

THE WAYS AND MEANS OF THE OPERATING BUDGET

January 2013

Operating Budget Development Timeline



July – October: Agencies develop budget requests for submittal to OFM. (RCW 43.88.090)

October – December: OFM reviews agency requests and submits Governor's budget document to Legislature by Dec. 20. (RCW 43.88.030, .060)

January – March: Legislative fiscal committees conduct hearings and work sessions on Governor's budget and other fiscal issues.

Operating Budget Development Timeline

March – April: Following mid-March release of the official state revenue forecast, House & Senate release separate budget proposals. House and Senate budget chairs and any other designated members negotiate an agreement that is passed by both houses.

Sine Die: Governor's 20-day veto period begins at sine die.

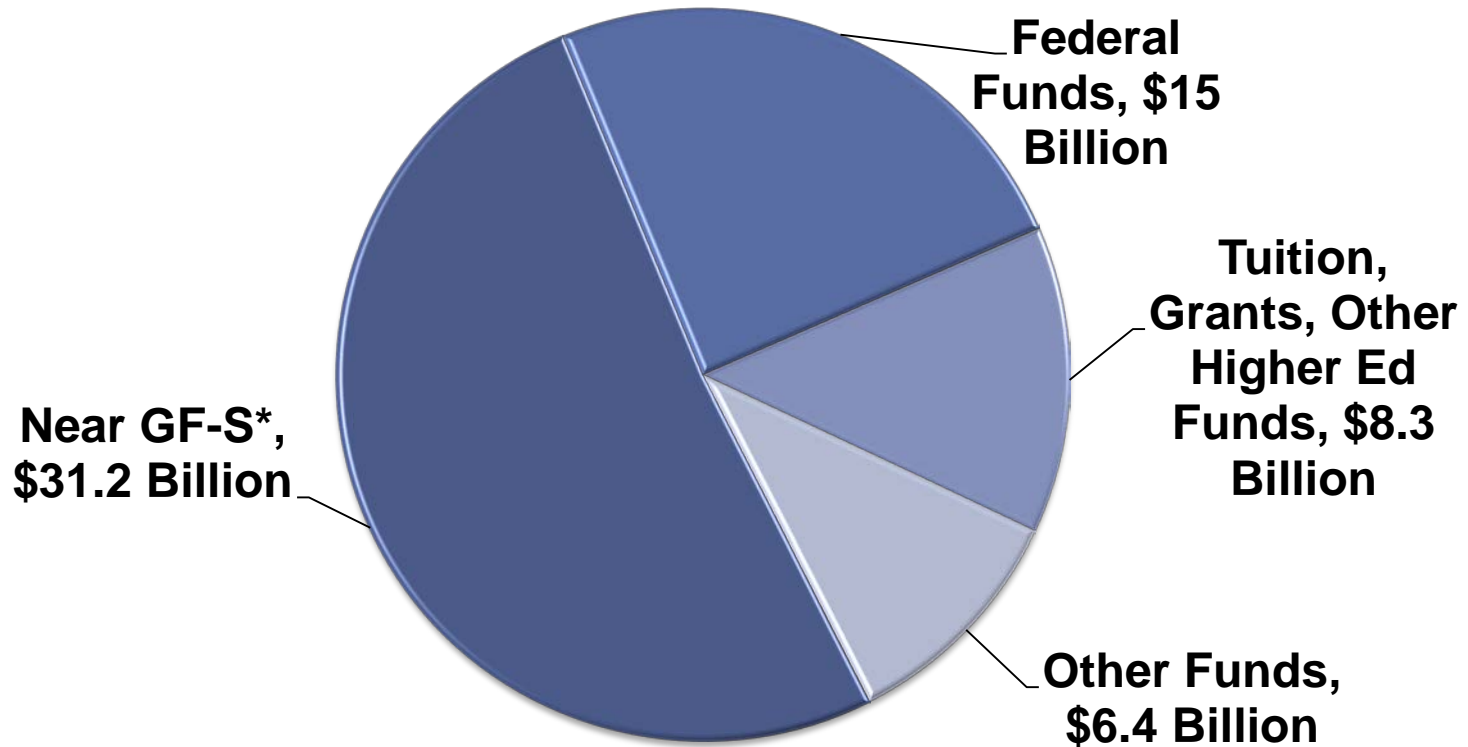
May – June: OFM and agencies prepare allotments (expenditure plans) for appropriations and non-appropriated budgeted accounts.

July 1: The biennial budget bill takes effect.

The “Ways” of the Budget

How Big Is the Operating Budget?

