

1999-01 Operating Budget Overview

The 1999 Legislature faced the challenge of balancing competing pressures to spend under the Initiative 601 limit, thus preserving capacity for supplemental demands, while funding immediate demands for cost-of-living increases for teachers and state employees.

Under Initiative 601, spending from the state general fund for the 1999-01 biennium is limited to \$20.646 billion¹. The 1999-01 biennial omnibus operating budget enacted by Chapter 309, Laws of 1999, Partial Veto (ESSB 5180) and amended by other legislation² appropriates \$20.573 billion³ from the state general fund. Combined with the effect of Governor's vetoes, final appropriations are \$74 million below the spending limit.

The total funds operating budget for 1999-01 is \$38.9 billion. The total funds operating budget represents an increase of 8.8 percent over estimated 1997-99 biennial expenditures for all budgeted funds. The state general fund portion of the operating budget represents a 7.4 percent increase over 1997-99 biennial state general fund appropriations.

Most of the increase in General Fund-State expenditures was provided for education. Funding for salary increases for teachers and other costs associated with the public school system totaled \$625 million, or 44 percent of the total General Fund-State increase from the previous biennium. Higher education received an additional \$330 million, or 23 percent, of the General Fund-State increase. Other major portions of the total increase were for the Department of Social and Health Services (\$154 million, 11 percent of the General Fund-State increase) and for state employee salaries, health benefits, and increases for contracted vendors (\$241 million, 17 percent of the General Fund-State increase).

In March 1999, the Economic and Revenue Forecast Council projected \$20.3 billion in General Fund-State revenues for the 1999-01 biennium. When combined with an unrestricted beginning fund balance of \$527 million, the state general fund had projected resources of \$20.8 billion. Revenue changes due to legislation reduced resources by \$25 million. After appropriations, \$208 million in unrestricted reserves is expected to carry forward into the 2001-03 biennium and \$500 million remains in the Emergency Reserve Account.

¹ *The annual spending limit for fiscal year 2000 is \$10.170 billion and for fiscal year 2001 is \$10.476 billion.*

² *Chapter 376, Laws of 1999 (SSB 5967 - Nursing Home Bed Capacity); Chapter 379, Laws of 1999, Partial Veto (SHB 1165 - Capital Budget); Chapter 392, Laws of 1999, Partial Veto (SSB 5968 - Public Hospital Facility Payment); Chapter 12, Laws of 1999, 1st sp.s., Partial Veto (EHB 2304 - School Security); and Chapter 13, Laws of 1999, 1st sp.s., Partial Veto (E2SSB 5595 - Salmon Recovery).*

³ *Annual General Fund-State expenditures for fiscal year 2000 are \$10.159 billion and for fiscal year 2001 are \$10.414 billion.*

Fiscal Issues of Statewide Significance

Education is the Top Budget Priority

The major challenge facing state budget writers in the 1999 legislative session was public school finance. Recent legislatively-authorized cost-of-living adjustments had not kept pace with inflation. And, Washington has had lower beginning teacher salaries compared to California, Oregon, and Arizona and compared to many other occupations available to college graduates. With the new higher academic standards taking hold, and high student performance expectations, attracting the best and the brightest college students to the profession and retaining high quality teachers is critical to the success of education reform.

To address these issues, the final legislative budget contains \$422 million for compensation increases for K-12 employees, including:

- An across-the-board 3 percent cost-of-living increase each year for teachers, administrators, and classified staff.
- Beginning teacher salary increases of 7 percent and additional smaller increases through the fifth year (impacting about 24 percent of the teachers).
- A 2 percent increase for teachers with 16 or more years of experience (impacting about 38.5 percent of the teachers).
- Three learning improvement days added to the salary schedule, equivalent to a 1.7 percent increase in compensation.

Endangered Species Listings of Salmon

In March of this year, coastal and Puget Sound salmon species were listed as threatened under the federal Endangered Species Act (ESA), adding to existing listings in the Columbia River, the Snake River, and northeast Washington. Now more than three-quarters of the state is affected by ESA listings. To improve salmon habitat, areas with a listed species may face restrictions on water use, land use, and forest practices, and there may also be restrictions on sport and commercial fish harvest.

Three principles guided the shaping of the salmon restoration package:

- To ensure coordination and accountability, the budget distributes planning and project-related grant funds through a central Salmon Recovery Funding Board.
- To enhance non-regulatory approaches to salmon recovery, funding is provided for voluntary watershed planning and salmon recovery activities.
- To ensure state agencies have the capacity to address factors contributing to salmon decline, funding is provided to enforce existing laws and regulations governing habitat and harvest.

