

# Special Report



Washington Research Council

July 23, 1999

## Wrap-up of the 1999-2001 Budget

The legislature adopted a \$20.6 billion General Fund-State operating budget for the 1999-2001 biennium, a 7.4 percent increase over the last budget.

This is the smallest budget boost during the past 30 years.

The legislature also passed a number of modest tax cuts, which are projected to reduce revenue by \$25 million over the course of the next biennium.

The General Fund-State (GFS) budget is \$73.7 million below the projected Initiative 601 limit.

The budget funnels by far the biggest appropriation increases to public education. Many millions of dollars also are targeted for rural economic development, salmon recovery, and health and human services.

Most of the budget is tied to education and to health and human services. Funding for K-12 public schools consumes 47 percent of the budget, and higher education takes up 12 percent. Funding for the human and health services amounts to 30 percent of the budget.

That leaves 8 percent for other government programs and 3 percent for general government.

For the remainder of the 1997-99 biennium, the legislature passed a supplemental budget, bumping authorized spending up by \$71.9 million.

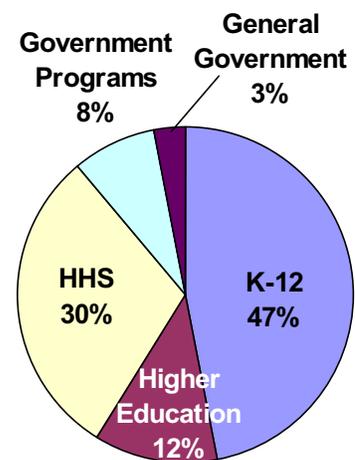
Chart 1 shows the resulting two-biennium balance sheet, incorporating the June revisions to the general fund revenue forecast. Ending reserves of \$1,062.8 million are projected for the 1997-99 biennium, \$963.6 million for the 1999-2001 biennium.

### Briefly

The legislature adopted a \$20.6 billion General Fund-State operating budget for the 1999-2001 biennium. This amount is \$73.7 million below the Initiative 601 spending limit.

Major spending increases in the general fund were concentrated in K-12 and Higher Education.

Outside the general fund, transportation saw a large increase. These appropriations are at risk if voters approve Initiative 695 in November, however.



## General Fund-State Balance Sheet

RESOURCES		
	1997-99	1999-01
Unrestricted Beginning Reserves	\$512.9	\$527.2
June 1999 Revenue Forecast	\$19,688.5	\$20,446.2
Water Quality Transfer		(\$26.8)
<b>Total Unrestricted Resources</b>	<b>\$20,201.4</b>	<b>\$20,946.6</b>
APPROPRIATIONS AND SPENDING LIMIT		
Projected 601 Spending Limit	\$19,155.6	\$20,646.4
Original 1997-99 Appropriation	\$19,083.7	
1999 Supplemental Budget	\$71.9	
1999-01 Biennial Appropriation		\$20,572.7
<b>Spending Level</b>	<b>\$19,155.6</b>	<b>\$20,572.7</b>
RESERVES		
Emergency Reserve	535.6	585.5
Unrestricted Ending Balance	527.2	378.1
<b>Total Ending Reserves</b>	<b>\$1,062.8</b>	<b>\$963.6</b>

Source: Senate Ways and Means Committee

## CHART 1

## CHART 2

## General Fund-State Spending

	1997-99 Biennium	1999-01 Maintenance	Policy Changes	1999-01 Enacted
<b>State of Washington Totals</b>				
Legislative	116,151	115,781	1,632	117,413
Judicial	61,789	60,583	1,477	62,060
Governmental Operations	355,610	361,072	42,303	403,375
Human Services	5,995,203	6,406,618	(146,929)	6,259,689
Natural Resources and Recreation	254,758	259,047	22,750	281,797
Transportation	40,301	51,670	1,783	53,453
Public Schools	8,818,503	8,811,239	646,436	9,457,675
Higher Education	2,208,618	2,270,626	267,619	2,538,245
All Other Education	51,190	51,940	990	52,930
All Other Expenditures and Appropriations	1,181,600	1,167,947	184,242	1,352,189
<b>State of Washington Totals</b>	<b>19,083,723</b>	<b>19,556,523</b>	<b>1,022,303</b>	<b>20,578,826</b>

Source: Office of Financial Management

## Public Schools

As ever, the largest portion of the general-fund state operating budget goes to Washington's K-12 public schools. Of the \$9.5 billion for schools, \$646.4 million is new funding. (See Chart 2)

Teacher compensation tops the list of funding priorities. The enacted budget includes the Senate pay plan described in the Research Council's Policy Brief "Senate Offers Biennial Budget" (PB 99:21, April 23, 1999). In all, funding for increased teacher compensation amounts to \$536.3 million. Chart 3 shows the components of the increase.

