

2011-13 Omnibus Budget Overview

Operating Only

The 2009-11 Biennium

In April 2010, as part of addressing a budget shortfall, the Legislature adopted the 2010 supplemental budget. That budget left a projected ending fund balance for the near general fund of approximately \$459 million.

Over the next three quarters, the revenue forecast for the 2009-11 biennium was reduced by more than \$1.3 billion, resulting in a projected deficit of \$900 million as of December 2010. The shortfall grew larger when projected caseload increases, the latest projection of federal rates used to match Medicaid, and the March 2011 revenue forecast were all incorporated. These factors, combined with the \$900 million shortfall discussed above, created a total 2009-11 new shortfall of \$1.2 billion.

In December 2010, the Legislature met in special session and adopted Chapter 1, Laws of 2010, 2nd sp.s. (HB 3225), which addressed \$588 million of the projected deficit (\$490 million through reduced appropriations and \$98 million through increased resources, primarily fund transfers). In February 2011, the Legislature adopted Chapter 5, Laws of 2011, Partial Veto (ESHB 1086), which addressed another \$367 million of the projected deficit (\$242 million through reduced appropriations and the remainder through fund transfers). In May 2011, the Legislature learned that the impact of the previously enacted tax penalty and interest waiver program was \$200 million better than originally anticipated, reducing the shortfall to \$1 billion. In addition to making initial appropriations for the 2011-13 biennium, Chapter 50, Laws of 2011, 1st sp.s., Partial Veto (2ESHB 1087) addressed the remainder of the 2009-11 shortfall and left a projected near general fund (NGF-S) ending balance for 2009-11 of approximately \$111 million.

With respect to the 2009-11 biennium, Chapter 50, Laws of 2011, 1st sp.s., Partial Veto (2ESHB 1087): (1) incorporated the latest projection of federal rates used to match Medicaid expenditure costs of \$128 million; (2) delayed a portion of the apportionment payments that would otherwise be made to school districts in June 2011 until July 2011 (saving \$115 million in the 2009-11 biennium and increasing the 2011-13 costs by an equal amount); and (3) made a variety of other typical supplemental changes.

2011-13 Shortfall

In addition to the shortfall in the 2009-11 biennium, the Legislature faced an additional shortfall in the 2011-13 biennium.

The March 2011 revenue forecast projected Near General Fund plus Opportunity Pathways (NGFS+) revenue collections of approximately \$32.3 billion (compared to \$28.5 billion in 2009-11). While revenue collections were projected to increase by almost 6.6 percent per year in fiscal years 2012 and 2013, fiscal year 2013 (\$16.5 billion) is the first year that near general fund revenue collections are expected to exceed fiscal year 2007 collections. The 2009-11 biennial budget, including the 2010 supplemental, appropriated approximately \$31.1 billion from NGFS+. That budget also used more than \$2.3 billion in one-time federal funds (primarily American Recovery and Reinvestment Act enhanced FMAP rates, as well as fiscal stabilization grants in the Department of Corrections, in public schools and higher education) that directly offset state expenditures. Two education-related initiatives (Initiative 732 and Initiative 728) were temporarily suspended in the 2009-11 biennium but, under then current law, were to resume in the 2011-13 biennium. Pension rates were projected to increase by almost \$566 million. Caseloads continued to increase in various programs, including K-12 education, long-term care, and medical assistance programs.

The estimated cost of continuing the 2009-11 budget into 2011-13 biennium was estimated at \$36.3 billion or about \$3.7 billion more than projected revenues. The gap widened further when \$424 million in additional costs were included, such as repaying the delayed June 2011 apportionment payment, beginning the new education funding formula, increasing the state need grant to keep pace with assumed increases in tuition, and leaving projected reserves of \$741 million (\$282 million of which is in the Budget Stabilization Account).

Altogether, the projected budget problem statement for 2011-13 biennium addressed by this budget is \$5 billion. Total policy level reductions are \$4.5 billion. The remainder of the shortfall is addressed through fund transfers and resource changes.