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 = \$60.9 Billion

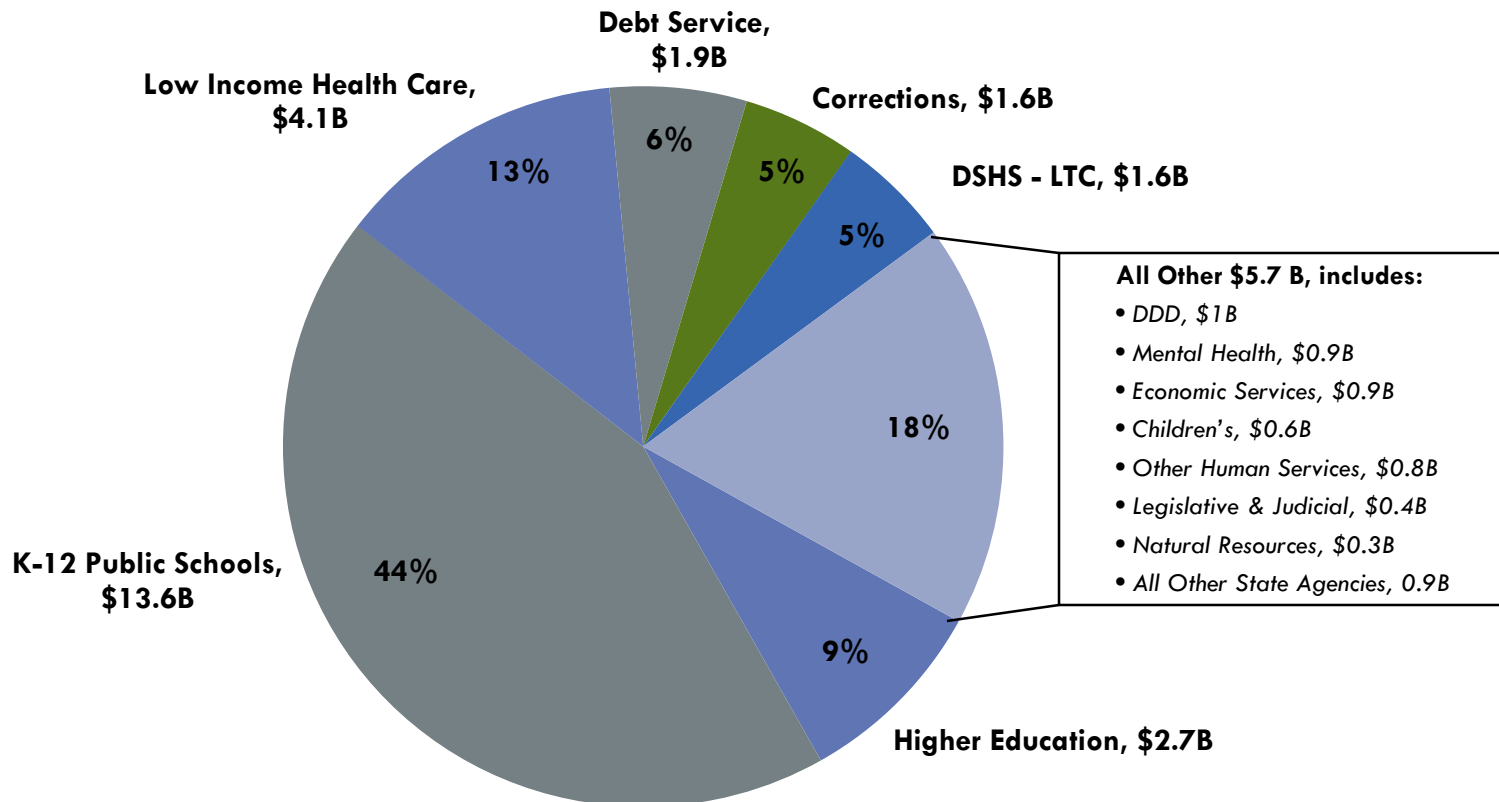
* Plus Opportunity Pathways

Main Activities of the Operating Budget

- **K-12 Education** – for nearly one million students
- **Higher Education** – for 232,000 students
- **Health Care** – for more than 1.2 million 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)

Where Is the Budget Spent?

Over 80 percent of the Near GF-S operating budget is spent in six areas



Enacted 2011-13 Budget = \$31.2B

Operating Budget Drivers

Public Schools (44%)

- Enrollment
- Inflation
- Staff Mix
- Redefining Basic Education

Debt Services (6%)

- Capital Budget (size)
- Interest Rates

Higher Education (9%)

- Mostly Discretionary
- Enrollment
- Tuition & Financial Aid

Low Income Health (13%)

- Caseloads
- Utilization & Inflation
- Health Reform

Corrections (5%)

- Inmate Population & Sentencing Policy
- Inmate Mix
- Community Supervision

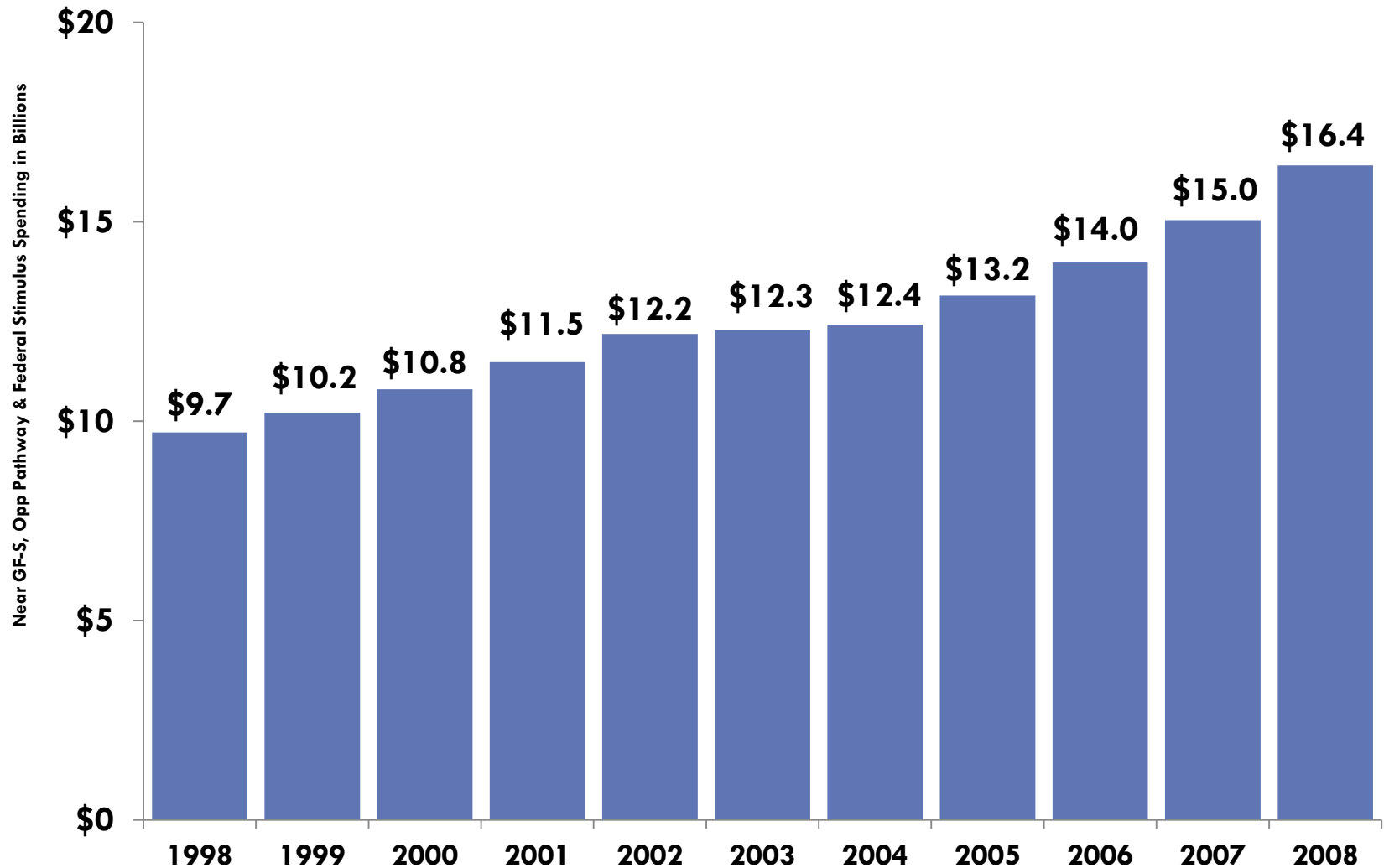
Human Services (e.g. DD, LTC, Economic Svcs, Children's, Mental Health) (18%)

