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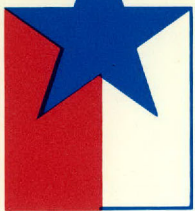
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ANALYSIS

\$70.4 BILLION PLUS APPROPRIATED FOR 1994-95 STATE BUDGET

The appropriation bill passed by the legislature last May detailed a \$71 billion spending package for the state's agencies to cover the 1994-1995 biennium. However, that figure is only the starting point for looking at the state budget.

- The 880-page document contains hundreds of riders, many of which detail spending changes. The net identifiable impact of these riders in the aggregate is to **reduce** the budget by \$354 million.
- The governor vetoed a number of items (mostly riders) that cut \$491,000 out of the budget.
- About \$224 million of the budget is financed by interagency contracts, which only move money from one agency to another, and do not really represent added spending.

Putting those numbers together, the state 1994-1995 budget starts out at \$70.4 billion -- an 11.3% increase over the \$63.3 billion spent by the state in 1992-1993.

The pie charts below compare these two budget periods on a functional basis.

About this Issue

This *Analysis* issue is a first look at the state's 1994-1995 budget which goes into effect on September 1, 1993.

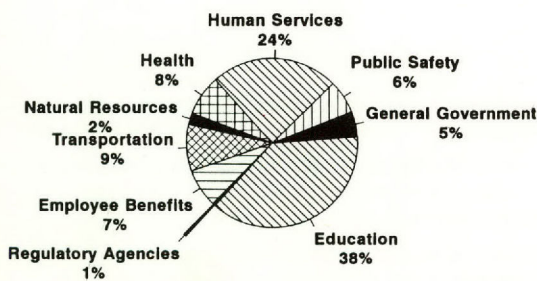
This article is a broad overview of the spending package, and explains why that total will change during the two-year budget period. Specific spending areas will be discussed in *The Budget in Brief* series released periodically over the next year.

There are only two significant differences between the two:

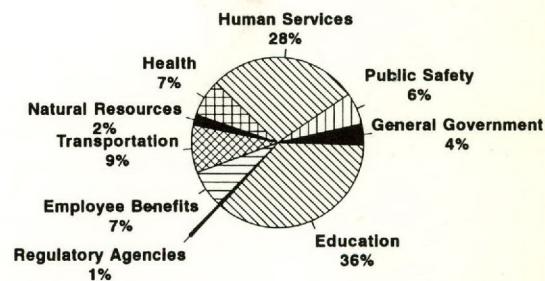
- Education comprises only 35.8% of the 1994-1995 budget - **down** from 37.9% of 1992-1993 spending.
- Human Services cost is pegged at 27.9% of the 1994-1995 budget - **up** from 24.2% in the prior biennium.

Details of the 1994-1995 appropriations and 1992-1993 spending are shown in Table 1 on page 2.

1992-1993 BIENNIAL SPENDING



1994-1995 BIENNIAL APPROPRIATIONS



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Table 1
Appropriated and Spending 1992-1993 Biennium
Appropriated 1994-1995 Biennium
(Millions of Dollars)

	<----- 1992-1993 ----->		Appropriated 1994-1995 Biennium	1994-1995 Appropriated Compared to 1992-1993 Spending	
	Appropriated	Spending		Increase	Percent
EDUCATION					
Public Schools	\$16,183	\$16,445	\$17,831	\$1,386	8.43%
Universities	3,603	4,108	4,024	(84)	-2.04
Medical & Dental	1,524	1,897	1,813	(84)	-4.44
Junior Colleges	1,029	1,059	1,146	88	8.27
Other	436	467	498	31	6.72
Total Education	\$22,775	\$23,975	\$25,313	\$1,337	5.58%
HUMAN SERVICES					
Aged & Disabled	\$3,039	\$3,299	\$3,748	\$450	13.63%
Health Care	7,813	7,444	10,834	3,390	45.55
Income Assistance	2,365	2,485	2,784	299	12.02
Family & Children	619	819	991	171	20.90
Rehabilitation	520	622	683	60	9.72
Employment	582	588	631	43	7.31
Other	246	23	21	(2)	-9.91
Total Human Services	\$15,184	\$15,280	\$19,691	\$4,411	28.87%
EMPLOYEE BENEFITS					
Retirement Programs	\$2,325	\$2,350	\$2,499	\$149	6.33%
Social Security	1,054	1,162	1,224	62	5.29
Insurance	1,174	1,137	1,541	404	35.50
Other	1	1	1	0	4.92
Total Employee Benefits	\$4,554	\$4,651	\$5,265	\$614	13.20%
HEALTH					
Mental Health/Retardation	\$2,121	\$2,261	\$2,221	(\$40)	-1.76%
Public Health	1,168	1,573	1,804	231	14.70
Cancer Center	749	947	963	16	1.69
Other	139	107	134	27	25.31
Total Health	\$4,177	\$4,888	\$5,122	\$234	4.80%
PUBLIC SAFETY					
Prison System	\$2,363	\$2,636	\$3,013	\$377	14.28%
Public Safety	432	462	502	40	8.60
Probation & Parole	528	423	633	209	49.49
Other	497	491	380	(111)	-22.57
Total Public Safety	\$3,820	\$4,013	\$4,528	\$515	12.83%
GENERAL GOVERNMENT					
General Services	\$1,735	\$2,128	\$2,056	(\$72)	-3.37%
Eco. Dev./Intergovt.	781	942	915	(27)	-2.84
Total General Government	\$2,516	\$3,070	\$2,971	(\$99)	-3.21%
TRANSPORTATION	\$5,504	\$5,646	\$6,309	\$663	11.74%
NATURAL RESOURCES	1,134	1,390	1,557	167	12.05
REGULATORY AGENCIES	361	372	386	14	3.71
INTERAGENCY CONTRACTS			(224)	(224)	
UNALLOCATED ITEMS*	191		(481)	(481)	
GRAND TOTAL	\$60,216	\$63,284	\$70,437	\$7,152	11.30%