2011-13 Policy Level Spending Changes

Major 2011-13 reductions in Chapter 50, Laws of 2011, 1st sp.s., Partial Veto (2ESHB 1087) include: (1) \$1.2 billion from changes to the Initiative 728 class size and Initiative 732 cost-of-living adjustment requirements; (2) \$215 million by eliminating K-4 class enhancement, which is partially offset by maintaining the funding for high poverty schools; (3) \$535 million in reductions to state higher education institutions, which is partially offset by tuition increases; (4) \$356 million by making salary reductions to state, higher education and K-12 employees; (5) \$344 million from ending future automatic cost of living increases for Public Employees' Retirement System Plan 1 and the Teachers' Retirement System Plan 1 members; (6) a \$130 million reduction to the Basic Health Plan; (7) \$110 million from reducing hospital payments by 7 to 8 percent; (8) \$98 million from reduced personal care hours for long term care and developmentally disabled clients; and (11) \$116 million by changing the Disability Lifeline cash program to a housing and essential needs program.

Chapter 50, Laws of 2011, 1st sp.s., Partial Veto (2ESHB 1087) also makes approximately \$424 million in NGFS+ policy additions, some of which are related to achieving greater savings. Policy additions include the following items: (1) \$115 million repayment of the K-12 apportionment delay in the 2011 supplemental budget; (2) \$124 million for the higher education State Need Grant to accommodate authorization to increase tuition; (3) \$82 million in K-12 related items (mostly related to converting to a new funding formula); (4) \$28 million for increased debt service; and (5) \$11 million for repayment to the State Efficiency and Reorganization Account.

2011-13 Fund Transfers & Resource Changes

For the 2011-13 biennium, Chapter 50, Laws of 2011, 1st sp.s., Partial Veto (2ESHB 1087) makes \$459 million in transfers from various funds to increase General Fund-State resources. Some of the largest transfers include: (1) \$204 million from suspending the transfer to the Education Construction Account for the 2011-13 biennium; (2) \$85 million from the Liquor Revolving Account (implicitly assuming continuation of a previous markup on distilled spirits); (3) \$50 million from the Public Works Assistance Account; (4) \$45 million from the Education Savings Account; (5) \$25 million from the Treasurer's Service Account; and (6) \$10 million from a 3.4 percent reduction to various distributions to local governments.

Chapter 50, Laws of 2011, 1st sp.s., Partial Veto (2ESHB 1087), also includes additional actions that are expected to result in \$57 million in additional revenue. These include: (1) \$53.5 million from continued and new revenue collection efforts by the Department of Revenue; and (2) \$3.6 million from changes in liquor retail operations, such as opening six new contract stores and five new co-located stores.

2011-13 Agency Consolidations

Chapter 50, Laws of 2011, 1st sp.s., Partial Veto (2ESHB 1087) assumes the following agency consolidations/transfers: (1) Medical Purchasing Administration where the DSHS Medical Assistance Administration becomes part of the Health Care Authority; (2) Department of Enterprise Services where certain central service and back office functions are transferred (in part or in whole) from various agencies into the newly-created Department of Enterprise Services; (3) the Indeterminate Sentence Review Board being merged into the Department of Corrections; and (4) the Sentencing Guidelines Commission is divided so that the research and data functions are transferred to the Caseload Forecast Council and the policy functions and Sex Offender Policy Board are transferred to the Office of Financial Management.

Multiple Budget Bills Were Enacted

The Legislature adopted budget bills in December 2010 (2009-11), February 2011 (2009-11), and May 2011 (both 2009-11 and 2011-13).

As a result of the multiple budget actions taken by the Legislature in addressing the 2009-11 shortfall, there is an increased possibility for confusion on how the various budget items interact with the budget for 2011-13.

In some instances, the reductions included in Chapter 50, Laws of 2011, 1st sp.s., Partial Veto (2ESHB 1087), are the continuation of reductions (sometimes at a lower or higher level) first begun in either Chapter 1, Laws of 2010, 2nd sp.s. (HB 3225), or Chapter 5, Laws of 2011, Partial Veto (ESHB 1086). Additionally, the reductions from any of the budget versions are not automatically carried in to the future. If the reductions are continued at any level into the 2011-13 biennium, they are displayed at the policy level.

