

CB 08-08 December 16, 2008

## STATE SPENDING GROWTH 1995-97 TO 2007-09

### THE BOTTOM LINE

Writing budgets involves making choices, and the choices made implicitly reveal the priorities of budget writers. Based on the spending trends, the highest priorities in recent years have been in human services.

The November 18 update to the state revenue forecast reduced the forecasts of general fund revenues for the 2007-09 and 2009-11 biennia by a combined \$1.9 billion, widening the projected gap between resources and carry-forward expenditures for the upcoming 2009-11 biennium to \$5.1 billion (WashACE 2008b). Governor Gregoire has ordered spending reductions that are expected to save \$590 million over the remainder of the current biennium. By December 20, the Governor must release a budget proposal for the 2009-11 biennium that closes the rest of the gap.

To provide a backdrop for discussions of the 2009-11 budget, this brief reviews trends in state spending from the mid-1990s through the adopted budget for 2007-09. We focus attention on a complex of nine accounts called the *near general fund-state* (NGFS), which includes the general fund itself (GFS) and eight *related accounts*: the health services account, the student achievement account, the education legacy trust account, the public safety and education account and its equal justice sub-account, the violence reduction and drug enforcement account, the water quality account, and the pension funding stabilization account. Traditionally, analyses of the state budget have focused on the general fund alone. In recent years, however, legislators have increasingly routed funding for general

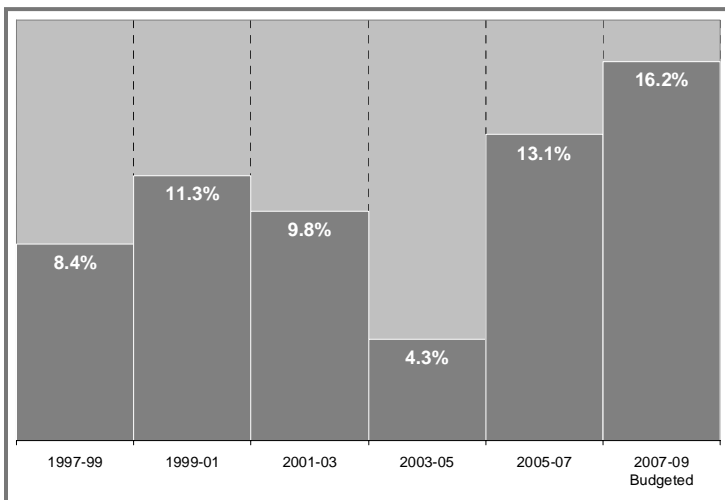
government purposes through dedicated accounts rather than the general fund. To ignore these accounts would give a misleading picture of spending trends (WashACE 2006; WRC 2007). For detail on the source of the data we use and the adjustments we have made to this data, see the box on page 7.

### NGFS GROWTH BY BIENNIUM

For 2007-09, budgeted NGFS spending totals \$33.7 billion, an increase of 82 percent over the \$18.5 billion spent in 1995-97. Chart 1 shows the growth in NGFS spending for each biennium since 1995-97, including the budgeted amount for 2007-09. For the first three biennia shown, growth averaged 9.8 percent. The severity of the dot-com recession and its implications for

state revenue was not recognized until fall 2001, after the 9/11 terror attack delivered a separate severe blow to the state's economy. By February 2002, forecast revenues were 6 percent less than they had been when the initial 2001-03 budget had been written. The legislature closed the resulting gap in the adopted budget largely by transferring moneys to the general fund from other accounts. Reductions to 2001-03 spending were modest. The hangover from the recession, however, restrained 2003-05 spending growth to 4.5 percent. The growth for 2005-07 was 13.1 percent, and budgeted growth for 2007-09 is even higher, 16.2 percent.

