



Review of the State Operating Budget

House Office of
Program Research

August 2012



The Current Budgets:

- Operating (our focus today)
- Capital (supports many operating programs)
- Transportation (contains both operating and capital programs)

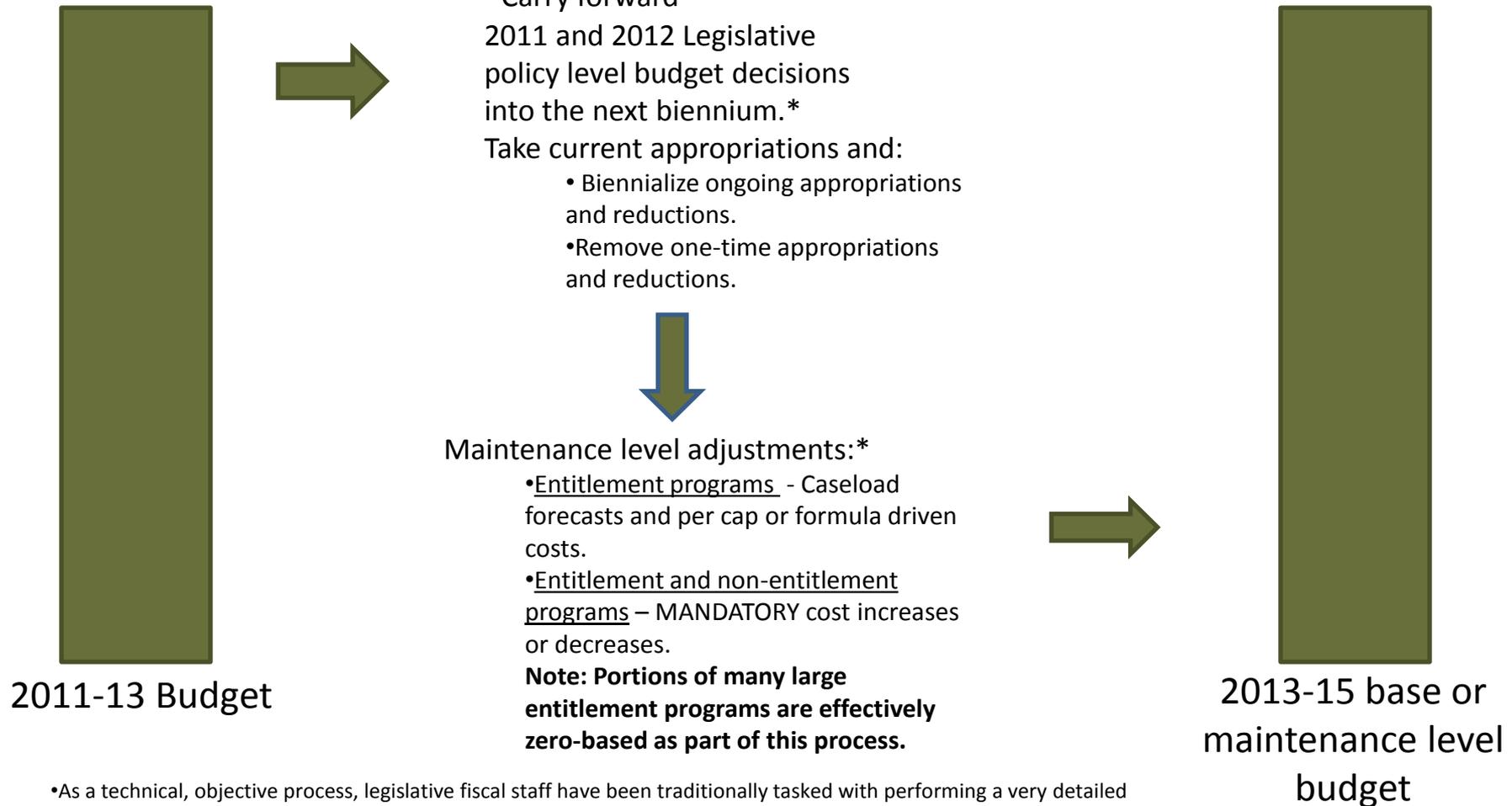


Funds from the Operating Budget Provide:

- K-12 Education – *for nearly one million students*
- Higher Education – *for 232,000 students*
- Health Care – *for more than 1,200,000 children and low income adults*
- Social Services – *for children, adults and families*
- Public Safety – *including prison for nearly 18,000 inmates and community supervision for more than 15,000 offenders*
- Natural Resource and Recreation Programs
- Government Operations
- Debt Service on bonds for capital projects (including K-12 and higher education)

Getting to the 2013-15 Budget Starting Point

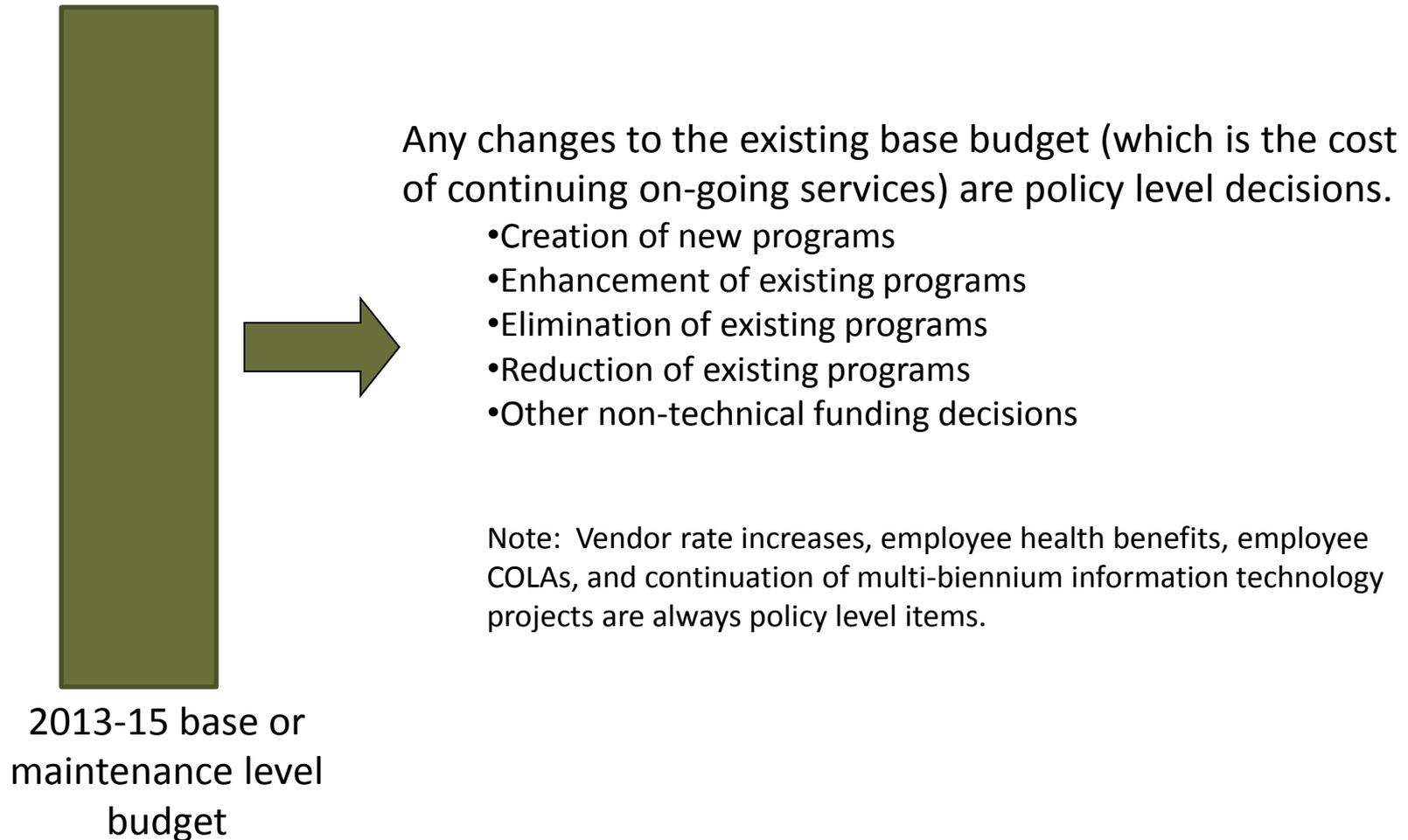
- \$31.2 billion NGF-S + OP PW
- Over 600 activities



•As a technical, objective process, legislative fiscal staff have been traditionally tasked with performing a very detailed analysis and review of these items.

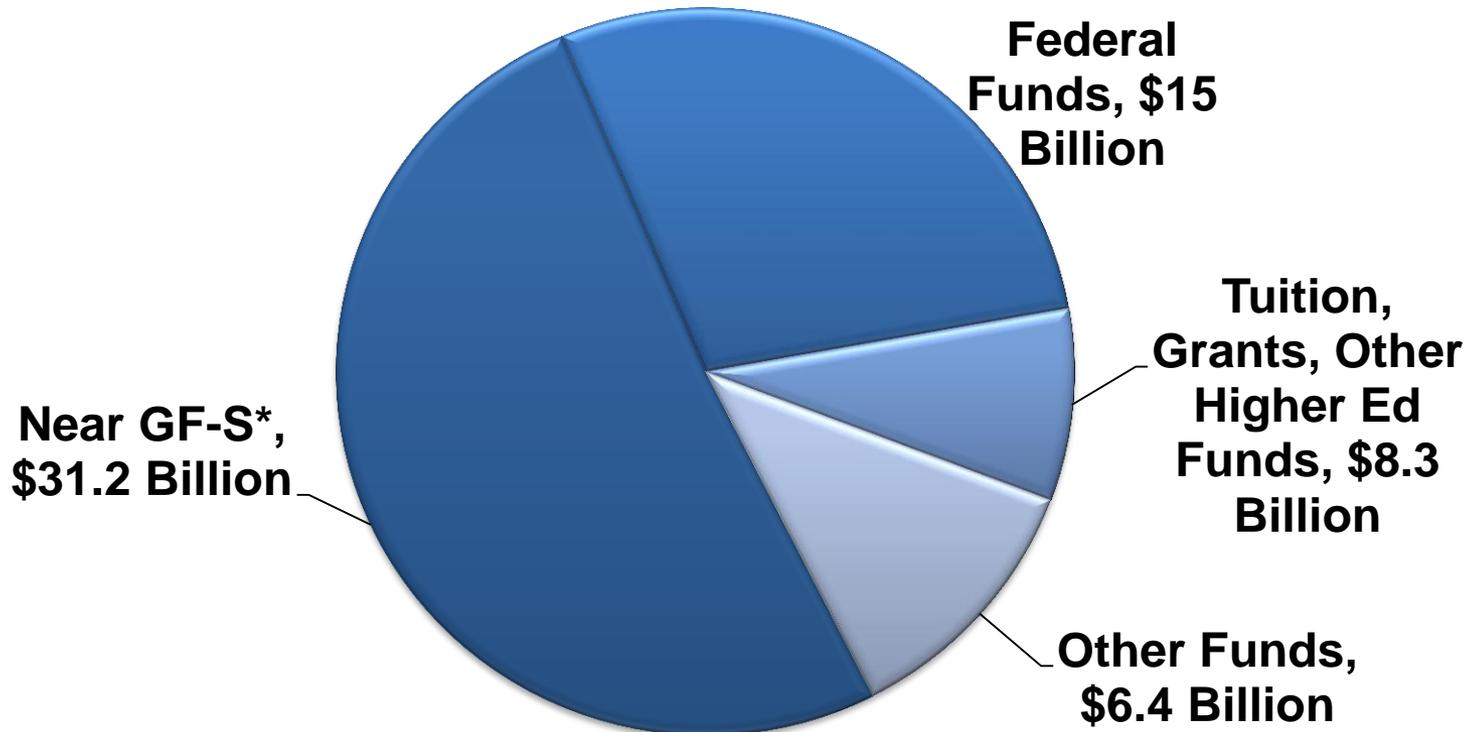
**Caseload forecasts are prepared and adopted by the Caseload Forecast Council (typically using a collaborative process).