- Population/Caseloads
- Acuity Mix
- Care Settings



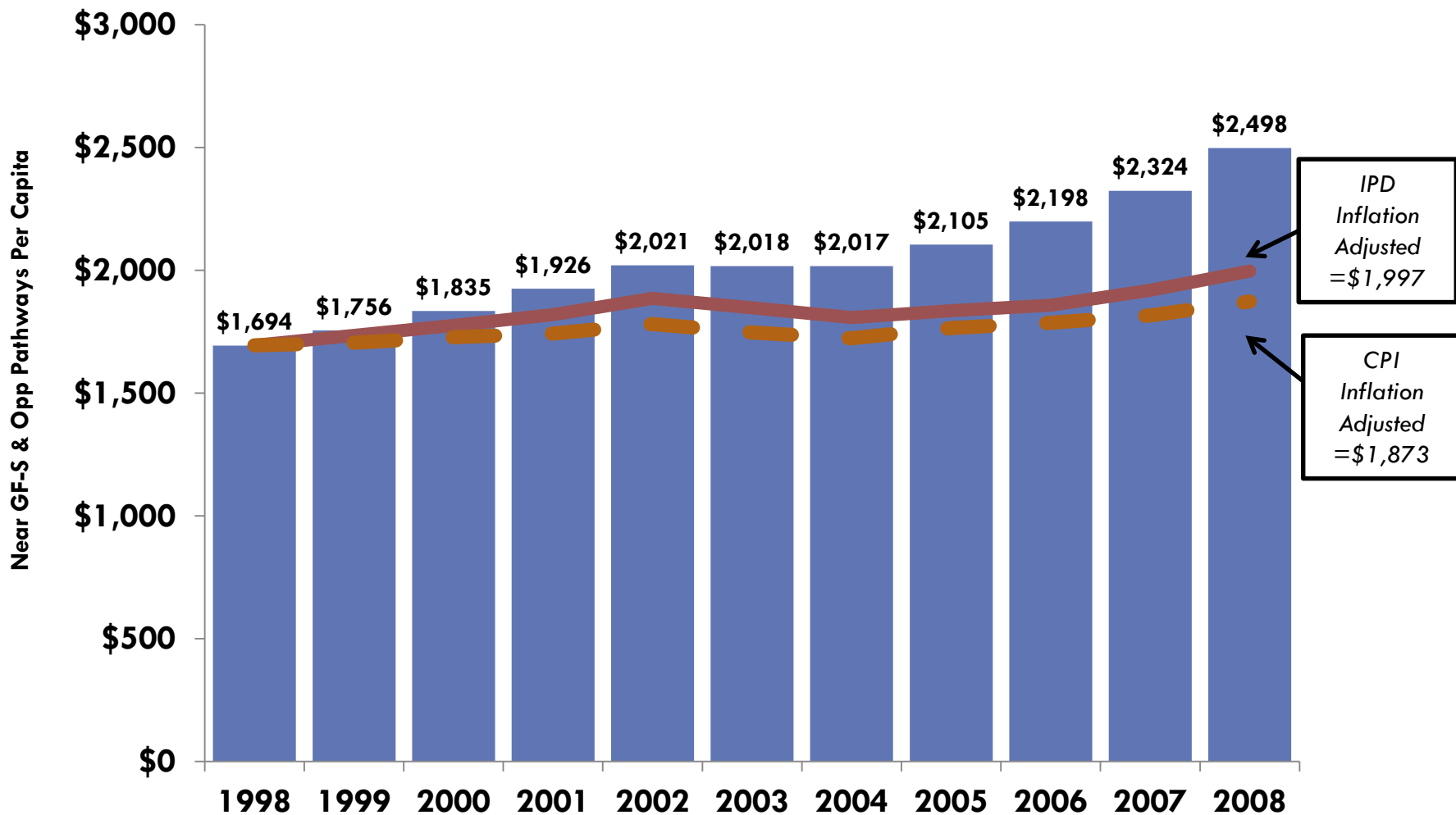
Spending Trends Before The Recession

State spending increased by \$6.7 billion or 69% in the decade before 2008



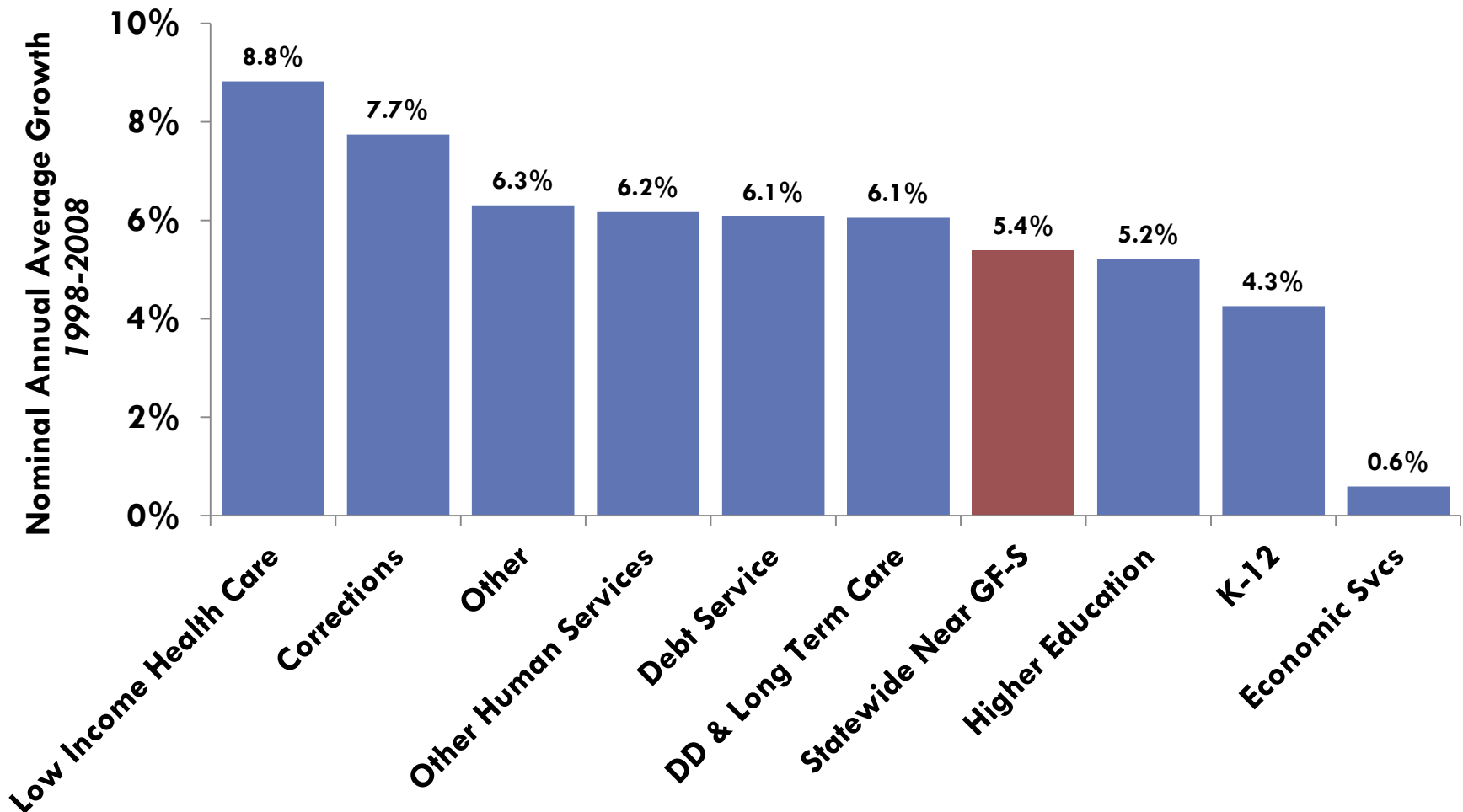
* FY 2006 and FY 2007 adjusted for \$1.1 billion in deposits in other accounts for future appropriation.

As a result, per capita near GF-S and related fund spending has increased faster than inflation



