



BRIEFLY

With the Senate budget now passed, three versions of the 2000 supplemental budget are in play. They differ dramatically in their interpretations of I-601, approaches to tax relief and I-695 mitigation, and provisions for reserve funds.

Senate Produces Supplemental Budget

With Senate passage yesterday of a 1999-01 General Fund – State (GFS) budget, the elements of a final budget compromise fall into place. With just a few days remaining in the legislative session, resolution will not be easy.

The General Fund – State (GFS) balance sheet for the Senate incorporates the \$200 property tax cut for homeowners passed by that body earlier this session (see e-BRIEF: *Senate Democrats Propose Split Roll Property Tax* - January 17, 2000). The tax reduction far outstrips anything proposed by House Republicans and Democrats, and goes well beyond that proposed in December by Governor Locke.

In the Senate budget, GFS spending increases \$176 million in direct appropriations, to \$20.7 billion for the biennium. An additional \$300 million is transferred – essentially appropriated – from the Emergency Reserve Fund (ERF) to the transportation budget.

The Senate provides most of its increased appropriations, \$135 million of the \$176 million, to assist local governments in addressing the revenue losses resulting from passage of Initiative 695. Public health districts are restored to 90% of their 1998 MVET allocations, with \$35 million in funding provided from the Health Services Account, which is transferred into the GFS. Cities and counties receive \$100 million in mitigation, so no city or county takes more than a 5 percent hit as a result of I-695.

To accommodate this increased spending, the I-601 expenditure limit is increased by \$135 million, as the local government assistance is treated as a transfer of responsibility from local government to the state. Each of the budgets considered this year has

Two Biennia GF-State Balance Sheet

(Dollars in Millions)

	1999-01	2001-03
RESOURCES		
Unrestricted Beginning Reserves	\$462	\$339
February Revenue Forecast	20,843	22,534
\$200 Homeowner Property Tax Cut	(152)	(585)
Other Revenue Changes	(10)	(13)
Adjusted Revenue Forecast	\$20,681	\$21,935
Health Services Account Transfer for I 695	\$35	-
Public Health District Backfill		
Total Unrestricted Resources	\$21,177	\$22,274
APPROPRIATIONS and SPENDING LIMIT		
Projected 601 Spending Limit	20,651	
Budget Driven Adjustments	34	
I 695 Local Government Assistance	135	
Adjusted 601 Spending Limit	\$20,820	\$21,920
Total 1999-01 Biennial Appropriation	20,573	
Basic Supplemental	41	
I 695 Local Government Assistance	135	
Total 2000 Supplemental	176	
Spending Level	\$20,749	\$21,920
Spending compared to the limit	(\$71)	
RESERVES		
Emergency Reserve Account	389	555
Unrestricted Ending Balance	339	239
Total Ending Reserves	\$728	\$794
One time transfer from Emergency Reserve to Transportation Budget	\$300	

Source: Senate Ways & Means



included some variation of this adjustment in the expenditure limit.

More controversial is the Senate’s transfer of \$300 million from the ERF to a newly minted Multi-Modal Fund, mostly for transit and rail programs. Initiative 601 created the ERF. Under the initiative, the ERF can only be tapped with the approval of two-thirds of the legislature and then only if the expenditure does not cause spending to exceed the expenditure limit (see Policy Brief: *Fiscal Proposals Threaten Spending Limit* - February 10, 2000).

Taking advantage of savings similar to those identified by House budget writers and the governor, the Senate reallocates nearly \$153 million to K-12 education for a variety of purposes, including class size reductions, extended learning opportunities, professional development, and school construction. As well, the Senate replaces K-12 funding from several dedicated funds (the Public Safety and Education Account, Health Services Account, and the Violence Reduction and Drug Enforcement Account) with GFS dollars.

About \$39 million in pension enhancements are provided, partially offsetting nearly \$80 million in savings resulting primarily from high investment returns.