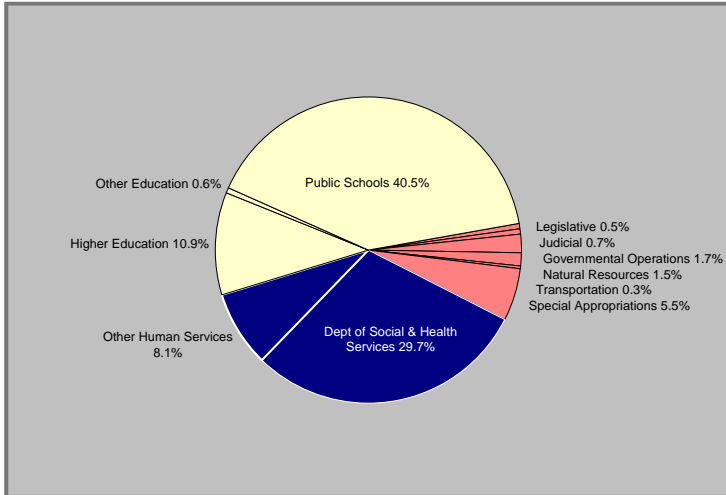
Chart 1: Growth in NGFS Spending Over the Preceding Biennium



The Washington Alliance for a Competitive Economy is a coalition of business organizations working together to build economic opportunity for all Washingtonians.

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Chart 2: Distribution of Budgeted NGFS Spending for 2007-09



Most of NGFS spending goes to either education or human services.

State budget documents customarily break spending into 11 high-level categories, as shown on Chart 2. Education comprises three of these eleven categories: *public schools, higher education* and *other education*. (Other education includes the department of early learning, the state schools for the deaf and the blind, and the state historical societies.) Together the three education categories account for 51.9 percent of budgeted NGFS spending for 2007-09.

Education's share of spending has fallen since 1995-97, when it stood at 56.3 percent of NGFS.

Human services comprise two of the eleven categories shown on Chart 2: the *department of social and health services* and *other human services*. (Other human services includes, among other things, the department of corrections, the health care authority and the department of health.)

The two human services categories account for 37.9 percent of budgeted 2007-09 NGFS spending. This is up from 32.5 percent in 1995-97.

The rest of NGFS activities fall under the remaining six categories: *legislative, judicial, governmental operations, natural resources, transportation* and *special appropriations*. All together these six categories are just 10.2 percent of budgeted NGFS spending for 2007-09.

Chart 3: Growth in NGFS Spending: Human Services, Education and Everything Else

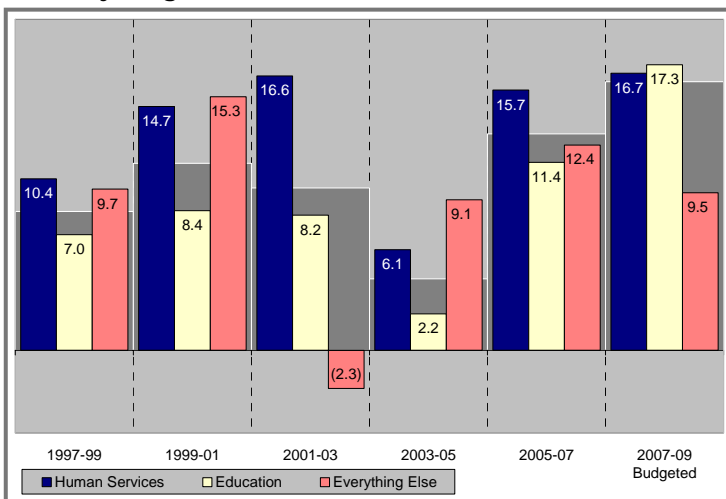


Chart 3 shows the percentage growth by biennium for education, human services and all other NGFS spending, against a backdrop of the growth in overall NGFS spending. For five of the six biennia, the growth rate for human services greatly exceeds that for education. The exception is the current biennium, where budgeted education spending growth does modestly exceed human services. Over all, human services spending increased by 111.5 percent from 1995-97 to 2007-09, while education increased by 67.5 percent.

The biennial growth rate for the everything else category is much more volatile, in part because it is a smaller share of spending than the other two categories. Over the six biennia, spending on this catchall grew by 66.1 percent, slightly less than education.

