1997-99 Operating Budget Overview

Fiscal actions in the 1997 legislative session were shaped by sharply increasing revenues and the limited expenditure growth allowed by Initiative 601.

In March 1997, the Economic and Revenue Forecast Council projected $19.4 billion in General Fund-State revenues for the 1997-99 biennium. When combined with the $414.0 million fund balance, the general fund had projected resources of $19.9 billion.

Under Initiative 601, spending from the state general fund for the 1997-99 biennium was limited to $19.2 billion. [1]The 1997-99 biennial omnibus operating budget enacted by Chapter 149 and 454, Laws of 1997 (SSB 6062 and ESHB 2259) appropriated $19.1 billion from the state general fund. In addition, other bills appropriated $8 million resulting in a total appropriation level of $151 million below the spending limit.[2]

The total funds appropriated for 1997-99 is $33.8 billion. When funds from the transportation budget are included, the total 1997-99 operating budget is $35.4 billion.

The total funds operating budget represents an increase of 9.8 percent over estimated 1995-97 biennial expenditures for all funds. The state general fund portion of the operating budget represents a 7.7 percent increase over estimated 1995-97 biennial general fund-state expenditures.

Most of the increase in the general fund appropriation was provided for education. Funding for the new K-12 enrollments and other costs associated with the public school system, approximately $512.5 million, comprise 37.5 percent of the state general fund budget increase from 1995-97. Higher education received an additional $232.8 million or 17 percent of the general fund-state increase. Other significant General Fund-State increases were in the Department of Social and Health Services ($399.4 million, 29.2 percent of the General Fund-State increase). A 3 percent cost of living increase ($347.5 million of the general fund) was provided for state and higher education employees as well as selected contracted vendors.

With available resources significantly greater than allowable spending, the Legislature and Governor chose to reduce revenues. After the Governor's vetoes, there was a total of $371 million of revenue reductions and $11.5 million in increased budget driven revenue, leaving $19.5 billion in resources. The total appropriation level for 1997-99 is just under $19.1 billion, leaving almost $416 million in reserve.

1 The biennial spending limit is the combination of annual limits for fiscal years 1998 and 1999 of $9.38 billion and $9.85 billion, respectively.

2 The biennial appropriation is the combination of $9.38 billion for fiscal year 1998 and $9.70 billion for fiscal year 1999.

Fiscal Issues of Statewide Significance

Welfare Reform

Chapter 58, Laws of 1997, Partial Veto (EHB 3901)

In August 1996, Congress fundamentally changed how welfare programs are operated and funded in the United States through passage of Public Law 104-193 -- The Personal Responsibility and Work Opportunity Reconciliation Act of 1996. In brief, the new law:

- Eliminates Aid to Families with Dependent Children (AFDC) and replaces it with a temporary, work-based program called Temporary Assistance to Needy Families (TANF).
- Institutes lifetime limits on receipt of public assistance and an expectation that those receiving welfare will work toward obtaining paid employment while receiving assistance.
- Creates a new method of funding public assistance programs. Washington's TANF program is funded through a block grant -- $404 million in funding every year, regardless of how many families are on assistance.
- Allows flexibility in the level of state funding for welfare. Washington can choose how much state funding is provided for welfare, as long as state funding is at least $290 million per year.
- Permits states to rethink their welfare programs without federal barriers.
- The federal legislation also terminates eligibility for most legal immigrants from public assistance programs, including food stamps, Supplemental Security Income (SSI), TANF, and Medicaid (low-income medical care). States may choose to provide assistance under TANF and Medicaid for legal immigrants who already reside in the state. States may pay for all public assistance for legal immigrants not yet residing in the state and for all legal immigrants under food stamps and SSI.

Under the state Welfare Reform bill (Chapter 58, Laws of 1997, Partial Veto -- EHB 3901), the Department of Social and Health Services (DSHS) is required to base program activities on specific outcome measures which indicate the effectiveness of each activity. The Department is responsible for achieving welfare caseload reduction in implementing the WorkFirst program and may use any of several methods for achieving goals. Consistent with this administrative flexibility granted to the Department by the state legislation, the state budget appropriates funding in broad categories to implement the new program.