Estimated Revenues and Expenditures
Near General Fund-State and Opportunity Pathways Account
(Dollars in Millions)

	2009-11	2011-13
RESOURCES		
Beginning Fund Balance	309.5	111.3
Revenue		
November 2010 Revenue Forecast	28,566.4	33,210.8
December 2010 Legislation with Revenue Impacts	70.3	-30.1
March 2011 Revenue Forecast Change	-143.4	-654.2
2011 Budget Driven Revenue (2ESHB 1087)	0.0	58.1
2011 Revenue Legislation (Net Change)	0.0	-10.1
Interest & Penalty Deferral (Update)	200.0	0.0
Total Revenue	28,693.3	32,574.5
Other Resource Changes		
Transfers to the Budget Stabilization Account	-245.6	-281.4
Use of Budget Stabilization Account	267.0	0.0
Other Previously Enacted Fund Transfers & Adjustments	1,269.4	-204.0
Fund Transfers HB 3225 & ESHB 1086	185.0	0.0
Fund Transfers 2ESHB 1087	20.5	458.6
Total Other Resource Changes	1,496.3	-26.8
Total Resources	30,499.2	32,659.0
EXPENDITURES		
Spending		
Previously Enacted Appropriations	31,084.5	
December 2010 (HB 3225, no vetoes)	-491.8	
February 2011 (ESHB 1086, after vetoes)	-234.4	
May 2011 (2ESHB 1087, after vetoes)	29.4	32,200.0
Total Spending	30,387.8	32,200.0
RESERVES		
Ending Balance & Reserves		
Unrestricted Ending Fund Balance	111.3	459.0
Budget Stabilization Account Balance	0.0	281.5
Total Reserves	111.3	740.6

Note: The balance sheet reflects appropriations as made in enacted budget bills. Beginning in June 2011, approximately \$10 million in payments related to the Convention and Trade Center will be displayed as revenue rather than as a previously enacted fund transfer. Also starting in June, changes to city and county distributions will be displayed as revenue rather than fund transfers.

Washington State Omnibus Operating Budget
Cash Transfers to General Fund-State
(Dollars in Millions)

	<u>2009-11</u>	<u>2011-13</u>
2011 Supplemental		
December 2010 (HB 3225)	54.0	0.0
February 2011 (ESHB 1086: Transfers from GF-S excluding BSA)	-12.4	0.0
February 2011 (ESHB 1086: Transfers to GF-S)	143.4	0.0
 Capital Related Fund Transfers		
Suspend GF-S Transfer to Education Construction Account	0.0	204.0
Public Works Assistance Account	0.0	50.0
Education Savings Account	0.0	45.0
CEP&RI Account	0.0	9.0
Thurston County Capital Facilities Account	0.0	8.0
Aquatic Lands Enhancement Account	0.0	7.0
Total	<u>0.0</u>	<u>323.0</u>
 Other Fund Transfers		
Liquor Revolving Account	0.0	85.0
Treasurer's Service Account	0.0	25.0
City & County Distributions (varied)	0.0	10.0
Waste Reduction/Litter Account	0.0	7.0
Economic Development Strategic Reserve Account	0.0	4.2
Flood Control Assistance Account	0.0	2.0
Liquor Control Board Construction and Maintenance Account	0.0	1.0
Fair Fund-Reduce Statutory Transfer	0.0	0.5
Department of Retirement Systems Expense Account	0.0	0.5
Foster Care Endowed Scholarship Account	0.0	0.4
Total	<u>0.0</u>	<u>135.6</u>
 Total Fund Transfers	 185.0	 458.6

2011-13 Washington State Budget
Appropriations Contained Within Other Legislation
(Dollars in Thousands)

Bill Number and Subject	Session Law	Agency	GF-S	Total
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2011 Legislative Session

SSB 5181 - State Debt Limit	C 46 L 11	Office of the State Treasurer		150
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