget Driven Revenue. The supplemental includes \$17 million from the sale of the liquor distribution center, \$5 million from efficiencies and other changes at the state lottery, \$2 million related to distributions from the forest development account, \$1 million from using higher fees to replace GFS funding for the Department of Labor and Industries' factory assembled structure program, and \$500,000 from closing obsolete funds and accounts.

Transfers. The budget transfers a total of \$51 million from nine accounts to the GFS

(the public works assistance account, department of retirement savings account, financial services regulation account, heritage center account, treasurer’s service account, coastal zone protection fine account, waste reduction and recycling account, flood control assistance account, and state nursery account). It also reverses an earlier transfer from the education savings account to the GFS, reducing GFS funds by \$23 million. The net effect of transfers on the GFS is \$28 million.

Adjustment to Working Capital Reserve.

The Department of Revenue collects sales and use taxes imposed by local governments, and they are deposited into the GFS. The local share of these taxes is transferred the

following day from the GFS to the local sales and use tax account. Finally, after a month, the funds are distributed to local governments. Under the supplemental, the Department of Revenue will deposit the local share of the taxes into the local sales and use tax account at the end of the month instead of the next day. This means that the state will have an extra \$238 million to work with for 2011–13.

Overall Spending. As we wrote in March,

The original budget for the biennium appropriated \$32,200 million NGFS+. The December supplemental budget reduced appropriations by \$323 million. The supplemental delayed \$49 million in payments to school districts for bus depreciation from October 2012 to August 2013. (The state’s fiscal year begins July 1 and ends June 30, while school district fiscal years start September 1 and end August 31. The delay thus changed the state fiscal year in which the payment was made but not the school district fiscal year in which the payment was received.) Other policy changes in the December supplemental reduced appropriations by \$96 million.

The second 2012 supplemental budget reduces near general fund–state plus opportunity pathways (NGFS+) appropriations by \$756 million (net). Of this, \$340 million is at the maintenance level, \$120 million is estimated NGFS reversions, and \$295 million is from policy level changes.

Reserves. The supplemental leaves a total of \$319 million in reserve.

Spending Details

The following details are in terms of policy changes only. There are seven common spending reductions that are applied (in some combination) to most agencies and programs:

- Auditor charges (changes in the number of audit hours needed, reductions in billing authority for the audit of state government account, and use of an existing fund balance) save about \$510,000 total.
- Attorney General reduction (reductions in billing authority for the legal services revolving account) saves about \$1.7 million.
- Secretary of State archive reduction (reductions in billing authority for the archives and records management account) saves about \$339,000.
- Central services savings (a central ser-

Table 1: 2011–13 Balance Sheet, NGFS+ (Dollars in Millions)

Beginning Balance	(60)
Revenue	
November Revenue Forecast	30,569
December Revenue Action (Unclaimed Property)	51
February Forecast Update	87
April 2012	
Reductions to Local Government Distributions	74
Other Revenue Legislation	78
Budget Driven Revenue	26
<i>Total Revenue</i>	<i>30,883</i>
Other Resource Changes	
Transfer to Budget Stabilization Acct.	(265)
Other Transfers in Original Budget	244
December Transfers	106
April 2012	
Transfers	28
Adjustment to Working Capital Reserve	238
<i>Total Other Resource Changes</i>	<i>352</i>
<i>Total Resources</i>	<i>31,175</i>
Spending	
Original Enacted Appropriations	32,200
December Supplemental	
Maintenance Level Changes	(96)
K-12 Bus Depreciation Delay	(49)
Other Policy Level Changes	(178)
April 2012	
Maintenance Level Changes	(340)
Policy Level Changes	(295)
Estimated NGFS Reversions	(120)
<i>Total Spending</i>	<i>31,121</i>
Unrestricted Ending Fund Balance	54
Budget Stabilization Account Balance	265
<i>Total Reserves</i>	<i>319</i>

vices billing reduction due to funding reductions for the Office of Minority & Women’s Business Enterprises, Office of Administrative Hearings, and Labor Relations Office) save about \$181,000.

- Central service reforms (efficiencies in state agency use of cell phones, mailing, printing, and information technology) save about \$9.1 million.
- Commute trip reduction (elimination of state general funds for the commute trip reduction program) saves about \$84,000.
- Public Employees Benefits Board (PEBB) funding rate reduction (from \$850 to \$800 per employee per month for fiscal year 2013) saves about \$33.1 million.

