



BRIEFLY

The Senate Ways and Means Committee adopted a budget that reduces current biennial appropriations by \$321 million. New revenues of \$83.4 million are projected from a special lottery game and repeal of minor tax exemptions. The balance required to cover a more than billion dollar budget gap comes from one-time fund transfers and securitization of tobacco funds.

PB 02-6 March 7, 2002

Senate Budget Plan Cuts Biennial Spending 1.4 Percent

The Senate Ways and Means Committee Chair Lisa Brown released her proposed supplemental budget on March 5th. The next day the Committee adopted it, with minor amendments.

The committee identifies a \$1,465 million budget problem that has emerged since adoption in June of the budget for the 2001-03 biennium. There are two parts to this problem, a \$1,137 million reduction in revenue forecasts since the June meeting of the revenue forecast council, and \$328 million in necessary additional spending. (This latter figure is somewhat less than the \$450 million in additional spending that the Governor's budget officials identified to be necessary. See our Policy Brief, *Caseload Increases Drive Up State Costs*, PB 02-4)

The Senate Ways and Means Committee (SWM) solution to this problem has 5 parts.

- Spending Reductions
- Proceeds from the tobacco lawsuit
- General fund reserves
- Transfers from other state accounts
- New revenues

Spending reductions

The SWM budget identifies \$649 million in spending cuts and savings that, balanced against the \$338 million in additional spending, results in a net reduction of \$321 million. Chart 1 shows the distribution of the net reductions.

Higher education bears the largest reduction in general fund support. The \$96 million represents 30 percent of the total general fund spending reduction, and it is 3.4 percent of amount originally appropriated to higher education. It is expected that about one-third of the reduction will be offset by tuition increases. The institutions will be allowed to reduce enrollments, if they so choose, in order to preserve educational quality in the face of the budget reductions.

The SWM budget reduces K-12 education by \$49 million. This is 15 percent of the total reduction. However, K-12 education received 43.5 percent of general fund state appropriations in the original budget. The cut is 0.5 percent the original appropriation. The loss in general fund support is offset in part by a \$24 million increase in federal money available to Washington schools. Teachers will get the 3.6 percent pay increases specified under the terms of Initiative 732. They will lose three paid non-teaching days (learning



CHART 1
Senate Ways and Means Supplemental Budget

	Reduction (Millions)	Percent of Original Appropriation
Legislative	-2.0	-1.5%
Judicial	2.0	2.9%
Governmental Operations	-8.4	-2.1%
Other Human Services	14.0	1.1%
DSHS	-36.3	-0.6%
Natural Resources	-42.2	-11.9%
Transportation	-0.6	-1.4%
Public Schools	-48.8	-0.5%
Higher Education	-96.0	-3.4%
Other Education	-0.6	-1.1%
Special Appropriations	-102.2	-6.3%
Total Budget Bill	-321.1	-1.4%

CHART 2
Share of Cuts

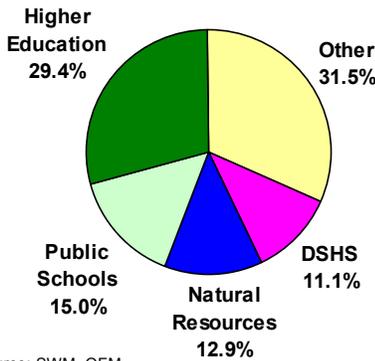
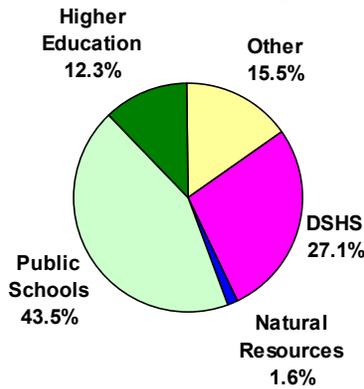


CHART 3
Share of Budget



Source: SWM, OFM

improvement days). The state contribution for teacher's health benefits is also reduced.

Programs in the Department of Social and Health Services are reduced by \$36 million. This is 0.6 percent of the original appropriation. Medical assistance spending is up \$46 million as a result of both increasing caseloads and increasing per capita costs. Long term care is down \$39 million. Economic services have been reduced by \$8 million; mental health, by \$18 million.

