

# **2003-05 Omnibus Budget Overview**

## *Operating Only*

### **Composition of the Projected Operating Budget Problem**

The prolonged national recession that began in 2001 resulted in below average forecasted general fund revenue growth for the 2003–05 biennium. Following an absolute decline in revenue in the 2001-03 biennium, the March 2003 revenue forecast projected a 6.1 percent increase for 2003-05. Over the ten years prior to the current recession, biennial revenue growth had been about 10 percent while average expenditure growth had been about 9.5 percent. Because of both increased operating budget costs and slower-than-normal revenue growth, the projected 2003-05 operating budget faced an estimated gap of more than \$2.7 billion.

The March 2003 revenue forecast estimated that the state would collect \$22.5 billion in general fund revenues during the 2003-05 biennium. However, the estimated 2003-05 maintenance level budget – which represents the cost of continuing existing state government programs and services – was projected to cost \$23.7 billion, or \$1.2 billion more than the amount of revenue available. If the projected costs of employee salaries, health benefits, and vendor payments were added to the maintenance level estimates, state spending would have increased by an additional \$536 million, bringing the total shortfall to more than \$1.7 billion.

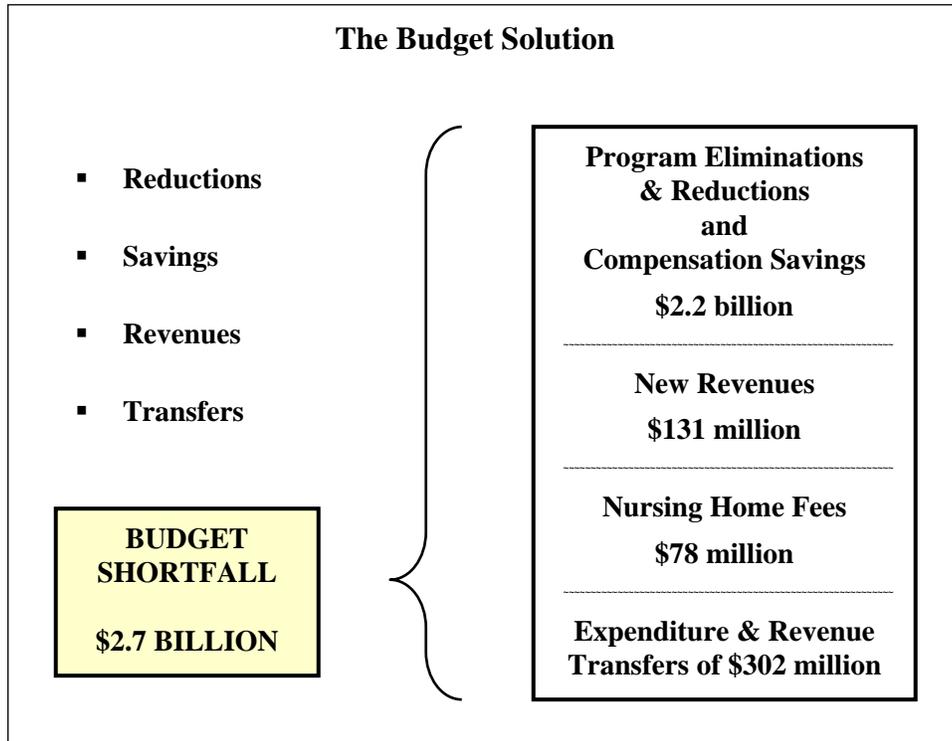
Approximately \$400 million in additional spending needs resulted from two voter-approved initiatives. Under Initiative 732 and a recent Supreme Court decision interpreting the measure, the state was made responsible for the cost of funding employee cost-of-living adjustments (COLAs) for K-12 employees whose base salary is paid from local and federal funds. This would have added \$283 million to the 2003-05 budget problem. In addition, implementing the contract for home care workers negotiated pursuant to Initiative 775 would increase general fund spending requirements by another \$98 million.

When other spending demands are included – everything from debt service for the new capital budget to higher education enrollments to a salary increase for beginning teachers to increasing the nursing home reimbursement rate – total estimated general fund spending could have been as much as \$24.9 billion – \$2.4 billion more than expected revenue.

When the projected shortfall in Health Services Account is included, the \$2.4 billion general fund shortfall grew to become a combined operating budget shortfall in excess of \$2.7 billion.

