

2004 Supplemental Omnibus Budget Overview

Operating Only

The Original 2003-05 Operating Budget

In 2003, the Legislature adopted the 2003-05 biennial budget, appropriating \$23.081 billion from the state general fund and addressing a total budget shortfall of \$2.7 billion. At that time, the ending fund balance was projected to be \$256 million.

At the same time, the federal government was working to enact federal fiscal relief to the states (Public Law 108-27), which promised to provide one-time relief by making cash grants to states and by increasing the portion of Medicaid costs paid by federal funds. After the budget was adopted, the one-time cash grants increased the ending fund balance by \$190 million, and it was expected that the Medicaid changes would also allow budget savings.

When the original 2003-05 budget was adopted, there was a concern that over the next year the revenue forecast could be revised significantly downward. While the June 2003 revenue forecast was down nearly \$160 million and the September 2003 forecast was down slightly, increases in the November 2003 and February 2004 revenue forecasts offset those declines.

The 2004 Supplemental Budget

The 2004 supplemental budget, as adopted by the Legislature, increased state general fund spending by \$145.5 million.¹ The net impact of lapsed appropriations and gubernatorial vetoes increased state general fund spending by an additional \$19.2 million to \$164.7 million. Including the 2004 supplemental, the total state general fund appropriation is \$23.246 billion.²

The 2004 supplemental budget assumed \$361 million in spending and revenue changes that were essentially financed from the one-time federal fiscal relief (which both reduced spending and increased resources) and fund transfers leaving an ending fund balance of \$278 million.

Two issues which were the subject of debate in the 2003 session – the extension of expiring tax credits and approval of a collective bargaining agreement for home care workers – were resolved in 2004. Certain expiring tax credits and exemptions were extended and a collective bargaining agreement for home care workers was approved.

Maintenance Level Changes

The cost of continuing state programs – the maintenance level budget – increased a net \$13 million.

The maintenance level budget recognized one-time general fund savings in fiscal year 2004 of \$110 million resulting from the federal fiscal relief legislation. The federal legislation allowed states, for a portion of fiscal year 2003 and all of fiscal year 2004, to reduce the state share of Medicaid costs.

All other maintenance level changes totaled \$124 million and included increases of \$78 million for the Department of Corrections to house and supervise an increased number of offenders and \$40 million for K-12 enrollment and cost changes. Lower interest rates allowed the state to recognize debt service savings of \$14 million.

¹ This figure includes appropriations made to implement the home care worker contract. These appropriations were contained in Chapter 278, Laws of 2004 (EHB 1777).

² The appropriation is \$11.452 billion for fiscal year 2004 and \$11.794 billion for fiscal year 2005.

Policy Level Changes

New budget investments were made in most functional areas of the budget.

In K-12 education, the health benefit funding rate for all K-12 employees was increased (\$9 million). This sets the funding rate for K-12 employees equal to state employees. K-12 classified employees were granted a 1 percent salary increase (\$5 million) effective September 2004. Funding was also increased for a variety of other programs.

In long-term care and developmental disabilities, funding was provided to implement the negotiated home care worker contract (\$24 million) and to increase rates provided to agency providers (\$2 million), other residential care providers including nursing homes (\$13 million), and contracted case managers (\$2 million). Funding was also provided to serve an increased number of developmentally disabled clients (\$2.8 million).

Funding was also provided for several programs serving vulnerable adults and children, including homeless families (\$2 million), domestic violence shelters (\$2 million), civil legal services (\$2 million), and to improve services to foster children (\$1.7 million).

Last session, the Legislature assumed premiums would be imposed for lower-income families providing health care for children through Medicaid. The budget provided increased funding to eliminate the premium for the lowest-income children and to reduce the premium for other income levels (\$20 million, Health Services Account).

In addition, funding was increased for hospital grants (\$17 million, Health Services Account), community clinic grants (\$2.5 million, Health Services Account), the Family Practice Residency program (\$1.9 million), and for community mental health programs (\$3 million).

Funding in higher education was increased for general enrollments (\$10 million), high-demand enrollments (\$7 million), and financial aid (\$7 million), as well as for various research programs including proteomics.

Funding was also increased for state employee health benefits (\$7 million), for financial assistance to counties (\$4 million), and for extraordinary criminal justice costs incurred by local governments (\$1 million).

Other funding increases were for items that were less discretionary in nature. The cost of fighting the 2003 forest fires was \$23.5 million more than assumed in the original budget. The budget also funds the settlement of several lawsuits filed against the state. Topics of the lawsuits included part-time community college faculty benefits (\$11 million), pollution cleanup liability (\$2 million), and contract-related litigation in Medicaid (\$1 million), as well as emission testing (\$2.5 million).

Savings were also generated in a number of areas. Additional federal funds available under the Disproportionate Share program (\$12 million) and lower-than-expected bids for employee health benefit procurement (\$12 million) generated savings. Federal changes allowed the state to refinance health care coverage provided to children from low-income families saving \$25 million, mostly in the Health Services Account.

Finally, the Legislature assumed savings from the presidential primary (\$6 million) and a reduction in agency travel and equipment purchases (\$11 million) although the Governor vetoed these changes.

Revenue Changes

Separate legislation, listed on page 18 of this document, reduced forecasted revenue by approximately \$87 million. The majority of the change is attributable to the extension of expiring tax incentives.