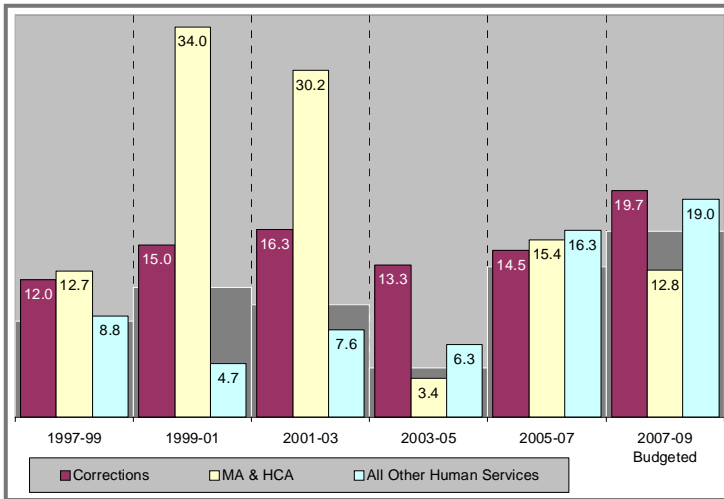
### HUMAN SERVICES

Charts 4 and 5 provide more detail on the growth in human services spending.

Fifty-eight percent of the increase in human services spending from 1995-97 to 2007-09 is concentrated in medical assistance (MA) payments, the state health care authority (HCA, which includes the basic health plan), and the department of corrections. These three categories rose from 40 percent of human services spending in 1995-97 to 50 percent in 2007-09.

Chart 4 shows the percentage growth in NGFS medical assistance and health care authority, and corrections spending by biennium. Medical assistance and the health care authority together are 36.6 percent of budgeted 2007-09 NGFS spending, while corrections is 13.8 percent.

Chart 4: Growth in NGFS Spending: Corrections, and Medical Assistance and the Health Care Authority

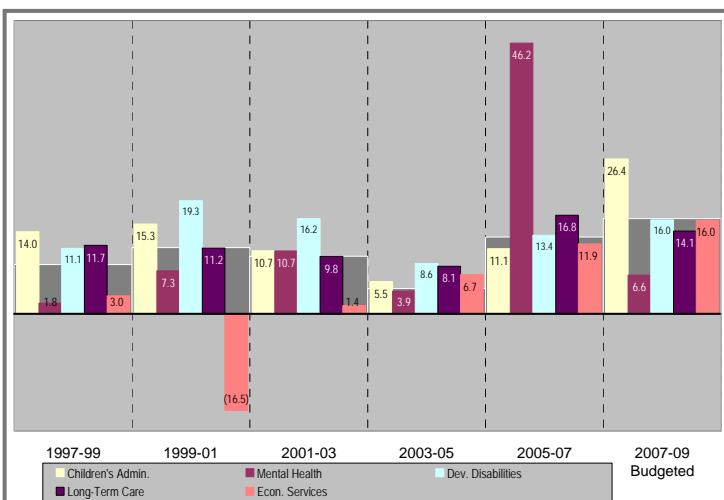


The percentage growth in medical assistance and health care authority spending was particularly large in 1999–01 and 2001–03. Growth in these years was a product of both increased enrollments and expansion in medical costs. The lower level of growth in 2003–05 reflected both one-time cost containments and cuts in eligibility. (The basic health plan enrollment target was decreased to 100,000; the scope of dental coverage for adults on medical assistance was reduced by 25 percent; medical assistance’s medically indigent program was eliminated; eligibility screening for medical assistance was tightened.) In recent years medical cost pressures have lessened. With less pressure from medical costs, there has been renewed emphasis on broadening eligibility and targeted efforts to expand reimbursements in 2005–07 and 2007–09.

Chart 5 shows five additional categories of human services spending, which together account for a bit less than 41 percent of budgeted human services spending for 2007–09. The economic services category has been the slowest growing of the five categories by far. Economic services includes the state’s main welfare programs, the federal/state TANF (temporary assistance for needy families) program and the state GA (general assistance) program. As the result of the welfare reform initiated in the mid-1990s, welfare rolls shrank dramatically in the first three biennia shown, and overall economic services spending fell.