- For the WorkFirst program, $55.9 million in state and federal funds are provided to support TANF recipients' efforts to become self-sufficient. A portion of this funding is for orientation to the new work program, employability assessments, case management services, work search, job retention, job preparation services, and treatment for those who are assessed as having a chemical dependency problem. This level of funding also reflects substantial caseload savings that are expected to be achieved as clients re-enter the workforce more quickly or are diverted from welfare altogether.
- Recognizing the importance of child care as a support for persons leaving welfare, the child care budget receives an increase of $82.4 million for the next biennium. This increase includes funding for the transition to a new integrated employment child care and a vendor rate increase.

Chapter 57, Laws of 1997 (ESB 6098) provides benefits for legal immigrants residing in Washington State. Eligible legal immigrants residing in the state before passage of the bill may receive public assistance benefits equivalent to

U.S. citizens. Legal immigrants arriving in the state after passage of the bill must wait one year before becoming eligible to apply for TANF medical benefits. They are then subject to deeming of their sponsor's income. Disabled legal immigrants may apply for General Assistance - Unemployable benefits at any time.

- For legal immigrants who will lose their federal Supplemental Security Income and Food Stamp benefits, the state budget provides $62.9 million for General Assistance-Unemployable cash grants and $57.3 million for a state funded food assistance program. In addition, the budget invests $1.8 million to assist DSHS clients to become U.S. citizens and thus re-access their federal benefits. These efforts are expected to save $19.3 million.

Changes in Health Services Account Program Expenditures and Revenues

Overview

One of the key challenges facing policy makers in 1997 was how to maintain programs funded from the Health Services Account within the available revenues. If no changes were made, the cost of the low-income medical care, public health, and health policy programs funded from the Health Services Account were projected to increase from $549 million in the 1995-97 biennium to $749 million in the 1997-99 biennium. Three factors account for almost all of this increase:

1. Growth in subsidized Basic Health Plan (BHP) enrollments from 46,000 people at the beginning of the 1995-97 biennium to 130,000 at the end. This added approximately $100 million to 1997-99 Health Services Account carryforward costs.

2. Growth in Medicaid enrollment by children whose families are not on welfare, but who have incomes below 200 percent of the federal poverty level. Almost a quarter of a million such children are expected to be covered by Medicaid in 1997-99, compared to 127,000 at the beginning of the 1995-97 biennium. This added approximately $55 million to the 1997-99 Health Services Account costs.

3. Higher BHP and Medicaid costs per covered person as a result of medical inflation, which is expected to add approximately $40 million to 1997-99 costs.

In contrast to these expenditure increases, the revenues and fund balances available in the account were projected to total only $584 million in 1997-99, resulting in a $165 million Health Services Account deficit if no changes were made.

The 1997-99 budget manages this shortfall by:

- Shifting $97.5 million of programs previously funded from the Health Services Account to the state general fund.
- Reducing or eliminating $23 million of programs and services. These include eliminating the Health Care Policy Board and transferring some duties to the Department of Health ($4.4 million); reducing training and data systems support for public health officials ($2.6 million); eliminating BHP marketing, outreach, and insurance broker commissions ($2.5 million); and eliminating state funding for health care data standards development ($1.6 million).
- Making $44.5 million of changes in the BHP subsidy structure, co-payment schedule, and benefits package.

In addition to the expenditure changes described above, the budget also anticipates that Health Services Account revenues will increase as a result of clarification of the point in the retail process at which the tobacco products tax is to be levied ($2.9 million); increased Liquor Control Board enforcement of existing cigarette tax requirements ($7.8 million); and delaying the conversion from Generally Accepted Accounting Principles (GAAP) to cash accounting for the Health Services Account fund balance. As shown below, these revenue changes will permit an increase in subsidized BHP enrollments.

