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BRIEFLY

The 2011-13 budget proposal from the Senate Ways and Means Chair makes many of the same reductions as the House-passed bill, but it cuts \$326.7 million more. The need for deeper cuts is a consequence of not assuming that \$300 million would be raised by privatizing the distribution of liquor.

SENATE WAYS & MEANS CHAIR'S BUDGET PLAN CUTS DEEPER THAN HOUSE

Following last week's passage of a 2011-13 budget (and final 2011 supplemental) in the House of Representatives (ESHB 1087), this week the Senate Ways and Means Chair and Ranking Member released their version.

As we described in our brief on the House budget ("House Democrats' Budget Plan Is A Good Starting Point"), the House was addressing a budget problem of \$5.1 billion. That estimate of the shortfall includes some policy changes. The Senate Ways and Means Chair's (SWM) budget summary, including additional policy changes, calculates a shortfall of \$5.3 billion.

Balance Sheet

Table 1 compares Near General Fund-State plus Opportunity Pathways (NGFS+) balance sheets for the SWM-proposed and the House-passed 2011-13 budgets.

The SWM proposal assumes a \$39 million beginning balance, which is \$2 million less than what we calculate to be the beginning balance for the House-passed budget.

Revenue. The March forecast expects NGFS+ revenue for the biennium to total \$32.526 billion (\$31.907 billion to the general fund-state account, \$399 million to the Education Legacy Trust Account and \$221 million to the Opportunities Pathways Account, the parts sum to more than the total because of rounding).

The SWM budget expects \$21.1 million in "budget-driven" revenue. Of this, \$14.5 million is the product of additional tax-collection staff provided to the Department of Revenue (DOR), while \$6.6 million is due to marketing initiatives and administrative cuts planned for the Liquor Control Board. The House budget includes the \$14.5 million from additional tax-collection staff but counts on only \$3.3 million in additional revenue from the Liquor Control Board.

The SWM budget expects enactment of legislation adding \$11 million (net) to General Fund-State (GF-S) revenue. The GF-S would gain \$35 million from the dedication to it of a portion of the tobacco settlement proceeds currently dedicated to the Life Sciences Discovery Fund. This revenue gain would be partly offset by a number of items that reduce revenue. The largest of these reductions (\$8.6 million) results from the diversion of civil penalties for Medicaid fraud from the GF-S to a new Medicaid Fraud Penalty Account. The second largest loss (\$1.9 million) is due to a new B&O tax deduction for child welfare services. The House budget gains considerably more from legislation than the Senate does. The largest gains in the House budget are \$65.5 million from permanently redirecting real estate excise tax (REET) from the Public Works Assistance Account to the GF-S, \$54.0 million from dedicating all of the proceeds from the tobacco lawsuit settlement to the GF-S rather

than the Life Sciences Discovery Fund and \$26.6 million from DOR penalties and refunds. The largest revenue loss (\$10.4 million) results from dedicating sales tax paid by the state ferry system on fuel purchases to the Transportation 2003 Account to provide funding for the construction of a ferry boat.

Other Resource Changes. Under the SWM plan, other changes reduce available resources by \$29 million (net).

The constitutionally-required annual transfers of 1 percent of general state revenues to the Budget Stabilization Account are expected to total \$281 million for biennium. Legislation enacted in 2010 (ESSB 6409) requires \$204 million be transferred from the GF-S to the Education Construction Account.

Both the SWM proposal and the House-passed budget transfer \$273 million to the GF-S from various capital accounts. The largest of these capital fund transfers is \$204 million from the Education Construction Account. The second

largest capital fund transfer is \$45 million reversions to be retained in the GF-S rather than deposited to the Education Savings Account.

The SWM proposal transfers \$50 million to the GF-S from the Public Works Assistance Account. (As noted above, the House-passed budget gets \$65.5 million by permanently redirecting REET from the Public Works Assistance Account to the GF-S.)

Other transfers total \$132 million under the SWM proposal. The largest items here are \$85 million from the liquor revolving account (which is funded by continuing higher liquor markups), \$25 million transferred from the Treasurers Service Account and \$10 million from reducing various distributions to cities and counties. The House-passed budget makes all of the transfers included in the SWM \$132 million, but it bumps the transfer from the Waste Reduction/Recycling/Litter Control Account from \$4 million to \$7 million and, in addition, transfers \$13 million from the Washington State Heritage Center Account.