* FY 2006 and FY 2007 adjusted for \$1.1 billion in deposits in other accounts for future appropriation.

In the decade prior to the “Great Recession,” low income health care, corrections, and most other human service programs were growing pretty rapidly

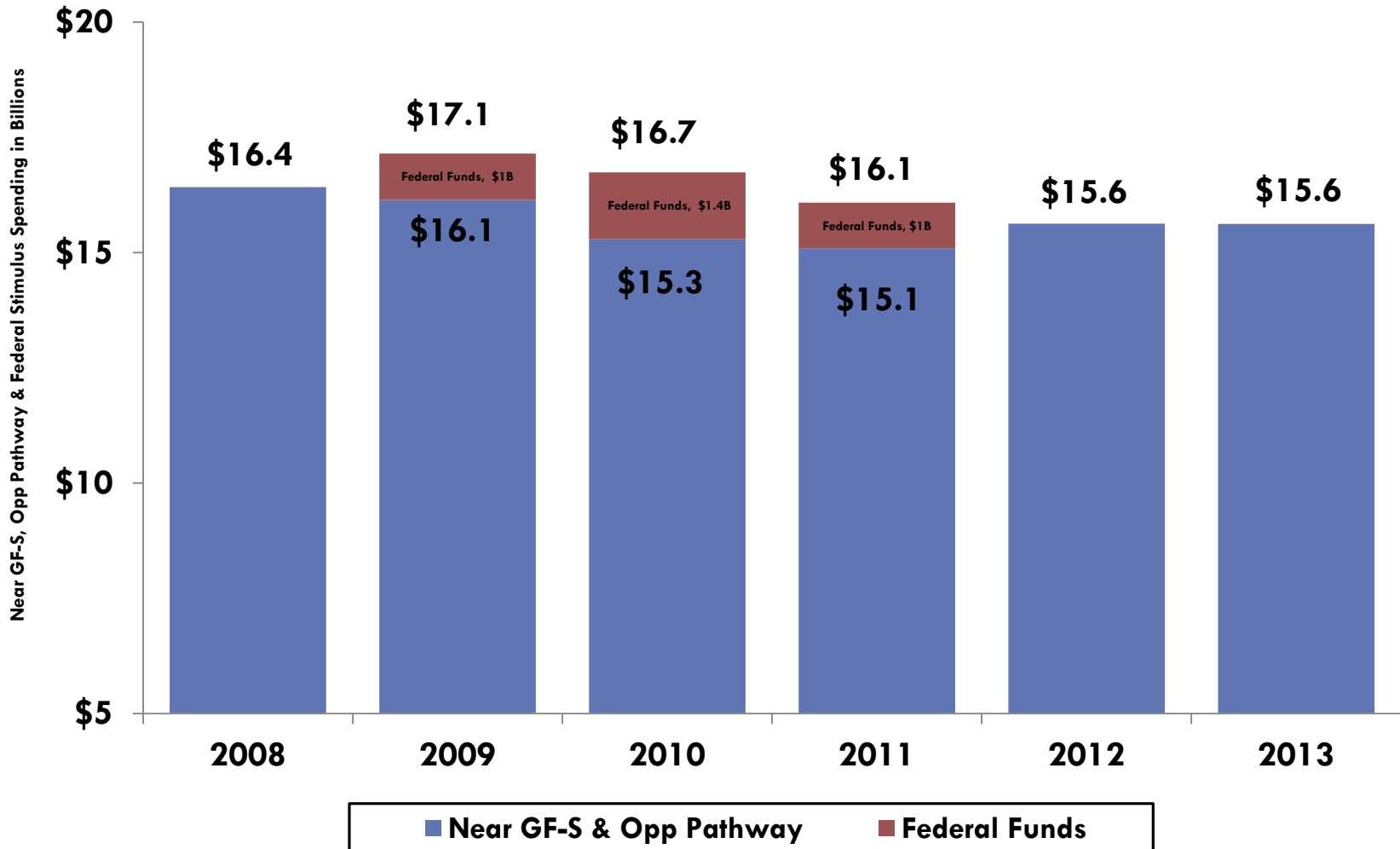


* Reflects Near GF-S & Opportunity Pathways spending, FY 2006 and FY 2007 adjusted for \$1.1 billion in deposits in other accounts for future appropriation.