### **How the Legislature Solved the 2003-05 Budget Problem**

The legislature addressed the \$2.7 billion budget problem in four ways. First, a total of \$1.3 billion was achieved through a variety of program reductions and savings options. Second, \$0.9 billion was conserved through compensation-related savings. Third, fund shifts and fund balance transfers provided an additional \$302 million in assistance. Fourth, new net revenues totaling \$209 million were raised, including a federally-matched nursing home quality maintenance fee.



The 2003-05 biennial General Fund-State appropriation is \$23.08 billion<sup>1</sup>, an increase of 2.2 percent over the 2001-03 appropriation. The total funds operating budget is \$44.80 billion.

**Program Reductions and Savings**

The budget realized \$2.2 billion<sup>2</sup> in program reductions and compensation savings. Savings were achieved across all functions and agencies of state government. Agencies were required to become more efficient in how they staff and perform their missions – this saved \$45 million and over 1,100 full-time equivalent staff. Additionally, by requiring agencies to achieve savings to fund the costs of inflation, \$22 million was saved.

In addition to multi-agency savings (such as from staff efficiencies), program reductions and eliminations in the Department of Social and Health Services saved \$284 million. Examples of savings include the elimination of the Medically Indigent Program (\$105 million), prescription drug savings (\$24 million), reducing adult dental services (\$12 million), and managed care rate increases (\$25 million). In addition to savings in the general fund, net savings of almost \$350 million are achieved in the Health Services Account through a variety of actions, including reducing the scope of benefits available under the Basic Health Plan (BHP) as well as reducing the number of persons who may be enrolled in the BHP. Reductions in the number of BHP enrollees are expected to be achieved entirely through attrition.

Changes made to Initiative 728 allowed the Legislature to recognize savings of \$237 million in the Student Achievement Fund while still increasing the per pupil allocation from \$211.67 in the 2003-04 school year to \$254.00 in the 2003-04 school year. The initiative had called for the allocation to increase from \$211.67 to \$450.00 per pupil.

College and university operating budgets were reduced by \$131 million. Institutions of higher education are also authorized to increase tuition for resident undergraduate students by up to 7 percent per year. Savings were also achieved in other state agencies. For example, the Department of Corrections is expected to save \$40 million from changes to inmate sentencing and supervision.

<sup>1</sup> The fiscal year 2004 appropriation is \$11.38 billion, and the fiscal year 2005 appropriation is \$11.70 billion.

<sup>2</sup> Including the state general fund, health services account, and the student achievement fund.

The budget enacted by the Legislature assumed savings would be generated in the areas of equipment, travel, and contracts (\$20 million) and legislative liaisons (\$3 million). These two provisions were vetoed. Finally, the enacted budget was reduced as a result of monies provided to implement specific policy legislation lapsed when those bills were not enacted (\$2.6 million).

### **Compensation Savings**

Significant expenditure increases were also avoided in the area of employee and vendor compensation. Changes made to Initiative 732 generated savings of \$207 million for state-funded K-12 and community college employees in the 2003-05 biennium and another \$283 million for locally- and federally-funded positions between the 2001-03 and the 2003-05 biennia.

While state funding for employee health benefits is increased by \$200 million, this is still nearly \$70 million less than what the Health Care Authority estimated the cost of the current plan would be assuming the employee share of costs remained unchanged. Not providing salary increases to vendors as well as state and higher education employees saved \$213 million. By rejecting the home care worker contract and instead providing a \$0.75 per hour wage increase, the state saved \$67 million. By not acting on the findings of the most recent salary survey, which would have brought those employees furthest behind market pay closer to market pay, the state saved \$51 million. Finally, changes made to pension statutes affected pension contribution rates and generated savings of \$87 million.

### **Fund Shifts and Fund Balance Transfers**

The 2003-05 budget makes use of both state reserve accounts and money transfers from dedicated fund balances.

The sum of \$81.2 million is transferred from various dedicated accounts to the general fund. In addition, the entire balance of the Emergency Reserve Fund, \$59.4 million, is transferred to the general fund. A detailed list of money transfers can be found on page 15 of this document.

Programs were also transferred from the general fund to other fund sources (\$161 million). For example, higher education building maintenance costs (\$52 million) were shifted to dedicated fund sources appropriated in the capital budget and certain youth safety programs (\$23 million) were shifted to the Public Safety and Education Account.