The SWM budget does not include either the \$300 million from privatizing liquor distribution or the \$281 million transfer from the Budget Stabilization Account that are in the House-passed budget.

Spending. The SWM proposal appropriates \$32.113 billion from the three NGFS+ accounts. This is \$327 million less than the \$32.440 billion appropriated by the House-passed budget.

Reserves. The SWM budget leaves \$738 million in reserves; of this, \$282 million is held in the Budget Stabilization Account. The House-passed budget leaves \$796 million in reserves, none of which is in the Budget Stabilization Account.

2011-13 Highlights

Governmental Operations. As in the House, the 2012 presidential primary would be cancelled, sav-

Table 1: 2011–13 Balance Sheet
Near General Fund–State plus
Opportunity Pathways
(Dollars in Millions)

2011-13 NGFS+ Balance Sheet Comparison		
Senate Ways & Means Committee Chair vs. House-Passed		
<i>(Dollars in Millions)</i>		
	SWM Chair	House- Passed
Beginning Balance	39	41
Revenue		
March Revenue Forecast	32,526	32,526
2011 Budget Driven Revenue	21	18
2011 Revenue Legislation	11	134
Total Revenue	32,559	32,678
Other Resource Changes		
Transfer to Budget Stabilization Acct.	(281)	(281)
2010 Enacted Transfer	(204)	(204)
Privatize Liquor Distribution		300
Use of Budget Stabilization Acct.		281
Capital Fund Transfers	273	273
Public Works Assistance Acct.	50	
Other Fund Transfers	132	148
Other Changes	2	
Total Other Resource Changes	(29)	517
Total Resources	32,569	33,236
Spending		
2011-13 Appropriations	32,113	32,440
Total Spending	32,113	32,440
Ending Balance & Reserves		
Unrestricted Ending Fund Balance	456	796
Budget Stabilization Acct. Balance	282	-
Total Reserves	738	796

NGFS+ is a rollup of the General Fund-State, Education Legacy Trust and Washington Opportunity Pathways accounts.

Source: WRC reconciliation of House Office of Program Research and Senate Ways and Means Committee balance sheets; Due to rounding, details do not necessarily sum to totals.

ing \$10 million. SWM appropriations for the Department of Commerce would be \$76.2 million less than in the House bill, largely because the SWM proposal does not provide \$83.2 million in funding for grants to counties and non-profits for housing and essential needs for Disability Lifeline-Unemployable (DL-U) clients. As in the House, tourism development funding would be eliminated (saving \$3.8 million). Neither the Innovation Research Teams nor the State Drug Task Forces would be eliminated in the SWM proposal (funding would instead be reduced by 3 and 12 percent, respectively). The SWM proposal would reduce funding to the Washington Technology Center by 10 percent, and the Center would be merged with the Spokane Intercollegiate Research and Technology Institute to form a new agency, Innovate Washington, which would receive \$7.1 million in appropriations.

Table 2: 2011-13 Expenditures
(Dollars in Thousands)

	House-passed		SWM-Proposed		Difference	
	NGFS+	All Funds	NGFS+	All Funds	NGFS+	All Funds
Legislative	149,567	153,907	146,768	153,391	(2,799)	(516)
Judicial	207,396	259,471	228,559	265,218	21,163	5,747
Governmental Operations	497,892	3,761,416	427,902	3,689,397	(69,990)	(72,019)
Other Human Services	6,466,544	15,275,544	2,056,708	4,920,881	(4,409,836)	(10,354,663)
DSHS	5,785,672	11,223,062	10,165,060	21,680,522	4,379,388	10,457,460
Natural Resources	313,125	1,537,276	319,748	1,530,187	6,623	(7,089)
Transportation	81,325	180,829	79,741	179,017	(1,584)	(1,812)
Public Schools	14,293,037	16,368,149	14,060,554	16,185,642	(232,483)	(182,507)
Higher Education	2,813,679	11,240,116	2,835,560	11,231,928	21,881	(8,188)
Other Education	162,399	479,727	170,191	491,637	7,792	11,910
Special Appropriations	1,669,586	1,678,970	1,622,751	1,630,888	(46,835)	(48,082)
Total	32,440,222	62,158,467	32,113,542	61,958,708	(326,680)	(199,759)