The remaining four categories, the children’s administration, mental health (including the special commitment center), developmental disabilities and long-term care, all grew by more than NGFS spending over the period as a whole, though in each case the growth was less than medical care or corrections.

Chart 5: Growth in NGFS Spending: Selected DSHS Programs



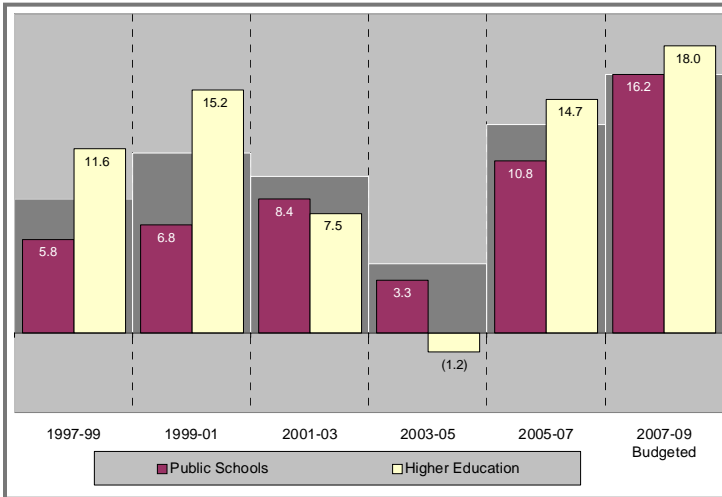
The spike in mental health spending in 2005–07 reflects, in part, changes in federal Medicaid regulations. Previously the state had been able to use savings achieved through Medicaid managed care to fund the community health system. The new regulations require those savings to be retained within the Medicaid program. The 2005 budget provided \$80 million in state funds to backfill almost all of this loss. In addition the 2006 supplemental budget provided \$11 million to increase Medicaid managed care payments for community mental health services and \$31 million to begin implementation of a new strategy for delivering services to people with severe mental illness. Together these three increases account for half of the 2005–07 growth.

The category with the greatest percentage growth for 2007–09 is the children’s administration, which grew by 26.4 percent. This has been a priority area for Governor Gregoire.

**EDUCATION**

Chart 6 shows growth rates for public schools and higher education. Together these two categories account for 98 percent of state spending on education.

Chart 6: Growth in NGFS Public School and Higher Education



State spending on public schools grows at a lower rate than overall NGFS spending in each of the biennia shown. At least in part, this reflects demographic factors. From 1996 to 2008, the age-5-to-17 cohort of the state’s population grew by 6.2 percent, while the overall state population grew by 18.3 percent. The age-5-to-17 cohort’s share of state population fell from 19.4 percent in 1996 to 17.4 percent in 2008.

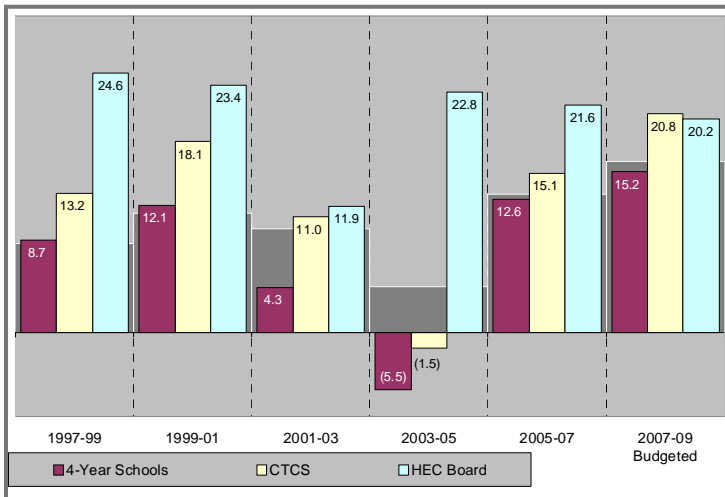
In four of the six biennia, higher education spending grew a bit more than overall NGFS spending. The exceptions are the two biennia affected by the recession, 2001–03 and 2003–05. In 2003–05 state support for higher education actually dropped. In these biennia in particular, college and university budgets were propped by increases in tuition, which does not pass through the NGFS.

