

Joint Legislative Task Force on School Construction Funding Revenue Source of Future Biennia Obligations

Basic Budgeting Background

According to the state Budget & Accounting Act (Chapter 43.88 RCW), agencies' spending is limited to the lower of their appropriation authority granted by the legislature or the available revenue to support that appropriation. Over-expending or over-encumbering on the part of a state officer or employee may result in civil penalties, damages, and firing.

Major capital projects span several biennia from start to finish.

Current Budgeting Practice & Associated Challenge

Currently, the K-12 School Construction Assistance Program (SCAP) is budgeted from a combination of cash revenue and bonds. The budget includes an estimate of the total number of projects that will be newly-funded in the budget biennium, the state share of the total cost of the projects, and the rate at which the projects are expected to be completed. Appropriations are then written into the budget for the state's share of the entire list of new projects for that biennium, even though not all will be spent in the first biennium. The amount of cash versus bonds in a given biennium is dependent on the amount of cash revenue in the forecast. Out-biennia commitments are made from cash, rather than bond, sources.

If cash receipts fall short of the forecast, or if spending occurs more quickly than estimated, the result can be a cash flow problem - even though the state has committed resources to its share of the new projects.

The following tables illustrate this situation, with hypothetical numbers:

- State share of new Biennium 1 projects = \$700 million
- Amount assumed to be spent in Biennium 1 = \$420 million (60%)
- Amount assumed to be spent in Biennium 2 = \$280 million (40%)
- Amount of cash forecasted to be available in Biennium 1 = \$300 million

<i>\$ in Millions</i>	Biennium 1	Biennium 2	Total
Cash	300	280	580
Bonds	120	0	120
Total	420	280	700

If Biennium 1 cash receipts are lower than \$300 million, or spending exceeds \$420 million, OSPI cannot reach into the Biennium 2 commitment to keep projects going. However, restructuring the appropriation as follows, would allow project funding to be sustained:

<i>\$ in Millions</i>	Biennium 1	Biennium 2	Total
Cash	300	0	300
Bonds	120	280	400
Total	420	280	700

Recommendation

Consider switching future-biennium obligations for new projects from cash revenue to bonds.