

2012 Supplemental Omnibus Budget Overview

Operating Only

Background to the 2012 Budget Problem

In May 2011, as part of addressing a budget shortfall, the Legislature adopted a 2011-13 biennial operating budget that anticipated leaving \$741 million in projected reserves (Near General Fund-State, Opportunity Pathways, and Budget Stabilization Account). Over the next seven months projected revenues for the remainder of the 2009-11 biennium and for the 2011-13 biennium declined by over \$2.2 billion. As of the November 2011 revenue forecast, the \$741 million in ending reserves for the 2011-13 biennium had become a negative \$1.4 billion.

Combined Impact of December 2011 and 2012 Legislative Actions

Since December 2011, the legislature took actions that cumulatively improved the budget situation by approximately \$1.7 billion, leaving projected reserves of \$311 million (\$265 million in the Budget Stabilization Account and \$46 million in Near General Fund-State).

Legislative actions taken since December 2011 include reducing estimated Near General Fund-State and Opportunity Pathways Account spending by \$1.07 billion (\$436 million in maintenance net level savings, \$514 million in net policy level savings, and directing that \$120 million of anticipated reversions remain in the general fund). Revenue related legislation is projected to increase Near General Fund-State resources by a net of \$228 million (\$144 million from redirecting existing revenues into the state general fund, \$51 million from changes in the administration of unclaimed property, and \$33 million from a variety of other actions). Finally, Near General Fund-State resources were also increased by a net of \$372 million (\$238 million from an adjustment to working capital reserve and \$134 million from fund transfers).

These actions are described chronologically, and in more detail, below.

December 2011 Special Session

In December 2011, the Legislature took “early action” steps, which reduced the budget problem by \$480 million. Major elements included:

- Reducing spending by \$322 million (\$96 million at maintenance level) in Chapter 9, Laws of 2011, 2nd sp.s., Partial Veto (SHB 2058).
- Making fund transfers of \$107 million (\$83 million from fiscal year 2011 General Fund-State reversions) in Chapter 9, Laws of 2011, 2nd sp.s., Partial Veto (SHB 2058).
- Increasing revenue by \$51 million from modifying provisions related to unclaimed property in Chapter 8, Laws of 2011, 2nd sp.s. (SHB 2169).

The Legislature entered the 2012 legislative session with a Near General Fund-State and Opportunity Pathways Account budget problem of approximately \$1 billion (including the Budget Stabilization

Account). Assuming an ending reserve level of slightly over \$300 million, this meant that the budget challenge facing the Legislature going into the 2012 session was approximately \$1.3 billion.

2012 Regular & Special Sessions

The February 2012 revenue forecast increased by \$86 million. On the expenditure side of the balance sheet, the February 2012 maintenance level savings of \$340 million further reduced the budget problem. Taking these two items into account, this reduced the budget problem to under \$900 million (including ending reserves of \$311 million).

Summary

Chapter 7, Laws of 2012, 2nd sp.s., Partial Veto (3ESHB 2127) and related legislation address the remaining budget problem by: (1) making \$295 million in net policy level spending reductions; (2) lowering the working capital reserve by \$238 million as a result of an administrative change to the timing of when the local share of retail sales and use taxes are transferred from the general fund; (3) reducing distributions to local governments by \$74 million; (3) redirecting \$70 million in solid waste tax revenues to the general fund; (4) making net fund transfers of \$28 million; (5) generating a net of \$33 million in additional resources from revenue legislation and budget driven revenue; and (6) retaining in the general fund an estimated \$160 million in projected agency reversions during 2011-13 biennium rather than distributing those reversions to other accounts.

2012 Supplemental Policy Level Spending Changes

Besides the December 2011 “early action” and the maintenance level changes referenced above, Chapter 7, Laws of 2012, 2nd sp.s., Partial Veto (3ESHB 2127) contains \$362 million in spending reductions partially offset by \$67 million in increases (making the net spending reduction \$295 million).

