

# 2001-03 Omnibus Budget Overview

## *Operating Only*

The 2001 Legislature was confronted with a difficult fiscal situation created by the resurgence of rapid health care cost increases, the passage of two initiatives with large fiscal impacts, a slowdown in the economy, and a major earthquake. Budget pressures were mitigated somewhat from savings in the cost of the state's pension systems and a large one-time increase in federal revenues.

The 2001-03 operating budget was adopted in the second extraordinary session. The state general fund for 2001-03 is \$22.8 billion, an 8.3 percent increase over the 1999-01 appropriation<sup>1</sup>. The total funds operating budget for 2001-03 is \$43.3 billion, a 12.9 percent increase over the 1999-01 budget.

### **Health Care Costs**

The Legislature enacted a supplemental budget to the 1999-01 biennial appropriation of \$194.5 million, of which \$141 million was for the Medical Assistance Program in the Department of Social and Health Services. The Medical Assistance Program supplemental appropriation represents nearly a 17 percent increase in the estimated expenditures for fiscal year 2001 over the 2000 session appropriation level. These increased costs were reflected in the 2001-03 biennium Medical Assistance Program appropriation, an increase of \$439 million over the 1999-01 appropriations level.

An additional \$131 million was appropriated to pay for the increased cost of health care benefits for public school, higher education, and other state employees.

### **Ballot Initiatives**

In November 2000, two initiatives passed with large impacts on the state general fund. Initiative 728 (I-728) diverts \$470 million in the 2001-03 biennium from the state general fund to a new Student Achievement Account and the Education Construction Account. The funds are to be used by local school districts to reduce class size, provide extended learning, and other specified purposes.

Initiative 732 requires cost of living increases (COLAs) for public school employees and some community college employees equal to the Seattle area consumer price index (CPI). The fiscal year 2002 COLA provided by the budget is 3.7 percent. The budget includes funds for an estimated 3.1 percent COLA in fiscal year 2003; however, no rate for fiscal year 2003 is specified in the budget because the second year CPI will be not be known until the end of calendar year 2001. The sum of \$348 million is appropriated for these COLAs.

### **Economic Slowdown**

General fund revenue for the 2001-03 biennium is forecast to increase only 3.8 percent over the 1999-01 biennium. Although not a recession-level growth rate, this is the slowest revenue growth since the 1991-93 biennium. When general fund revenue diverted from the passage of I-728 and the phase out of the estate tax mandated by Congress is factored in, revenue for fiscal year 2002 is forecast to actually decrease from the previous fiscal year. Revenue growth in fiscal year 2003 is forecast to increase by 4.8 percent, close to average general fund revenue growth.

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1. Annual general fund state expenditures for fiscal year 2002 are \$11.217 billion and for fiscal year 2003 are \$11.566 billion.

## **The Nisqually Earthquake**

On February 28, 2001, a 6.8 magnitude earthquake centered less than 15 miles from the capitol struck the state. In the omnibus 2001-03 operating budget, the 2001 supplemental to the 1999-01 operating budget, and in other legislation, \$77.3 million from the emergency reserve account and \$168 million of federal matching funds from the Federal Emergency Management Agency were appropriated for earthquake recovery purposes.

## **Pension Changes**

Savings of \$315 million in General Fund-State were realized through reductions in state pension contributions. Of this amount, \$198 million of savings were realized through the passage of Chapter 11, Laws of 2001, 2<sup>nd</sup> sp.s., Partial Veto (ESSB 6167), which raised the long-term investment return assumption for pensions from 7.5 percent to 8 percent and changed the target date for full funding of the two pension funds with unfunded liabilities back to June 30, 2024. The remainder of the pension savings results from the 1999 valuation studies of the state pension plans.

The operating budget includes \$125 million of appropriations from the State Surplus Assets Reserve Account. This account was created to receive funds that were to be generated by restructuring the Law Enforcement Officers and Fire Fighters 1 pension plan (LEOFF). The LEOFF 1 pension has assets in excess of what is needed to fully fund the pension obligation to all beneficiaries. Second Engrossed Substitute Senate Bill 6166, which would have established the State Surplus Assets Reserve Fund and transferred assets from the Law Enforcement Officers Plan 1 pension account was not enacted.

## **Additional Federal Revenues**

The Nursing Home Proportionate Share program (ProShare) is a Washington State program that uses payments to public hospitals operating nursing homes to generate additional federal Medicaid Revenues. These additional federal revenues are returned to the state and available to support any state activity. In May, the Department of Social and Health Services completed additional data collection and analysis that concluded that an additional \$450 million was available by the end of the 2001-03 biennium. These funds are to be deposited in the Health Services Account. The amount of \$150 million is transferred from the Health Service Account to the state general fund.

