

Can Lawmakers Make State Spending Sustainable?

Comparing the House- and Senate-passed budgets.

by Jason Mercier

Director, Center for Government Reform

March 2012

Key Findings

1. Lawmakers are currently in the fifth special session in only three years to complete work on the budget.
2. The House-passed budget would result in a \$1.86 billion shortfall in the next budget period.
3. The bipartisan Senate-passed budget would result in a \$354 million budget reserve in the next budget period.
4. Both the House and Senate budgets utilize what the State Treasurer refers to as “felony gimmicks.”
5. To help ensure future budgets are not adopted that immediately result in a shortfall for the next biennium, lawmakers should also enact budget sustainability reforms.

Introduction

Lawmakers have known since last year that corrective action was needed to bring the state’s 2011–13 budget into balance. Governor Gregoire called the first special legislative session of 2011 in May to enact the base budget for 2011–13. That budget was balanced for one day only before the June Revenue forecast again put the balance sheet into deficit.

Governor Gregoire called a second special session of 2011 in late November so lawmakers could again attempt to enact a balanced budget. That session lasted only 16 days before lawmakers gave up and went home without solving the full budget deficit. When adjourning the second special session last year, House and Senate leaders promised fixing the budget would be their number one priority when the 2012 regular session convened in January. Sixty days later, when the regular 2012 session ended in early March, lawmakers had again failed to forge an agreement on a balanced budget. Now the governor has called yet another special session, the fifth in only three years, asking lawmakers to complete their budget work.¹

The House and Senate each passed a version of a budget before the 2012 regular session ended on March 8. The House budget passed by a vote of 53–45, with only Democrats voting “yes” and three Democrats joining all Republicans in voting “no.” The Senate budget passed with a bipartisan vote of 25–24 with three Democrats joining all Republicans in voting “yes” and only Democrats voting “no.”

The balance sheets of the House- and Senate-passed budgets do not show huge dollar differences, the policy decisions within each budget, however, have drastically different results on whether the spending levels are sustainable through the 2013–15 biennium. Initial estimates show the House-passed budget would result in a \$1.86 billion shortfall in the next budget period, while the bipartisan Senate-passed budget would achieve a \$354 million budget reserve.

The following table shows the spending and reserve levels within each budget bill and the resulting shortfall or reserve amounts for 2013–15.

¹ “Washington State Legislature: Length of sessions for years 1980–2011,” at <http://www.leg.wa.gov/History/Legislative/Documents/LegLength1980-2011.pdf>.

Comparison of House- and Senate-passed Budgets for 2011–13

(dollars in millions)

	House	Senate
NGFS + Opp Pathways spending	\$30,835.4	\$30,767.9
Unrestricted ending fund balance	\$85.5	\$235.7
Budget stabilization balance	\$265.3	\$265.3
Total reserves	\$350.8	\$501
Reserves as % of spending	1.1%	1.6%
2013–15 budget outlook*	\$1,861 shortfall	\$354 reserve

*Based on estimates by the Washington Research Council²

The House-passed Budget

Of the two budgets, the House-passed budget would spend the most while leaving the least amount of money in reserve.³ The major problem with the sustainability of the House-passed budget, however, is the decision to move a \$330 million payment to K–12 schools from June 2013 to July 2013, thus pushing this spending into the next budget period. State Treasurer James McIntire described the proposed spending delay as a “felony gimmick.”⁴

A second problem with the sustainability of the House-passed budget is it would not fully repeal the two “free” education initiatives enacted in 2000, Initiative 728 (class sizes) and Initiative 732 (automatic teacher pay raises). These two major expansions in spending were enacted with no funding source. Voters subsequently rejected, in 2004 and 2010, proposed tax increases to pay for these measures.⁵ According to the Office of Financial Management these three provisions of the House-passed budget would create a spending bow wave of \$1.5 billion in 2013–15.⁶

The Senate-passed Budget

The Senate-passed budget takes a different approach. It does not use the K–12 delayed spending “felony gimmick” and does provide for the full repeal of unfunded Initiative 728 and Initiative 732.⁷ Along with other spending changes, the Senate-passed budget is projected to be sustainable and would result in a \$354 million reserve for 2013–15. Of concern in the Senate budget, however, is the decision to skip a \$133 million payment to the state pension fund, a move the State Treasurer has also called a “felony gimmick.”⁸ The skipped pension payment,

² “Approximate Outlook for 2013–15,” Washington Research Council at www.researchcouncilblog.org/2012/03/updated-rough-outlook-for-2013-15.html.

³ “Summary of Striking Amendment (H-4684) to ESB 5967,” LEAP at <http://leap.leg.wa.gov/leap/Budget/Detail/2012/HOSummary0307.pdf>.

⁴ “Once more with feeling: Pass a state budget without ‘felony’ gimmicks,” *Seattle Times*, March 9, 2012 at http://seattletimes.nwsourc.com/html/editorials/2017712421_editi1lmcintire.html.

⁵ “Battle of the initiatives,” Jason Mercier, Washington Policy Center, May 10, 2011 at <http://www.washingtonpolicy.org/blog/post/battle-initiatives>.