Demographic factors increased the relative demand for higher education over the period. From 1996 to 2008 the age-18-to-23 cohort of the state’s population grew

by 35.1 percent. This cohort was 7.6 percent of state residents in 1996 and 8.6 percent in 2008.

Chart 7 takes a closer look at higher education, divided into three categories, direct funding of the four-year schools (University of Washington, Washington State University, Central Washington University, Eastern Washington University, Western Washington University and the Evergreen State College; and also including the Spokane Intercollegiate Research and Technical Institute), direct funding to the community and technical college system (CTCS) and funding to the higher education coordinating (HEC) board. Most of the HEC board funding goes to financial aid.

Chart 7: Growth within NGFS Higher Education



For the 2007–09 biennium, the four-year schools received 47.7 percent of state higher education funding, the community and technical college system got 39.3 percent; and the HEC board got 13.0 percent. In each biennium, NGFS spending for the community and technical colleges grew at a greater rate (or fell at a lower rate) than NGFS spending for the four-year schools. Cumulatively, the increase for the four year schools from 1995–97 to 2007–09 budget is 56 percent; for the community and technical colleges the growth is 103 percent.

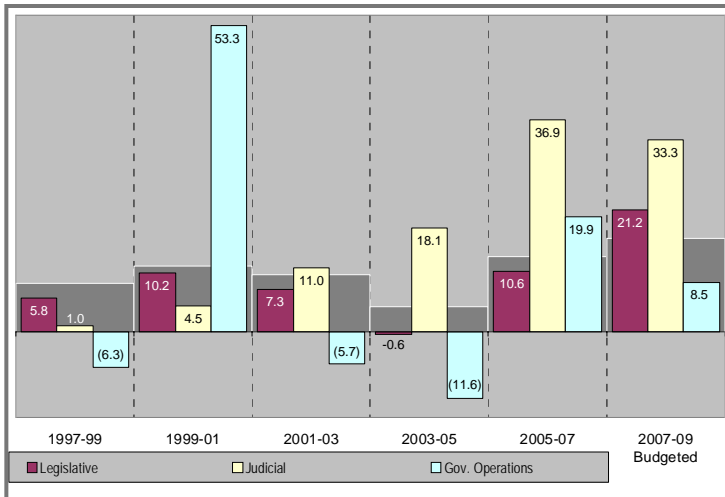
Over the period, full-time-equivalent enrollments rose by 23.6 percent at the four-year schools and 22.3 percent at the community and technical colleges.

In five of the six biennia, the HEC board was the higher education category with the largest growth rate. (The budget for 2007–09 is the exception.) Total growth from 1995–97 to the 2007–09 budget is 209 percent. Higher levels of tuition have played a key part in the state’s strategy for growing the budgets of the higher education institutions in recent years. To protect students less able to afford higher tuition, an increasing share of the state’s spending on higher education has been channeled to financial aid, through the HEC board.

**LEGISLATIVE, JUDICIAL AND GOVERNMENT OPERATIONS**

Chart 8 shows growth rates for the legislative, judicial and government operations categories. The latter category includes a broad range of functions, running from the offices of the governor, lieutenant governor, secretary of state, auditor and attorney general; the departments of revenue and of community, trade and economic development; down to the growth management hearings boards.

Chart 8: Growth in NGFS Legislative, Judicial and Governmental Operations Spending



Legislative spending increased at lower rates than overall NGFS spending in five of the six biennia. The one exception to this is 2007–09. Overall legislative spending rose 67 percent from 1995–97 to the 2007–09 budget.