As with the House bill, the Department of Revenue would receive \$3.2 million for additional staff to collect tax revenues (except the funds would come from the Performance Audits of Government Account instead of NGFS+), but its tax collection activities funding would also be reduced by \$3.7 million (by cutting positions that indirectly affect revenue collections). The SWM proposal does not include funding for the development of a tracking system for Business and Occupation tax credits for businesses donating to the Washington Pledge Endowment Fund, as recommended by the Higher Education Funding Task Force. The SWM proposal also provides \$1.5 million in “carryforward” funding for revenue enhancements passed as part of HB 3225 (the second 2010 supplemental).

There would be a number of changes made to the Liquor Control Board, but they have no NGFS+ impact. The changes include new customer service initiatives; notably, the SWM does not follow the House in proposing to privatize the distribution center.

The House-passed bill would transfer the Department of Archaeology and Historic Preservation, the Arts Commission, the Washington State Historical Society and the Eastern Washington State Historical Society to a new Department of Heritage, Arts, and Culture. The SWM would not create this new department.

As in the House bill, certain functions of the Department of Personnel, the Office of Financial Management, and the Department of Information Services would move to the Department of Enterprise Services (DES). The Department of General Administration and the State Printer would move to DES as well. On January 1, 2012, the State Printer would be eliminated.

NGFS+

In recent years, legislative fiscal committee staffs have based budget presentations on the near general fund–state (NGFS), a synthetic “account” that rolls up the general fund–state (the state’s primary budget account) with other smaller accounts from which the state funds general government programs, because they believe that the NGFS better reflects the entire budget situation. They are now using a broader rollup, the NGFS+.

On July 1, 2009, six accounts that had been part of the NGFS (the health services account, the student achievement account, the public safety and education account and its equal justice sub-account, the violence reduction and drug enforcement account, and the water quality account) were consolidated into the GF–S. The NGFS and GF–S now differ only by the inclusion of the education legacy trust account (ELTA) in the NGFS.

In 2010 the legislature established a new account, the opportunity pathways account, and dedicated proceeds from the lottery to this account with the stipulation that the funds be spent for education.

The NGFS+ combines the NGFS and the opportunity pathways account.

Other Human Services. Unlike the House, the SWM would not transfer the Medicaid Purchasing Administration from the Department of Social and Health Services (DSHS) to the Health Care Authority (HCA). Not making this transfer means that the HCA does not receive the \$4.4 billion in medical assistance funds that it does in the House-passed bill. The SWM proposal would freeze enrollment in the Basic Health Plan (BHP) through the 2011-13 biennium (meaning that \$13 million less would be spent on BHP than under the House proposal).

The SWM proposal includes funding for the Department of Labor and Industries to implement and administer SB 5566, which makes several needed reforms to workers’ compensation (passed by the Senate, the bill remains stalled in the House). The funding (\$29.2 million) would come from the Accident and Medical Aid accounts, not the NGFS+.

In the Department of Health, spending would be decreased by \$12 million due to elimination of Blue Ribbon Commission Act public health grants (the House would reduce them by 38 percent). Family planning capacity grants would be reduced by 22.5 percent (saving \$4.5 million).

As in the House-passed bill, the Indeterminate Sentence Review Board and the Sentencing Guidelines Commission would be merged with the Department of Corrections. Instead of releasing certain offenders 120 days early, the SWM would allow for a 60 day early release (saving \$6.4 million instead of \$26 million).

The SWM proposal would, like the House, suspend the implementation (by the Employment Security Department) of the Family Leave Insurance Program, under which eligible persons are currently scheduled to begin receiving benefits in October 2012. The suspension would save \$33.2 million.

DSHS. As noted above, the House would transfer the Medicaid Purchasing Authority to HCA, and that accounted for most of the medical assistance payments policy reductions in DSHS. The SWM, however, would not make the transfer. Its total spending on medical assistance payments is \$4.4 billion, all of which remain in DSHS.