Major reductions included: (1) \$127 million in savings in Temporary Assistance to Needy Families and Working Connections Childcare related activities which is comprised of reduced caseload and additional impacts of policies implemented from 2011 session; (2) making a variety of administrative reductions, centralized service efficiency steps, and capturing vacancy savings totaling over \$73 million in most areas of state government; (3) saving \$33 million from lowering the state employee health care contribution from \$850 per member per month to \$800 per member per month by using an available fund balance; (4) using \$20 million in the State Toxics Account to support water and other environmental cleanup activities previously funded from the state general fund; (5) \$15 million in savings associated with community supervision changes including implementation of a new violator policy; (6) saving \$13 million by eliminating indigent assistance disproportionate share hospital payments; and (7) making a \$5 million reduction in the housing and essential needs program based on slower than expected phase-in of the program since November of 2011.

Policy increases included: (1) \$14 million for the costs associated with implementing Initiative 1163 - Homecare Training; (2) \$5.8 million for K-12 principal and teacher evaluation legislation; (3) \$4 million for additional Life Science Discovery activities and grants; (4) \$2.6 million for phase II of the Provider One information technology project; (5) \$2 million for the implementation of the federal Affordable Care Act; and (6) \$2 million in K-12 urban school turnaround funding.

2012 Resource Changes

Chapter 7, Laws of 2012, 2nd sp.s., Partial Veto (3ESHB 2127) assumes or includes approximately \$444 million in additional resources. The largest component of this comes from Chapter 9, Laws of 2012, 1st sp.s. (HB 2822) which makes an administrative change that requires the local share of retail sales and use taxes to be transferred from the state general fund into the Local Sales and Use Tax Account on a

monthly basis rather than on a daily basis in a manner not impacting the amount or timing of distributions made to local government. The additional cash resources being retained in the state general fund allow lowering the amount of resources set aside for the working capital reserve by \$238 million.

Chapter 5, Laws of 2012, 2nd sp.s. (ESHB 2823) redirects \$143.8 million in existing resources to the state general fund. First, the legislation requires all but \$10 million per year in additional liquor distributions expected from Initiative 1183 be retained in the state general fund rather than enhancing local government distributions. Second, in fiscal year 2013, liquor excise taxes previously distributed to local governments will be retained in the general fund. After fiscal year 2013, all but \$10 million of that will be distributed to local governments. Because of extra revenue generated in the first year per the initiative, and the redirection of the excise tax, the state general fund is expected to receive a \$73 million increase in fiscal year 2013. Finally, the legislation temporarily redirects the portion of the solid waste tax that currently goes to the Public Works Assistance Account to the state general fund, which increases general fund resources by \$70 million in the 2011-13 biennium.

Chapter 7, Laws of 2012, 2nd sp.s., Partial Veto (3ESHB 2127) also assumes revenue legislation and budget-driven revenue that is expected to generate a net increase of \$33.5 million in the 2011-13 biennium. This includes legislation that increases and decreases expected revenue by changing exemptions and tax collection provisions. See revenue section of this document for more detail. This net increase of \$33.5 million also includes \$26 million in budget-driven revenue, primarily from administrative savings in the State Lottery and the sale of the liquor distribution center.

Chapter 7, Laws of 2012, 2nd sp.s., Partial Veto (3ESHB 2127) makes fund transfers to and from the general fund totaling \$28.4 million. Some of the positive fund transfers include: (1) \$30 million from the Public Works Assistance Account; (2) \$6.2 million from the Department of Retirement Systems Account; (3) \$4 million from the Financial Services Regulation Account; (4) \$3.5 million from the State Treasurer's Service Account; (5) \$2.7 million from the Waste Reduction and Recycling Account; and (6) \$2 million from the Heritage Center Account. The fund transfers that increase state general fund resources are partially offset by reversing a \$22.5 million Education Savings Account transfer from the 2011 session.