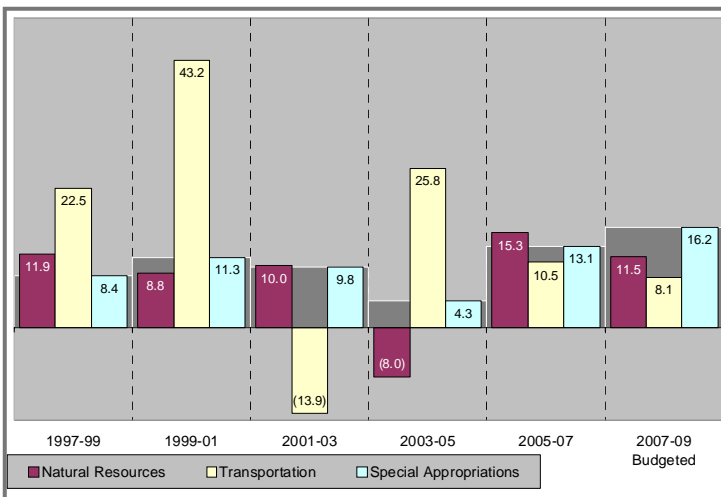
NGFS judicial spending rose less than NGFS spending overall for 1997-99 and 1999-01 and significantly more than NGFS overall for 2001–03. For 2003–05, 2005–07 and 2007–09 the rates of judicial spending increase greatly exceed those of the NGFS overall. In all three of these biennia, there are extraordinary increases in the office of the administrator of the courts. The final two biennia see large increases in the offices of public defense and civil legal aid. Budgeted 2007–09 NGFS judicial spending is up 153 percent from 1995–97.

NGFS government operations spending declined in three of the six biennia. The large spike in 1999–01 reflects, in part, funds provided to local governments as backfill for motor vehicle excise tax revenues lost as the result of Initiative 695. Overall, government operations spending rose by 56 percent from 1995–07 to the governor’s proposed budget for 2007–09.

**NATURAL RESOURCES, TRANSPORTATION, AND SPECIAL APPROPRIATIONS**

Chart 9: Growth in NGFS Natural Resources and Transportation Spending, and Special Appropriations

Chart 9 shows biennial growth rates for NGFS spending on natural resources, transportation and special appropriations. Transportation grew faster than overall NGFS spending over the six biennia, while natural resources and special appropriations grew more slowly.



Budgeted 2007–09 natural resources spending is up 57 percent over 1995–97.

NGFS transportation dollars go primarily to the state patrol, and also to the department of licensing. (Most transportation spending flows from dedicated transportation accounts such as the motor vehicle fund and the multimodal transportation fund, rather than the NGFS.) The spike in 1999–01 is again I-695 backfill. The budgeted 2007–09 spending is up 127 percent from 1995–97.

The largest part of special appropriations goes to bond retirement and interest. Special appropriations also includes contributions to retirement systems. The budgeted 2007–09 special appropriations spending is up 62 percent from 1995–97.