In developmental disabilities, the SWM proposal would close the Francis Haddon Morgan Center Residential Habilitation Center (RHC) by December 31, 2010 and the Rainier Valley School RHC by July 2014, saving \$15.1 million.

In both the House and the SWM proposals, basic training would be provided to certain providers in developmental disabilities and long-term care, but for other long-term care providers, the training would be delayed until 2013-15 (saving a total of \$22.1 million). Also, personal care hours (assistance with daily living) in developmental disabilities and long-term care would be reduced, saving a total of \$97.5 million.

In long-term care, the SWM would not reduce nursing home rates. Like the House, the SWM would create a Skilled Nursing Facility Safety Net Assessment Fund; to leverage federal Medicaid matching funds, nursing homes would provide funds. The SWM proposal would save \$30 million to the House’s \$15 million.

A number of changes to Disability Lifeline would be made under the SWM proposal, including elimination of the DL-U cash grant program. These changes would save \$184.3 million in all. State Food Assistance funding would be reduced by \$16.8 million (the House would reduce it by \$30.3 mil-

lion).

Additionally, both the SWM and the House would limit (to three per year) reimbursements for non-emergency emergency room visits (saving \$33 million). Hospital inpatient and outpatient rates for Prospective Payment System hospitals would be reduced by 8 and 7 percent, respectively (saving a total of \$110.5 million). In the House bill, general fund expenditures would be reduced due to the use of \$30 million from the Hospital Safety Net Assessment program—the SWM would use \$40 million. The SWM proposal reduces adult dental services, saving \$28.6 million (the House would eliminate them, except for pregnant women, to save \$37.4 million). The SWM proposal would change the methodology for payments to federally-qualified and rural health centers to save \$48.3 million (the House’s methodology would save \$89.5 million). The SWM would require the medical assistance program to seek a Medicaid waiver allowing them to add and increase premiums for medical coverage, charge delivery fees, and require co-payments for prescription drugs for medical assistance enrollees (these would reduce spending by \$19.1 million). Additionally, the SWM would limit enrollment in the Disability Lifeline medical program (saving \$50.6 million) and in the Children’s Health Program (saving \$4.8 million).

Natural Resources. In the SWM proposal, the Department of Ecology’s funding would see policy reductions of \$20.4 million to the House’s \$21.3 million. Both include fund shifts to local and state Toxics Control Accounts (\$9.5 million) and a reduction in water rights processing (\$2.9 million). The SWM proposal ends NGFS+ support for water permit processing (saving \$2.8 million).

Both proposals include \$20 million to transition the State Parks and Recreation Commission to a fee-based agency, and both reduce its NGFS+ spending by \$67.1 million (fee revenue would instead make up this amount).

The House bill assumes that other legislation will fund the Animal Health Program, the Food Safety Program, the Dairy Nutrient Management Program and the microbiology laboratory through fees rather than the state general fund (this would reduce Department of Agriculture funding by \$10.8 million). The SWM does not make this assumption. The SWM also maintains international and domestic marketing assistance funding.

Public Schools. The K-4 class size reduction would be eliminated in both proposals (the House estimates this would save \$166.4 million; the SWM, \$162.7 million). Additionally, due to the June 2011 apportionment shift in both proposals that reduced 2009-11 spending by \$253 million, that same amount would be spent in 2011-13. The SWM proposal provides more funding for lower class sizes in grades K-3 in high-poverty schools than the House does (\$64.3 million to \$25 million). Also in the SWM proposal is a requirement that enrollment data (which affects a school’s funding) be adjusted by a daily attendance factor. Doing so would reduce spending by \$92.4 million.

Both proposals would appropriate \$611.8 million for levy equalization (a maintenance level increase of \$231.7 million), and both would suspend Initiative 728 (class size reduction) for the biennium (saving \$860.7 million). Both proposals would make changes to the National Board for Professional Teaching Standards bonus program (the House would save \$60 million and the SWM would save \$74.1 million). They would also reduce math and science assessment requirements for graduation (HB 1412 and 1410), saving \$21.2 million under the House proposal and \$24.8 million under the SWM

Table 3: Expenditure Reductions Due to Percentage Cuts to Higher Education, Reflecting Ability to Increase Tuition (Dollars in Thousands)