Changes in the Basic Health Plan

Total state funding for the BHP will increase by $100 million, from $239 million in 1995-97 to $339 million in 1997-99. Total enrollment in the subsidized BHP will increase by 11,500, to an average of 142,000 people per month.

To help cover the cost of the increased enrollments and medical inflation, the following changes are anticipated in the BHP design:

- The state subsidy will be pegged to the cost of the lowest rather than the highest-priced bidder.
- The minimum premium will be raised from $10 to $12 for people between 66-100 percent of the poverty level, and to $15 for people between 100-125 percent of the poverty level.
- Co-payments will be increased from $8 to $10 for office visits; from $50 to $100 for hospital admissions; from $25 to $50 for emergency room visits; and from $8 to $25 for outpatient surgeries and procedures.
- Organizations which are paid to deliver BHP services will be required to pay $30 of the monthly premium for individuals whose BHP enrollment they wish to sponsor. The state will continue to subsidize the remaining 50-60 percent of enrollment costs.
- The share of the monthly premium paid by the state will be reduced by an average of about 15 percent for persons between 125-200 percent of the poverty level.

Coverage for Children from Low Income Families

The 1997-99 budget does not make any changes in the "BHP-Plus" coverage for children from low-income families. Children whose family income is below 200 percent of the federal poverty level will continue to be covered by Medicaid, at no cost to their families. Over 250,000 children are expected to be receiving this coverage by the end of the 1997-99 biennium. The total state and federal cost of this coverage is budgeted to increase from about $170 million in 1995-97 to about $240 million in 1997-99.

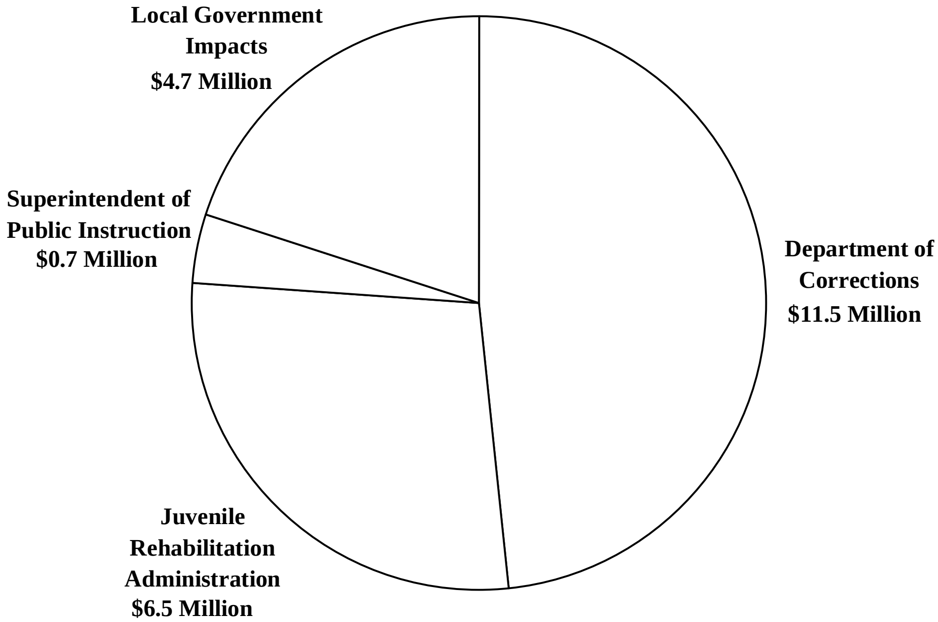
Juvenile Justice Reform

Chapter 338, Laws of 1997 (E3SHB 3900) addresses a wide number of juvenile offender issues. Major provisions of the measure include:

- Automatically transferring 16- and 17-year-olds charged with certain crimes and certain criminal histories to the adult system
- Revising and simplifying the current juvenile sentencing method
- Imposing certain housing and education requirements for offenders under the age of 18 tried as adults
- Increasing firearm disposition enhancements
- Establishing an intensive parole and aftercare program for high-risk offenders
- Providing for a chemical dependency disposition alternative
- Increasing judicial discretion with respect to juvenile offenders
- Requiring increased parental involvement and accountability of juvenile offenders

A total of $23.4 million ($14.7 million General Fund-State, $8.7 million Violence Reduction and Drug Enforcement Account) is appropriated to carryout the provisions of the measure. The appropriations provide funding for both state and local government impacts and are summarized on the chart below. For additional information, please see pages 113 and 146.