## **Spending Limit**

General fund expenditures are subject to the spending limit created in Initiative 601 (I-601). In the 2000 legislative session, the calculation of the spending limit was amended to allow for an increase in the limit when revenues or expenditures are transferred into the general fund. The budget transfers \$220 million: \$150 million from the Health Services Account and \$70 million from the Multimodal Account. These transfers increase the I-601 spending limit by \$426 million for the biennium to \$22,850.2 million. The 2001-03 general fund appropriation is \$67 million below the adjusted spending limit<sup>1</sup>. These transfers are reflected in the unrestricted ending fund balance.

## **Reserves**

The 2001-03 general fund budget leaves a total of \$162 million in the unrestricted balance and an additional \$446 million in the Emergency Reserve Fund. The \$608 million is slightly more than 5 percent of annual spending.

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1. Annual general fund spending limits for fiscal year 2002 are \$11,232.6 million and for fiscal year 2003 are \$11,617.6 million.

## 2001-03 Estimated Revenues and Expenditures

### General Fund-State

(Dollars in Millions)

<b>Resources</b>
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Beginning Balance	599.7
March Revenue Forecast	22,215.5
June Revenue Change	-108.9
Tax Reductions	-17.1
Budget Driven Revenue and Minor Transfers	35.8
Multimodal Account Transfer	70.0
Health Services Account Transfer	<u>150.0</u>
Available Resources	22,944.9

<b>Appropriations and Limit</b>
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Total Appropriations	22,783.2
Spending Limit	22,848.4
<i>Appropriations Compared to Limit</i>	-65.1

<b>General Fund Balance</b>
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Ending Balance	161.7
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<b>Emergency Reserve Fund Balance</b>
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Beginning Balance and Interest	541.3
Transportation Transfer	-70.0
Earthquake & Drought (HB 2258)	<u>-25.0</u>
Ending Balance	446.2
Total Reserves	607.9

**2001-03 Washington State Budget**  
**Adjustments to the Initiative 601 Expenditure Limit**  
(Dollars in Millions)

	<u>FY 2002</u>	<u>FY 2003</u>	<u>2001-03</u>
Beginning Limit	11,135.8	11,462.1	22,597.9
Budget Adjustments (Detail below)	-11.5	23.9	12.5
Transit	-92.7	-95.4	-188.1
FMAP	20.1	20.7	40.8
Ferries	-20.0	-20.6	-40.6
Multimodal Account	70.0	72.1	142.1
Health Services Account (Year 1)	130.0	133.8	263.8
Health Services Account (Year 2)	0.0	20.0	20.0
Ending Limit	<u>11,231.8</u>	<u>11,616.6</u>	<u>22,848.4</u>
Detail of Budget Adjustments			
Shift Div of Alcohol & Substance Abuse into General Fund	13.5	13.9	27.4
Federal Funding - Illegal Alien Offenders	3.1	3.2	6.4
Treasurer Account	0.0	8.0	8.0
Senate Transportation Committee Costs	0.8	0.9	1.7
Core Salmon Recovery Activities	0.6	0.6	1.3
Community Supervision Workload Change	0.3	0.3	0.6
Fish Management	0.3	0.3	0.5
Federal Match For Forest Legacy Support	0.2	0.2	0.4
E2SHB 1658 - Oyster Reserve Lands	-0.2	-0.2	-0.3
SB 5082 - Defining Rural Counties	-0.4	-0.5	-0.9
2E2SSB 5514 - Public Facilities	-0.5	-0.5	-1.1
Teen Pregnancy Prevention	-0.6	-0.6	-1.1
Mental Health Inpatient Emergency Pool	-0.9	0.0	-0.9
Employment Security Fund Change	-1.3	-1.3	-2.6
Puget Sound Action Team	-1.6	-1.7	-3.3
ESSB 5237 - Fair Fund Transfer	-2.0	-2.1	-4.1
Federal Disproportionate Share Payments	-22.8	16.0	-6.8
Washington State Patrol Transfer	0.0	-12.6	-12.6
Subtotal	<u>-11.5</u>	<u>23.9</u>	<u>12.5</u>

**2001-03 Washington State Operating Budget  
Appropriations Contained Within Other Legislation**

(Dollars in Thousands)

Bill Number and Subject	Session Law	Agency	GF-S	Total
HB 2258 - Earthquake and Drought Relief	C 26 L 01 E2	Other Legislation with Appropriations		25,000
ESSB 5237 - Fair Fund	C 16 L 01	Other Legislation with Appropriations	100	
Total			100	25,100

*Note: Operating appropriations contained in Chapter 7, Laws of 2001, 2nd sp.s., Partial Veto (SSB 6153 - 2001-03 Omnibus Operating Budget) and Chapter 14, Laws of 2001, 2nd sp.s. (3ESSB 5327 - 2001-03 Transportation Budget) are displayed in the appropriate sections of this document.*