	House-Passed	SWM-Proposed
UW	(\$161,129)	(\$182,990)
WSU	(\$81,754)	(\$93,573)
WWU	(\$26,058)	(\$30,554)
EWU	(\$19,873)	(\$21,113)
CWU	(\$19,852)	(\$24,844)
TESC	(\$11,934)	(\$12,152)
CTCS	(\$135,397)	(\$170,269)

Table 4: Tuition Increase Authorization

	House	Senate
UW	13%	16%
WSU	13%	16%
WWU	13%	16%
EWU	11.5%	11%
CWU	11.5%	14%
TESC	11.5%	14%
CTCS	11%	12%

proposal.

The SWM would reduce K-12 employee salaries by 3 percent beginning September 1, 2011, and it would create a salary reduction mitigation pool. These actions save a net of \$251.2 million. Initiative 732 (cost-of-living adjustments) would be suspended for the biennium in both proposals, saving \$269.3 million in the House bill and \$260.1 million in the SWM proposal. I-732 was suspended in 2009-11 as well, with the stipulation that catch-up cost-of-living adjustments be paid in the 2011-13 biennium. These proposals would also suspend those catch-ups. The SWM proposal would create a statewide health benefits purchasing program for public schools. Employees could participate voluntarily; because benefit allocations would be higher for those who participate, the SWM expects a savings of \$2.4 million.

Higher Education. The SWM proposal eliminates the Higher Education Coordinating Board (HECB), moving non-financial aid programs funding to a new agency, the Council for Higher Education. Financial aid funds would be moved to a new Office of Student Financial Assistance.

In the House, \$103.1 million would be provided to maintain the State Need Grant in the face of higher tuition. The SWM proposal would provide \$124.4 million for that purpose. Both the House bill and the SWM proposal would make changes to State Need Grant awards to private institutions (the House would save \$19.3 million; the SWM, \$19.6 million). The House bill would suspend the state work study program, saving \$45 million. The SWM proposal would reduce funding for the program by increasing employer shares of wages and making non-resident students ineligible, saving \$23.7 million.

In both proposals, appropriations for the six public four-year institutions would be reduced by continuing the 4 percent reduction applied to each in the 2011 Supplemental and by reducing funding by an additional percentage. Instead, the schools would be allowed to increase tuition. Table 3 shows these specific reductions in each proposal.

Although the SWM proposal would make more across the board reductions at each institution, it does appropriate more overall to WSU, WWU, EWU, and TESC.

The SWM proposal would require non-needy students in the Running Start program to pay 10 percent of resident tuition, and it would fund an additional 1,617 slots per year in community and technical colleges' worker retraining programs.

Special Appropriations. Debt service costs total \$1.97 billion. State employee compensation would be reduced by \$583 million compared to the House bill's \$540.8 million. Compensation savings would be achieved in both proposals by ending future automatic benefit increases in the Public Employees' Retirement System Plan 1 and the Teachers' Retirement System Plan 1 (saving \$360.6 million in the SWM proposal) and by reducing state employee salaries by 3 percent in 2011-13 (saving \$177.1 million in the SWM proposal). In addition, the SWM proposal would require temporary layoffs for state employees making more than \$50,000 a year.

Special appropriations to the governor in the SWM proposal incorporate contracting out state agency mail service, motor pool and the real estate leasing program (saving \$1.88 million in the last half of 2013). It also assumes \$14.8 million in savings from reforms to management and administration, anticipating that management reductions of 5 to 10 percent would be made.

Lastly, \$16.1 million in NGFS+ savings would occur due to implementation of SB 5566 (workers' compensation reforms).

2009-11 Final Supplemental

Like the House, the SWM proposal includes a final supplemental to close the 2009-11 shortfall. It would reduce NGFS+ spending by \$99.9 million. In all, the SWM would reduce spending by \$7.2 million more than the House. Final 2009-11 appropriations, under the SWM proposal, would total \$30.258 billion.

The proposal takes maintenance level changes into account, and, as in the House bill, most of the reductions are from strategic printing savings and information technology savings. Also like the House bill, the one big reduction comes from shifting \$253 million in payments to schools from June 30, 2011 to July 1, 2012. This reduces 2009-11 spending and increases 2011-13 spending.