Chart 10: Growth in FTE State Employees Funded through the Operating Budget

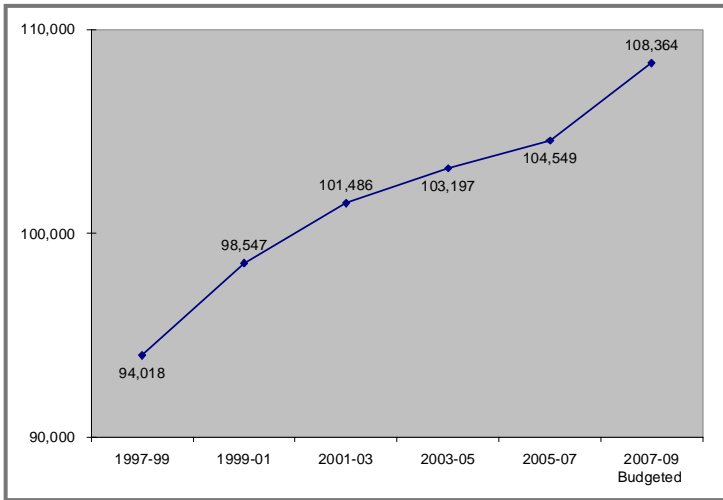


Chart 11: Distribution of FTE Employees Funded in the 2007-09 Budget

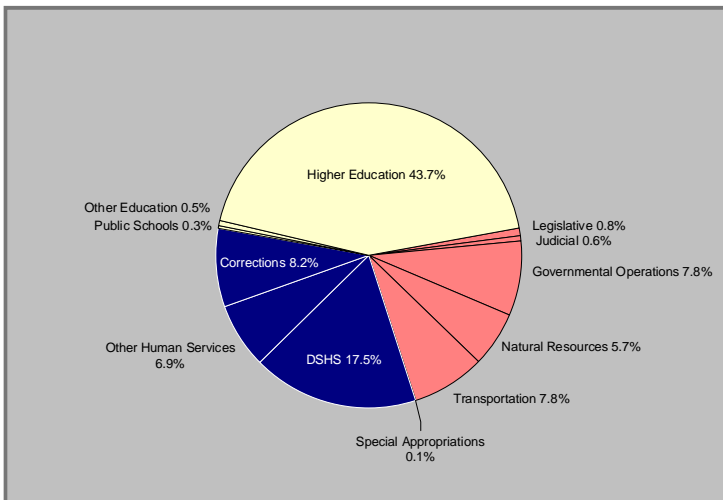
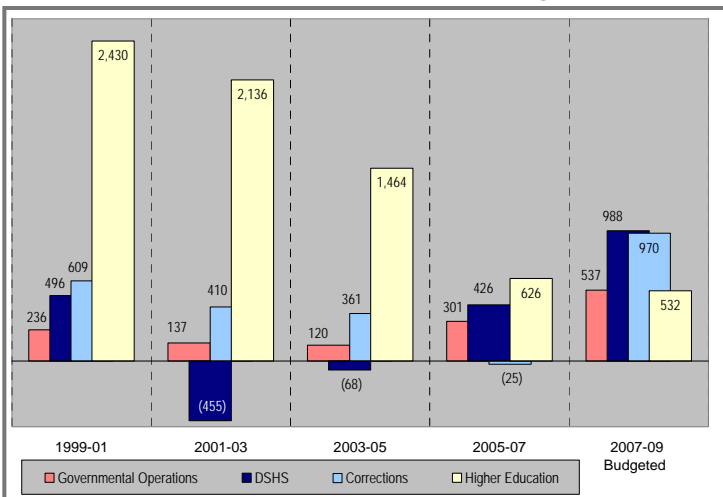


Chart 12: Growth in Employment for Governmental Operations, DSHS, Corrections and Higher Education



**EMPLOYMENT**

Wages, salaries and benefits for state employees represented 24.7 percent of state operating expenditures in the 2005-07 biennium. (These numbers reflect the complete operating budget and not just employees supported by the NGFS.)

Staffing supported by the state operating budget has grown from 94,018 full-time equivalent (FTE) employees in the 1997-99 biennium to 108,364 FTE budgeted for the 2007-09 biennium. As Chart 10 shows, the strongest employment growth occurred during the 1999-01 biennium, just prior to the last recession, and during the current biennium. State employment grew by 15.3 percent from 1997-99 to 2007-09.

Chart 11 shows the distribution of employees across high-level spending categories for 2007-09. The four largest categories are higher education, 43.7 percent, DSHS, 17.5 percent, corrections, 8.2 percent, and governmental operations 7.8 percent. Together these four categories accounted for 77 percent of FTE budgeted employment for 2007-09 and 85 percent of employment growth from 1997-99 to 2007-09.

Chart 12 shows biennial growth for each of these four categories.