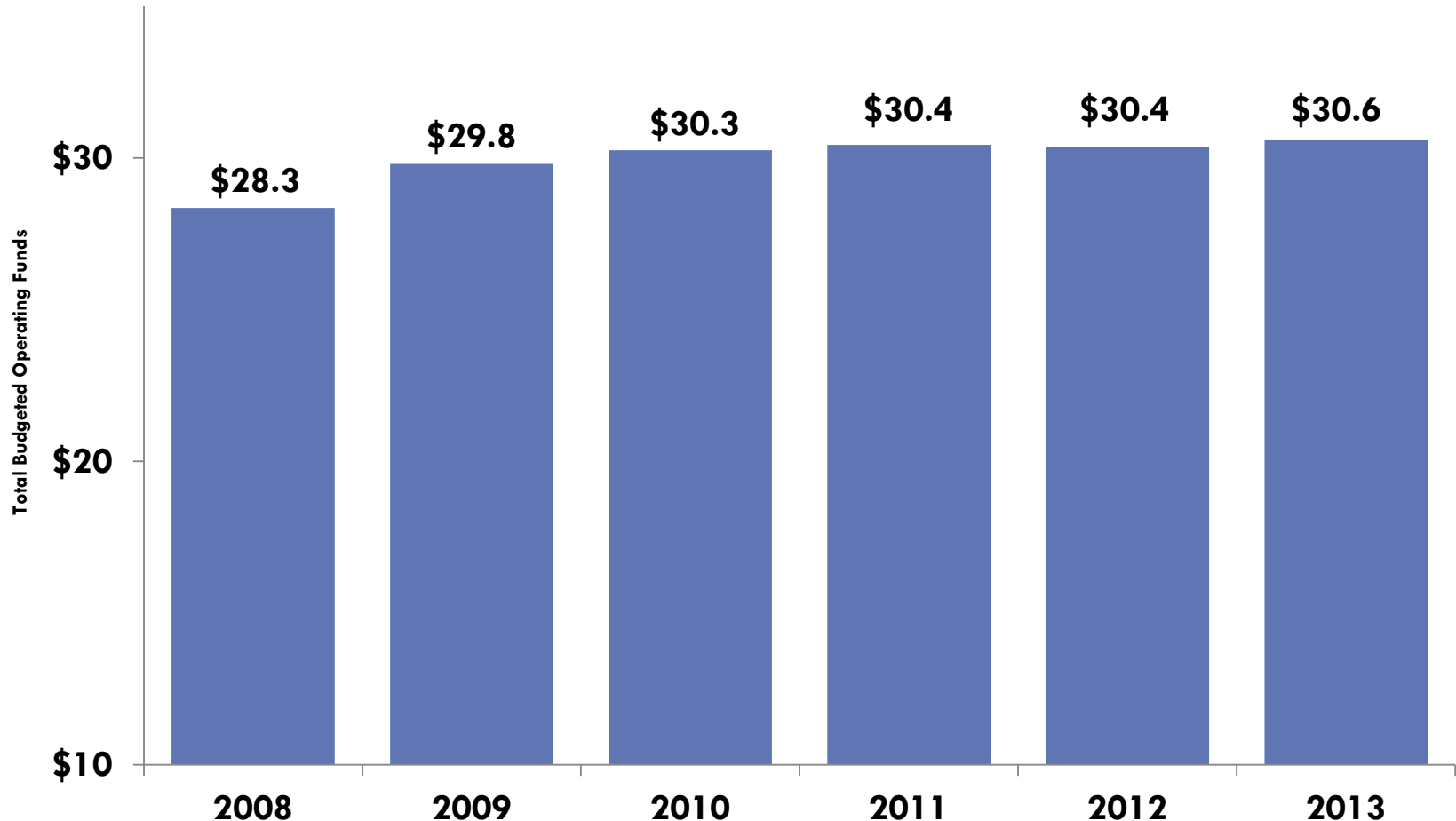


Spending Trends During The Recession

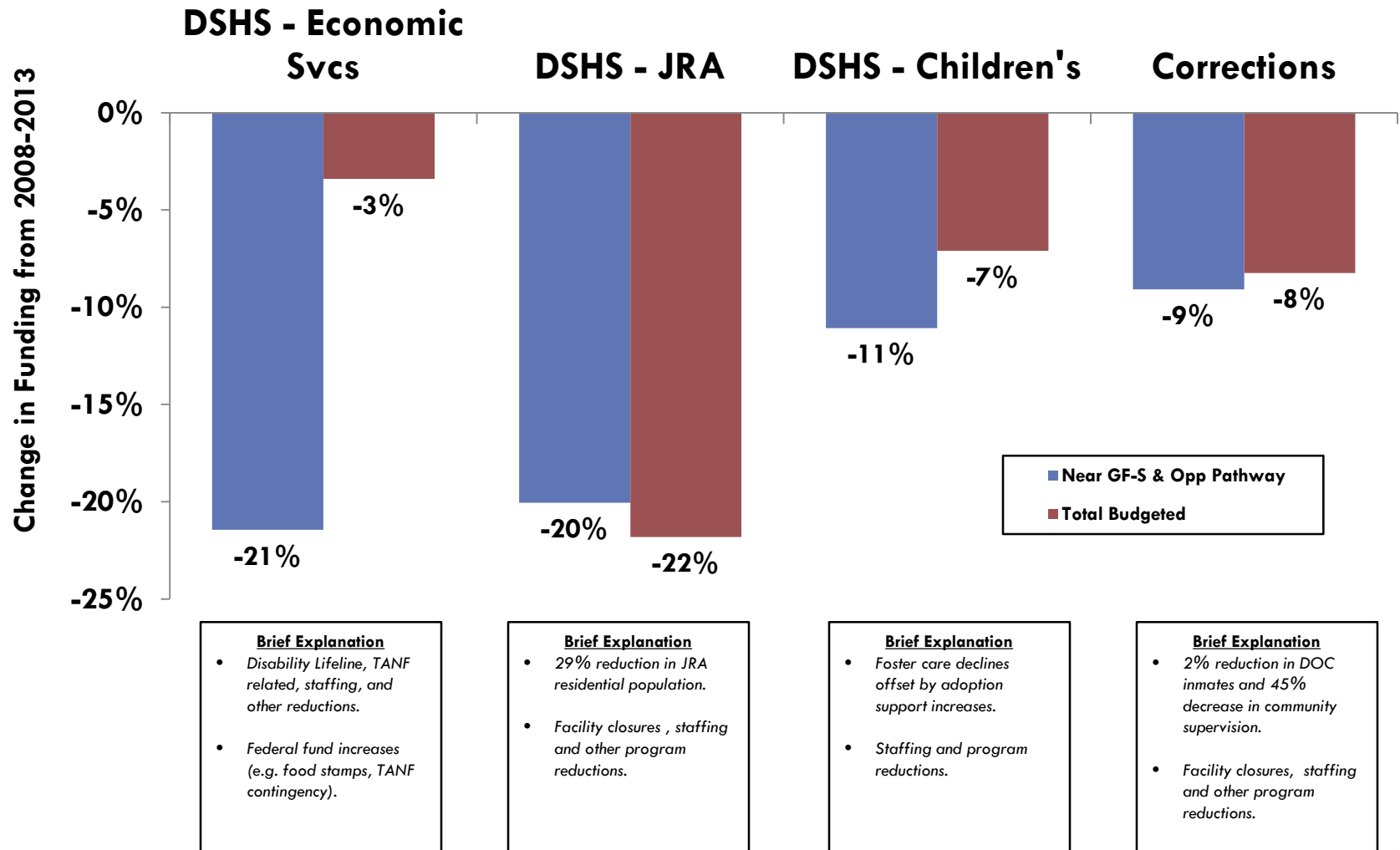
As a result of reductions, state Near GF-S and related fund spending declined for several years



