

2002 SUPPLEMENTAL OMNIBUS BUDGET OVERVIEW

Operating Only

The state's fiscal condition deteriorated dramatically between the adoption of the 2001-03 biennial budget in June 2001 and the beginning of the 2002 session in January and then deteriorated even more during the session. The Governor's budget proposal in December addressed a \$1.3 billion decline: \$909 million in reduced revenue and over \$300 million in additional spending demands. In February, the revenue forecast was reduced an additional \$247 million, resulting in a \$1.5 billion gap between revenue and expenditures.

The 2002 Legislature addressed this gap in four ways: the 2001-03 biennial appropriation was reduced by a net of \$332 million; actions were taken to increase ongoing revenue by \$88 million; a portion of the state's share of the national tobacco settlement was sold to generate \$450 million for deposit into the general fund; and \$325 million of the emergency reserve account was transferred into the general fund and used to pay for part of the shortfall and to provide a reserve.

The revised 2001-03 biennial General Fund-State appropriation is \$22.45 billion¹, an increase of 6.7 percent over the 1999-01 appropriation. The revised total funds operating budget is \$43.0 billion, a 12.1 percent increase over the 1999-01 budget.

The Supplemental Budget

Since the passage of the \$22.783 billion 2001-03 general fund biennial budget last June, new spending pressures emerged resulting in an increase of \$322 million in the 2002 supplemental budget. Most of the increase comes from two budget drivers – K-12 education and low-income health care. An additional \$126 million is needed for public schools primarily for increased enrollments and levy equalization costs. Another \$91 million is added for the increased costs of health care in the Department of Social and Health Services (DSHS) Medical Assistance Program primarily for aged, blind, and disabled recipients. Other significant general fund supplemental spending requirements include the Department of Corrections (\$39 million) and the DSHS Economic Services Program (\$16 million).

General fund budget reductions and transfers of \$654 million were adopted that, when added to the \$322 million of increases described above, resulted in an overall reduction in the general fund budget of \$332 million. General fund spending was reduced by \$88 million through a number of efficiency savings and across-the-board reductions taken throughout state government. This amount also includes reductions in travel and equipment. An additional \$59.4 million in savings comes from a reduction of backfill assistance for cities and counties that lost significant revenue due to the passage of Initiative 695 in November 1999. Another \$63 million is saved from a proposal to adopt the State Actuary's most recent pension system valuation assumptions prescribed by the 1995-2000 experience study. Shifting the cost of certain general fund programs to other funds and accounts conserves \$51 million in general fund resources.

Health care benefits for state employees (and allocations for public schools) were reduced by \$33 million. The scheduled July 1, 2002, 2.6 percent cost-of-living adjustment for state and higher education employees was eliminated, saving \$50 million in the state general fund. The fiscal year 2003 vendor cost-of-living increase was reduced to 1.5 percent, saving \$9 million. Public school funding was reduced by \$90 million through a variety of changes, including elimination of state funding for one planning day, proposed changes in the calculation of the "staff mix" factor, and utilization of new federal education funding. Excluding compensation changes, higher

¹ The fiscal year 2002 appropriation is \$11.23 billion, and the fiscal year 2003 appropriation is \$11.22 billion.

education was reduced by \$59 million through a combination of across-the-board reductions (\$55 million of this amount is included in the \$88 million efficiency total above) and other measures.

Adoption of this budget reduced the percentage growth in general fund biennial spending in 2001-03 to 6.7 percent, the lowest percentage growth in the general fund budget since the early 1970s.

Revenue Changes

The budget adopts several measures that are expected to raise general fund revenues by about \$88 million during the remainder of the 2001-03 biennium and \$206 million in the 2003-05 biennium. A total of \$46 million in new revenue is anticipated from the hiring of additional staff in the Department of Revenue to improve tax collection, tax discovery, and overall tax compliance. Another \$24 million in ongoing revenue is expected from Washington's entry into "The Big Game" multi-state lottery consortium as authorized by separate legislation. Additional ongoing revenue of about \$27 million is expected from a proposal to eliminate exemptions in use taxation. Under Initiative 601, a two-thirds vote is required to raise revenue. The Legislature passed Chapter 33, Laws of 2002 (SB 6819), to suspend this requirement for the remainder of the biennium. Offsetting a portion of the revenue increases are a number of measures that reduce General Fund-State revenues by approximately \$10 million.

Securitizing Tobacco Settlement Payments

In separate legislation, the state is directed to "securitize" a portion of the annual revenue coming to the state from the 1998 settlement of the national tobacco litigation. An independent authority is created to which the state would sell a portion of the state's annual tobacco settlement revenues in order to raise \$450 million in net proceeds to the state general fund. The authority will issue revenue bonds, the proceeds of which would be paid back to the state in return for the right to receive a portion of future tobacco settlement payments.

Reserves and Money Transfers

The 2002 supplemental budget makes use of both state reserve accounts and money transfers from dedicated fund balances.