Policy Level Budget Decisions



Where Does the Money Come From?

While the Legislature spends the majority of its time on the “near general fund,” the operating budget includes over \$29 billion in other funds and accounts.

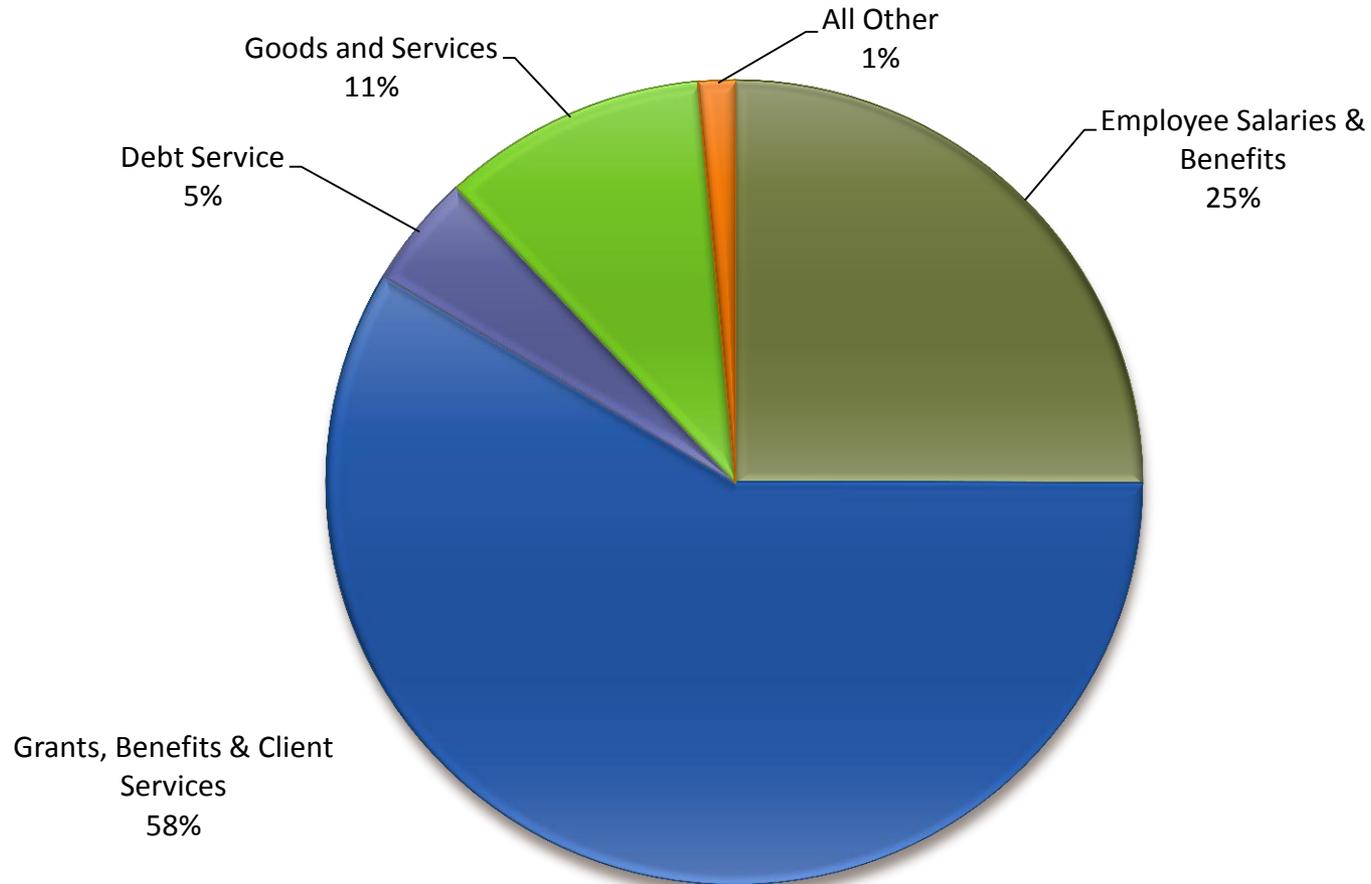


Total 2011-13 Budgeted Funds = \$60.1 Billion

* Plus Opportunity Pathways

Note: Totals do not tie due to rounding

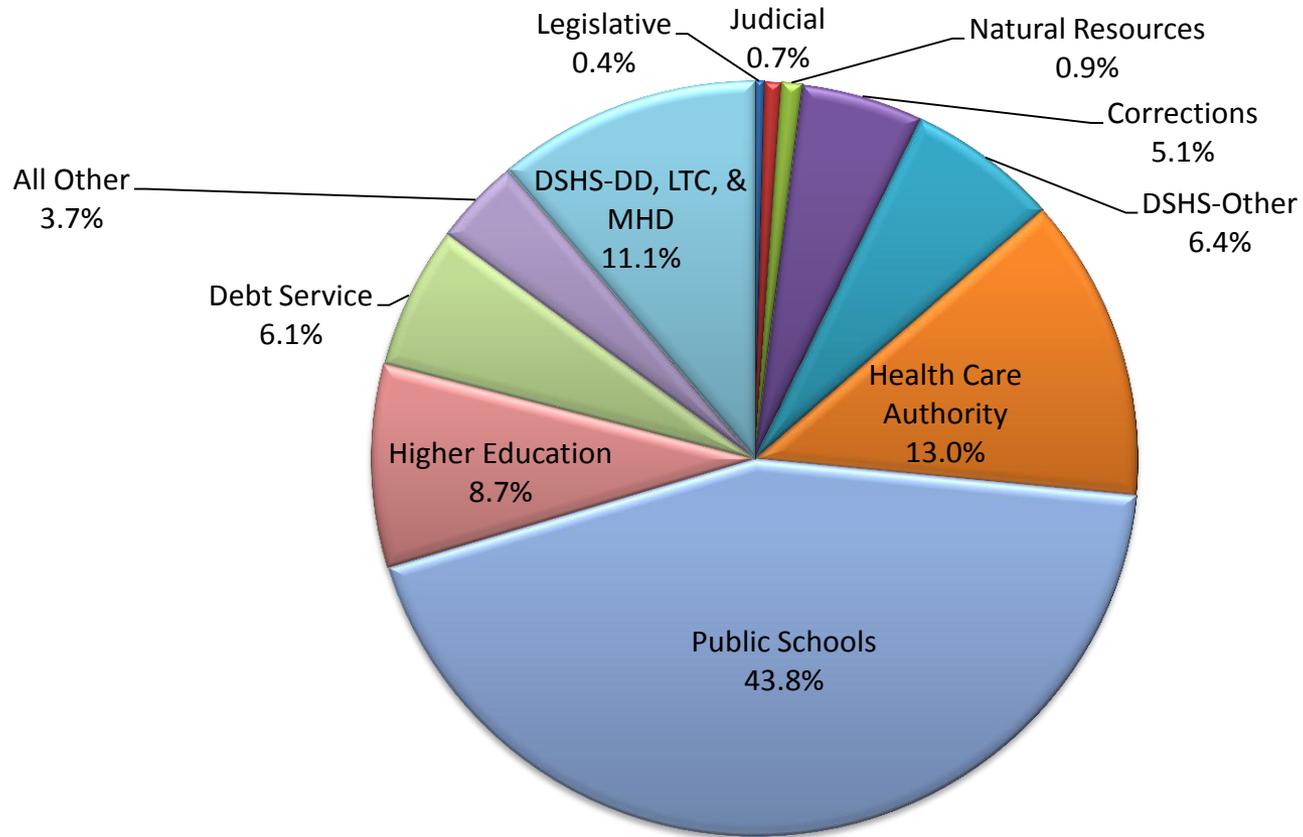
What Did the State Buy?