### **Increased Revenues**

The budget adopts several measures that are expected, in total, to raise general fund revenues during the 2003-05 biennium by \$446 million.

The budget included provisions that will increase revenue collection activities by the Department of Revenue (\$32 million) and by the Liquor Control Board (\$20 million), including an increase in the price of liquor. Legislation pertaining to penalty provisions, unclaimed property, and sales tax payment periods was enacted, which is expected to generate \$101 million. Legislation authorizing the nursing home quality improvement fee is expected to generate \$78 million, an amount that is then matched with federal funds and used to support an increased nursing home reimbursement rate. Finally, legislation was enacted that provided tax credits for the aerospace industry, which is expected to reduce revenue collections by \$25 million.

The changes made to Initiative 728, which allowed the Legislature to recognize \$237 million in savings are recognized as general fund revenue.

The budget leaves a total \$256 million budget reserve, \$49 million less than the budget adopted in 2002. In the 2003-05 biennium, all of the reserves are in the unrestricted general fund ending balance.

## 2003-05 Estimated Revenues and Expenditures

### General Fund-State

(Dollars in Millions)

<b>Resources</b>	
<b>Beginning Fund Balance</b>	<b>299.3</b>
<b>March 2003 Revenue Forecast</b>	<b>22,451.5</b>
<b>Revenue Changes</b>	
Budget Driven Revenue	51.9
Nursing Home Quality Fee	78.2
I-728 Property Tax Diversion	237.0
Aerospace Industry	(25.3)
Other Revenue Legislation	104.1
<b>Current Revenue Totals</b>	<b>22,897.4</b>
Fund Transfers to General Fund	81.2
Transfer from Emergency Reserve Fund	59.4
<b>Total Resources (Revenue/Fund Balance)</b>	<b>23,337.3</b>
<b>Appropriations</b>	
<b>Biennial Appropriation *</b>	<b>23,060.7</b>
Governor's Vetoes	23.3
Lapses	(2.6)
<b>Spending Level</b>	<b>23,081.4</b>
<b>Adjusted I-601 Expenditure Limit</b>	<b>23,673.1</b>
<b>Difference Between I-601 Limit and Expenditures</b>	<b>591.7</b>
<b>Unrestricted General Fund Balance</b>	
<b>Projected Ending Fund Balance</b>	<b>255.9</b>
<b>Emergency Reserve Fund</b>	
<b>Beginning Fund Balance</b>	<b>57.6</b>
Actual/Estimated Interest Earnings	1.7
Transfers and Appropriations	(59.4)
<b>Projected Ending Fund Balance</b>	<b>0.0</b>

\* Not shown above are federal assistance funds appropriated to states pursuant to Public Law (PL) 108-27. Washington expects to receive a total of \$400.5 million from this source, \$10 million of which was appropriated in the 2003-05 biennium.

## 2003-05 Omnibus Operating Budget

### Cash Transfers

(Dollars in Millions)

<b>Fund</b>	<b>2003-05 Biennium</b>
Emergency Reserve Fund (ERF)	59.4
Reduce General Fund-State Backfill to the Water Quality Account	27.5
State Convention & Trade Center Account	10.0
State Treasurer's Service Account	10.0
Electrical License Account	7.0
Flood Control Assistance Account	2.7
Department of Retirement Systems Expense Account	1.5
Public Service Revolving Account	1.6
Insurance Commissioner's Regulatory Account	1.5
Pressure Systems Safety Account	1.0
Industrial Insurance Premium Refund Account	0.6
State Forest Nursery Revolving Account	0.5
Municipal Sale/Use Tax Equalization	0.4
Asbestos Account	0.2
County Sale/Use Tax Equalization	0.1
Site Closure Account	13.8
Health Services Account	1.3
Financial Services Regulation Account	1.6
Total	<u>140.6</u>

## 2003-2005 Washington State Omnibus Operating Budget Adjustments to the Initiative 601 Expenditure Limit

(Dollars in Millions)

