Washington Research Council

POLICY BRIEF

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Uncovering the budget: A revealing look at state fiscal practices

Gov. Booth Gardner's proposed state general fund budget for the 1991–93 biennium weighs in at $15.4 billion. This spending level is 17 percent higher than spending authorized for the current two-year budget period and more than the economy is expected to generate in state general fund revenue during the coming biennium (see table on page 2).

The budget — which must not exceed available revenue under state law — is balanced with revenue left from previous years, accounting changes and fee increases.

Education and human services account for about 87 percent of the proposed budget (see figure below). And the largest single enhancement in the budget, according to the governor, is $432 million for salary increases.

Crafting a Balanced Budget

The state general fund revenue forecast for the 1991–93 biennium released in November was for $14.8 billion.

Meanwhile, the governor's budget office estimated that the funding necessary to continue current programs, including mandatory workload growth and inflation — the essential requirements level or. ERL — totals about $15.2 billion — about $450 million more than the amount of revenue available.

To this, the governor added salary, grant and vendor rate increases, and funding for new policy initiatives, while reducing spending in other areas, bringing proposed state general fund spending to $15.4 billion.

Spending "Cuts" Proposed

Last October state agencies were asked to recommend spending reductions of 12.5 percent *from the estimated funding level needed to maintain their current programs in the 1991–93 biennium.*

The governor used the proposed "reductions" to guide the selective adjustments to *ERL* spending he has proposed for 1991–93.

The big–ticket items in the spending adjustments — which total about $596 million — include the following:

- reducing higher education spending by 5 percent across–the–board from ERL — $83 million;
- assuming no inflation in the budget object category of goods and services — $81 million;
- using lease–purchase agreements for about half of equipment purchases — $39 million;
- increasing the deductible for the medically indigent program — $20 million;
- changing the way the state purchases health care — $10 million;
- changing the way the state reimburses nursing homes — $15 million;
- increasing employee contributions for health insurance benefits — $146 million; and
- eliminating the K–12 block grants — $54 million.

Because there will be inflation in the cost of goods and services used in operating state government — such as office supplies, data processing and postage — Office of Financial Management (OFM) Director Len McComb said that agencies will have to cut spending in other parts of their budgets. In some cases this may result in program reductions not specifically recognized in the proposed budget, according to OFM.

Some "New" Revenue

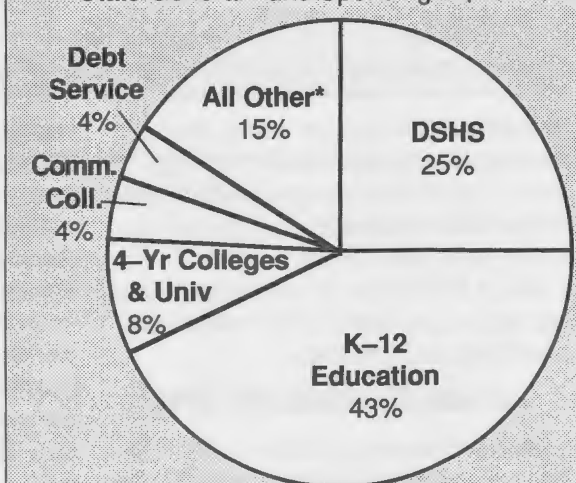
When the November revenue forecast is compared to the governor's proposed spending plan, the state comes out about $590 million short of the amount of revenue necessary to fund the budget. The budget is balanced with $236 million in what is called "budget driven" revenue and $370 million in revenue left over from previous biennia (the state's unrestricted cash balance).

The budget driven revenue, some of which requires statutory changes, includes revenue generated by increased enforcement activities on the part of the Department of Revenue, depositing the interest earned by most funds in the state general fund (see page 3) and financing increased environmental protection efforts with higher fees.

Assuming that all of the necessary statutory changes are made to generate the budget driven revenue, the state would still have an operating deficit of about $355 million — that is, it would be spending about $355 million more than the state's economy is expected to generate in state revenue during the biennium.

Governor's Proposed 1991–93 Budget

State General Fund Spending = $15.4 billion



* Salary and benefit increases are included in this category.