Note: Most K-12 spending is displayed as Grants, Benefits, and Client Services

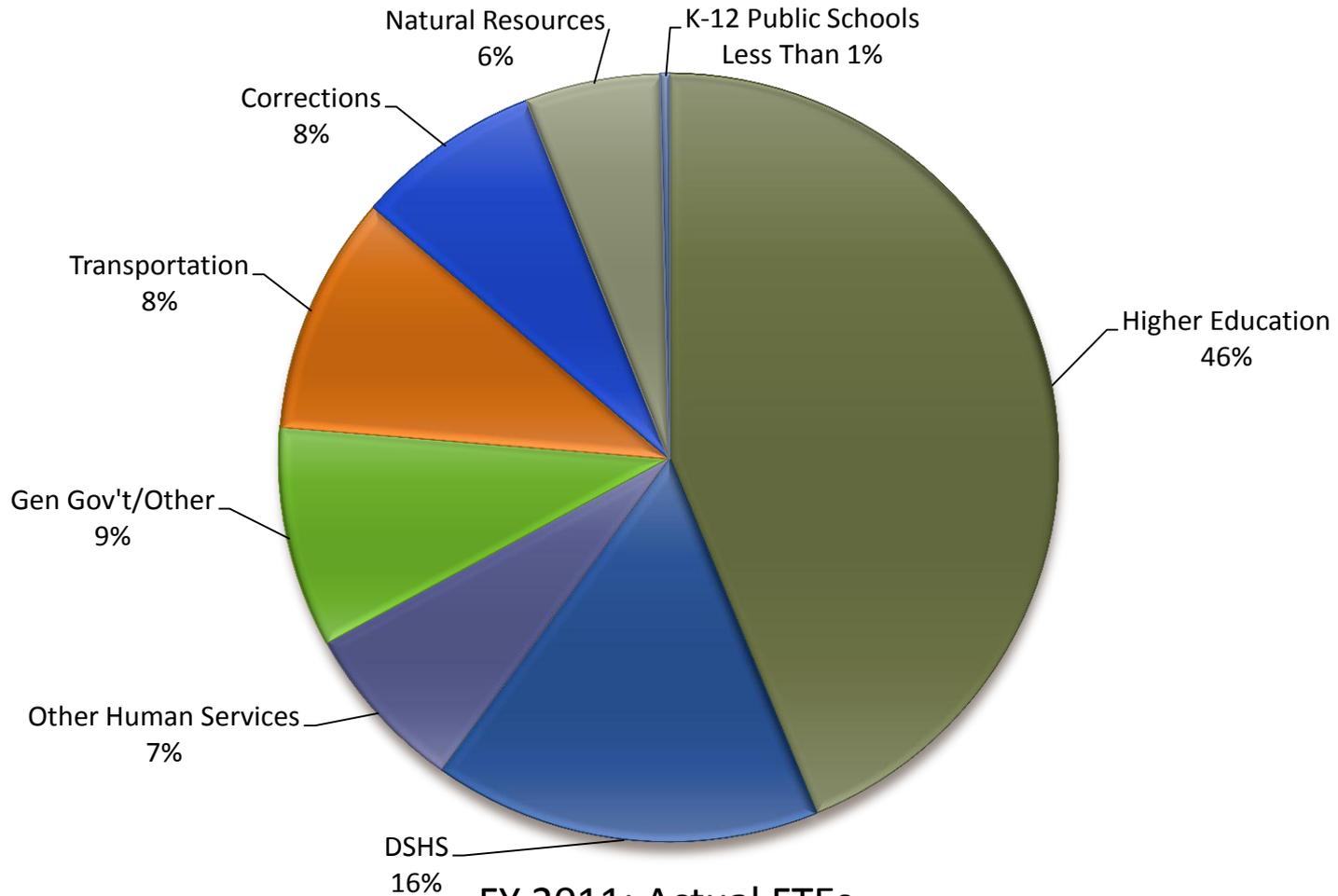
FY 2011: Actual Spending By Object
Total Budgeted Operating Funds

Where is the Money Spent?



2011-13 Operating Budget As Passed Legislature
Near General Fund-State + Opp. Pathways

Where Did State Employees Work?



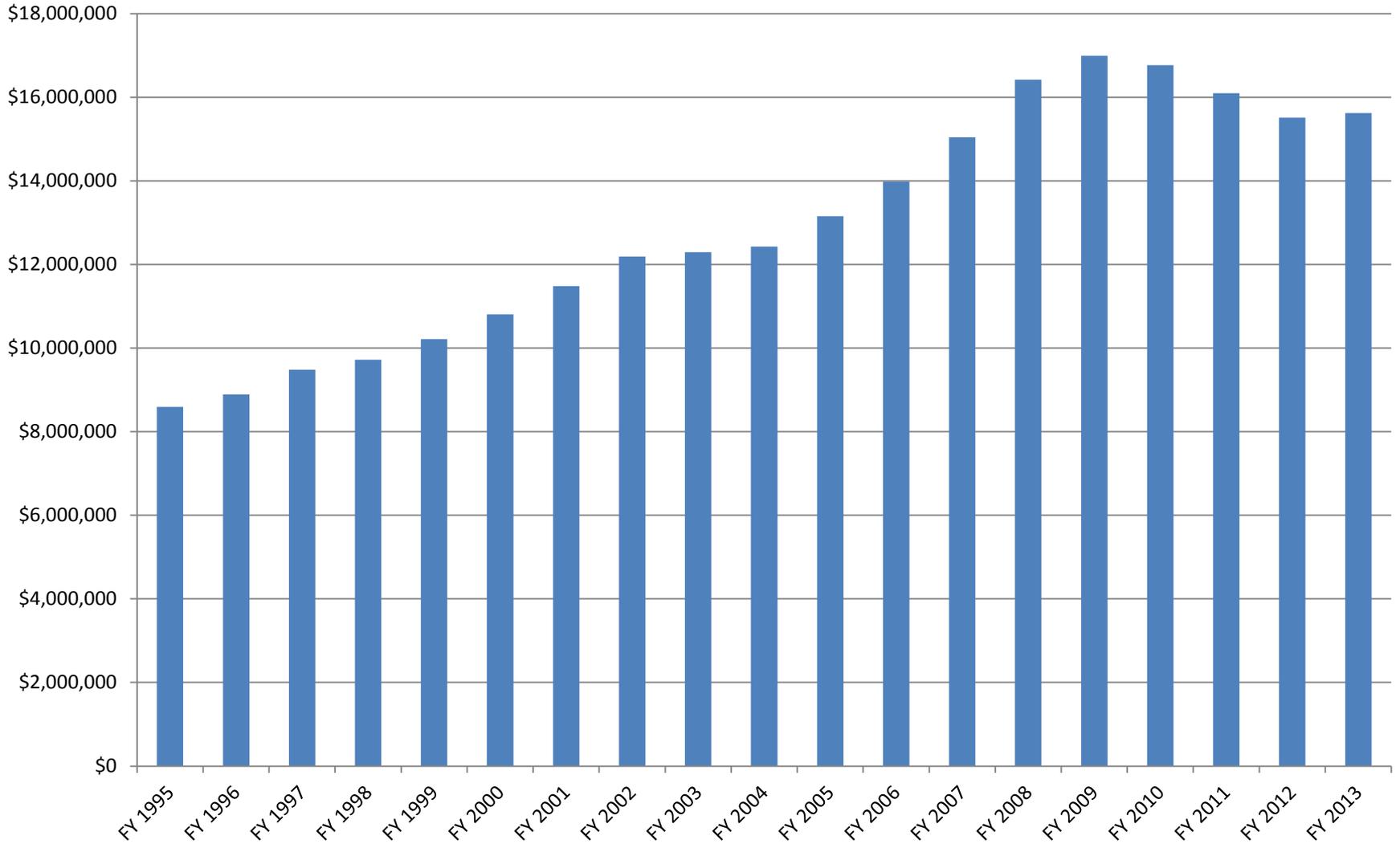
FY 2011: Actual FTEs
(Operating, Capital, and Transportation Total Budgets)



Historical Expenditure Summary

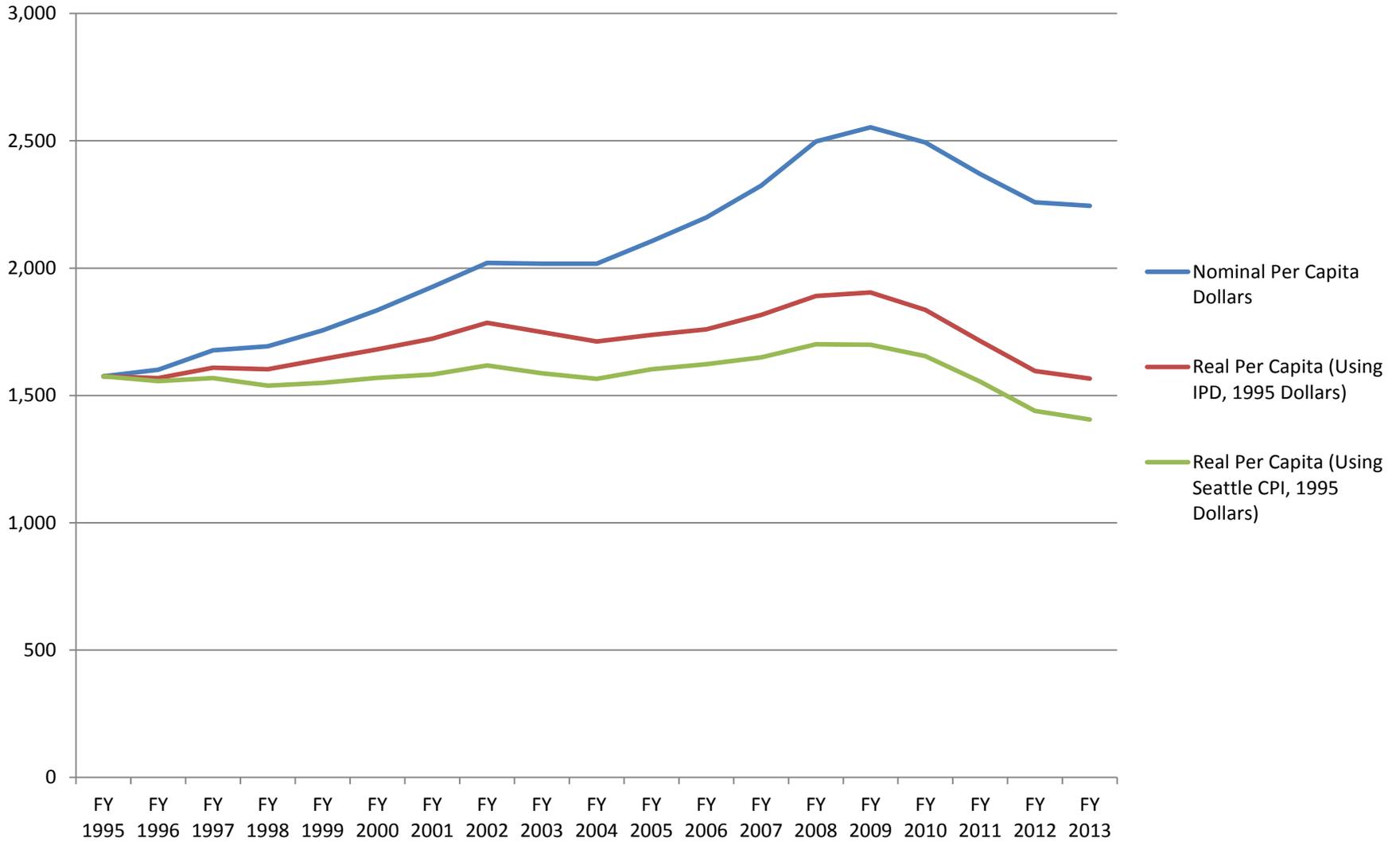
NGFS & Related Fund Spending: FY 1995 To FY 2013

(Dollars in thousands)