The increase for general apportionment includes \$27.3 million to modestly decrease the teacher-student ratio for grades K-4. This change will result in an estimated increase of 261 staff state-wide.

The budget includes \$19.3 million to extend the learning assistance program to grades 10 and 11. This program provides extra funds to school districts whose students score poorly on national standardized tests or whose students are disproportionately poor.

Within the policy increases in the Education Reform program, there is \$16 million for reading programs for struggling students in grades 1 to 6, \$2 million for a program for schools with low mathematics scores, \$3.8 for mentoring beginning teachers, and \$1 million to fund five additional summer accountability institutes.

## Higher Education

The \$2.5 billion budgeted for higher education includes \$268 million in policy initiatives.

The budget provides \$60.3 million to fund an additional 8,277 full time equivalent students. Of these, 4,806 are at the community and technical colleges (CTCs), and 2,971 at the four-year institutions. The Higher Education Coordinating Board will allocate the remaining 500 students based on proposals by schools to provide added capacity in fields of study with high student demand.

Annual 3 percent cost of living increases for faculty and other higher education employees account for \$95.0 million of the GFS increase. In addition, the four-year institutions will receive \$10.0 million GFS for a faculty recruitment and retention pool, which the schools may augment with tuition funds. The CTCs will get \$10.0 million to increase salaries of part-time faculty and \$11.9 million for part-time faculty retirement benefits. (The schools must match the state money for salary increases with tuition funds.) And the CTCs will have \$3.5 million for faculty salary increments.

In the coming biennium, institutions will have a limited ability to set their own tuition rates. The maximum increases for all student categories are 4.6% in academic year 1999-2000 and 3.6% in 2000-2001. Increases need not be uniform across the institution. Also, institutions may price courses differently, within the limits, based on time-of-day, time-of-week, or delivery method.

The budget increases funding for the state need grant by \$20.0 million and provides \$9.0 million for a new financial aid plan, the College Promise Scholarship. Promise Scholarships will flow to high school seniors, in the top 10% of their high school class in 1999 and the top 15% in 2000, whose family incomes are less than 135% of the state's median income. The value of the scholarship is pegged to two years tuition at the community colleges. Scholarships go to any public or private institution in the state.

## Human Services

Declining welfare enrollment and more federal funding makes possible a \$139 million saving in the Department of Social and Health Services' 1999-2001 budget.

Welfare caseload reductions are expected to yield savings of \$196.9 million. And additional federal money funneling into the social services block grant means estimated savings of \$34.4 million in state funds. These savings partially account for the \$230.6 million decrease in economic services shown in Chart 4.

As well, smaller savings result from changes in the medical assistant payments program and in administrative/support services.

### Components of Teacher Compensations Increase

(millions of dollars)

Cost-of Living Increase	\$267.3
Beginning Teacher Salary Adjustment	\$30.9
Senior Teacher Salary Adjustment	\$40.3
Learning Improvement Days	\$74.6
Health Benefit Inflation	\$123.3

Source: Senate Ways and Means Committee

CHART 3

*“Welfare caseload reductions are expected to yield savings of \$196.9 million.”*

## Department of Social and Health Services Policy Changes

(millions of dollars)

PROGRAM	POLICY CHANGE
Children and family Services	12.7
Juvenile Rehabilitation	1.0
Mental Health	4.1
Developmental Disabilities	26.2
Long-term Care Services	44.8
Economic Services	(230.6)
Alcohol and Substance Abuse	9.4
Medical Assistance Payments	(5.7)
Vocational Rehabilitation	1.0
Administration/support Services	(1.9)
<b>Total Policy Changes</b>	<b>(139.0)</b>

Source: Office of Financial Management

**CHART 4**

All told, savings more than offset funding increases totaling \$44.8 million for long-term care services, \$26.2 million for developmental disabilities, \$12.7 million for children and family services, \$9.4 million for alcohol and substance abuse programs, smaller amounts for other DSHS programs.

The \$44.8 million budget increase for long-term care services includes funding for increases in wages, nursing-home rates and vendor rates. It also funds a 15 percent improvement in the ratio of case managers to home-care recipients.

The \$26.2 million increase for the developmental disabilities program includes funding for wage, vendor, service, support and outplacement increases. It also funds community protection and high-school transition.

The net \$12.7 million increase in children and family services — after a savings of \$14.8 million in state funds realized from more federal money for child care development — includes \$13 million more for foster care, \$11.1 million for vendor payments and \$2.3 million for payments to the counties for implementing the Becca Bill, a law that deals with runaways and at-risk youths.

### Other Social Service Agencies

For the Department of Corrections, savings and efficiencies more than offset spending increases to yield a budget cut of \$4.3 million.