The sum of \$51.6 million is drawn from a variety of money transfers from various dedicated funds, listed on page 15 of this document. The budget also transfers \$325 million from the Emergency Reserve Account to the general fund. SB 6819 suspended the two-thirds vote requirement for a transfer from the Emergency Reserve Account.

The budget leaves a total \$305 million budget reserve, \$303 million less than the budget adopted in 2001. The reserves are comprised of \$252 million in the unrestricted ending balance and \$53 million in the Emergency Reserve Account.

2001-03 Estimated Revenues and Expenditures

General Fund-State

(Dollars in Millions)

Resources	
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Beginning Fund Balance	599.0
February 2002 Revenue Forecast	20,961.9
2001 Session Money Transfers	228.0
2002 Session Money Transfers	51.6
Tobacco Securitization Transfer	450.0
Emergency Reserve Account Transfer	325.0
Budget Driven Revenue	43.0
Revenue Legislation	20.4
Big Game Lottery	24.4
Total Resources Available	22,703.3

Appropriations	
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Original 2001-03 Appropriation	22,783.2
2002 Supplemental Budget	-298.0
Governor Vetoes	-34.1 ¹
Total Appropriation	22,451.2
Spending Limit	23,260.1
Appropriation Compared to the Limit	-808.9 ²

Balance	
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Unrestricted Ending Balance	252.1
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Emergency Reserves Fund	
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Beginning Balance	462.1
Interest Earnings	10.6
Transfers to Transportation	-70.0
Earthquake / Drought	-25.0
Transfer to the General Fund	-325.0
Ending Balance	52.7

Total Reserves	304.8 ¹
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1) The Governor vetoed an additional \$2.9 million enhancement for home care workers wages and placed this amount in allotment reserve. These funds are still included in the appropriation.

2) Note: Preliminary analysis of statutory provisions concerning use of the Emergency Reserve Fund (ERF) suggests that the limit should not be raised for the transfer of ERF money to the general fund.

2001-03 Washington State Omnibus Operating Budget
2002 Supplemental Budget
Adjustments to the Initiative 601 Expenditure Limit
(Dollars in Millions)

	FY 2002	FY 2003	2001-03
Current Official Limit	11,251.5	11,640.7	22,892.2
Revenue Transfers:			
Tobacco Securitization		450.0	450.0
Transfer Health Services Account	20.0		20.0
Higher Education Capital Transfers (Made in Capital Budget)	17.5		17.5
Transfer Treasurer's Service Account Fund Balance	4.0	8.4	12.4
Transfer Enhanced 911		6.0	6.0
Transfer Emergency Medical Services & Trauma Account	6.0		6.0
Transfer Clark/McNary Fund Balance	4.0		4.0
Transfer State Drought Protection Account Fund Balance	3.0		3.0
Transfer Financial Services Regulatory Account Fund Balance	2.3	0.4	2.6
Transfer Gambling Account Fund Balance	2.0	0.5	2.5
Transfer Liquor Revolving		2.1	2.1
Transfer Industrial Insurance Fund Balance	1.0		1.0
Transfer Local Lease Excise Tax	1.0		1.0
Transfer Liquor Construction		0.5	0.5
Transfer Utilities & Transportation Commission/Public Service Revolving		0.4	0.4
Transfer Insurance Commissioner		0.4	0.4
Transfer Lottery Administration		0.3	0.3
Transfer AASA Licensing Fees to General Fund-State & -Local		-3.4	-3.4
Program Shifts to General Fund-State:			
Disproportionate Share		16.0	16.0
Department of Social & Health Services - FMAP		14.0	14.0
Department of Corrections Federal Fund Transfer	1.1	1.0	2.1
Superintendent of Public Instruction - Assessment System Funding	1.0	-1.0	0.0
DSHS Developmental Disabilities - Cost Allocation Plan	0.7	-0.7	0.0
Program Shifts out of General Fund-State:			
DSHS - Developmental Disabilities Regional Health Care Fund Source Adjustments	-2.4	2.4	0.0
Department of Community, Trade, & Economic Development - CERB Position		0.0	0.0
Department of Ecology - Hanford Liaison	-0.1		-0.1
State Parks & Recreation Commission - Forest Road Inventory	-0.1		-0.1
DSHS Children & Family Services - Pediatric Interim Care		-0.2	-0.2
Department of Natural Resources - Natural Resource Conservation Areas		-0.2	-0.2
Department of Ecology - Contaminated Sediments	-0.2		-0.2
Department of Health - Water Conservation and Reuse		-0.2	-0.2
DSHS - Developmental Disabilities Higher Client Contributions	-0.2		-0.2
Department of Ecology - Stream Gauging Fund Shift	-0.3		-0.3
Interagency Committee for Outdoor Recreation - Statewide Monitoring Strategy	-0.3		-0.3
Department of Agriculture - International Marketing Fund Shift	-0.4		-0.4
Department of Ecology - Aquatic Pesticides Shift to Fees		-0.4	-0.4
Leased Lands to Wildlife Account		-0.5	-0.5
DSHS - Long-Term Care SCSA & OAA Funding Adjustments		-0.6	-0.6
DSHS - Long-Term Care Revise Bed Retainer Policy		-0.8	-0.8
Department of Health - Maximize Use of Federal Funds		-0.8	-0.8
Attorney General - Fund Shifts		-0.8	-0.8
DSHS - Developmental Disabilities Division Fund Source Change	-0.9		-0.9
Department of Fish & Wildlife - Resource Program Fund Shifts	-0.1	-0.9	-1.0
Department of Labor & Industries - Apprenticeship Transfer	-1.0		-1.0
DSHS - Economic Services Fund Shift	-1.0		-1.0
Department of Health - HIV and AIDSNET		-1.1	-1.1
Department of Labor & Industries - Employment Standards Transfer	-1.1		-1.1
Department of Ecology - Water Quality Certifications & Stormwater Phase 2		-1.2	-1.2
DCTED - Salmon Recovery Fund Reallocation		-1.5	-1.5
DSHS - Mental Health Division Third Party Revenues	-1.0	-0.6	-1.6
Department of Fish & Wildlife - Salmon Recovery Reallocation	-1.5	-0.2	-1.6
Department of Community, Trade, & Economic Development - Shelters		-2.0	-2.0
K-12 - Washington Assessment of Student Learning		-2.0	-2.0
Secretary of State - Corporations Fund Shift		-2.0	-2.0
DSHS - Part B in Medical Assistance Administration	-1.6	-0.5	-2.1
Department of Ecology - Watershed Grants Funding Shift	-4.5		-4.5
K-12 - Learning Assistance Program		-5.9	-5.9
Department of Health - Childhood Vaccines	-5.2	-1.3	-6.5
Health Care Authority - Transfer Community Health Services		-6.7	-6.7
DSHS - Medical Assistance Maternity Support Services		-8.6	-8.6
K-12 - Safety Net	-3.5	-7.1	-10.6
Transfer Ferry Assistance	-20.0		-20.0
Redirect Legal Immigrants to Basic Health Plan		-21.0	-21.0
DSHS - Use RSN Reserves		-21.2	-21.2
Local Government Assistance		-59.4	-59.4
Total Adjustments	18.4	349.5	367.9
Revised Initiative 601 Expenditure Limit	11,269.9	11,990.2	23,260.1

