State operating deficit continues

It has become all too familiar. The Forecast Council finds more money, the price tag for state government goes up, and the operating deficit continues.

With the revised revenue forecast, more than $100 million in additional state general fund revenue for 1989—91 is anticipated by state forecaster Chang Mook Sohn. All official budget proposals — the governor’s, the House’s and the Senate’s — call for more spending and continue a general fund operating deficit.

The 1989 legislature approved a 1989—91 general fund budget of $12.4 billion. With anticipated biennial revenues at that time of only slightly more than $12.0 billion, the legislature adjourned having approved an operating deficit of more than $360 million.

The revenue surplus, which is allowing our constitutionally mandated balanced budget and which has everyone so excited, is primarily found in the ending fund balance from the 1987—89 biennium and is therefore a one-time-only revenue windfall to the state (see table above).

The picture has improved somewhat with Sohn’s most recent revenue forecast — the operating deficit is being reduced with proposals now ranging from about $187 million (governor and Senate) to about $203 million (House), depending on which proposal you’re looking at.

Why the concern for the operating deficit when everyone else seems to be content talking about revenue surpluses? The governor’s Office of Financial Management (OFM) is estimating that about $14.2 billion will be required in the 1991—93 biennium to maintain existing programs at that time. Sohn, on the other hand, is only anticipating about $13.9 billion in revenue (unofficially) for the next biennium. The approximate $300 million operating deficit will follow us into the 1991—93 biennium.

The following discussion outlines each of the proposals currently being considered.

Reserves Less Than 3 Percent

In announcing his proposal, the governor said that “although the 1989—91 revenue number is higher, the state must proceed cautiously because the preliminary 1991—93 revenue forecast is below the amount necessary just to continue present programs in the next biennium.” Saying that his number one priority is to make sure we do not face cutbacks in the future, he recommends holding an additional $36 million in reserve. His most recent proposal would result in an ending fund balance of $208 million and a total of $122 million in the budget stabilization account (BSA), for a total reserve of $329 million — or less than 3 percent of the total budget.

The House proposes a total reserve of $313 million. With the exception of funds currently in the BSA, the House maintains all of its reserve in the ending fund balance, which allows the legislature greater spending flexibility.

The Senate proposal calls for a total reserve of $329 million, placing an additional $200 million in the BSA. Because a super-majority vote is necessary to spend funds in the BSA, the legislature would have less flexibility in deciding how and when to spend this reserve, reducing the likelihood that the money would be spent this biennium.

1991—93 Cost Varies

Most of the current discussion has focused on the 1989—91 spending level. It is also important to consider, however, how much each proposal would affect costs in the next biennium. According to OFM, the level of programs initiated by the governor’s proposal would cost about $14.2 billion in 1991—93.

The Senate budget provides more than either the governor or the House for one-time-only expenses, such as school construction and equipment purchases, resulting in lower continuing costs. According to the Senate Ways and Means Committee staff, the cost of continuing the level of programs in the Senate budget into the 1991—93 biennium is about $14.0 billion, slightly more than the anticipated revenue.

The House budget, on the other hand, includes more for ongoing expenses, such as salary increases and welfare grant increases, and has smaller amounts than the governor and the Senate going to one-time only expenses. This budget is likely cost more than $14.3 billion to maintain the current level of programs in 1991—93.
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