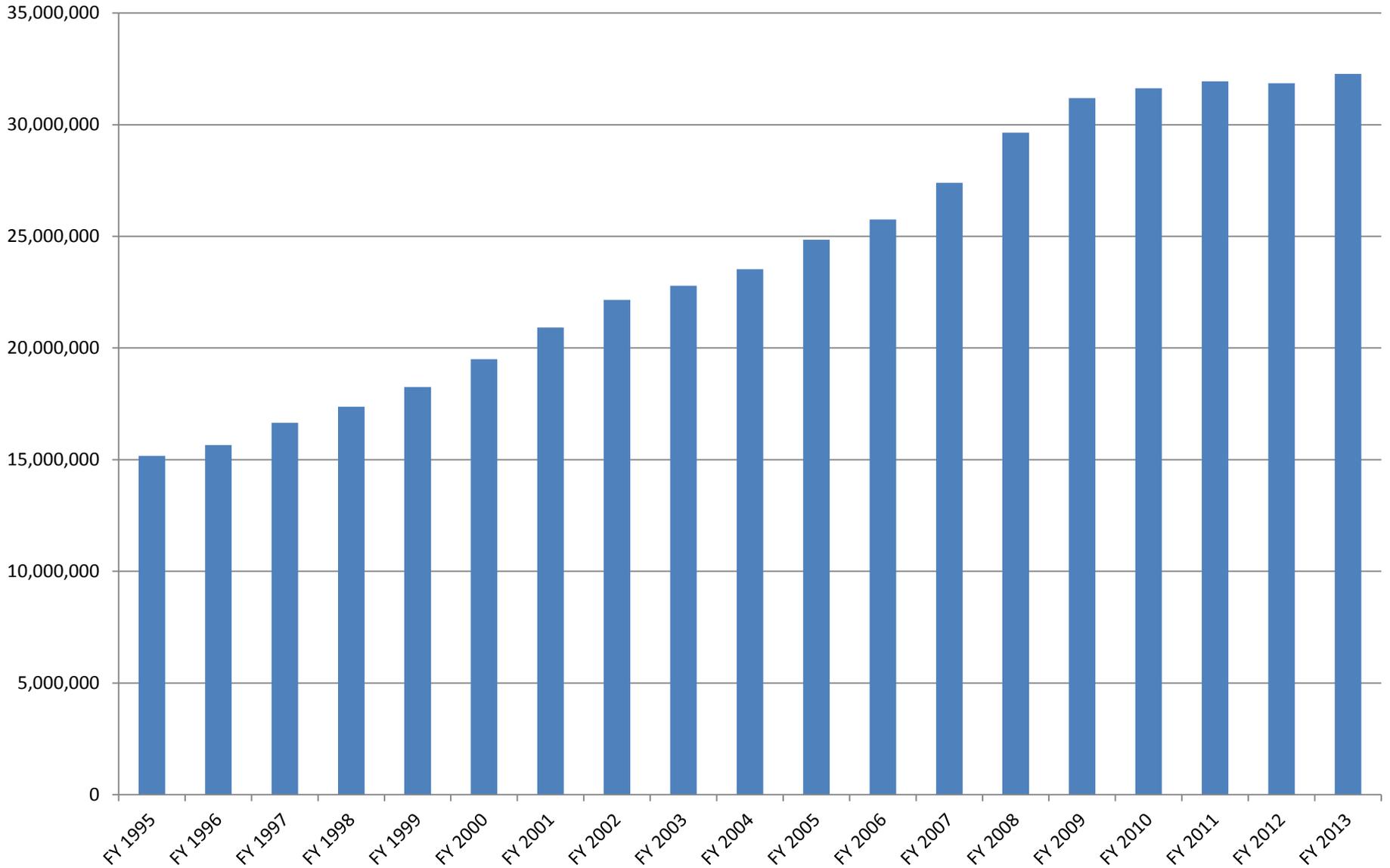
Per Capita NGFS & Related Fund Spending: FY 1995 To FY 2013

(Dollars in thousands)



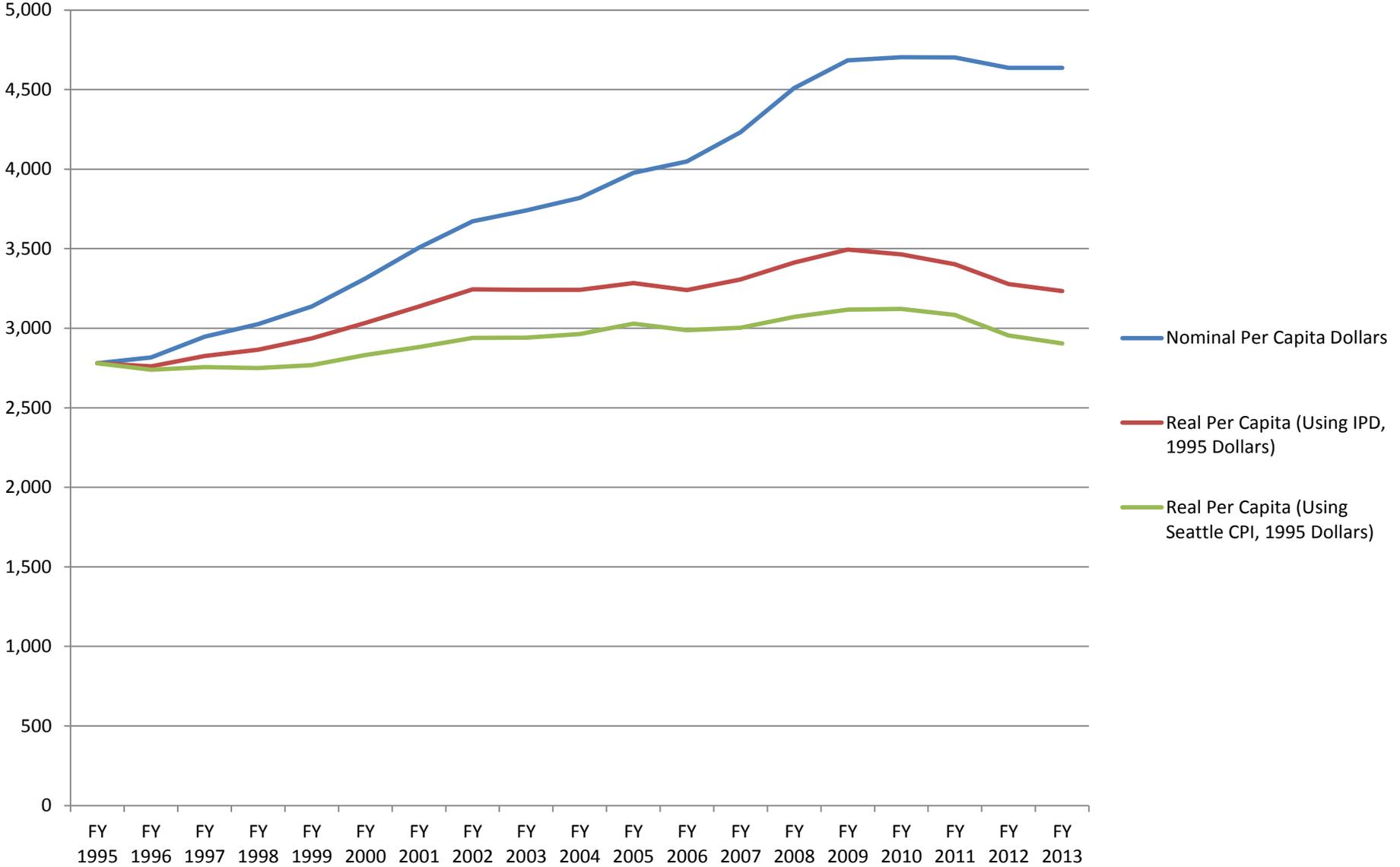
Total Budgeted Funds Spending: FY 1995 to FY 2013

(Dollars in thousands)



Per Capita Total Budgeted Funds Spending: FY 1995 to FY 2013

(Dollars in thousands)





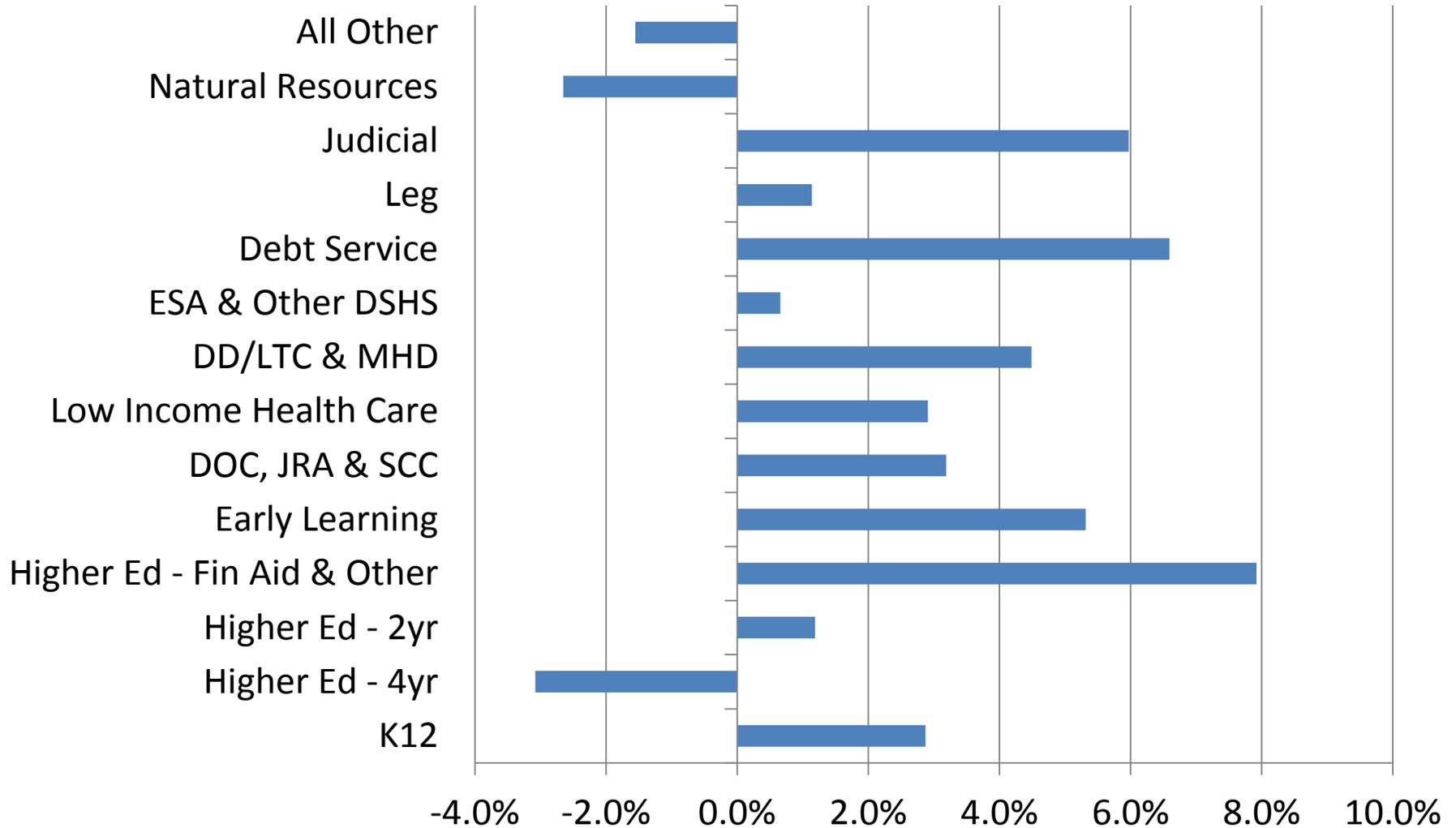
Recent history
and trends of
major
operating
budget areas