Source: Washington State Office of Financial Management.

Use of leftover revenue would leave the state with an unrestricted balance of $15 million in the general fund — far less than the 5 to 10 percent of spending generally accepted by public policy experts as a fiscally prudent budget reserve and less than the typical amount required for supplemental appropriations after the budget has been passed. The state also has $260 million in its rainy day fund — a restricted reserve account that requires a super–majority vote of each house of the legislature to spend.

Gardner's spending proposal for 1991–93 is discussed in the following section. **The program figures exclude increases in compensation for state and public school employees. These increases are shown separately.**

State General Fund Budget Comparison

(dollars in millions)

	1989-91				Change from 1989-91	
	Current Authority	Supplemental	Total	1991-93 Gov.	Auth.	Total
Operating Revenue						
November forecast	$13,293.7	—	$13,293.7	$14,780.8	11.2%	11.2%
Retail sales & use tax	6,819.0	—	6,819.0	7,650.5	12.2	12.2
Business & occupat'n tax	2,297.1	—	2,297.1	2,612.7	13.7	13.7
Property tax	1,396.3	—	1,396.3	1,650.2	18.2	18.2
Other	2,781.3	—	2,781.3	2,867.4	3.1	3.1
Budget driven revenue	—	—	—	235.8	—	—
Total Revenue	$13,293.7	—	$13,293.7	$15,016.6	13.0%	13.0%
Operating Expenditures						
General Government	$323.4	$1.9	$325.3	$364.9	12.8%	12.2%
Human Resources	3,723.9	40.0	3,763.9	4,672.0	25.5	24.1
DSHS	3,035.1	32.8	3,067.8	3,832.3	26.3	24.9
Other Human Resources	688.8	7.3	696.1	839.7	21.9	20.6
Natural Resources	383.7	4.3	388.0	308.0	(19.7)	(20.6)
Transportation	51.2	0.0	51.2	46.3	(9.6)	(9.6)
Total Education	7,939.5	24.1	7,963.7	8,649.4	8.9	8.6
Public Schools	5,932.3	24.1	5,956.4	6,624.4	11.7	11.2
4–Year Colleges & Univ.	1,280.8	0.0	1,280.8	1,290.0	0.7	0.7
Community Colleges	636.1	0.0	636.1	627.4	(1.4)	(1.4)
Other Education	90.3	0.0	90.3	107.6	19.1	19.1
All other	722.9	6.7	729.6	1,331.1	84.1	82.4
Salary increases*	—	—	—	431.2	—	—
Benefit increases	—	—	—	72.0	—	—
Debt Service	487.5	—	487.5	615.0	26.2	26.2
Other	235.4	6.7	242.1	212.9	(9.6)	(12.1)
Total Expenditures	$13,144.6	$77.1	$13,221.6	$15,371.7	16.9%	16.3%
Net from Operations	$149.1		$72.1	($355.1)		
Beginning Fund Balance	455.9		455.9	370.0		
Budget Stabilization Acct Trans.	(200.0)		(200.0)	—		
FIP Reserve	(20.0)		(20.0)	—		
Net Effect of Accounting Change	62.0		62.0	—		
Ending Unrestricted Balance	$447.0		$370.0	$14.9	(96.7%)	(96.0%)
Budget Stabilization Acct.	$260.0		$260.0	$260.0		
Total Potential Reserves	$707.0		$630.0	$274.9	(61.1%)	(56.4%)

* Excludes comp. worth ($15 million) and recruitment/retention increases ($0.9 million).

Source: Wash. State Office of Financial Management, Office of the Forecast Council.

Most Spending for Education

Education — kindergarten through twelfth grade (K–12) schools, community colleges and the state's four–year colleges and universities — accounts for more than 56 percent of the general fund budget. Proposed spending of $8.6 billion represents a 9 percent increase over current spending.

With proposed spending of $6.6 billion, the K–12 system is the largest single item in the governor's budget, accounting for 43 percent of total spending from the state general fund. This 12 percent increase over spending in 1989–91 is largely driven by increases in enrollment. Little money is provided for new programs and the block grant program, which provided money to local districts for discretionary spending, would be eliminated.