2001-03 Washington State Omnibus Operating Budget
2002 Supplemental Budget
Transfers to the General Fund
(Dollars in Millions)

	<u>2002</u>	<u>2003</u>	<u>2001-03</u>
2001 Legislative Session			
Transfer Health Services Account Revenue to General Fund	130.0	20.0	150.0
Transfer from Multimodal Account	70.0	0.0	70.0
Transfer from Treasurer's Service Account	0.0	8.0	8.0
Total	200.0	28.0	228.0
2002 Supplemental			
Transfer Industrial Insurance Fund Balance	1.0	0.0	1.0
Transfer Gambling Account Fund Balance	0.0	2.5	2.5
Financial Services Regulatory Account Fund Balance	2.3	0.4	2.6
State Drought Protection Account Fund Balance	3.0	0.0	3.0
Transfer Treasurer's Service Account Fund Balance	0.0	4.4	4.4
Transfer Clark/McNary Fund Balance	4.0	0.0	4.0
Transfer Utilities & Transportation Commission/Public Service Revolving	0.0	0.4	0.4
Transfer Lottery Administration	0.0	0.3	0.3
Insurance Commissioner	0.0	0.4	0.4
Liquor Construction	0.0	0.5	0.5
Liquor Revolving	0.0	2.1	2.1
Enhanced 911	0.0	6.0	6.0
Local Leasehold Excise Tax	1.0	0.0	1.0
Emergency Medical Services & Trauma Care	0.0	6.0	6.0
Capital Budget Related Transfers	0.0	17.5	17.5
Total	11.3	40.4	51.6

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

(Dollars in Thousands)

Bill Number and Subject	Session Law	Agency	GF-S	Total
2001 Legislative Session				
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	<u>100</u>	
Total			100	<u>25,000</u>
2002 Legislative Session				
ESHB 2304 - Transportation	C 5 L 02	Department of Labor & Industries		950

Note: Operating appropriations contained in Chapter 371, Laws of 2002, Partial Veto (ESSB 6387 - 2001-03 Omnibus Operating Budget), Chapter 359, Laws of 2002, Partial Veto (ESHB 2451 - 2001-03 Transportation Current Law Budget), and Chapter 201, Laws of 2002, Partial Veto (ESSB 6347 - 2001-03 Transportation New Law Budget -- subject to passage of Referendum 51) are displayed in the appropriate sections of this document.