In total, the operating, capital, and transportation budgets provide \$223.2 million for salmon recovery activities. The operating budget provides \$16.2 million state general fund, \$17.5 million from the Salmon Recovery Account, \$2.0 million from the Forest Development Account, and \$29.6 million in federal funds for salmon recovery activities including technical assistance, monitoring, and development of new forest practices rules. The capital budget provides \$30.8 million from the Salmon Recovery Account, \$92.9 million in federal funds, and \$13.3 million in other funds for salmon recovery projects including continuing the conservation reserve enhancement program, a small forest landowner easement program, and funding for the newly-created Salmon Recovery Funding Board. The transportation budget provides \$21.0 million in other funds for mitigating transportation projects and developing a programmatic permitting process. In addition, Chapter 4, Laws of 1999, 1st sp.s., Partial Veto (ESHB 2091 - Forest

Practices/Salmon Recovery), recognizes the financial burdens of the new forestry rules on forest landowners and provides a reduction in the state timber excise tax of \$10.1 million.

Dividends from Economic Prosperity and Additional Revenue Sources

Going into the 1999-01 budget cycle, lower pension contribution rates, declining welfare caseloads, and tobacco settlement proceeds will allow over \$850 million in cost avoidances to the general fund.

In particular, higher-than-anticipated investment returns on pension trust funds and changes in long-term economic assumptions will result in significant reductions in the amount of pension contributions the state will make next biennium. The state's contributions from the general fund to the Teachers' Retirement System, the Public Employees' Retirement System and the Law Enforcement Officers' and Fire Fighters' Retirement System will be \$307 million less in the 1999-01 biennium compared to the 1997-99 biennium due to these favorable factors.

Since the passage of state welfare reform legislation in 1997 and with the impact of a strong economy, welfare caseloads have declined by one-third and are expected to decrease by another 10 percent in the upcoming biennium. While maintaining the required level of state spending, these lower caseloads will allow \$246 million in state savings. At the same time, federal funding will allow re-investments in support services for people working their way off public assistance.

On November 29, 1998, the Attorney General announced the national settlement of a lawsuit against the four major tobacco manufacturers. Washington State's share of the settlement funds for the 1999-01 biennium is expected to be \$323 million. Of this amount, \$223 million is deposited into the Health Services Account, which primarily funds health care for families with incomes up to 200 percent of the federal poverty level. Combined with revenue coming to the state through rural public hospital re-financing (Pro-Share), fully \$254 million in health care costs did not have to be borne by the state general fund.

Finally, cigarette and tobacco products taxes were re-directed to fund Salmon Recovery efforts and solve the shortfall in the Violence Reduction and Drug Enforcement Account. This action averted \$54 million of General Fund-State expenditures without using any capacity under the Initiative 601 spending limits.

**1999-01 Estimated Revenues and Expenditures
General Fund-State**

(Dollars in Millions)

RESOURCES

Unrestricted Beginning Balance	526.9
March Revenue Forecast	20,272.7
Revenue Legislation	-25.0
Water Quality Account Transfer	-26.8
Other Budget Driven Revenue	<u>28.9</u>
Total Resources	20,776.7

SPENDING LIMIT AND APPROPRIATIONS
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Working 601 Spending Limit	20,646.4
Operating Budget, ESSB 5180 *	20,572.8
Spending Compared to Limit	-73.6

BALANCE AND RESERVES

Emergency Reserve (including interest)	483.9
Unrestricted Ending Balance **	<u>208.1</u>
Total Ending Reserves	692.0

** Includes amendments to the operating budget by Chapter 376, Laws of 1999 (SSB 5976 - Nursing Home Bed Capacity); Chapter 379, Laws of 1999, Partial Veto (SHB 1165 - Capital Budget); Chapter 392, Laws of 1999, Partial Veto (SSB 5968 - Public Hospital Facility Payment); Chapter 12, Laws of 1999, 1st sp.s., Partial Veto (EHB - School Security); and Chapter 13, Laws of 1999, 1st sp.s., Partial Veto (E2SSB 5595 - Salmon Recovery). Appropriations also reflect amounts lapsed due to vetoes and bills not passing.*

*** Includes \$4.1 million repayments of loans from Fish and Wildlife.*

**1999-01 Washington State Operating Budget
Appropriations Contained Within Other Legislation**

(Dollars in Thousands)

Bill Number and Subject	Session Law	Agency	GF-S	Other	Total
EHB 2304 - School Safety Programs	C 12 L 99 E1	Superintendent of Public Instruction	7,000	0	7,000