

Washington Research Council

= Public Policy Brief =

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Spending proposal continues operating deficit

Discussion of the supplemental budget for 1989–91 has focused on the state's \$611 million "surplus." That surplus is primarily the result of a \$455 million state general fund balance left over from last biennium and additional revenue anticipated during the current budget cycle. Despite the attention paid the surplus funds, however, the state will still continue to run an operating deficit.

Under the supplemental spending plan proposed last month by Gov. Booth Gardner, the state would spend \$12.7 billion — about \$221 million more than the amount of revenue generated during the biennium. This is made possible by using some of the \$455 million left over from the last budget period. Previously, the ending fund balance went to reduce the unfunded liability of the pension system, but legislation passed last session provided a different mechanism for funding pensions and removed that requirement.

The operating deficit may be a source of future concern. The plan establishes a spending base which exceeds revenue generated by the state's tax system over the biennium. It adds to the bow wave. And, while it leaves \$172 million unspent and potentially available for a reserve, these funds could be spent by a simple majority vote of the legislature.

Gardner's plan protects some of the \$611 million surplus. The governor proposes to spend \$370 million — some of it on "non-recurring" expenses, including school construction (\$70 million in the capital budget) and the Goodwill Games — and transfer \$62 million to the budget stabilization account. According to the governor's office, the plan emphasizes "fiscal prudence and children's programs," with "more than half (of the budget surplus) held in reserve or used for one-time expenditures, and \$200 million going for children's programs." An unobligated balance of \$172 million, a little more than 1 percent of proposed state general fund spending, would remain at the end of the biennium.

Although alternative supplemental budget proposals may emerge over the coming month, little substantial work on the budget can be expected until the next official revenue forecast is released on Feb. 15.

Big Bow Wave

The spending level being proposed by the governor for 1989–91 would generate a bow wave in the 1991–93 biennium of about \$1.6 billion, according to estimates by the Office of Financial Management (OFM). That is, it would cost an additional \$1.6 billion in 1991–93 to maintain the level of services funded in the 1989–91 biennium. The major factors driving the bow wave include caseload and enrollment growth, inflation, and use of last biennium's ending fund balance to fund current spending.

Average annual revenue growth of 6.2 percent would be necessary in order for the state to continue funding its current level of programs in 1991–93. And that would only pay for current programs, with no enhancements or salary increases for state employees or teachers.

The budget document prepared by OFM identifies some possible offsets, in case there is a revenue shortfall. Under the governor's proposal there would be about \$293 million in the bank — \$172 million from the ending fund balance for the 1989–91 biennium and \$122 million in the budget stabilization account. That amounts to a reserve of about 2 percent. However, because it would not be in a specific "savings" account, such as a rainy day fund, the ending fund balance could be appropriated by lawmakers for other purposes — either during this session or in 1991.

ERL and I-102

The operating portion of the supplemental budget proposal totals \$299 million and would increase state general fund spending for the biennium by about 2 percent. Funding for increases in K–12 enrollments, DSHS caseloads and prison populations; and increased health insurance costs for state workers — all areas which frequently require supplemental appropriations — account for about \$90 million. Another \$78 million is suggested for other areas of state government operations, including funding for implementation of some of the recommendations of the Community Protection Task Force, developmental disabilities programs, Department of Health transition costs, risk management and the Goodwill Games. The remainder of the operating proposal — \$132 million — is for children's programs, the governor's response to defeat of Initiative 102 in November.

Human Resources, Education Benefit Most

The big winners in the proposal are human resources and education. These are already the largest spending areas in the state general fund budget and the percentage each program comprises of the total changes very little under the budget proposal. The table on the back shows the impact of the budget proposal by program area, along with the percent change from the current appropriation level. About 40 percent of the supplemental appropriation goes to human resources and another 40 percent goes to education. The only other significant funding recipient is the "all other" category, which includes state employee health insurance, judicial retirement, Goodwill Games, self-insurance premiums, video-telecommunications programs for children, and for programs stemming from the Community Protection Task Force.

