

## State general fund budget balanced, barely

With just hours to spare before the beginning of the new budget period, the 1991 Legislature finally passed and the governor signed a \$15.7 billion operating budget for the 1991–93 biennium (see table on page 2). That is about 19 percent more than 1989–91 spending of \$13.2 billion.

Agreement on the budget was made possible, in part, by about \$73 million additional revenue anticipated in the June revenue forecast, along with about \$35 million in net gain to the state general fund from a temporary tax on state Medicaid payments to hospitals.

### State's Operating Deficit Nears \$500 Million

The budget signed by the governor authorizes the state to spend \$15.7 billion from the state general fund. The June revenue forecast was for \$15.0 billion. About \$274 million more revenue is anticipated to be generated during the biennium as a result of the budget and other bills passed by the 1991 Legislature, bringing operating revenue for the biennium up to \$15.2 billion. This leaves the state with an operating deficit of \$497 million.

Use of the unspent funds from previous fiscal periods (about \$500 million) balances the budget — the legislature is required to pass a balanced budget — and leaves the state with an unobligated reserve of about \$2 million. The state also has \$260 million in its rainy day fund — about 2 percent of the biennial budget — which could be spent if revenue collections are less than anticipated.

### Uncertainty on Revenue, Spending Sides of Equation

The small ending fund balance is cause for concern. How much concern, however, is unclear. The next official forecast of state general fund revenue is due Sept. 18. Early indications are that the economy is not recovering as quickly as expected and that the September forecast could be lower than June's.

In addition, the books have not been closed on the 1989–91 biennium, so the amount of money left over — and available to be spent in 1991–93 — may be slightly different than the estimate upon which the budget was based.

On the spending side, the governor vetoed some sections of the budget that related to appropriations, such as a \$15 million grant program for public schools, which could reduce the amount of money actually spent in 1991–93.

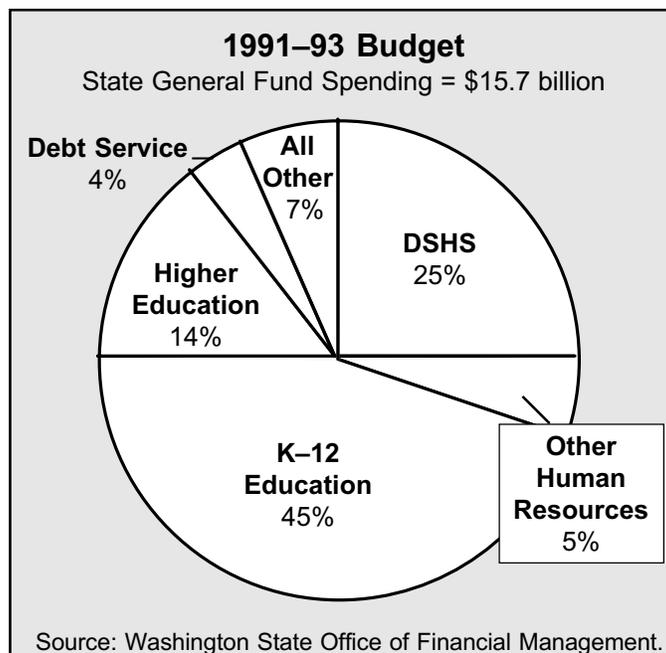
### 1991 Legislation Adds to Revenue

Several bills passed during the 1991 session are anticipated to increase general fund revenue generated during the biennium by about \$164 million. Transferring interest earned by other funds to the state general fund generates about \$62 million, higher license fees for nursing homes generate about \$7 million, and application of the real estate excise tax to transfers of corporate ownerships that involve transfer of property is expected to raise about \$1 million.

The governor vetoed a bill transferring cigarette tax enforcement from the Department of Revenue to the Liquor Control Board. This bill had been expected to generate about \$4 million.

The final piece of revenue legislation relating to the general fund budget involves a creative financing mechanism, coined "bootstrapping" by Hal Hovey of *State Policy Reports* and discovered by lawmakers fairly late in the budget process. It places a temporary tax of 20 percent on state Medicaid payments to hospitals. This, in turn, enables providers to obtain more federal matching money. The tax is expected to raise about \$94 million in 1991–93, however, because it also involves additional Medicaid payments to affected hospitals, the net increase in revenue to the state general fund is about \$35 million.

According to the bill, the tax expires the earlier of July 1, 1993, or the date the secretary of Social and Health Services certi-



fies that the federal government prohibits this as a funding mechanism. According to an article in the June edition of *State Legislatures*, it is unclear how long this practice will be allowed by the federal government.