Legislative. Spending in the legislative budget area is reduced by \$3.1 million. Of that, \$2.0 million is from efficiency reductions (meaning reductions in FTE levels, travel expenses, printing costs, and other operating expenditures). The seven common reductions noted above account for \$529,000 of the legislative spending decrease. A joint committee on junior taxing districts, municipal corporations, and local government finance is established with \$50,000. Among other duties, the committee will “examine new revenue options for local governments.” Administrative and support functions are consolidated into the Office of Legislative Support Services.

Judicial. The judicial budget area is increased by \$216,000. The seven common reductions decrease spending by \$515,000. Funding for the Law Library (\$1.5 million) is transferred from the GFS to the judicial information systems account. School districts will no longer have to file truancy peti-

tions for students who are 17 (saving \$1.3 million). \$6.1 million is provided for the representation of indigent respondents in sexually violent predator civil commitment cases.

Governmental Operations. Spending on governmental operations is reduced by \$8.0 million. Of that, the seven common reductions account for \$3.0 million. Funding for the State Library (\$4.0 million) is shifted from the GFS to the state heritage center account. The supplemental reduces funding for state agency audits by 10 percent and fewer audits will be performed (focusing on higher-risk agencies and programs) to save \$1.0 million in the auditing services revolving account. The attorney general’s office receives \$5.7 million for legal costs associated with sexually violent predator civil commitment cases. In the Department of Commerce, \$5.0 million is saved thanks to lower than expected spending in the Housing and Essential Needs program. The Liquor Control Board’s (LCB) appropriations include a provision that allows certain employees who remain at the LCB through June 15, 2012 (past the date the state must cease liquor operations) to cash out sick leave.

Department of Social and Health Services (DSHS). DSHS spending is reduced by \$177.4 million. Of that, \$10.6 million is due to the seven common reductions. In the Economic Services Administration, \$126.6 million is saved due to lower than expected spending and changes in the Temporary Assistance for Needy Families and Working Connections Child Care programs.

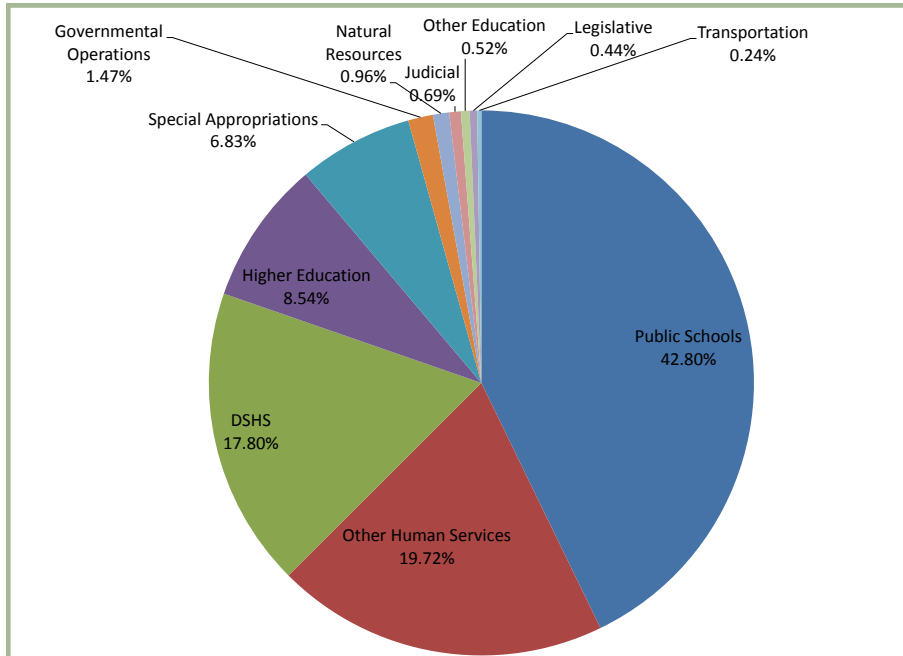
Other Human Services. Funding for the other human services budget area is reduced

Table 2: Maintenance and Policy Changes (Dollars in Thousands)