Human resource agencies would receive an additional \$121 million under the proposal, increasing biennial spending by a little more than 3 percent, to \$3.7 billion. The Department of Community Development would receive about \$9 million, primarily for early childhood education, emergency management and local disaster assistance. About \$9 million would go toward a variety of functions in the newly created Department of Health, including transition costs and immunizations. Larger prison populations are the main reason for the \$16 million proposed for the Department of Corrections. In addition to caseload increases and costs associated with meeting federal mandates, the \$88 million proposed for the Department of Social and Health Services includes funding for vendor rate increases for child care, out-of-home placements and community developmental disabilities; increased social work staff

to reduce caseloads in child protective services; and expanded medical, dental and mental health services for children.

Education spending would increase by \$120 million — 1.6 percent — under the proposal, with \$111 million of that going to kindergarten through 12th grade (K-12) education. Program enhancements in K-12 total about \$49 million, according to the governor's office, and include reduction in K-8 class sizes, grants to school districts for programs to identify at-risk children, before and after school child care, dropout prevention and retrieval, child abuse prevention training for teachers, and support services for homeless students. Enrollment increases, levy equalization, and increases in the cost of health insurance benefits for public school employees account for most of the remaining \$62 million of the proposal.

1989-91 State General Fund Budget

(dollars in millions)

Operating Revenue	March	Changes/1	November	Percent Change From March
	Forecast		Forecast	
General Fund Revenue Forecast	\$12,060.6	\$516.7	\$12,577.3	4.3%
<i>Retail sales and use tax</i>	6,237.9	385.8	6,623.7	6.2
<i>Business and occupation tax</i>	2,118.2	107.8	2,226.0	5.1
<i>Property tax</i>	1,327.9	37.0	1,364.9	2.8
<i>Debt service</i>	(508.9)	10.3	(498.6)	(2.0)
<i>Other</i>	2,885.4	(24.2)	2,861.2	(0.8)
Other revenue/2	(14.1)	(8.3)	(22.4)	59.1
Total Operating Revenue	\$12,046.5	\$508.4	\$12,554.9	4.2%
Operating Expenditures	Current	Proposed Supplemental	Governor's Proposed	Percent Change From Current
General Government	\$380.9	\$8.5	\$389.3	2.2%
Human Resources	3,545.3	121.3	3,666.6	3.4
<i>DSHS</i>	2,958.7	87.6	3,046.4	3.0
<i>Other Human Resources</i>	586.6	33.7	620.3	5.7
Natural Resources	347.7	7.9	355.6	2.3
Transportation	48.1	2.7	50.8	5.7
Total Education	7,767.2	120.4	7,887.6	1.6
<i>Public Schools</i>	5,780.7	111.4	5,892.1	1.9
<i>4-year</i>	1,276.5	4.8	1,281.3	0.4
<i>Community Colleges</i>	631.1	2.9	634.0	0.5
<i>Other Education</i>	78.9	1.3	80.1	1.6
All other/3	318.4	38.5	356.9	12.1
Budget Expenditures	12,407.5	299.4	12,706.8	2.4
Other appropriations	(0.6)	70.2	69.6	
Total Expenditures	\$12,406.8	\$369.6	\$12,776.3	3.0%
Net from Operations	(360.3)	138.8	(221.5)	
Beginning Fund Balance	379.7	75.1	454.8	
Budget Stabilization Acct transfer	—	(61.5)	(61.5)	
Unobligated Balance	\$19.4	\$152.4	\$171.8	
Budget Stabilization Account balance	60.0	61.5	121.5	
Potential reserves	\$79.4	\$213.9	\$293.3	

1/ Includes impact of legislation passed during 1989 sessions.

2/ Includes reserves for loans, transfers and budget driven revenue. March figure includes impact of 1989 legislation.

3/ Includes Goodwill Games, self-insurance, children's telecommunications, the community protection task force.

Note: Totals may not add due to rounding

Source: Office of Financial Management, 1990.