In addition, the budget contains a number of small increases in GFS spending for social services, medical assistance (including support for individual insurance market reform and the patients’ bill of rights), hospital districts, and nursing home payments.

Funding is also provided for salmon recovery, shorelines management and pipeline safety.

Discussion

The three legislative budgets rest on different assumptions. The House Republican package sticks most closely to Initiative 601, relies on bonding for transportation, provides generally modest increases in K-12 funding, and offers transitional assistance to local governments to mitigate the effects of Initiative 695. The House Democrats budget departs in major respects from I-601, makes liberal use of tax credits, increases K-12 spending more than the Republicans, and appropriates directly from the reserve fund for transportation and school construction programs. The Senate budget proposal, like that of House Democrats, uses the ERF to make a direct expenditure. The Senate, however, does not use the array of local option tax credits favored by House Democrats, preferring to make direct appropriations for I-695 mitigation.

1999-2001 GFS Supplemental Budget Comparisons
(Dollars in Millions)

	House		Senate
	Republican	Democratic	
RESOURCES			
Unrestricted Beginning Balance	462	462	462
H3043 Correct Deposit to ERF	-	67	-
February Revenue Forecast	20,843	20,843	20,843
Less: Transfers, Credits, Tax Cuts	(241)	(163)	(162)
Adjusted Revenue Forecast	20,601	20,680	20,681
Plus: Transfers In	-	-	35
Total Unrestricted Revenues	21,063	21,209	21,177
APPROPRIATIONS AND SPENDING LIMIT			
Adjusted 601 Spending Limit	20,653	20,842	20,820
GFS Appropriations	20,601	20,778	20,749
RESERVES			
Emergency Reserve Account	668	355	389
Unrestricted Ending Balance	399	393	339
Total Ending Reserves	1,067	748	728



Several significant differences must be resolved.

First, the split-roll property tax cut championed by the Senate faces a significant challenge in the House. Some House members oppose it on grounds that it violates uniformity and will result in a tax shift onto the state's already heavily taxed business sector. Others believe that it simply costs too much at a time when I-695 has threatened critical state transportation programs. House Republicans offered a more modest, uniform property tax cut; House Democrats provided additional relief for seniors and for those adversely affected by sharp valuation increases.

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Second, transportation funding remains a major uncertainty. The budgets offered by the Senate and by House Democrats provide only limited restoration of the funds lost through I-695, mainly for transit programs. The House Republican package, which dedicates sales taxes from motor vehicle-related transactions and car rental taxes to support bonding, provides substantially more ongoing support for highway construction.

Third, adherence to the spirit as well as the letter of Initiative 601 represents a major philosophical split among the various budgets. As we've noted previously, appropriations from the emergency reserve fund are contrary to I-601, as would be use of local option tax credits. While Republicans in the House have agreed with the Democratic proposal to amend I-601 to reduce the ERF to 5 percent of annual revenues from 5 percent of biennial revenues, that change should not alter the limitations on appropriating from the fund. Excess revenues spill into school construction. Any other use ought to require a supermajority vote. Strangely, most of the efforts to get around the requirements of I-601 are unnecessary. Adjusting the limit to handle transfers and using unrestricted reserves provide nearly all of the flexibility required for I-695 mitigation as well as any essential supplemental spending.

Much of the remaining budget work will be done quietly and with little public involvement. Several years ago, the Washington Research Council published a series of recommendations for improvements in the state budget process. Among them was a call for a lag before the budget can be voted on. As we said then, "The budget bill is the most important business to come before the legislature. Yet it is often a product of conference committee reports, written behind closed doors and moved to the floor with little opportunity for public scrutiny. A 48-hour "cooling off period" after final standing or conference committee approval would give both legislators and the public a reasonable opportunity to review and understand the budget bill before it is voted on."

With so much at stake in the coming hours of negotiations, a little time for reflection before the rush to adjourn would be well advised.

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