*1992-1993 unallocated included \$81.7 million from anticipated savings from consolidations of fleet, travel, central purchasing, decorative plants and co-location; \$22.6 million for service transfers; and \$250 million for a 2% employee salary increase.

1994-1995 unallocated includes an appropriation of \$2 million for the redistricting law suit; \$100 million from agency cost savings; \$320.7 million from health cost containment; \$16 million savings from communications; \$4.2 million in procurement savings; \$40.8 million savings from incentive retirement; and \$1.1 million from savings from agency advisory commission.

Source: Appropriations from the 1992-1993 and 1994-1995 Appropriations Act; Spending (expended 1992 and budgeted 1993) compiled from "Legislative Budget Estimates for the 1994-1995 Biennium," Legislative Budget Board, January 1993.

1994-1995 Spending Could Top \$74 Billion

Past experience has shown that the state generally spends between 5% and 6% more than the total appropriated. (Compare for example 1992-1993 appropriations and spending in the first two columns in Table 1 which shows that spending was 5% greater than the amount appropriated.) **This means that spending likely will be about \$74 billion - or \$3.6 billion more than was appropriated.** In this event, 1994-1995 spending would be almost 17% greater than it was in 1992-1993.

The primary explanation for the variance is that a large part of the budget is based on estimates. For 1994-1995, only \$39.9 billion of the budget (56%) are "sums certain," that is exact expenditure amounts. The remaining \$30.8 billion (44%) are estimated amounts (see Table 2).

	Sums Certain	Estimated Amounts	Total
General Revenue	\$35,605	\$3,799	\$39,404
Highway Fund	568	3,909	4,477
Other State Funds	1,839	3,917	5,757
Federal Funds	1,182	19,037	20,220
Bond Proceeds	571		571
Current Balances	8		8
Subtotal	\$39,774	\$30,662	\$70,437
Interagency Contracts	77	147	224
Total	\$39,851	\$30,809	\$70,660

Expenditure estimates, particularly for those items based on a statutory formula, are one part of the problem. For example, federal social security taxes and retirement fund contributions are based on a fixed percent of eventual salaries.

A larger part of the problem in setting a budget with greater certainty comes on the revenue side. Agencies that receive federal funds (most of which are dedicated to a specific function) generally **are required** to spend whatever they receive without regard to the amount included in the original budget.

Other agencies **are allowed** to spend more if additional revenue is available. Universities, for example, are not limited in expenditure to an

appropriated tuition amount, but are allowed to spend whatever they collect.

The fact that the state agencies will spend more than was appropriated does not mean that a deficit is likely to result. More spending generally is a reflection of receiving more revenue than was anticipated.

THE BIG TICKET ITEMS

Looking at the known budget amounts, the state expects to spend \$7.2 billion more in 1994-1995 than was the case in 1992-1993 (see Table 1). About 90% of that growth was driven by external forces over which the legislature had little, or no, control (see Table 3).

- About 60% of the increase financed required responses to federal mandates (health care, aged and disabled, income assistance and family and children).
- Another 19% went to public education as the state continued its effort to implement a constitutional school finance plan.
- Prisons continue to be a state problem, and that expenditure plus more for probation and parole consumed 8% of the increase
- Natural resource expenditure accounted for another 2% of the increase, most going to gear up the state to meet Federal Clean Air Act requirements.

Function	Amount	Percent
Health Care	\$3,390	47.40%
Public Schools	1,386	19.38
Transportation	663	9.27
Aged & Disabled	450	6.29
Employee Insurance	404	5.65
Prison System	377	5.27
Income Assistance	299	4.18
Public Health	231	3.23
Probation & Parole	209	2.92
Family & Children	171	2.39
Natural Resources	167	2.34
Employee Retirement	149	2.08
All Other	(744)	-10.40
Total Increase	\$7,152	100.00%

A number of state institutions (universities and medical-dental schools, for example) received budget cuts. However, many of those reductions likely will be offset by the receipt of more revenue than was anticipated in the budget.

A NEW BUDGET APPROACH

Why can't government act more like a business? This often asked question usually elicits a response such as: "because business has a measurable bottom line that is absent in most government functions."

In a new budget pattern instituted by the legislature for 1994-1995, that may no longer be the case. Each agency's budget is tied to one or more goals. Within each goal is one or more objectives, including in most cases strategies to meet the objectives with measurable **outputs and efficiencies** expected.

Clearly, this is a laudable effort to get the state agencies to be more responsive in identifying and meeting established goals. Whether it makes a difference or not will depend in large measure on what happens to the under- (or over-) achievers. This is a process the staff will follow as it develops, and one which will be addressed further in the *Budget in Brief* series.

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