	2011-13 Appropriations (December 2011 Early Action)		Enacted Second 2012 Supplemental		Revised 2011-13 Appropriations	
	NGFS+	All Funds	NGFS+	All Funds	NGFS+	All Funds
Legislative	142,367	149,452	(3,073)	(2,901)	139,294	146,551
Judicial	222,072	276,405	130	4,976	222,202	281,381
Governmental Operations	462,400	3,685,914	(8,501)	10,035	453,899	3,695,949
Other Human Services	6,221,406	14,833,990	(308,439)	(328,293)	5,912,967	14,505,697
DSHS	5,675,485	11,199,569	(193,092)	(127,509)	5,482,393	11,072,060
Natural Resources	301,473	1,492,188	(38,669)	11,334	262,804	1,503,522
Transportation	74,934	175,048	(4,774)	(4,949)	70,160	170,099
Public Schools	13,708,437	15,677,072	(61,039)	(56,480)	13,647,398	15,620,592
Higher Education	2,750,007	11,116,976	(15,367)	(21,638)	2,734,640	11,095,338
Other Education	166,325	511,753	(4,762)	14,298	161,563	526,051
Special Appropriations	2,152,159	2,294,143	1,867	34,712	2,154,026	2,328,855
Total	31,877,065	61,412,510	(635,719)	(466,415)	31,241,346	60,946,095

by \$54.9 million. Of that, the seven common reductions account for \$10.1 million. In the Health Care Authority (HCA), the indigent assistance disproportionate share hospital program is discontinued for 2011–13, saving \$13.1 million. In the Department of Corrections, a structured community supervision violation process will be implemented, saving \$15.0 million.

Chart 1: Original 2011-13 Spending (NGFS+)



hazardous waste, waste to resources, nuclear waste, and air quality programs is shifted from the GFS to the state toxics control account. State Parks and Recreation Commission funding is reduced by \$9.4 million due to low Discover Pass revenue.

Transportation. Transportation funding is reduced by \$4.1 million, of which \$607,000 is due to the seven common reductions. The remainder comes mostly from staffing reductions.

Public Schools. The public schools budget area is increased by \$11.5 million. The seven common reductions decrease spending by \$526,000. The budget funds the Washington Kindergarten Inventory of Developing Skills (\$1.0 million), an urban school turnaround initiative (\$2.0 million), and collaborative schools for innovation (\$1.5 million). A statewide certificated employee evaluation system will be implemented (\$5.8 million).

Higher Education. Funding for higher education is reduced by \$13.7 million. The seven common reductions decrease spending by \$17.8 million. The Student Achievement Council is implemented (\$1.0 million) and \$1.0 million is provided for the Leadership 1000 Scholarship program. Additionally, the supplemental

- funds expanded engineering enrollments at the University of Washington and Washington State University;
- funds expanded science, technology, engineering and math (STEM) enrollments in the community and technical colleges system (CTCS), Eastern Washington University, Central Washington University, the Evergreen State College, and Western Washington University;
- requires reviews of tuition waiver policies in the six higher education institutions and CTCS; and
- forbids using state appropriations to “support intercollegiate athletics programs” in the six higher education institutions and CTCS.

Other Education. The other education budget area is reduced by \$2.4 million. Of that, \$220,000 is due to the seven common reductions. Child care subsidies to seasonal agricultural workers through non-profits will no longer be administered by the state (saving \$2.1 million).

Special Appropriations. The special appropriations budget area is reduced by \$5.8 million. Self-insurance premium charges to agencies are reduced (saving \$7.5 million). The state Chief Information Officer is charged with implementing \$5.0 million in