This revenue, like the left-over revenue from previous budget periods, is not anticipated to be an ongoing revenue source. Using temporary or one-time only revenue sources to support ongoing programs is asking for trouble in future budget periods as spending obligations continue.

### \$110 Million in Revenue Associated with Budget

About \$110 million in additional revenue is expected to be available as a result of items included in the budget. Half of that amount is anticipated to be generated through increased audit and enforcement staff in the Department of Revenue at a cost to the state general fund of \$9 million. Increased tuition payments associated with the increase in higher education enrollments amount to about \$10 million.

### State Employee and Teacher Pay Hikes Exceed 7 Percent

Local school districts will receive about \$268 million in new money from the state general fund, which is anticipated to fund across-the-board salary increases of 4.00 percent on Sept. 1, 1991 and another 3.55 percent the following September for teachers and classified staff in the K-12 system. Districts have some discretion in how the increases are actually allocated and not all teachers will receive the percentage

### State General Fund Budget Comparison

(dollars in millions)

	1989-91	1991-93 Amount	1991-93 Pct of Total	Change from 1989-91
<b>Operating Revenue</b>				
June forecast	\$13,336	\$14,972	98.2%	12.3%
<i>Retail sales &amp; use tax</i>	6,888	7,732	50.7	12.2
<i>B&amp;O tax</i>	2,266	2,649	17.4	16.9
<i>Property tax</i>	1,406	1,657	10.9	17.9
<i>Other</i>	2,776	2,934	19.2	5.7
Budget driven revenue	—	110	0.7	—
Revenue legislation	—	164	1.1	—
<b>Total Revenue</b>	<b>\$13,336</b>	<b>\$15,246</b>	<b>100.0%</b>	<b>14.3%</b>
<b>Operating Expenditures</b>				
General Government	\$325	\$356	2.3%	9.5%
Human Services	3,728	4,781	30.4	28.2
<i>DSHS</i>	3,039	3,923	24.9	29.1
Natural Resources	388	310	2.0	(20.1)
Transportation	51	47	0.3	(8.1)
Education	7,967	9,450	60.0	18.6
<i>Public Schools</i>	5,958	7,104	45.1	19.2
<i>Higher Education</i>	1,917	2,239	14.2	16.8
<i>4-Year Colleges &amp; Universities</i>	1,281	1,436	9.1	12.1
<i>Community Colleges</i>	636	803	5.1	26.2
<i>Other Education</i>	92	107	0.7	16.4
Other	741	799	5.1	7.8
<b>Total Expenditures</b>	<b>\$13,200</b>	<b>\$15,743</b>	<b>100.0%</b>	<b>19.3%</b>
<b>Net From Operations</b>	<b>\$135</b>	<b>(\$497)</b>		
Beginning fund balance	555	499		
Lapsed appropriations/reserves	8	—		
Budget Stabilization Acct Transfer	(200)	0		
<b>Ending Unrestricted Balance</b>	<b>\$499</b>	<b>\$2</b>		
<b>Budget Stabilization Account</b>	<b>\$260</b>	<b>\$260</b>		

Notes: Funds reserved for loans are treated as an expenditure, rather than as a deduction from revenue. Ending fund balance is an estimate as of budget passage and subject to change. 1991-93 appropriations have not been adjusted for governor's vetoes. Totals may not add due to rounding.

Source: Washington State Office of Financial Management, Legislative Evaluation and Accountability Program, Office of the Forecast Council and Legislative Fiscal Committees.

increases budgeted by the legislature. These salary increases come on top of longevity raises averaging 3.2 percent per year that about one-half of all teachers are eligible to receive.

State employees will receive raises of 3.6 percent on Jan. 1 of 1992 and 1993 at a cost to the state general fund of \$63 million. Again, this is in addition to the 5 percent annual longevity increases for which about 40 percent of all state employees are eligible.

Higher education faculty and exempt staff will receive salary increases averaging 3.9 percent each year. Individual institutions have some discretion over the actual percentage increase received by each employee. Classified employees would receive the same increases proposed for state classified employees (3.6 percent each year). The cost to the general fund for these increases is \$64 million. The budget also provides funding for salary increases required by the Higher Education Personnel Board's job classification revision of clerical support staff.

In addition to the across-the-board salary increases granted state employees, targeted increases will go to certain classes of state employees — including registered nurses, psychologists, transportation engineers and environmental engineers — and \$15 million is provided from the state general fund to fulfill the obligations of the comparable worth agreement ratified in 1986.