When the salary and benefit increases are included, K–12 accounts for 45 percent of the budget and is 17 percent higher than spending in 1989–91.

Without salary increases, spending by the state's colleges and universities would change little from current levels under Gardner's plan. Spending by the four–year institutions would increase 1 percent and community college spending would decrease about 1 percent.

There is little in the way of new policy initiatives or enhancements in the higher education system. With the exception of small enrollment increases at the new branch campuses, the current lids on enrollment are kept in place, and the institutions are asked to find savings of about 5 percent from the amount estimated to be necessary to continue programs at current levels.

About $13 million in increased financial aid is provided to help offset proposed tuition increases.

Human Services Up 25%

With proposed spending of $4.7 billion, the agencies involved in providing human services account for more than 30 percent of the state general fund budget and together could see funding 25 percent greater than the current biennium.

The Department of Social and Health Services (DSHS) is the largest single agency in this category, with proposed spending of $3.8 billion or about 25 percent of total state general fund spending in 1991–93. The department's proposed spending increase of 26 percent is the largest increase among the major agencies and about 1 percent higher than the ERL estimate. Major components of the spending increase include nursing home inflation, medical use and costs, and higher-than-expected caseloads in many programs. The proposed budget also includes about $90 million for higher payments to social service providers, like foster parents, and grant recipients in programs like income assistance.

According to Gardner, the budget protects the agency's programs for children and mental health system reforms, and offsets decreased spending for institutional long-term care with increased community-based long-term care services.

With increases of more than 40 percent each, Developmental Disabilities, Medical Assistance and Juvenile Rehabilitation are the DSHS programs that would see the greatest increase in funding over 1989-91 under the governor's proposal. The increase in Medical Assistance is the result of higher medical costs, greater use of medical services and higher caseloads. The Juvenile Rehabilitation increase is primarily driven by an increase in the number of offenders. Complying with federal regulations adds to the costs of Developmental Disabilities programs.

Other human resource agencies seeing funding increases include the Department of Community Development (DCD) and the Department of Corrections (DOC). The budget includes about $9 million in additional funding to DCD for implementation of the governor's executive request legislation on growth management and $9 million for additional early childhood education.

Much of the 22 percent increase in the budget for DOC is driven by rapid inmate population growth.

Salaries to Increase

The largest single enhancement proposed in the governor's 1991-93 budget is salary increases for state workers and employees of the K-12 school system, at a total estimated cost to the state general fund of $432 million.

The individual agency budget discussions above do not include the proposed salary increases. The proposed salary changes are, instead, treated as a separate budget item since they are normally an item negotiated during the budget debate. The recent survey of teacher compensation, which ranked Washington teachers 12th in total compensation, will add data to the political debate over teacher salaries.

Under the governor's proposal, salaries for both teachers and state employees would rise 4.4 percent during the first year of the biennium and 3.8 percent during the second, and there would be additional increases for selected job categories experiencing recruitment and retention problems. The across-the-board salary increases would be on top of comparable worth adjustments — which are budgeted at $15 million for 1991-93 — and annual step increases.

During the 1989-91 biennium there

Budget balanced with interest transfer

One of the policy changes being proposed by Gov. Gardner in order to balance his budget for 1991-93 is to have the interest earnings from most government funds in the state treasury deposited in the state general fund. This change would add $113 million to the state general fund during 1991-93.

This change would not increase overall revenue for the state, rather it is a shift and would result in other funds losing money. According to an OFM representative, the governor's proposal is designed to "maximize the funds available for appropriation in the general fund." The budget proposal restores lost revenue to a few programs — such as the Basic Health Plan — that are paid for from dedicated funds but, for the most part, interest earnings are treated as unobligated revenue available for appropriation.

Lots of Opposition

At a recent hearing a parade of state and local officials testified against the proposals and legislators asked pointed questions of the OFM representatives.

Both state employee union and local government representatives were concerned that the change could mean interest earned on employee contributions to their pensions would go into the general fund.

Employees of most local governments in the state participate in the same pension system as state employees. Because of statutory requirements regarding pension contributions, this could mean higher contribution rates, said Stan Finkelstein of the Association of Washington Cities.