Reserves and Money Transfers

The sum of \$62 million is transferred from a variety of dedicated accounts, listed on page 14 of this document, to the state general fund. The largest single transfer is \$45 million from the Health Services Account. That transfer was possible, in part, because the Health Services Account also benefited from the federal fiscal relief legislation.

The budget leaves a reserve of \$278 million, all in the ending fund balance.

2003-05 Estimated Revenues and Expenditures
2004 Supplemental Budget
General Fund-State
(Dollars in Millions)

RESOURCES	
Beginning Fund Balance	404.6
February 2004 Revenue Forecast	22,897.3
Tax Policy Legislation	-86.4
Current Revenue Totals	22,810.8
Fund Transfers and Other Adjustments	157.0
Federal Fiscal Relief - Grant	90.2
2004 Supplemental Revenue Changes	
Money Transfers from Other Funds	62.2
Total Resources (Including Fund Balance)	23,524.8
APPROPRIATIONS	
Biennial Appropriation	23,081.4
2004 Supplemental Budget (Including HB 1777)	145.5
Governor's Vetoes/Lapsed Appropriations	19.2
Spending Level	23,246.1
Adjusted I-601 Expenditure Limit	23,847.0
Difference Between I-601 Limit and Expenditures	600.9
UNRESTRICTED GENERAL FUND BALANCE	
Projected Ending Fund Balance	278.7
EMERGENCY RESERVE FUND (ERF)	
Beginning Fund Balance	57.6
Actual/Estimated Interest Earnings, Transfers, and Approps	-57.6
Projected Ending Fund Balance	0.0
TOTAL RESERVES	
Combined General and ERF Projected Ending Fund Balance	278.7

2003-05 Washington State Omnibus Operating Budget
2004 Supplemental Budget
Cash Transfers to the General Fund
(Dollars in Millions)

Fund	2003-05
Health Services Account	45.0
Financial Services Regulation Account	5.7
State Treasurer's Service Account	4.0
Gambling Revolving Account	2.5
Department of Retirement Systems Expense Account	4.0
Insurance Commissioner's Regulatory Account	1.0
K-20 Technology Account	<u>0.0</u>
Total	62.2

2003-05 Washington State Omnibus Operating Budget
2004 Supplemental Budget
Adjustments to the Initiative 601 Expenditure Limit
(Dollars in Millions)

	<u>FY 2004</u>	<u>FY 2005</u>	<u>2003-05</u>
Unadjusted Limit (Rebased to 2003 Actuals)	11,693.5	11,982.4	23,675.9
2003-05 Adjustments			
Program Cost Shifts	-92.5	-4.0	-96.5
Revenue and Cash Transfers	41.8	39.4	81.2
2004 Supplemental -- Program Cost Shifts			
FMAP	-91.3	137.8	46.5
L&I: Overhead Realignment		0.3	0.3
DOC: Federal Funds (SCAAP)	2.3		2.3
DOH: Drinking Water Protection	-0.4		-0.4
DOH: AIDS Drug Assistance		-0.3	-0.3
DSHS: DASA PSEA Funds	0.2		0.2
DSHS: DASA Federal Funds	-0.1	0.1	0.0
DSHS: Mental Health Third Party Funds	-0.6		-0.6
DSHS: Childrens' Federal Funds	-5.0	2.8	-2.2
DSHS: SCHIP Refinancing	-1.4	-0.3	-1.7
DSHS: Additional DSH	-6.7	1.3	-5.4
K-12: Integrating Federal Funds		-1.0	-1.0
Higher Ed: Use Admin Contingency (CTCS)		-3.5	-3.5
2004 Supplemental -- Revenue & Cash Transfers			
Federal Fiscal Relief	90.2		90.2
ESHB 2675: Electric Utility Tax Credit		-0.1	-0.1
SHB 2721: Razor Clam Licenses		0.0	0.0
Cash Transfers to GF-S		62.2	62.2
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Total Adjustments	-63.5	234.5	171.1
Initiative 601 Expenditure Limit (After Adjustments)	11,630.0	12,216.9	23,847.0

Note: The fiscal year 2005 limit will be rebased downward after fiscal year 2004 closes. Expenditure limit calculations are preliminary estimates only. Actual spending limits are established by the Expenditure Limit Committee each fall.

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

(Dollars in Thousands)

Bill Number and Subject	Session Law	Agency	GF-S	Total
2003 Legislative Session				
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		11,500
Total				<u>24,676</u>
2004 Legislative Session				
EHB 1777 - Home Care Worker Contract	C 278 L 04	Office of Financial Management	65	65
EHB 1777 - Home Care Worker Contract	C 278 L 04	DSHS - Children & Family Services	145	290
EHB 1777 - Home Care Worker Contract	C 278 L 04	DSHS - Developmental Disabilities	8,096	15,627
EHB 1777 - Home Care Worker Contract	C 278 L 04	DSHS - Long-Term Care	14,279	28,450
EHB 1777 - Home Care Worker Contract	C 278 L 04	Home Care Quality Authority	<u>1,370</u>	<u>1,370</u>
Total			23,955	45,802

Note: Operating appropriations contained in Chapter 276, Laws of 2004, Partial Veto (ESHB 2459 - 2003-05 Omnibus Operating Budget) and Chapter 229, Laws of 2004, Partial Veto (ESHB 2474 - 2003-05 Transportation Budget), are displayed in the appropriate sections of this document.