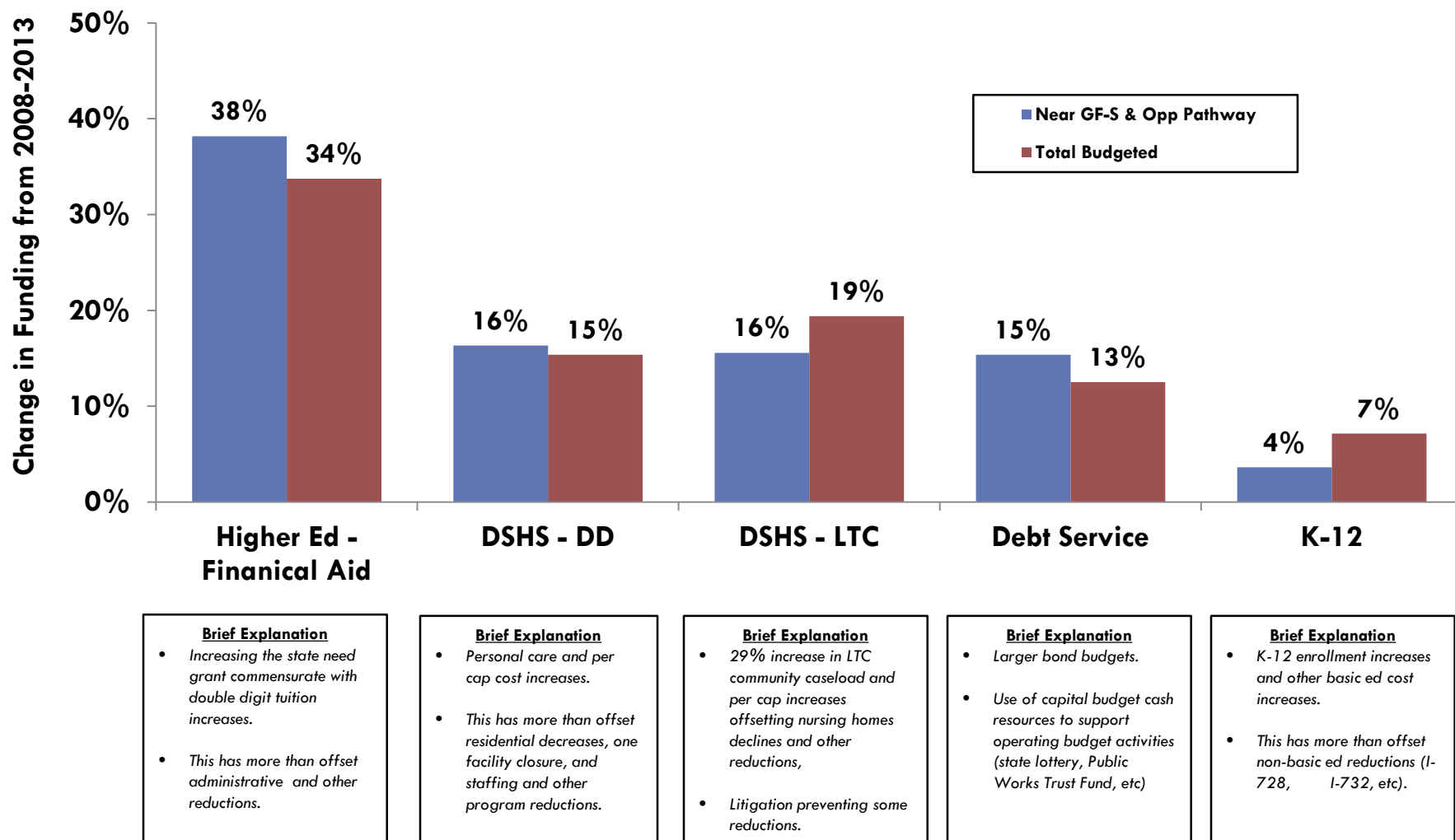
Partially because of federal funding, tuition increases, and the use of other funds, the total budgeted funds have increased by over \$2 billion in the last five years