Spending in the other human services category is up by \$14 million. This reflects a \$27 million increase in corrections, required to accommodate growth in the state's prison population.

Natural resources spending is cut by \$42 million. This is 11.9 percent of original appropriations, the largest percentage decrease among the listed categories. About \$12 million of this represents transfer of funding responsibility away from the general fund to other state accounts.

Under the SWM budget, state employees would receive no pay

increase rather than the 2.6 percent increase originally budgeted, for a \$29 million saving. Health benefit costs would be shifted onto state employees through increases in premiums and co-pays. Together with other cost saving measures, this would reduce general fund costs for health benefits by \$5 million. Contribution rates for employee pensions are reduced, saving \$6 million.

Proceeds from the tobacco settlement

The SWM proposal would raise \$525 million by selling bonds backed by proceeds coming to the state from the tobacco lawsuit. Of this, \$420 million would be used for the general fund budget. See the Research Council Policy Brief, *An Insecure Plan for Tobacco Fund Securitization*, PB02-5.

Reserves

The SWM supplemental proposal draws down the general fund reserve and the emergency reserve by a combined \$227 million. A transfer of \$247 million is made from the emergency reserve to the general fund.

Transfers from other state accounts

A total of \$86 million is transferred to the general fund from 35 separate state accounts.



New revenues

The SWM supplemental proposal provides \$83 million net additional revenue for the 2001-03 biennium. The addition of a new lottery game, the Big Game multi-state lottery, is expected to increase overall lottery profits by \$24 million. Increasing staff at the department of revenue is expected to increase compliance with existing taxes and yield \$46 million. Imposing the use tax on shipping of out-of-state purchases, on out-of-state printing of direct mail, and on out-of-state repair services is expected to bring in \$29 million. A number of other changes are expected to decrease revenue by \$17 million. Of this, \$8 million is due to legislation to make the state estate tax conform to recent changes in the federal tax.

Balance Sheet

Chart 4 shows the balance sheet for the SWM supplemental proposal. Revenues for the biennium are just over \$21.0 billion, while appropriations are somewhat less than \$22.5 billion. Appropriations exceed expenditures by \$1.4 billion.

This huge gap has been filled by transferring money into the general fund and by running down reserves.

The tobacco securitization stratagem and various other transfers have brought \$734 million into the general fund. When the biennium started beginning balances of the general fund and the emergency reserve totaled \$1,062. The projected combined ending balance is \$301 million, a drop of \$761 million.

The SWM budget may well solve the state's immediate fiscal problem. With a slim \$301 million reserve, the general fund could survive one more downward revision in revenues of the size we saw in February. But the key question is: How will this budget leave the state positioned for the 2003-05 biennium?

CHART 4

2001-03 General Fund State Balance Sheet (millions of dollars)

Revenues	
February Forecast	20,961.9
Revenue Changes	83.4
Total Current Revenue	21,045.3
Appropriations	
2001-03 Appropriations	22,783.1
2002 Supplemental	(321.0)
Total Appropriations	22,462.1
General Fund Balance	
Beginning Balance	599.7
Current Revenue less Appropriations	(1,416.8)
Transfers	
From Various Accounts, 2001 Session	228.0
From Various Accounts, 2002 Session	85.8
Tobacco Securitization	420.0
From Emergency Reserve Fund	246.8
Ending Balance	163.5
Emergency Reserve Fund	
Beginning Balance	462.1
Transfers	
To Multimodal Transportation Account	(70.0)
To General Fund	(246.8)
Appropriations for Earthquake/Drought/Energy	(25.0)
Interest	17.3
Ending Balance	137.6
Total Reserves	301.1

Source: Research Council compilation from Senate Ways and Means balance sheet

The revenue adjustments included in the SWM supplemental proposal will provide \$181 additional revenue in the 2003-05 period. Adding this to the February forecast, revenues for that biennium will be \$22,971 million, only \$514 million over 2001-03 spending. This is unlikely to be enough to meet foreseeable spending pressures.