Funding for the Washington State Health Care Authority increases by \$24.2 million as a result of a fund-shift to the Authority's administrative account.

The state's health services account provides \$9.3 million for increasing the subsidies for eligible enrollees in the Basic Health Plan, a health insurance program for the working poor.

Lawmakers appropriated \$2.1 million from the public education and safety account for more training and for more people in the Basic Law Enforcement Academy.

To increase its operational efficiency, the Department of Labor and Industries is budgeted an additional \$25.7 million. Another \$2.9 million targets a redesign of health and safety standards. And \$2.7 million more is

*“The health services account provides \$9.3 million for increasing the subsidies for eligible enrollees in the Basic Health Plan”*

for a study on ways to capture lost tax revenue and unpaid unemployment and industrial insurance premiums from illegal contractors in the plumbing and electrical trades.

## Natural Resources and Recreation

A major issue during this legislative session was the listing of salmon under the Endangered Species Act. Funds totaling \$119 million, funneled through the Interagency Committee for Outdoor Recreation, are budgeted for salmon-recovery projects through the capital budget.

For the Department of Ecology, \$4 million funds watershed planning grants, \$1.7 million additional staff approving water rights, \$1.5 million creation of allowable herbicide pollution levels, and \$9.9 million funds policy changes.

Park operations and safety measures account for most of the Parks and Recreation Commission's \$10.4 million increase.

## Housing and Homeless

The Department of Community, Trade, and Economic Development (CTED) \$2.5 million GFS (transferred from DSHS) to fund a consolidated emergency assistance program. The legislature also appropriated to CTED \$2.5 million for homeless-family shelters, and \$5 million for transitional housing.

## Transportation Budget

Transportation spending for the next biennium is budgeted to jump a whopping 31 percent, to more than \$4 billion. But about \$1.1 billion of the funds for road construction and improvements is imperiled by Initiative 695.

The initiative would destroy the plan behind Referendum 49.

In November 1998, Washington voters approved Referendum 49, thereby transferring Motor Vehicle Excise Tax revenues from the General Fund to the Motor Vehicle Fund to support a \$1.9 billion bond issue. Together with other funds, the bonds are intended to pay for a 5-year, \$2.4 billion program of transportation investments.

With these investments slated to begin in the 1999-2001 biennium, transportation stands out as one of the major growth sections in the new budget. Transportation funding for the next biennium totals \$4.343 billion, up 31 percent from the last budget.

Referendum 49 bonds will provide \$682 million. (See Chart 5)

But Initiative 695, which has qualified for the November 1999 ballot, would repeal the MVET. So uncertainty hangs over planned transportation funding and projects. If voters approve the initiative, the legislature will have to reprioritize road construction and improvement projects, to the extent that lawmakers decline to replace lost funding with other revenue.

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### 1999-2001 Transportation Budget (thousands of dollars)

Agency	As Passed	
	1999-2001	Percent
Department of Transportation	\$3,463,643	79.8%
Washington State Patrol	\$318,376	7.3%
Transportation Improvement Board	\$237,418	5.5%
Department of Licensing	\$194,193	4.5%
County Road Administration Board	\$111,044	2.6%
Other Transportation	\$18,033	0.4%
<b>Total</b>	<b>\$4,342,707</b>	

Source: Office of Financial Management

CHART 5

The legislature had to tussle with another funding issue as this year's legislative session ended without a transportation budget. Lawmakers had to return to Olympia for a special session to resolve power issues besetting the Legislative Transportation Committee, which at the time consisted of 12 representatives and 11 senators.

Those issues resolved, the legislature finally adopted a new transportation budget, which funds the Department of Transportation at \$3.3 billion. (See Chart 6) This takes into account \$22 million in estimated savings to result from last year's efficiency measures.

The funding targets both critical road corridors in certain areas and road projects across the state.

State highway improvements will take up about \$1.230 billion.

Expansion of high-occupancy vehicle lanes on I-5 and I-405 will cost about \$248 million. Corridor improvements on state routes 509, 519, 522, 525 and 395 will consume about \$114 million, and freight mobility projects another \$85 million.

Corridor funding will finance right-of-way acquisition, design and construction of projects relieving corridor congestion.

Funding for freight mobility projects will support investments in local projects aiding the movement of freight and goods throughout the state. The Freight Mobility Strategic Investment Board is statutorily authorized to designate these projects.

In support of the economy, \$194 million is targeted for all-weather roads and SR 18 improvements.