Total Funding = $23.4 Million



<u>Stadium and Exhibition Center Financing Plan (SHB 2192)</u>

Chapter 220, Laws of 1997 (ESHB 2192) was enacted by the 1997 Legislature and will be submitted to the voters of the state as Referendum No. 48 on June 17, 1997. It created a new Public Stadium Authority (PSA) for the construction of a multi-use stadium and exhibition facility. The PSA may accept the Kingdome property (but not the outstanding debt), select the site, construct a stadium and exhibition center, and enter into a long-term development and lease agreement with a professional football team.

The construction of the new $425 million football stadium and exhibition center is financed by a combination of state, local, and private sources including a state sales tax credit, new lottery games, an extension of the hotel motel tax from the year 2015 to 2020, a deferral of sales taxes on construction, and admissions and parking taxes at the facility. In addition, the team is required to contribute $100 million. The state is authorized to issue general obligation bonds for the construction of the new stadium and exhibition center. The total public share of the stadium and exhibition center is limited to $300 million. Any revenues from the state and local tax sources that are in excess of the bond payments are used for youth athletic facility grants.

In order to refinance the current Kingdome debt, King County's share of the current 2 percent hotel-motel tax is extended from the year 2012 to 2015. In addition, 75 percent of the current county-imposed 1 percent car rental tax must be used for Kingdome repairs and debt.

Project Costs	**$ in Millions**
Stadium	$325
Exhibition Center	45
Parking Structure	27
Site Preparation	27
Sub Total	**$425**
Minus Private Contribution	-$100
Minus Sales Tax Deferral	-27
Minus Interest Income	-14
Plus Contingency Amount	10
Total Cost	**$294**
Revenue Sources for Bond Repayment	
0.016 Percent Sales Tax Credit	$101
New Lottery Games	127
Hotel/Motel Extension (2015-2020)	40
10 Percent Admissions Tax	52
10 Percent Parking Tax	4
Total Revenues	**$324**

1997-99 Estimated Revenues and Expenditures
General Fund-State
Dollars in Millions

RESOURCES	
Unrestricted Beginning Balance	414.3
March Revenue Forecast	19,446.0
Property Tax (SB 5835*, EHB 1417)	-221.0
B&O Tax Rollback (HB 1821)	-94.3
Other Revenue and Tax Bills	-56.1
Total Reductions	-371.4
Budget Driven Revenue/Other	11.5
Total Resources	***19,500.4***

EXPENDITURES	
1997-99 Appropriation Acts	19,076.9
Other Appropriations (Ch 425, L 97 and Ch 306, L 97)	7.7
Total Expenditures	***19,084.6***
I-601 Spending Limit	19,235.4
Capacity Under Limit	150.8

BALANCE	
Unrestricted Ending Balance	415.8
Emergency Reserve Fund	0.0
Estimated Ending Balance	***415.8***

** This bill has been put to the voters as Referendum 47 for their action at the November 1997 general election.*

Note: Several of the Governor's vetoes raise legal questions as to whether particular appropriations remain in law. A successful legal challenge could decrease the appropriation level.

1997-99 Washington State Operating Budget
Appropriations Contained Within Other Legislation

(Dollars in Thousands)

Bill Number and Subject	Session Law	Agency	GF-S	Other	Total
SSB 5327 - Habitat Incentives Program	C 425 L 97	Department of Fish & Wildlife	24	0	24
SSB 5327 - Habitat Incentives Program	C 425 L 97	Department of Natural Resources	24	0	24
Total Other 1997-99 Operating Legislation			**48**	**0**	**48**