⁶ “Six-Year Outlook, assuming Governor’s November 21, 2011 Supplemental Budget and Restoration of Initiatives 728 and 732 and State Employee and K–12 Salary Reductions,” Office of Financial Management at <http://www.governor.wa.gov/priorities/reform/outlook.pdf>.

⁷ “Proposed Senate 2012 Supplemental Operating Budget as Passed Senate,” LEAP at <http://leap.leg.wa.gov/leap/Budget/Detail/2012/SOSummary0303.pdf>.

⁸ “Once more with feeling: Pass a state budget without ‘felony’ gimmicks,” *Seattle Times*, March 9, 2012 at http://seattletimes.nwsourc.com/html/editorials/2017712421_editi1lmcintire.html.

however, is made within the context of a pension reform bill (SB 6378) that has the potential to save taxpayers \$1 billion over the next 25 years.⁹

New Senate-proposed budget

On March 15, the bipartisan Senate coalition that passed the original Senate budget held a press conference to announce a new “compromise” budget proposal. The new Senate proposal addresses the criticism about reductions in education spending in the original budget by drawing down the reserves to continue spending on these programs. The new reserve level would be \$437.4 million versus the original \$501 million. According to the budget summary:¹⁰

This proposal was also crafted with an eye on future sustainability. This is why this budget proposal and related legislation takes additional steps to make the budget more sustainable in future years by taking on the structural budget problem.

Some of these initiatives include: (1) Engrossed Senate Joint Resolution 8222 which would require four-year balanced budgeting; (2) Senate Bill 6618 which removes mandatory provisions related to Initiative 728 and Initiative 732, which will allow future budget writers additional flexibility; (3) Senate Bill 6378 which suspends employer Plan 1 unfunded liability payments for fiscal year 2013 but also includes more than offsetting future savings from eliminating subsidized early retirement benefits for new members of certain pension systems; (4) Senate Joint Resolution 8221, a proposed Constitutional amendment which would limit capital budget related debt; (5) a more consolidated purchasing of employee health benefits which could potentially allow the state and local school districts to achieve savings after it is implemented in 2014; and (6) Engrossed Substitute Senate Bill 6345 which creates a commission to identify further efficiencies and savings in state services.

State Treasurer Warns Against “Felony Gimmicks”

On February 2, 2012, Democrat State Treasurer Jim McIntire sent a letter to Governor Gregoire and House and Senate leadership warning against the use of “felony gimmicks” to balance the budget due to the impact these gimmicks could have on the state’s credit rating. According to Treasurer McIntire (in-part):

Should our credit rating drop these bonds will likely cost Washington taxpayers hundreds of millions more than necessary....

It will be tempting to consider a number of options that rating agencies consider “credit negatives” and could trigger a downgrade. Measures that securitize future revenues to provide one-time cash for the operating budget typically get harsh reactions from the markets. Their view is that raising money for the operating budget by borrowing against future revenue streams like the tobacco settlement, lottery revenue, or other revenue streams that support on-going costs in the operating budget is expensive, corrodes the ability to pay for services in the future, and indicates a lack of liquidity.

⁹ “Fiscal Note for SB 6378,” Washington State Legislature at <https://fortress.wa.gov/ofm/fnspublic/legsearch.asp?BillNumber=6378&SessionNumber=62>.

¹⁰ “Proposed Senate 2012 Supplemental Operating Budget – Striking Amendment to SB 6612,” LEAP at http://leap.leg.wa.gov/leap/Budget/Detail/2012/SOOverviewStrikertoSB6612_0315.pdf.

They also consider one-time fund shifts, such as the transfer of one month's K–12 school allocation payments from one fiscal year to another, as unsustainable measures that risk becoming permanent structural imbalances.

As Fitch [a national credit rating company] summarized, “Failure to restore and maintain budget balance and an adequate reserve position using primarily recurring gap-closing measures likely would result in a downgrade of the rating.”

McIntire also highlighted three things the Legislature could do to help maintain the state's credit rating:

1. Adopt a sustainable budget
2. Enact the recommendations of the Debt Commission
3. Enact pension funding reform including making the minimum required pension payments.

Conclusion

Of the two current budgets, only the Senate budget succeeds in not resulting in a projected shortfall for 2013–15 while moving closer to long-term sustainability. Lawmakers should use the framework of the Senate budget as the base for negotiations while working to remove the proposal to skip a pension payment from the final agreement while also enacting comprehensive pension reform.

The final budget adopted should avoid “felony gimmicks” and not use skipped or delayed payments of any kind. To help ensure future budgets are not adopted that immediately result in a shortfall for the next biennium lawmakers should also continue negotiations on the proposed four-year balanced budget amendment (SJR 8222) that already passed the Senate by a vote of 36–12 and the six-year budget outlook reform (HB 2607) adopted by the House by a vote of 97–1.

Jason Mercier is director of the Center for Government Reform at Washington Policy Center, a non-partisan independent policy research organization in Washington state. Nothing here should be construed as an attempt to aid or hinder the passage of any legislation before any legislative body. For more information visit washingtonpolicy.org.