Washington Research Council

e POLICY brief

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What if all the initiatives pass? Major impact on state budget

BRIEFLY

If all the initiatives on the November ballot pass, the impact on the state budget will be substantial. Because the initiatives target different tax and spending streams, the effect is cumulative. None of the initiatives cancels another.

One certain outcome: Passage of the initiatives would magnify the budget challenges confronting the 2001 legislature.

Of the six initiatives on the ballot, four have significant fiscal implications. Because the initiatives aim at different tax and spending streams, and different levels of government, their impact is cumulative. None cancels another.

Initiative 722 (Son of 695) and Initiative 745 (on transportation) will affect primarily local governments. Their effect on the state budget is largely discretionary, depending on the degree to which lawmakers choose to mitigate local revenue losses or meet the I-745 goals by boosting state roads spending.

Initiative 728 (K-12 2000) and Initiative 732 (Education COLA) both affect the state general fund, but in different ways. The former shifts money out of general fund surpluses, moving it to a dedicated account not subject to the Initiative 601 spending limit. The latter dictates spending from the general fund, below the I-601 limit.

Below, we'll explore the effect of the initiatives on the state budget.

FIGURE 1

General Fund State Balance Sheet

(Dollars in millions)

REVENUES	1999-01	2001-03	Change
Beginning Balance	**$462.0**	**$477.2**	**$15.2**
September Revenue Forecast	**$21,132.9**	**$22,769.3**	**$1,741.0**
Initiatives	($5.9)	($550.4)	($544.5)
Revised Revenues	**$21,127.0**	**$22,219.0**	**$1,196.5**
Total Available Resources	**$21,589.0**	**$22,696.2**	**$1,107.1**
APPROPRIATIONS AND LIMIT			
Appropriations (spending to limit)	**$20,917.2**	**$22,209.5**	**$1,292.3**
GENERAL FUND BALANCE			
Ending Balance (before transfers)	$671.9	$486.7	($185.2)
Transfer back (I-728 transfer of 25% of excess)	$0.0	$10.4	$10.4
Transfer to Emergency Reserve	($194.6)	($77.8)	$116.8
Unobligated Ending Balance	**$477.2**	**$419.2**	**($58.0)**

Source: Senate Ways and Means Committee, Washington Research Council adjustments

General Fund State.

To begin, consider the General Fund State (GFS) budget as we typically view it. In Figure 1, which is based on projections by Senate Ways and Means Committee staff, the current 1999-2001 budget of $20.850 billion is assumed to increase by $67.1 million in next year's supplemental budget. That increase would take GFS spending for the current biennium to $20.917 billion, the Initiative 601 spending limit. With that as the base, spending from this biennium to the next could grow about $1.3 billion from $20.917 to the I-601 limit of $22.209 billion for 2001-2003.

Revenue Changes. Passage of the initiatives would reduce revenues for the current biennium by $5.9 million, the estimated effect of Initiative 722 (see ePB 00-30) on state property tax collections.

For the 2001-2003 biennium, passage of the initiatives would reduce GFS revenues by an estimated $550.4 million. Most of that, $442 million, would be the result of the diversion of property tax and lottery revenue under Initiative 728

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(see ePB 00-24). (I-728 does result in a transfer back to the GFS of $10.4 million, as shown below.) I-722 would account for $24 million of the reduction. The remaining $84 million would result from the sales tax exemption provided by Initiative 745 (see ePB 00-27).

Spending. The initiatives do not directly change GFS appropriation totals; however, Initiative 732 (see ePB 00-25) requires payment of a cost-of-living adjustment (COLA) to public school employees and certain community and technical college employees. The COLA would cost the GFS about $412 million, nearly a third of the total new spending allowed under the I-601 cap. In addition, passage of I-729 could increase GFS spending by $8-16 million depending on how many students are drawn to the public schools from home or private schools.

Unobligated Balance. Beyond the loss of $550 million in revenue, the initiatives have another, less significant impact on GFS fund balances. The emergency reserve fund is capped at 5 percent of annual revenues. Initiative 728 requires that 25 percent of the money received in excess of the limit shall be transferred back to the general fund. (The other 75 percent goes to the newly created Student Achievement Fund.) In Figure 1 the transfer of $10.4 million is shown with the balances.

Education Accounts. Initiative 728 affects two education accounts: the Education Construction Fund originally created by I-601 and the new Student Achievement Fund created by I-728.

As Figure 2 shows, in the current biennium, under existing law, the ECF will receive $223 million. In 2001-2003, under I-728, about $77 million of lottery revenues will be deposited in the account. This is a net reduction of about $465 million in ECF funding, because the legislature last session provided that all excess reserve funds (i.e., revenues above the five percent emergency reserve fund limit) would go for school construction.

Deposits into Education Accounts

	1999-01	2001-03
Education Construction Fund	**$223.0**	**$76.7**
Student Achievement Fund		
Property Tax		238.1
Lottery		127.6
Excess Reserve Funds		31.1
Total SAF	**$0.0**	**$396.8**

FIGURE 2

The newly-created Student Achievement Fund would receive about $397 million in the 2001-2003 biennium: $238 million in property tax revenues, $128 million from the lottery, and $31 million in excess reserve funds. (Under I-728, 75 percent of excess reserve money goes to the SAF; 25 percent to the general fund.)

Emergency Reserve Fund. The legislature last year limited the ERF to five percent of annual revenues, as would I-728. The distribution of excess revenues is affected, as has been described above. Figure 3 shows the anticipated balances in the ERF and the transfers assuming passage of the initiative. (The transportation transfer shown in Figure 3 is consistent with current law and unaffected by the initiatives.)

Comment. Beyond the balance sheet manipulations, no one can predict with certainty how the legislature would respond to passage of all the initiatives. As noted in earlier briefs, the effect of some of the initiatives on the budget is

Emergency Reserve Fund Balance

	1999-01	2001-03
Beginning Balance	$535.7	$534.8
Interest Earnings	$62.4	$66.3
Transfer from GF	$194.6	$77.8
Transfer to Transportation	($35.0)	($70.0)
Transfers to Education Accounts	($223.0)	($31.1)
Transfer to GF balance	$0.0	($10.4)
Ending Balance	**$534.8**	**$567.5**

FIGURE 3

uncertain – and the legislative response even more so.

Already, state budget analysts project that the costs of maintaining current programs through the 2001-2003 biennium may exceed the I-601 expenditure cap by as much as $400 million. Major areas of concern include rising corrections costs, increasing higher education enrollment, and rapidly escalating health care expenses.

One conclusion, then, stands out: Passage of the initiatives with major fiscal implications will compound the already-substantial budget challenges facing lawmakers in 2001.

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