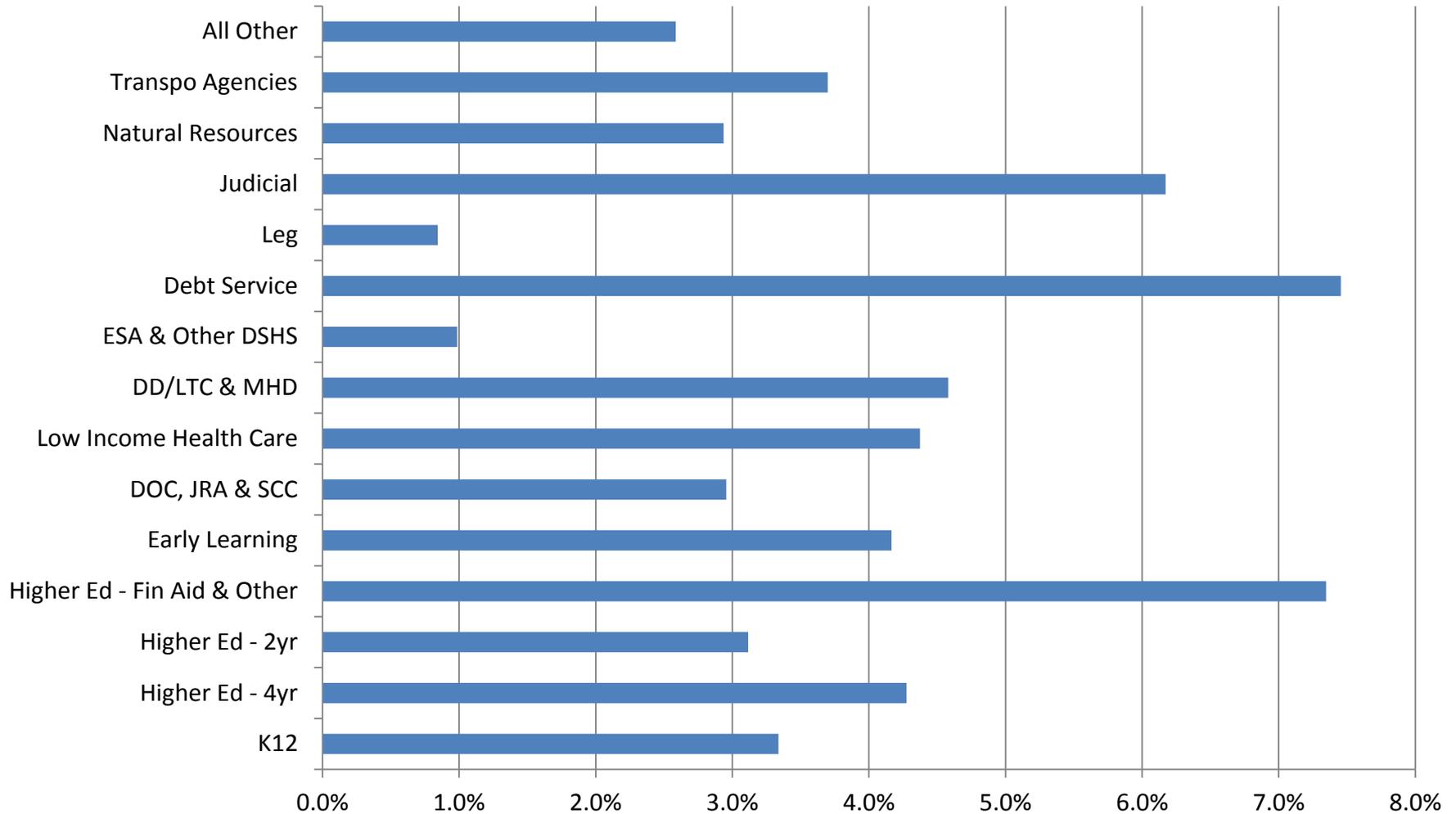
Data Considerations

- NGFS + Opportunity Pathways does not include tuition revenues that are available to partially offset reduction to NGFS support. The same is true with increased use of dedicated fund sources in natural resource programs.
- Total funds includes some double counting (i.e., spending for both financial aid and then tuition revenues – in part from financial aid). It also includes some funds that are fairly flexible as well as funds that are fairly inflexible
- For Charts That Display NGFS + Opportunity Pathways
 - ▶ Data is adjusted to add ARRA and education jobs funding used as a direct offset to NGFS expenditures
 - ▶ Data is adjusted to reverse the apportionment delay and certain large one-time appropriations into “reserve” accounts.
- For Charts that Display Total Funds
 - ▶ Includes all non-capital spending in the transportation budget (such as WSDOT)
 - ▶ Data is adjusted to reverse the apportionment delay and certain large one-time appropriations into “reserve” accounts

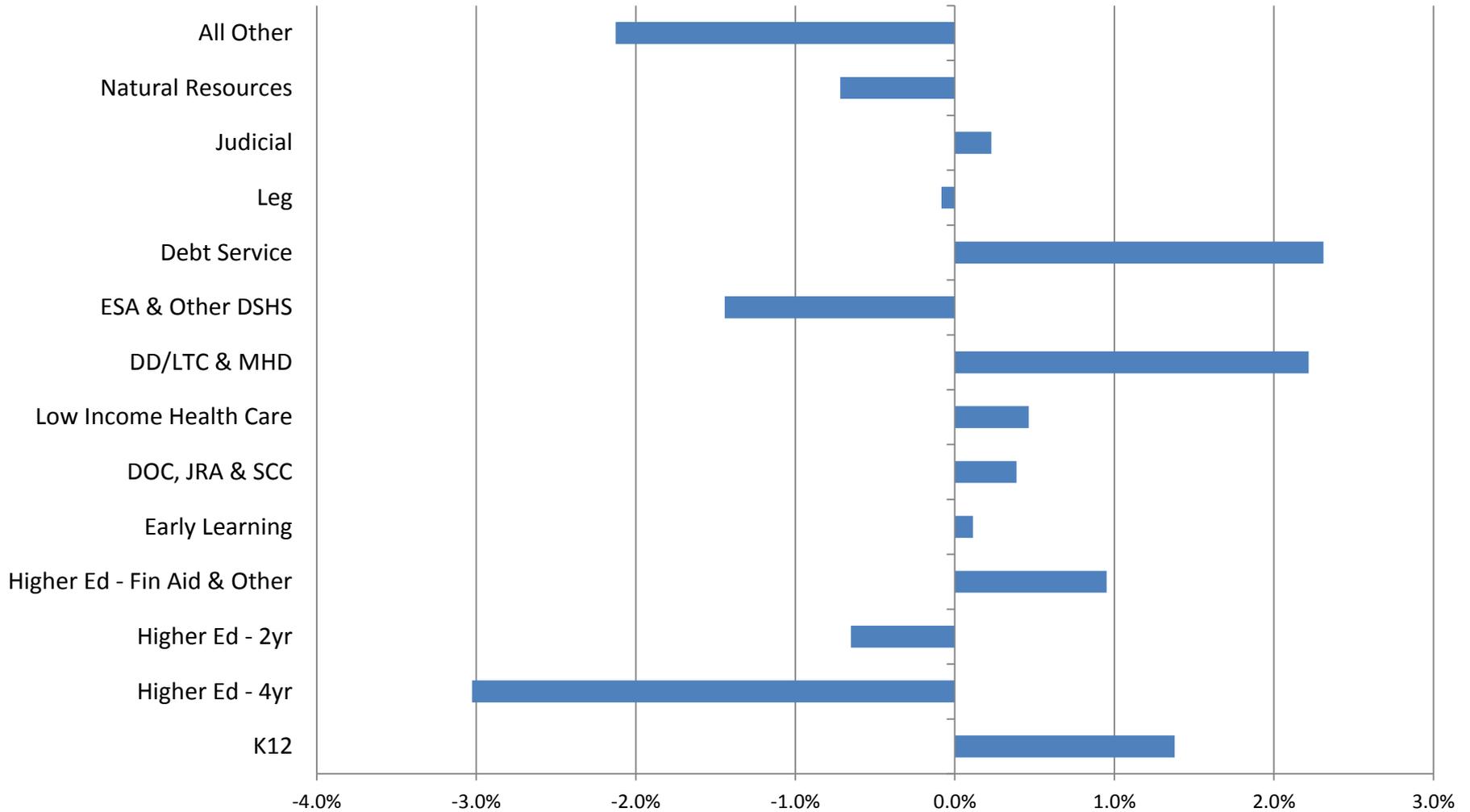
Nominal Average Annual Growth: FY 2001 to FY 2013 (NGFS + Op PW)



Nominal Average Annual Growth: FY 2001 to FY 2013 (Total Budgeted Funds, Including Transportation)