### Department of Transportation Performance Level Changes (thousands of dollars)

Highway Management and Facilities	(1,186)
Plant Construction & Supervision	12,871
Transportation Equipment Fund	13,490
Aviation	1,437
Improvements	719,462
Economic Partnerships	10,114
Highway Maintenance and Operations	(184)
Preservation	21,138
Traffic Operations	10,898
Management & Support	7,453
Transportation Planning, Data, and Research	3,245
Charges From Other Agencies	27,881
Public Transportation	10,609
Washington State Ferries - Capital	145,755
Washington State Ferries	12,589
Transit and Rail Program	76,155
Financial Assistance	162,256
<b>Total</b>	<b>1,233,983</b>

Source: Office of Financial Management

CHART 6

For environmental improvements, \$43 million will go for removal of fish-passage barriers, storm-water runoff controls, wetland banking and noise abatement.

For state ferries, lawmakers budgeted \$18 million more for the preservation of terminals, and \$96.7 million for new terminal facilities and five new passenger-only boats.

For rail operations, \$17.6 million will support existing service, \$6.3 million a second round-trip between Seattle and Vancouver, B.C., and \$9.6 million additional rolling stock.

### Capital Budget

The capital budget authorizes projects totaling \$2.3 billion. Of these, general obligation bonds subject to the state debt limit will fund \$987 million. (See Chart 7)

The largest share of the capital budget goes to higher education, including \$229 million for community and technical colleges and \$524 million for more facilities at the state's four-year colleges and universities. The budget provides \$327 million for public-school construction and repair.

About \$79.8 million is slotted for low-income housing, \$400 million for state-buildings repair and preservation, \$913 million for local infrastructure grants and loans, and \$48 million for parks, trails, water-access and habitat preservation.

Within government operations \$119.9 million is provided for salmon recovery. Of this \$6.2 million is subject to the state debt limit.

<b>1999-2001 Capital Budget</b>		
(millions of dollars)		
	<b>Bonds Subject to the State Debt Limit</b>	<b>Total</b>
Judicial	2.4	2.4
Government Operations	126.0	400.0
Department of Social and Health Services	63.5	69.5
Other Human Services	112.0	136.5
Natural Resources and Recreation	167.3	439.2
Transportation	13.6	14.5
Public Schools	-	326.7
Higher Education	463.6	753.0
Other Education	32.8	37.1
<b>Statewide Total</b>	<b>981.2</b>	<b>2,179.0</b>
<small>Office of Financial Management</small>		

CHART 7

## Selected Recent Publications

***With New Cities, New Concerns for Business*** - June 22, 1999 - Formation of new municipalities creates additional concerns for businesses, particularly firms operating in several jurisdictions or involved in regional and statewide affairs. "Financially fragile" cities – those relying to an extraordinary extent on state revenues – could see those revenues shrink over time, forcing service reductions or major tax increases. With more cities, intergovernmental disputes are apt to increase, decision-making will be further fragmented, and solutions to regional problems may be delayed. County government faces the loss of significant tax bases and will be forced to rely more heavily on intergovernmental service contracts. Civic and business leaders must be involved in defining the new governance structures in Pierce County that will assure a positive business climate in an increasingly urban county challenged by emerging cities and regional infrastructure requirements.

***How We Fund Our Schools*** - June 1999 - A special "primer" designed to clarify how schools are funded. This "reader-friendly" guide should be of use to anyone interested in getting below the surface in the ongoing discussion of school finance.

***Health Insurance Still Suffers From 1993 Reforms*** - March 22, 1999 - It's clear by now that the market for individual health insurance in Washington is in serious trouble. Only three health insurers remain in that market. In 17 of the state's 39 counties, insurers refuse to accept new applicants for coverage. Something is wrong with the market's regulatory structure. While no one has produced a comprehensive demonstration that the regulatory reforms implemented in 1994 have caused the problems, an analysis of the incentives inherent in these reforms shows that individuals acting in their own rational self-interest would reduce the market to its present state. The legislature should take the steps necessary to draw insurers back into the market. It should repeal the reforms or modify them to change their incentives. At the same time, lawmakers should support programs assisting individuals who cannot afford coverage or who are turned away by private insurers.

***Getting Back to Work: Reconsidering Unemployment Insurance in Washington*** - November 1998 - Washington's extraordinarily high UI costs could be reduced by one-third if the state performed at the national average on each of three primary cost factors: the number of claims paid, the duration of time a beneficiary receives benefits, and the benefit level. Costs and taxes could drop even lower if the state were to adopt policies similar to Oregon's JOBS Plus program. Generous benefits, little case management, and limited job search requirements combine to reduce the motivation of the unemployed worker to swiftly rejoin the labor force. Research has documented reemployment can be accelerated by changing the incentives associated with UI. This Special Report identifies the benefits that can be derived from relatively minor policy changes (e.g., requiring attendance at job training programs) to more aggressive approaches (e.g., attaching benefits to public service work). Getting unemployed workers back to work, reducing regressive UI taxes, and creating a more competitive business climate will be the result.

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