



Budget Tidbits... just the facts

Senate Republican Caucus

Budget Brief #8: (3/16/07)

Budget Brief: Pay Past-Due Bills

A look at the need to pay past-due bills in the state's pension and parks systems.

A. Now is the Time to Pay Past-Due Bills

With an over \$2 billion surplus, now is the opportunity to pay the state's past-due bills.

The benefits are three-fold:

1. Save Money: Either pay now or pay more later.
2. One-Time Cost: Unlike a new program, paying bills does not create new future costs.
3. Right Thing to Do: Should first pay what we owe before creating new obligations.

B. Two Big Past-Due Bills: Pensions and Parks

Public Pension System – A growing multi-billion dollar unfunded liability

During the last four years, the state has skipped the actuarially-recommended payment to the unfunded liability in the teachers' and state employees' plan 1 retirement system.

The most recent skipping is estimated to have added \$564 million in costs to taxpayers as opposed to if the payment had simply been made.¹ The cost is due to the lost investment earnings that would have occurred had the payment been made.

Today, the liability stands at **\$5.7 billion**, the highest it has been in a decade, a disturbing trend when the liability should be heading the other direction.²

State Parks – Nearly \$300 million in deferred maintenance and needed repairs

Similarly, the state has allowed its parks system to fall into disrepair. A 2001 State Parks Facilities report identified \$292 million worth of needed repairs and park infrastructure backlog, including one in every four buildings identified as in "poor" or "extremely poor" condition.³ To commemorate its 100th anniversary, the State Parks system issued the "Centennial 2013" plan. The crux of the plan is to reduce the backlog in half by 2013, making 220 major renovations and 2,782 minor renovations.⁴ The report noted that if repairs were not made, the costs of replacement would rise to more \$1.3 billion.⁵

C. The Governor's Budget Fails Both the Public Pension and Parks Systems

Pensions – Fails to “catch-up” and ignores longer-life span funding issue

The Governor's budget makes the scheduled 2007-09 unfunded liability payment. But no effort is made to catch-up on the past four years of skipped payments which -- as noted earlier -- result in hundreds of millions in higher costs to taxpayers and a larger liability that needs to eventually be paid off.

Even more disturbing is the Governor's disregard of the state actuary's October 2006 recommendation that more funding is needed to reflect people living longer. This projection would require an additional \$2.6 billion in state and local contributions to the pension system over the next 25 years, compared to current levels.⁶ Despite no dispute over the actuary's conclusion of longer life spans and the resulting need for more money, the Governor ignored the actuary's funding recommendation.

State Parks – Many Centennial Plan repairs and renovations go unfunded

The Centennial Plan called for \$77 million in the 2007-09 capital budget for needed repairs, upgrades and facility preservation efforts. The Governor, despite having previously endorsed the plan, funded only \$45 million, leaving several major necessary park repairs and upgrades throughout the state unaddressed.⁷

Avoiding needed repairs and upgrades results in significantly higher future costs to taxpayers, as stated in the facilities condition report.

It is worth noting the entire Centennial Plan's repair and upgrade list could be financed this biennium with a one-time general fund appropriation of \$165 million. A prime benefit of this would be to pay for the projects out of cash, rather than 30-year bonds. This would save taxpayers money, fully fund the state parks' Centennial Plan repair needs, and free-up bonds for items such as K-12 construction.

Bottom Line

Should budget writers, faced with an over \$2 billion surplus, pay past-due bills to ensure the well-being of our state's public pension and parks systems and to avoid higher costs down the line?

1. Office of State Actuary – Rate Phase-In Proposals (January 24, 2006).
2. Office of Program Research, “Washington State Retirement System and Pension Contribution Rates” (Jan. 07, slides 23 & 25)
3. State Parks & Recreation Commission, “State Parks 2010: A Capital Facilities Condition Report” (Dec. 2001)
4. State Parks & Recreation Commission, “Strategic Plan: 2007-13” (June 2006, p.15-16).
5. *See* “State Parks 2010: A Capital Facilities Condition Report”, p. 2.
6. Office of State Actuary, 3/7/07 written correspondence in response to legislative staff request, correcting figure provided in Oct. 06. *See also* Budget Tidbit, “Playing Politics with Pensions – Continued Disregard of Actuarial Recommendations” 10/13/06.
7. State Parks & Recreation Commission, “Centennial 2013: Detail of 2007-09 Capital Budget Request List” (Feb 2007, p. 4)