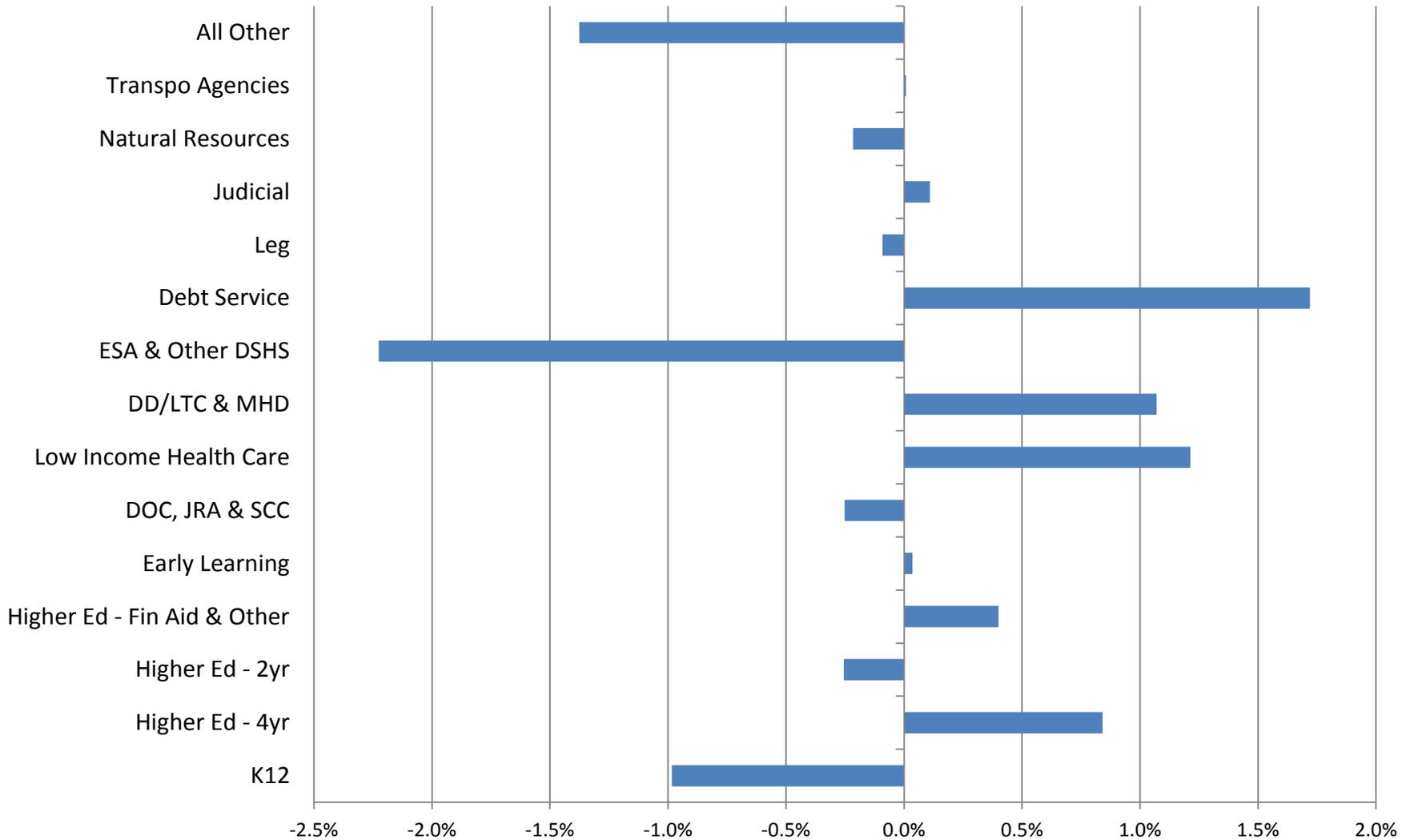
What Happened to the Percent Share of Budget? FY 2001 to FY 2013 (NGFS + Op PW)



An example: “All Other” shrank from 5.4% of the budget in FY 2001 to 3.3% of the budget in FY 2013.

What Happened to the Percent Share of Budget?

FY 2001 to FY 2013 (Total Budgeted Funds, Including Transportation)





These Sorts Of Analyses Have Value:

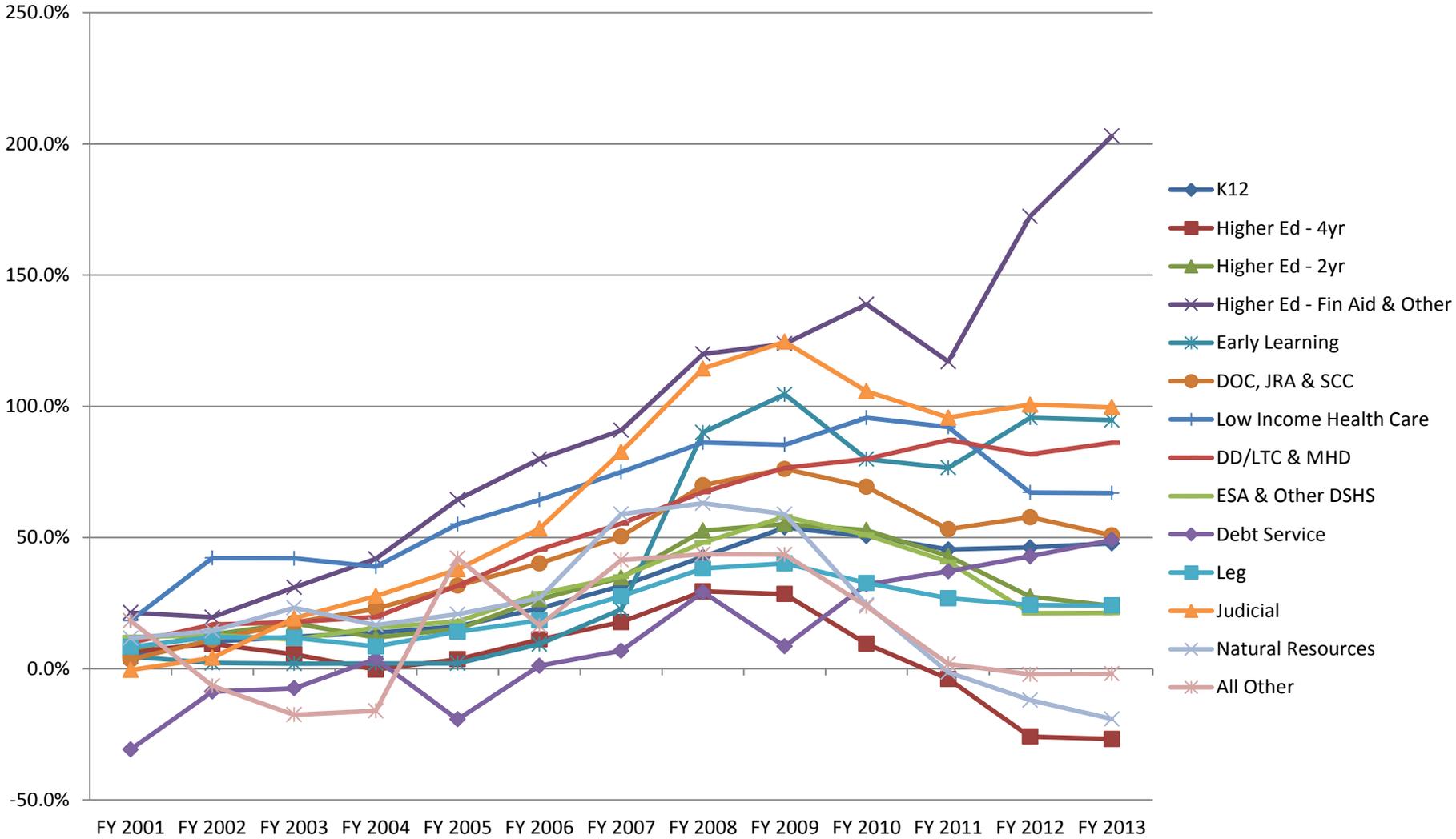
- By definition, it reflects what the legislature chose to prioritize at a given resource level
- It suggests areas that have been fast growers
 - ▶ Why did they grow so fast?
 - ▶ Are these truly priority areas?
 - ▶ What good things have happened because of the growth?
 - ▶ What would be the impact of slower growth?
- It suggests areas where growth has been constrained
 - ▶ What bad thing happened (or what good things didn't happen) because of slower growth?
 - ▶ What would be the impact of faster growth?
 - ▶ Are there lessons/opportunities that can be applied to other areas of the budget?



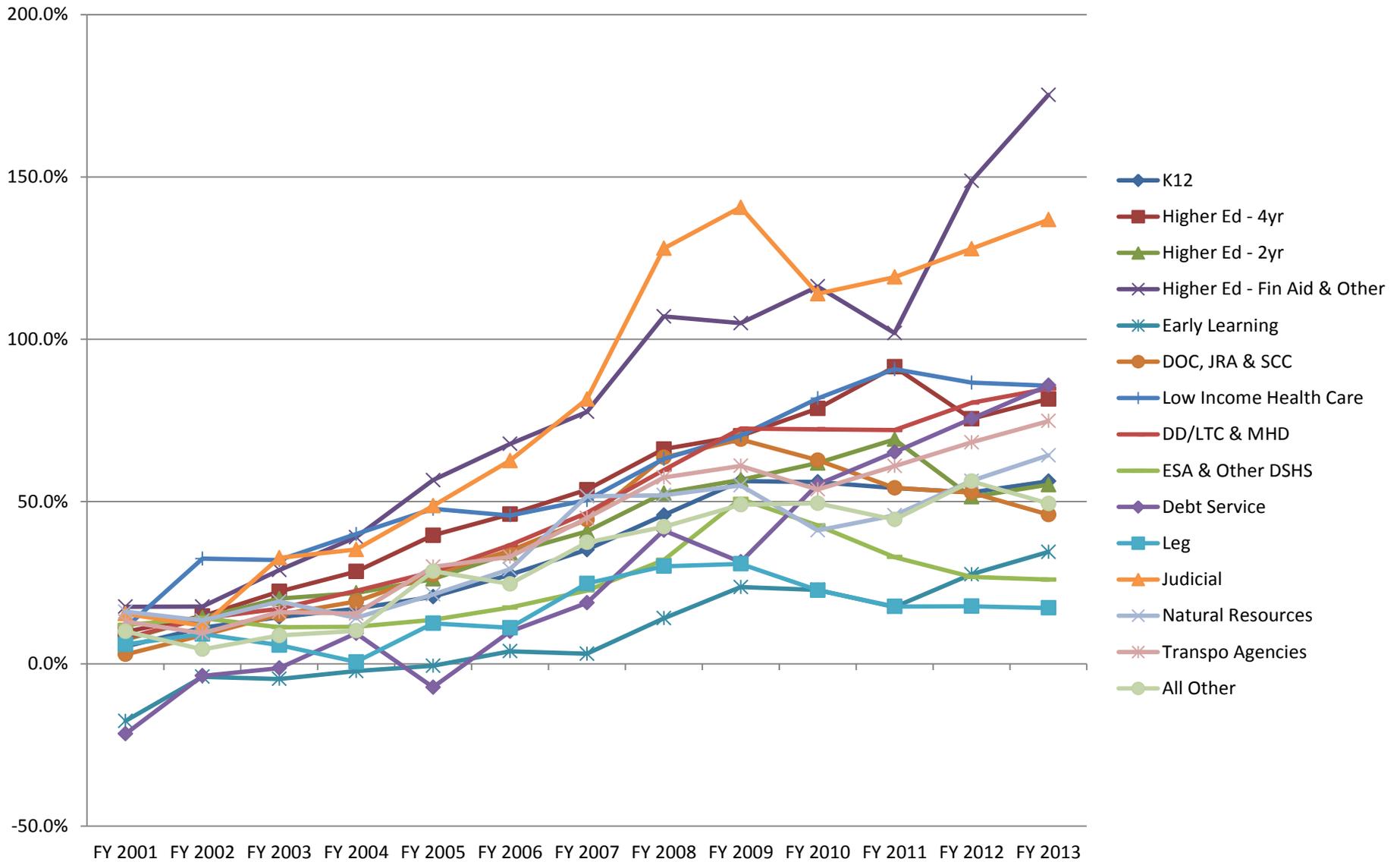
But These Sorts Of Analyses Also Have Limitations:

- It tends to imply that the percentage share of program in some base year is, by definition, the "rightful" or "fair" share of the budget in each subsequent year.
- By implying that each type of expense should grow/shrink as marginal resources change (and in exact proportion):
 - ▶ It suggests that every area is an equal priority
 - ▶ It suggests that every area is also equally efficient
 - ▶ It suggests that cost drivers (such as need, demographics, inflation, litigation, etc.) are equal between areas. Yet:
 - Eligibility might be expanded or services enriched and a program could still see their percentage share of the budget decline
 - Eligibility might be reduced or services curtailed and a program could still see their percentage share of the budget increase
- It tends to ignore certain other factors:
 - ▶ The ability of a program to cost shift to other sources (individual, federal, private insurers, dedicated funds, fees, etc.)
 - ▶ Any external constraints applied to a program (such as by federal statutes or court decisions)
- While it suggests where spending might go in the future, trends rarely continue in perpetuity.

Nominal Budget Growth Since FY 2000 (NGFS + Op PW)



Nominal Budget Growth Since FY 2000 (Total Budgeted Funds, Including Transportation)



Operating Budget Drivers

(Covers 88% of the NGFS Budget)

Public Schools (44%)

- Enrollment
- Inflation
- Staff Mix
- Redefining Basic Education

Low Income Health (13%)

- Caseloads
- Utilization & Inflation
- Health Reform

Debt Services (6%)

- Capital Budget (size)
- Interest Rates

Higher Education (9%)

- Mostly Discretionary
- Enrollment
- Tuition & Financial Aid

Corrections (5%)

- Inmate Population
- Inmate Mix
- Community Supervision

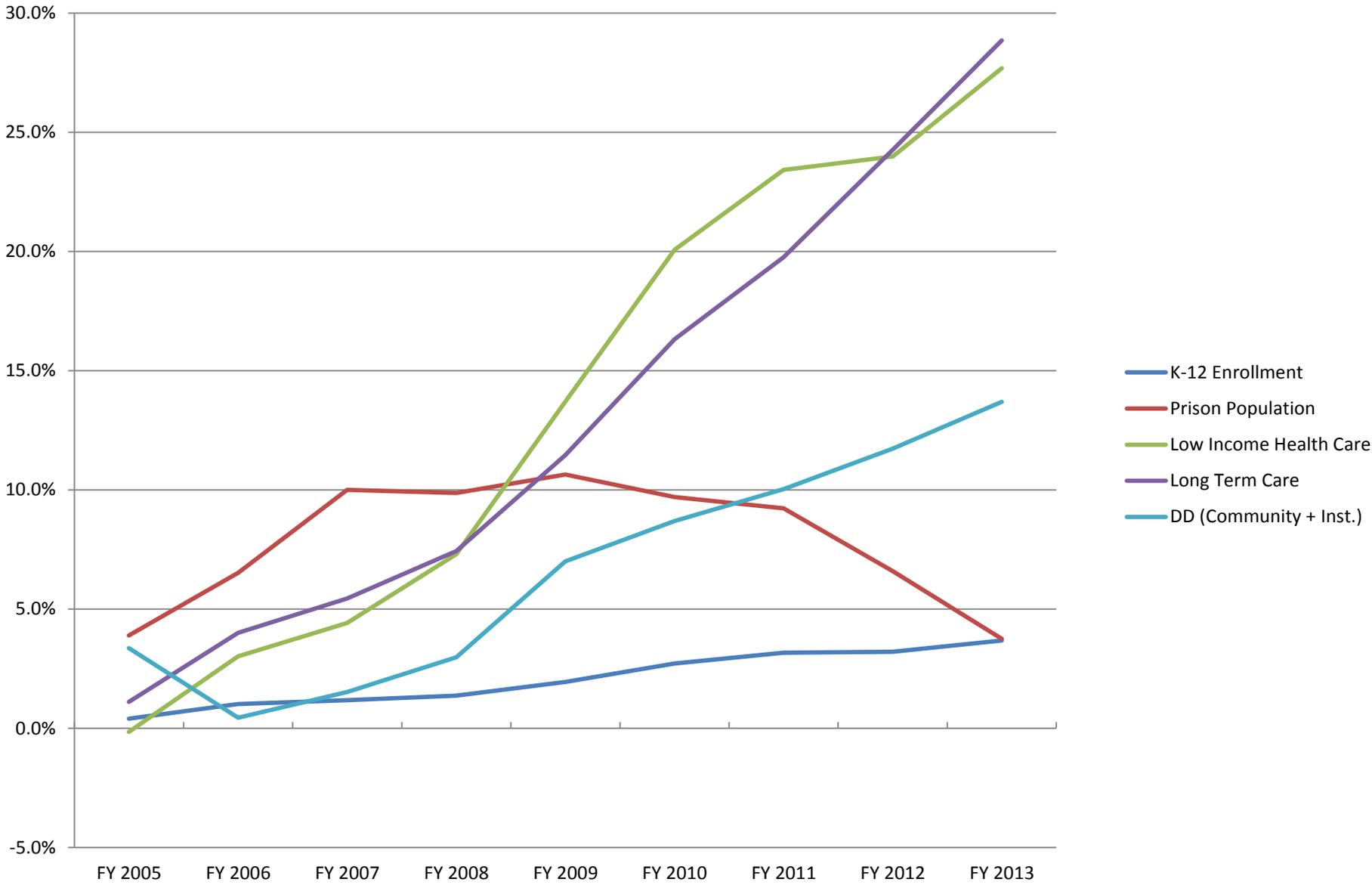
DD, LTC, and MHD (11%)

- Population/Caseloads
- Acuity Mix
- Care Settings

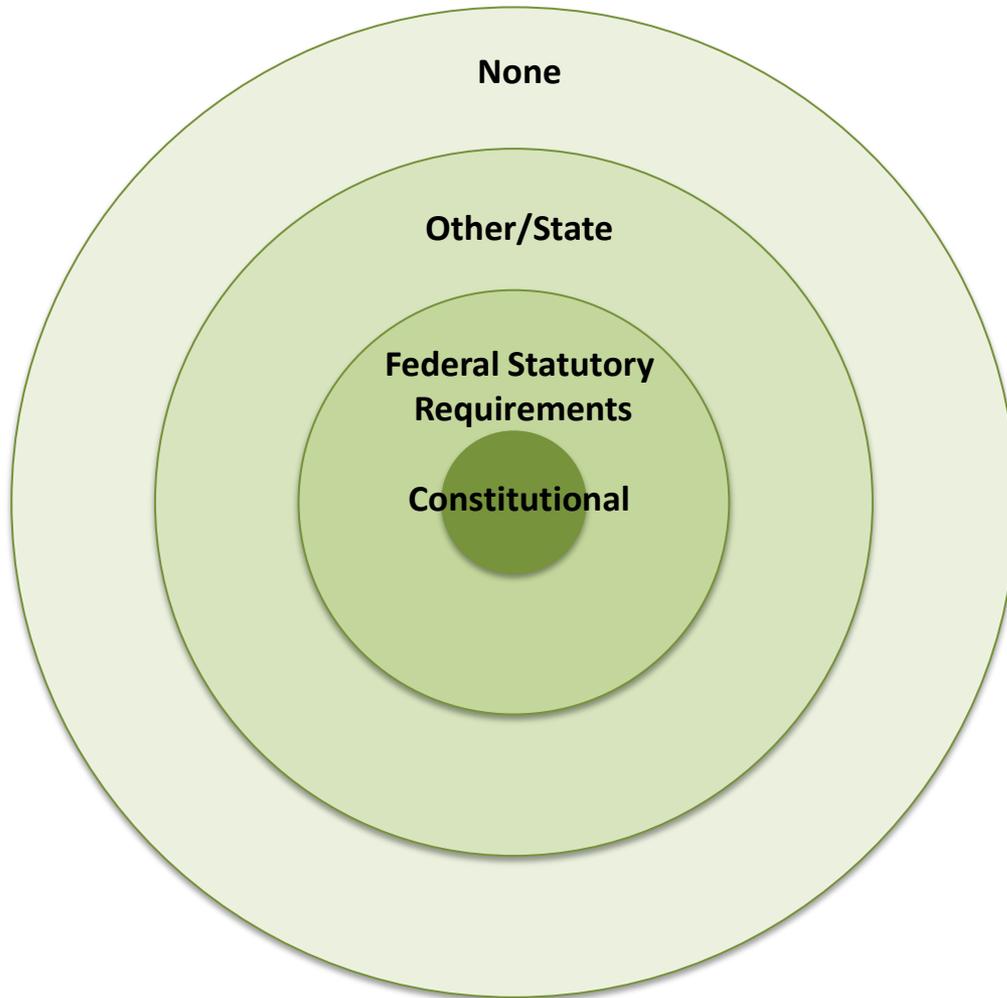
Other Cost Drivers

- Medical Inflation
 - Employee Health Care
 - Low Income Medical
 - Institutional Health Care (JRA, DOC, DD, etc.)
- Inflation & Population Growth
- Pension Rates (returning to more average rates)
- Litigation

Cumulative Percentage Change In Caseloads Since FY 2004



Some spending is mandatory and some is discretionary



Requirements With Constitutional Elements

- K-12 Basic Ed
- Debt Service
- Some Pension Contribution Obligations
- Some Level of Funding for Judicial, Legislative & Executive Offices
- Some level of care in institutional and foster care programs*
- Approved collective bargaining agreements & other contracts**

Federal Statutory Requirements

- Since the state participates in Medicaid:
 - Core populations & core services
 - Other requirements (i.e. rate issues)
- TANF/Maintenance of Effort (MOE)
- Cost obligations if state participates in certain federal programs (i.e., admin costs for food stamps)

State Statutory and Other Requirements

- State-created statutory entitlements (kids' health, Disability Lifeline, etc.)***
- Funding that, if reduced, may increase entitlement costs
- Funding to avoid state liability in areas of responsibility
- Other Statutory Programs

Discretionary

- Programs without a statutory or case law requirement

Concentric circles are illustrative only and not to scale.