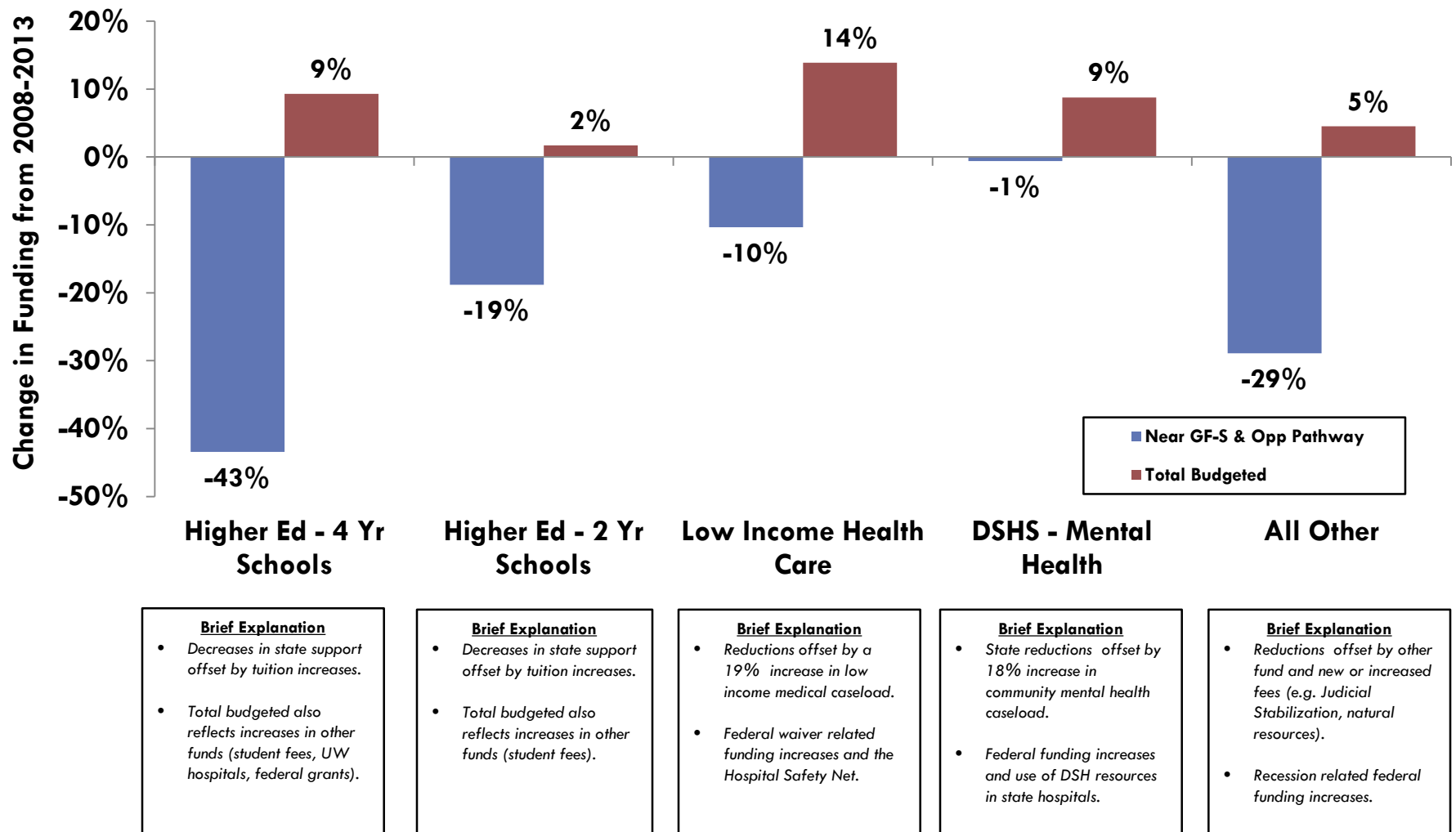
As a result of reductions and other factors, some areas of the budget have seen both their state and total funding decrease during the recession



Other budget areas have seen state and total funding increase because of any reductions being offset by other factors during the recession and its aftermath