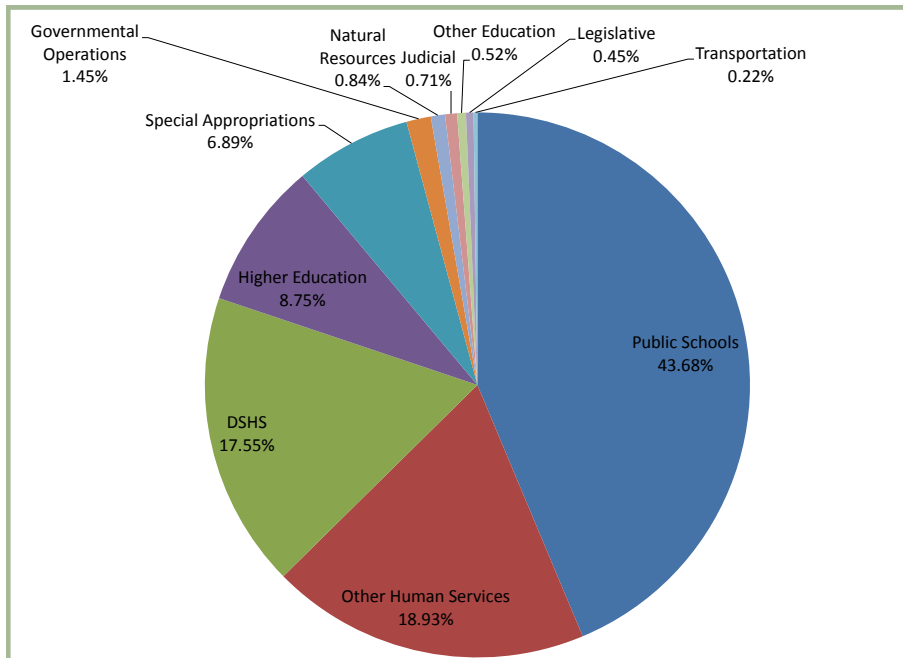


Chart 2: 2nd 2012 Supplemental Spending (NGFS+)

Natural Resources. The natural resources budget area is reduced by \$37.8 million. Of that, \$2.2 million is due to the seven common reductions. In the Department of Ecology, \$20.1 million for water quality, shorelands and environmental assessment,

information technology savings. The Life Sciences Discovery Fund receives an appropriation of \$4.0 million. The Office of Financial Management is required to conduct an income and tax burden study by September 1, 2012.

Authority to Move Funds. The supplemental gives certain agencies authority to transfer funds among programs.

- The House and Senate, “in order to achieve operating efficiencies within the financial resources available to the legislative branch,” may transfer funds among the nine offices and committees that make up the legislative budget area, as well as the legislative transportation committee.
- DSHS may, after May 1, 2012, transfer fiscal year (FY) 2012 GFS appropriations “among programs after approval by the director of financial management.” Further, DSHS may not transfer funds provided for a specific purpose unless other transfers “are insufficient to fund actual expenditures in excess of” caseload forecasts and utilization assumptions in certain programs. In that case, DSHS may transfer even funds that are provided for a specified purpose.
- HCA may, after May 1, 2012, transfer FY 2012 GFS appropriations that are provided for a specified purpose, if appropriations are “are insufficient to fund actual expenditures in excess of caseload forecasts and utilization assumptions,” and if approved by the director of financial management.
- The Department of Corrections may, after May 1, 2012, transfer FY 2012 appropriations among programs, if approved by the director of financial management.
- The Office of the Superintendent of Public Instruction may, after May 1, 2012, transfer FY 2012 appropriations among certain programs, if approved by the director of financial management.

Across-the-Board Reductions. Current law allows the governor to make across-the-board reductions when there is a cash deficit in a fund or account during a fiscal period. The supplemental specifies that “any cash deficit in existence at the close of fiscal year 2012 shall be liquidated over the remainder of the 2011–13 fiscal biennium.” Additionally, the supplemental includes new rules as to how across-the-board reductions should be made before January 1, 2013.

Outlook

The Office of Financial Management has not yet produced an outlook for the 2013–15 biennium based on this 2011–13 supplemental. Based on comments made by the governor, we estimate that the baseline budget for 2013–15, carrying forward the programs funded in 2011–13, would result in a negative GFS ending balance of about \$17 million. Including the budget stabilization account balance, total reserves would be over \$500 million. That changes significantly, though, when you consider the need to respond to the Supreme Court’s decision in the McCleary school funding case. Addressing that decision could mean that the 2013–15 baseline will expand by about \$1 billion, making total reserves nearly *negative* \$470 million. With a prudent reserve of \$700 million in the general fund (and assuming the Budget Stabilization Account would not be tapped) the shortfall could be \$1.7 billion.

Discussion

The thin ending balance remains a source of uncertainty and concern, particularly given the 40 percent probability that the revenue forecast is too optimistic. In February, the Economic and Research Forecast Council assigned a 40 percent probability to the pessimistic revenue estimate of \$28,749 billion, \$1.5 billion less than the baseline forecast. Although there are signs that the economic recovery is strengthening, the risks are well-known and the evidence of sustained growth is scant.

In the waning weeks of the session, the budget disagreements centered more on proposed long-term reforms to state pensions, addressing health care benefits, and more. Given the deep disagreements among lawmakers, the compromise budget represents significant progress toward creating a sustainable state budget. Although we identify a potentially substantial shortfall in the next biennium, without the reforms, the gap would be considerably wider.