* Includes prisons, JRA facilities, state hospitals, DD facilities, foster care, SCC, etc.

** Contracts may be renegotiated. Also, some contracts have termination – and/or fiscal shortfall clauses that may be invoked.

*** Can be changed via legislation.



Appendix

Information About Expenditure Data

- Expenditures are operating only and exclude Capital expenditures.
- “Total Budgeted” charts include transportation funds and some non-appropriated accounts.
- FY 1995-1999 reflects pre-history data reported by LEAP. FY 2000-2011 reflect actual spending reflected in LEAP historical data. FY 2012-2013 represent current appropriations (or budgets).
- Data was also adjusted to enhance comparability over time. Adjustments made included:
 - removing large one-time appropriations into other accounts (FY 2006 and FY 2007);
 - reversing a one-time shift in apportionment payments (FY 2011 and FY 2012);
 - reversing one-time federal education jobs funding (FY 2011 and FY 2012); and
 - reversing ARRA funding (FMAP and fiscal stabilization grants) that directly offset state spending (FY 2009-FY 2011).
- This information applies to the graphs on pages 11-14, 17-20, and 23-24.

2011-13 Operating Budget, Including 2012 Supplemental Near General Fund-State + Opp. Pathways (Dollars in Thousands)

Legislative	139,294
Judicial	222,202
Natural Resources	266,777
Corrections	1,602,344
DSHS-DD, LTC, & MHD	3,474,273
DSHS-All Other	2,007,270
Health Care Authority	4,065,446
Public Schools	13,647,198
Higher Education	2,734,640
Debt Service	1,921,678
All Other (Including Governmental Operations)	1,168,089
Total	\$31,249,211

Fourteen Biennium History Of Budget Reserves

(Dollars, in Millions)

Biennium	Total Budget Reserves			Size of GFS Supp. Budget	
	Initial Budget	First Supp	Second Supp	First Supp	Second Supp
1985-87	170.5	45.5	165.1	112.2	29.0
1987-89	75.8	10.2	439.7	113.0	23.3
1989-91	104.6	282.9	758.5	634.9	241.4
1991-93	265.8	179.2	Unknown	(514.7)	(0.8)
1993-95	274.5	289.4	455.4	192.5	(29.5)
1995-97	415.7	415.9	464.3	14.1	119.0
1997-99	415.8	811.0	960.9	6.8	71.9
1999-01	692.0	910.4	1,084.5	277.4	194.5
2001-03	607.9	304.8	299.3	(332.1)	130.9
2003-05	255.9	278.9	672.3	164.7	425.5
2005-07	177.6	947.0	819.6	1,347.0	466.6
2007-09	725.3	850.6	595.5	215.3	(1,058.1)
2009-11	738.8	459.0	111.3	(417.0)	(696.8)
2011-13	740.6	311.0		(950.7)	
Avg. Reserve	404.3	435.4	568.9		
Smallest Rsv.	75.8	10.2	111.3		
Largest Rsv.	740.6	947.0	1,084.5		

Notes:

Budget reserves include all reserve funds identified on the balance sheet in the Legislative Budget Notes.

In many instances, this includes not only the GFS ending balance but also amounts in the emergency reserve fund, budget stabilization account or similar funds. These figures are all as published in the LBNs.

Supplemental budgets size reflects the total GFS change from the prior budget including the effect of vetoes, and other legislation that included an appropriation as well as any projected lapses. Reserves may have grown much larger (or shrunk) with subsequent forecasts. Reserve data between First and Second Supps for 2005-07 is counted differently above so those two sessions may not be readily compared (doing so would require adjustments).

Note especially the 2009-11 (after first Supp) and the 2011-13 budget. The legislature left larger than typical reserves and subsequent downward forecast revisions consumed all reserves and left large shortfalls. In other years, the reverse has happened (average projected balances grew to be very large after upward forecast revisions).

Starting with 2009-11, several "related" funds were combined in to the state general fund. 2009 2nd Supp, 2009-11, and later data is NGFS rather than just GFS. The last few years also include Opportunity Pathways.

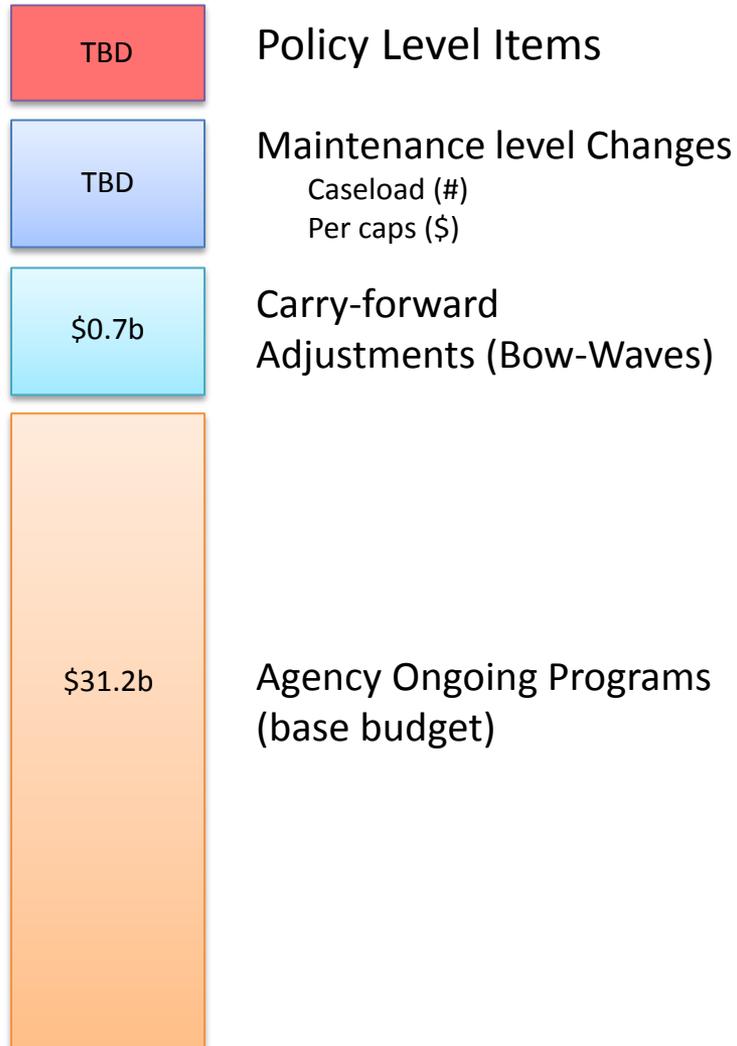
In the 2012 Supplemental Budget, the Legislature also assumed \$120m in reversions that are in addition to the - \$950.7m

Other Selected Budget Related Considerations of Note

- Over 500 funds/accounts
 - ▶ In the state treasury or in the custody of the state treasury
- Economic and Revenue Forecast Council and Caseload Forecast Council
- Expenditure Limit
- Statutorily Required Budget Outlook
- Fees and Taxes
- Legal considerations including:
 - ▶ Lending the state's credit/gift of public funds
 - ▶ One subject rule
 - ▶ Appropriations requirements
 - ▶ Governor's veto authority
- Fiscal Notes

Budget Overview

(Estimated 2013-15, NGF-S and Opp. Pathways)



Reviewed By:

Members (By definition, changes to the base budget)

Staff technical review
(non-technical items moved to policy)

Legislative Activities:

- Member Questions/Requests For Information
(Note: any changes are then shown as policy changes)
- Staff Zero Base Costs of True Entitlements
- Informal Briefings
- Staff Research (review models, Q&A with agencies, etc.)
- Potential Reductions Lists
- Policy Comm. (bills amend current law, work sessions)
- Review Activity lists (prepared by agencies/OFM)
- Review All Programs/Services Provided by Agencies

Audit & Performance Review Activities:

- SAO Performance Audits
- SAO Financial/Compliance Audits
- JLARC Performance Audits
- GMAP Process

OFM & Agency Activities:

- Strategic Planning Process + IT Strategic Plans
- Budget Building Process (Agency and Gov.)
- Agency/Gov Request Legislation Process
- POG (Activity Based) Process
- Allotment Process, Including Performance Measures

Glossary

2011-2013 Budget: Legislation that authorizes spending for the biennium beginning July 1, 2011 and ending June 30, 2013.

2013-15 Budget: Legislation that authorizes spending for the biennium beginning July 1, 2013 and ending June 30, 2015

2013 Supplemental Budget: A modification to the budget for the current biennium (2011-13). Adopted in the second year of the biennium. Sometimes also called the second supplemental.

General Fund: The account that receives general revenues and is spent for operations such as education, social services, and corrections.

Near General Fund (NGFS): The state general fund (now includes the Health Services Account, Violence Reduction and Drug Enforcement Account, Public Safety and Education Account, Equal Justice Subaccount, Water Quality Account, and Student Achievement Fund), plus the Education Legacy Trust Account and the Pension Funding Stabilization Account.

Opportunity Pathways Account: Created in fiscal year 2011 with lottery proceeds as the funding source (approximately \$100 million per year) and used to fund the higher education financial aid and early learning programs.

Glossary cont'd.

Carry Forward Level: A projected expenditure level mechanically calculated by adding the bow wave impact of items assumed in existing appropriations (costs or savings) to current appropriations. For example, accounting for the biennial cost of a new program that was funded beginning in the second year of the biennium is a common bow wave item.

Maintenance Level: A projection expenditure level representing the estimated cost of providing currently authorized services in the ensuing biennium. It is calculated by using the carry forward level and making adjustments for the forecasted changes in the entitlement caseload/enrollment and other mandatory expenses. This number establishes a base from which policy changes are made to create a new budget.

Policy Level: The authorized spending level for the next biennium is calculated by taking the maintenance level and making a series of discrete decisions that increase or decrease the budget of an agency. Examples include: creating a new program; eliminating a current program; increasing or decreasing vendor or employee payment rates; expanding or contracting program eligibility; expanding or contracting the value of services provided by a program; and increasing or decreasing the administrative costs of a program. Appropriations are the sum of these three levels.