	<u>FY 2004</u>	<u>FY 2005</u>	<u>2003-05</u>
<b>Current Expenditure Limit (Rebased to FY 2003 Actuals)</b>	11,731.8	12,062.3	23,794.2
<b>2003-05 Program Cost Shifts:</b>			
LEAP: Costs Shifted from Transportation Budget	0.2		0.2
House: Costs Shifted from Transportation Budget	0.9		0.9
Secretary of State: Shift Costs to Archives	0.0		0.0
DSHS Children and Family Services: Federal Funds	-10.1		-10.1
DSHS Mental Health Division: Disproportionate Share Hospital Lid	4.5	-1.3	3.3
DSHS Economic Services Administration: Federal Funds	2.4		2.4
Dept of Corrections: Program Cost Shifts	-0.2		-0.2
Dept of Licensing: Shift Programs	-0.4		-0.4
Dept of Labor & Industries: Transfer Crime Victim Comp to PSEA	-0.1		-0.1
Dept of Veterans' Affairs: Institutional Funds	0.0	-1.2	-1.1
Dept of Natural Resources: Forest Fires	0.3		0.3
Office of Administrator for the Courts: Fund Becca with PSEA	-3.6		-3.6
Military Dept: Shift Programs to Federal/Local	-0.5		-0.5
DCTED: Developmental Disabilities Endowment	-0.2		-0.2
DCTED: Housing Trust Fund Admin	-0.8		-0.8
Office of Financial Management: Revolving Funds	-0.5		-0.5
Attorney General: SMART/HITS	0.0		0.0
Attorney General: Ethics Board	-0.3		-0.3
Dept of General Administration: Capital Campus Tours	-0.3		-0.3
Dept of Health: Vital Records Fee	-1.2		-1.2
Dept of Health: Shellfish Testing	-0.4		-0.4
DSHS Mental Health Division: Mentally Ill Offender Pilot	-0.5		-0.5
DSHS Division of Alcohol & Substance Abuse: Fund Shifts	4.9		4.9
DSHS: Immigrant Prenatal Care	-17.7		-17.7
Washington State Patrol: Drug Enforcement	-2.0		-2.0
K-12: Integrate Federal Funds	-3.7	-9.8	-13.5
K-12: Summer Accountability Institute	-0.2		-0.2
Dept of Ecology: 401 Certs to Water Quality	-0.1		-0.1
Dept of Ecology: Air Outreach	-0.1		-0.1
Dept of Ecology: Smoke & Dust in Eastern Washington	-0.3		-0.3
Dept of Ecology: Water Rights Decisions	-0.5		-0.5
Dept of Ecology: Well Regulation	-0.2		-0.2
Dept of Fish & Wildlife: Enforcement Program	-0.4		-0.4
Dept of Fish & Wildlife: Fish Hatcheries	-0.3		-0.3
Dept of Fish & Wildlife: Warm Water	-0.1		-0.1
Dept of Natural Resources: Shift to NRCA	0.0		0.0
Dept of Natural Resources: Spartina/ALEA	-0.1		-0.1
Dept of Natural Resources: Fire Supression /Disaster	-7.2	7.2	0.0
DSHS Children and Family Services: Use PSEA	-11.5		-11.5
Higher Ed: Shift Maint to Capital	-26.4		-26.4
Higher Ed: Waive Less Tuition	-5.6		-5.6
Washington State Historical Society	-0.2		-0.2
Higher Ed: Job Skills Program	-0.6		-0.6
<b>2003-05 Revenue &amp; Cash Transfers</b>			
Cash Transfers into GF-S (Excluding Emergency Reserves Fund)	41.8	39.4	81.2
Initiative 728 (Property Tax Back to GF-S)	0.0	237.0	237.0
<b>Total Adjustments</b>	-41.3	271.4	230.1
<b>Revised Initiative 601 Expenditure Limit</b>	11,690.6	12,333.7	24,024.3

**2003-05 Washington State Operating Budget  
Appropriations Contained Within Other Legislation**

(Dollars in Thousands)

Bill Number and Subject	Session Law	Agency	Total
<b>2003 Legislative Session</b>			
SSB 5248 - Transportation	C 363 L 03	Department of Labor & Industries	100
ESSB 6072 - Pollution Response	C 264 L 03 PV	Department of Ecology	13,076
SB 6099 - Unemployment Insurance	C 3 L 03 E2	Employment Security Department	<u>11,500</u>
Total			24,676

*Note: Operating appropriations contained in Chapter 25, Laws of 2003, 1st sp.s., Partial Veto (ESSB 5404 - 2003-05 Omnibus Operating Budget) and Chapter 360, Laws of 2003, Partial Veto (ESHB 1163 - 2003-05 Transportation Budget), are displayed in the appropriate sections of this document.*