One of the largest funds affected by the shift is the state motor vehicle fund, accounting for $19.3 million or 20 percent of the shifted revenue. This fund is dedicated to highway purposes by the 18th amendment to the state constitution and funded with gas tax and other transportation-related fees. Rick Wickman of the Washington State Association of Counties suggested that taking the interest earnings from this dedicated fund may be unconstitutional.

Consistent Policy

The proposed change "establish(es) a consistent policy for the treatment of interest," said Art Wang (D-Tacoma), chair of the House Revenue Committee. The current treatment of interest from the approximate 230 active funds in the state treasury was described as a "checkerboard approach" by Mark McLaughlin of the Treasurer's Office at a recent Revenue Committee hearing. The majority of the accounts retain 80 percent of the interest, with the balance going to the state general fund. Some of the remaining funds keep all of their interest earnings, while the rest retain no interest earnings.

The bill would change the distribution of interest earnings so that interest from nearly all of the funds and accounts is deposited in the state general fund. In addition, a new method for funding administrative expenses of the Treasurer's Office would be based on a flat percentage of the total interest earned by each fund or account. Currently only about 40 of the funds contribute to the administrative expenses.

Legislation proposed by the Treasurer's Office last session would have established a consistent policy of having interest follow the principal of the fund. According to McLaughlin, this is their preferred choice absent budgetary considerations.

were salary increases of 4.0 percent and 8.1 percent for teachers, and 2.5 percent and 6.0 percent for most state employees.

Employee Benefits Changed

The governor's proposed spending plan includes changes in employee health benefits. Because of increased cost and utilization of health insurance benefits, maintaining the current level benefits in the 1991–93 biennium would cost 34 percent more per employee.

The governor's proposal would fund about half of this increase. While the actual benefit package is determined by the State Employee Benefits Board based on the amount allocated by the legislature, the governor has suggested modifications to the current benefit package to accomplish this savings. The proposed modifications include higher medical and dental deductibles, office visit co–payments and eligibility changes. With the changes the state will be paying about 17 percent more per employee in 1991–93.

Public employee unions have been vocal in their opposition to the governor's salary and benefit proposal. The Washington Public Employees Association claims the budget proposal "...guts family health benefits," and the Washington Education Association is considering a springtime strike over the salary levels proposed by the governor.

$77 million supplemental budget proposed

Along with the budget for 1991–93, the governor has requested supplemental funding to finish out the current biennium. This spending plan, which totals $77 million from the state general fund, is primarily driven by entitlements and other obligations that must be funded, like legal claims. It would mean a spending increase of less than 1 percent for 1989–91.

Five items account for more than 90 percent of the supplemental spending plan and the two largest — DSHS and K–12 education — are in areas that require supplemental appropriations on a regular basis due to the entitlement nature of the programs. The program or services must be provided to all who meet the eligibility standards.

About $33 million is proposed for the Department of Social and Health Services. The majority of this increase is related to higher caseloads and costs in the income assistance and medical assistance programs — both entitlement programs.

About $24 million is proposed for K–12 education programs, primarily the result of higher–than–anticipated enrollments.

The state match required for receiving federal disaster assistance for the floods in November requires an appropriation of $10 million. This amount, combined with $10 million from local governments, will leverage $80 million in federal funds.

Finally, the Department of Natural Resources would receive $4 million to cover the costs of fighting forest fires and about $6 million would be authorized to pay various legal claims.

Natural Resource Spending

Natural resource agencies — about 2 percent of the general fund budget — show a 20 percent reduction in state general fund spending from 1989–91 levels under Gardner's proposal. This apparent decline is primarily the result of a one–time–only general fund appropriation to the Department of Natural Resources of $172 million for land purchases during 1989–91. Proposed spending for the department exceeds the ERL for 1991–93 by 14 percent.

Little legislative action on the budget is expected until the March revenue forecast, after which the House and Senate will develop their own spending plans for 1991–93. The House is expected to go first, with a plan drafted by Rep. Gary Locke (D–Seattle), chair of the budget–writing Appropriations Committee. His budget is not expected until late March or April. The last day of the regular session is April 28.

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