Finally, Chapter 7, Laws of 2012, 2nd sp.s., Partial Veto (3ESHB 2127) makes changes to the way agency underspending is handled. Rather than being distributed to the Education Savings Account, Savings Incentive Account, and various other smaller accounts, the amounts that remain unspent at the end of fiscal years 2012 and 2013 will be retained in the state general fund. This is assumed to result in an additional \$160 million in resources being retained the state general fund.

Governor's Operating Budget Vetoes

The Governor vetoed a number of sections of the operating budget bill passed by the Legislature. The net effect of her vetoes was to increase near general fund appropriations, from the level passed by the legislature, by \$7.9 million and to decrease near general fund reserves by \$7.9 million. Her vetoes included: (1) a \$5 million savings associated with assumed information technology efficiencies; and (2) savings of \$3.9 million coming from using the Forest Development Account rather than state general fund for a portion of fire suppression activities. The Governor also vetoed some policy enhancements, including: (1) \$600,000 for long range planning of Rainier School; and (2) \$250,000 for transition funding for developmental disabled students.

Estimated Revenues & Expenditures

(Near General Fund-State and Opp Pathways, Dollars in Millions)

	2011-13
Beginning Balance	(60.4)
 Revenue	
November Forecast	30,568.7
February Forecast Update	86.8
<i>Unclaimed Property (HB 2169 - Dec 2011)</i>	50.6
<i>Redirection of Existing Revenue</i>	143.8
<i>All Other Revenue Legislation & Budget Driven Revenue</i>	33.5
Total Revenue	30,883.5
 Other Resource Changes	
Transfers To The Budget Stabilization Account	(264.8)
Other Previously Enacted Fund Transfers & Adjustments	244.1
<i>Transfers in SHB 2058 (Dec 2011)</i>	106.2
<i>2012 Adjustment to Working Capital Reserve</i>	238.0
<i>2012 Fund Transfers</i>	28.4
Other Resource Changes	351.9
Total Resources	31,174.9
 Spending	
Original Enacted Appropriations	32,200
2012 Early Action (SHB 2058 - Dec 2011)	(322.9)
<i>2012 Maintenance Level Changes (3ESHB 2127 - Apr 2012)</i>	(340.3)
<i>2012 Policy Level Changes (3ESHB 2127 - Apr 2012)</i>	(295.4)
<i>2012 Estimated NGFS Reversions (FYs 12 and 13)</i>	(120.0)
<i>Governor's Partial Veto (3ESHB 2127 - May 2012)</i>	7.9
Total Spending	31,129.2
 Ending Balance & Reserves	
Unrestricted Ending Fund Balance	45.7
Budget Stabilization Account Balance	265.3
Total Reserves	311.0

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

<u>Transfers to General Fund-State</u>	<u>2011-13</u>
Public Works Assistance Account	30.0
Dept of Retirement Systems Account	6.2
Financial Services Regulation Account	4.0
Heritage Center Account	2.0
State Treasurer's Service Account	3.5
Coastal Zone Protection Fine Account	1.0
Waste Reduction & Recycling Account	2.7
Flood Control Assistance Account	1.0
State Nursery Account	0.5
Transfers to General Fund-State	<u>50.9</u>
<u>Transfers from General Fund-State</u>	
Reverse Transfer From Education Savings Account*	<u>(22.5)</u>
Transfers from General Fund-State	(22.5)
Total Fund Transfers	28.4

** Instead, at the end of fiscal year 2012 and 2013, all unspent General Fund-State appropriations will remain in the state general fund rather than being distributed to other accounts.*

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

Bill Number and Subject	Session Law	Agency	GF-S	Total
2012 Legislative Session				
SSB 6581 - Grass Seed Account	C 198 L 12	WA Turfgrass Seed Commission		4
2011 Legislative Session				
SSB 5181 - State Debt Limit	C 46 L 11	Office of the State Treasurer		150