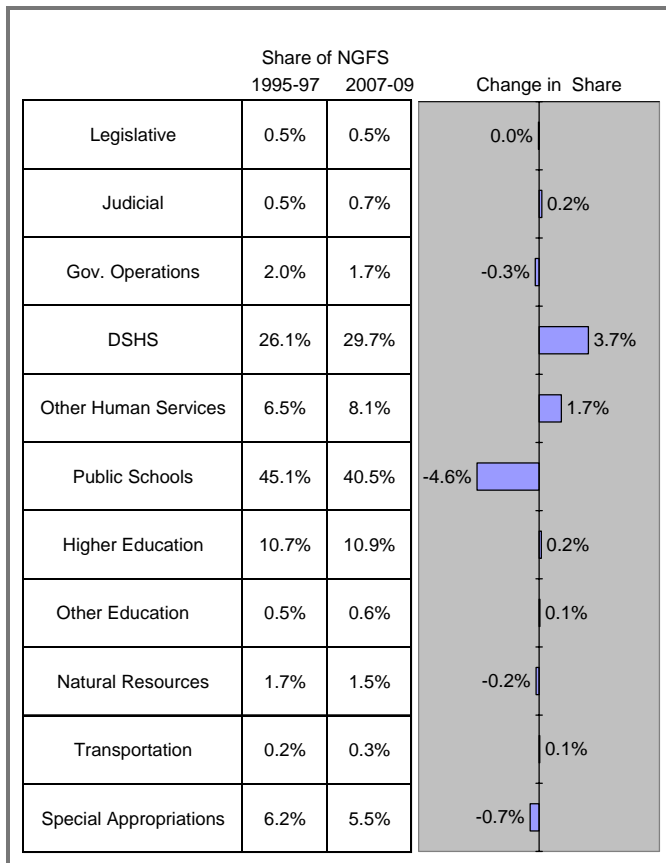
Higher education added the greatest number of employees, 7,188, over the five biennia, although the number of employees added declined in each succeeding biennium. In percentage terms, higher education employment grew 17.9 percent over the period.

The department of corrections added the second greatest number of employees, 2,325, over the five biennia and ranked first in percentage growth, 35.2 percent.

DSHS added 1,388 employees from 1997-99 to 2007-09, and, at 7.9 percent, ranked last in percentage growth. DSHS employment actually fell during 2001-03 and 2003-05. For 2007-09 DSHS has added 988 employees.

Governmental operations added 1,332 employees over the five biennia, an 18.7 percent increase.

Chart 13: Growth in NGFS Spending Shares, 1995–97 to 2007–09



**DISCUSSION**

The table to the left shows the shares of NGFS spending of the 11 high-level spending categories for the 1995–97 and 2007–09 biennia, while the bar graph shows the changes in shares from the earlier biennium to the current one. (Numbers fail to add up because of rounding.)

Writing budgets involves making choices, and the choices made implicitly reveal the priorities of budget writers.

Public Schools experienced the biggest drop in spending share between the two biennia. This drop reflected shifting demographics, however, rather than a deprioritization of K–12 education. Public Schools’ drop in spending share was proportionally equal to the drop in the age-5 to-17 cohort’s share of state population.

The shifting demographics provided an opportunity to increase other categories’ shares of spending. The two that grew appreciably were DSHS and other human services, which together went from 32.5 of NGFS spending in 1995–97 to 37.9 percent in 2007–09.

Based on the spending trends, the highest priorities in recent years have been in human services.

ABOUT THE DATA.

The NGFS spending data presented in this brief were taken from the budget Recast History that is jointly maintained by the Legislative Evaluation and Accountability Program (LEAP) Committee and the Office of Financial Management. The Recast History includes historical expenditure and staffing data that have been reconstructed by agencies to be consistent with current budget reporting conventions in order to provide comparability over time.

The Recast History is available on the LEAP Committee’s web site:

<http://leap.leg.wa.gov>

We have made one adjustment to the published data. To avoid double counting, we exclude from 2007–09 NGFS expenditures these appropriations, totaling \$1.214 billion, from the general fund–state to other NGFS accounts:

Appropriations from the GFS to other NGFS accounts during the 2005-07 biennium  
(millions of dollars)

	2006 Session	2007 Session
Education Legacy Trust Account		215.0
Equal Justice Account		4.0
Health Services Account	200.0	50.0
Pension Funding Stabilization Account	350.0	115.0
Student Achievement Account	275.0	
Violence Reduction and Drug Enforcement Account		5.0
Session Total	825.0	389.0
Grand Total		1,214.0

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