Funding for health benefits will increase from the current rate of \$256 per employee per month for state and higher education employees to \$298 a month in 1992 and \$328 in 1993. For K-12 employees the increase is from \$246 per month to \$290 a month for the 1991-92 school year and \$322 for the 1992-93 school year. The cost of this increase to the state general fund is about \$147 million.

Retirees covered by Plan 1 of the Public Employees and Teachers retirement systems, whose state retirement

benefit has a purchasing power of less than 60 percent of the benefit they received at age 65 due to inflation, will be given a one-time benefit increase. The increase will restore their purchasing power to 60 percent of what they received at retirement. About 17,000 retirees are anticipated to benefit from this increase.

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**K-12 Budget Up 19 Percent**

With a state general fund budget of \$7.1 billion, K-12 education is the largest single area of state spending at 45 percent of the state general fund. This spending level is 19 percent greater than spending in 1989-91.

The largest amount of new dollars goes for higher salaries and more money for benefits for local school district em-

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***The salary increases provided by the legislature come on top of longevity raises averaging 3.2 percent per year that one-half of all teachers are eligible to receive.***

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ployees. Other notable areas of increased spending include \$45 million to reduce class size in grades K-3 and vocational education classes; \$29 million for the purchase of computers, equipment or other instructional materials in support of innovative educational programs; \$6 million to provide additional funding to school districts based on the number of low-income and bilingual students; \$5 million for additional equipment in secondary vocational programs; \$2 million to address the needs of small school districts; and, \$4 million for magnet school programs to encourage racial integration through voluntary student transfers. The budget also continues funding for the 21st Century Schools

and block grant programs.

The budget passed by the legislature included \$15 million for a new grant program designed to improve student learning by providing challenge grants to school districts to achieve improvements in academic, workplace and life skills. This item — an element of the education reform proposal passed by the Senate — was vetoed by the governor because the bill containing the language to implement the program was not approved.

**Higher Education Access Increased**

Higher education spending of \$2.2 billion in 1991-93 accounts for 14 percent of the state general fund budget. This spending level is up 17 percent from 1989-91.

The budget for the state's public colleges and universities includes more funding for financial aid and increases access to public higher education in Washington. The budget includes \$19 million for additional student financial aid. Increasing enrollment at the four-year institutions by 2,008 additional full-time equivalent (FTE) students will cost \$22 million and the budget provides about \$18 million from the state general fund for an additional 4,300 FTE students at the state's community colleges. About 550 of the new FTEs are part of a package to provide assistance to timber-dependent communities.

**Social Service Spending Continues to Rise**

The Department of Social and Health Services is the second largest category of spending from the state general fund in 1991-93, accounting for \$3.9 billion, or about 25 percent, of the total. This up 29 percent from spending in 1989-91, when the department represented 23 percent of state general fund spending.

Developmental disabilities, which represents about 9 percent of the department's state general fund budget in 1991-93, is the fastest growing program with 56 percent spending growth over 1989-91. Included in the increased

funding is \$71 million to enhance and expand community-based services, as well as stabilize existing institutions.

With 1991-93 budget of \$1.0 billion, medical assistance is the largest single program in the department at 27 percent of its 1991-93 general fund budget. It is also the third fastest growing area with a 38 percent increase over spending in 1989-91.

The primary causes of the growth are higher caseloads, growth in the cost of medical care, and increased utilization. Part of the caseload growth is related to eligibility changes in the First and Second Steps programs, which provide medical care to children and pregnant women. Higher rates for medical care vendors also contribute to the growth.

In the area of mental health, the bud-

get provides about \$35 million in additional funding to improve community mental health services through the Regional Support Networks.

Welfare payments for poor families are set to increase 3.1 percent on Jan. 1, 1992 and 3.4 percent on Jan. 1, 1993 at a cost to the state general fund of \$21 million. Payments to providers of various services funded by DSHS will increase as well. The increases range between 3 and 6 percent on Jan. 1 of each year, depending on the services provided at a cost to the general fund of about \$44 million.

### Other Programs Also See Spending Increases

The state general fund budget for 1991-93 provides about \$22 million for

growth management efforts. Items funded include grants to local governments and technical assistance to cities and counties through the Department of Community Development.

Enrollment in the state's Basic Health Plan — a program extending health insurance to the state's working poor and near-poor who can't qualify for Medicaid or afford conventional health insurance — is increased by 5,300, to a total of 25,300 people, with 2,000 of those spaces set aside for timber communities.

*For more information on the budget, contact Elaine L. Ramel, vice president for research, at the Research Council office in Olympia. You can call toll-free from anywhere in Washington state — 1-800-445-1086.*

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