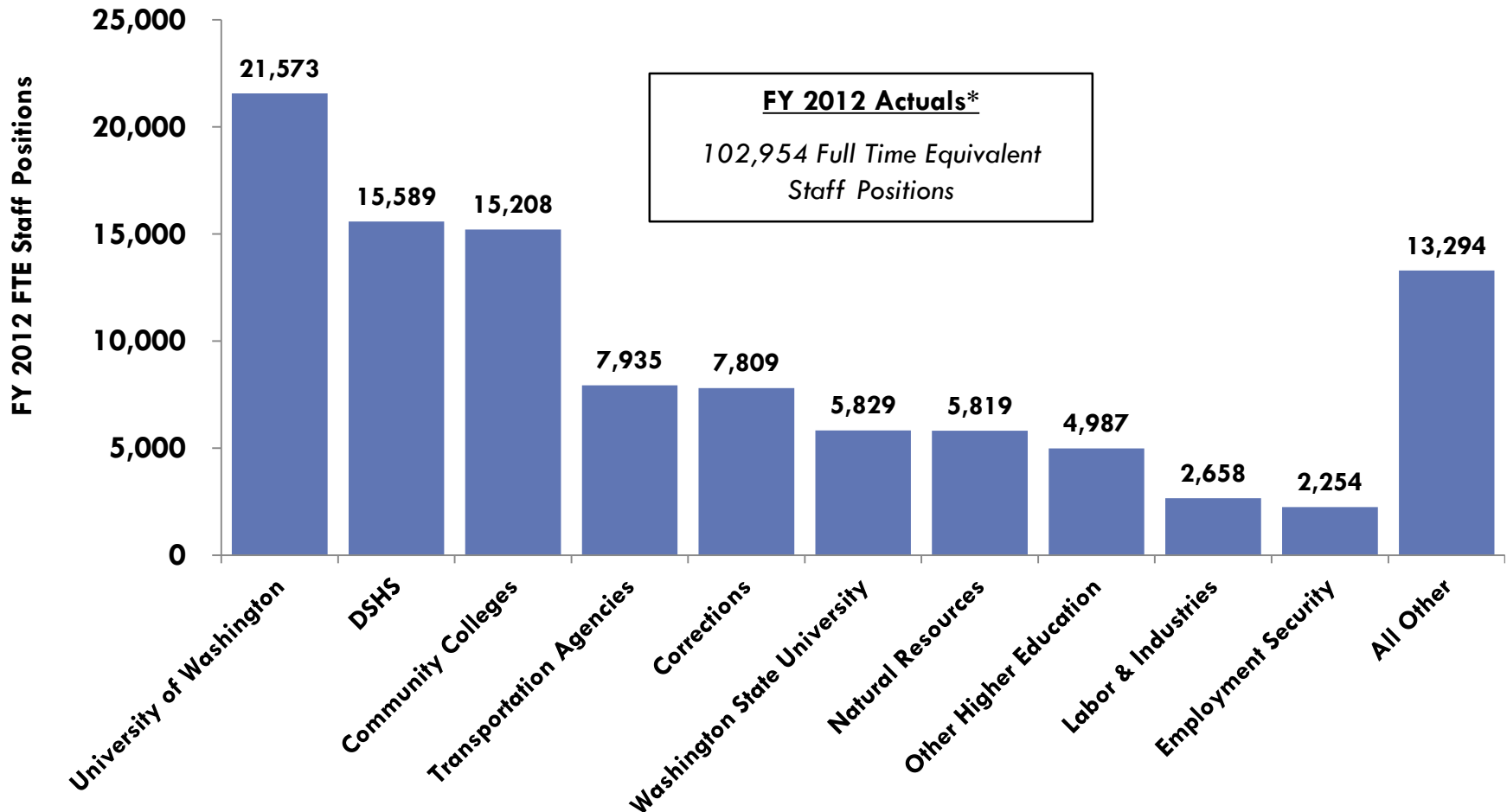
In other areas, state funding decreased, but total funding increased during the recession and its aftermath





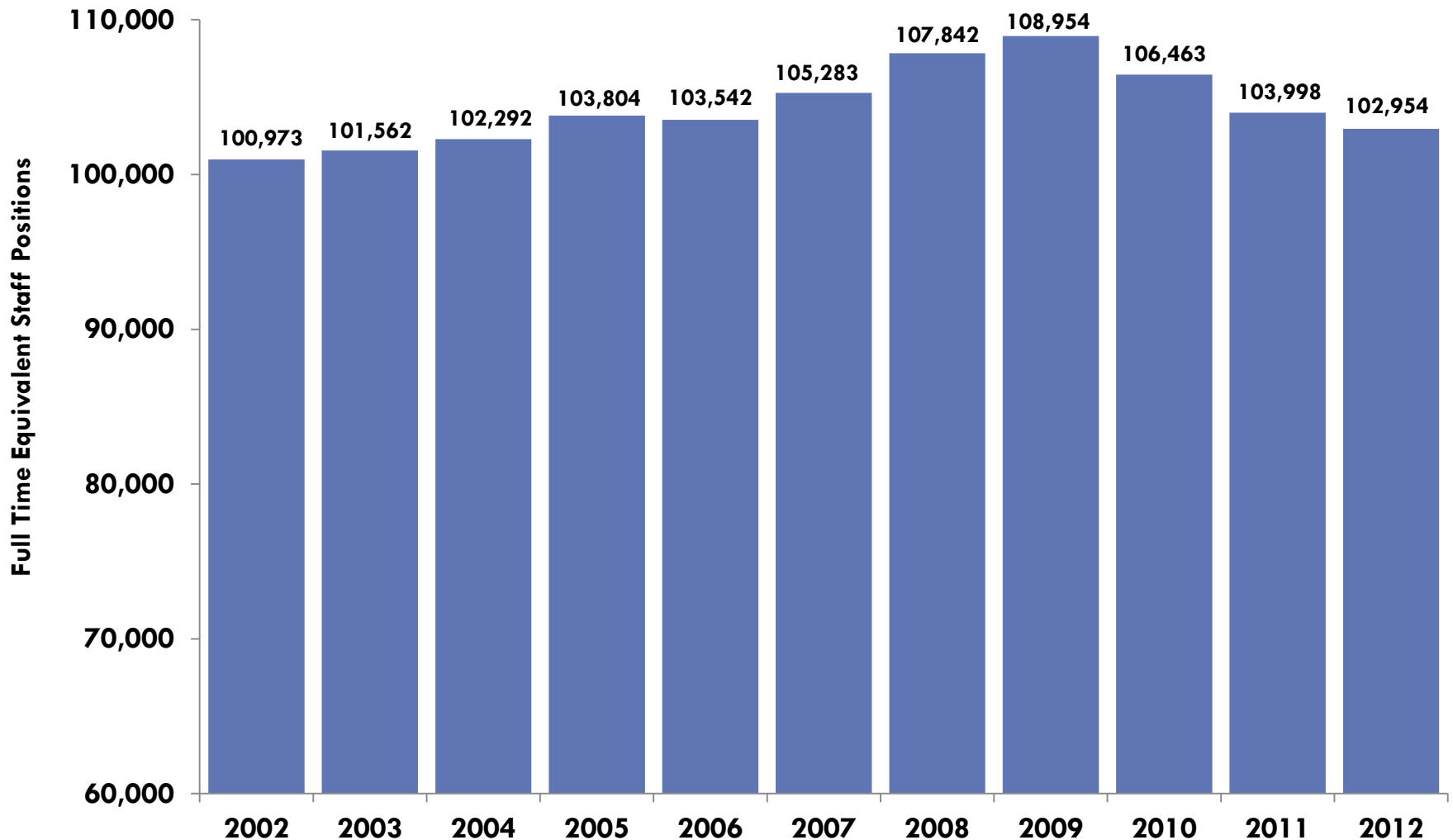
State Employees

There are approximately 103,000 full time equivalent staff



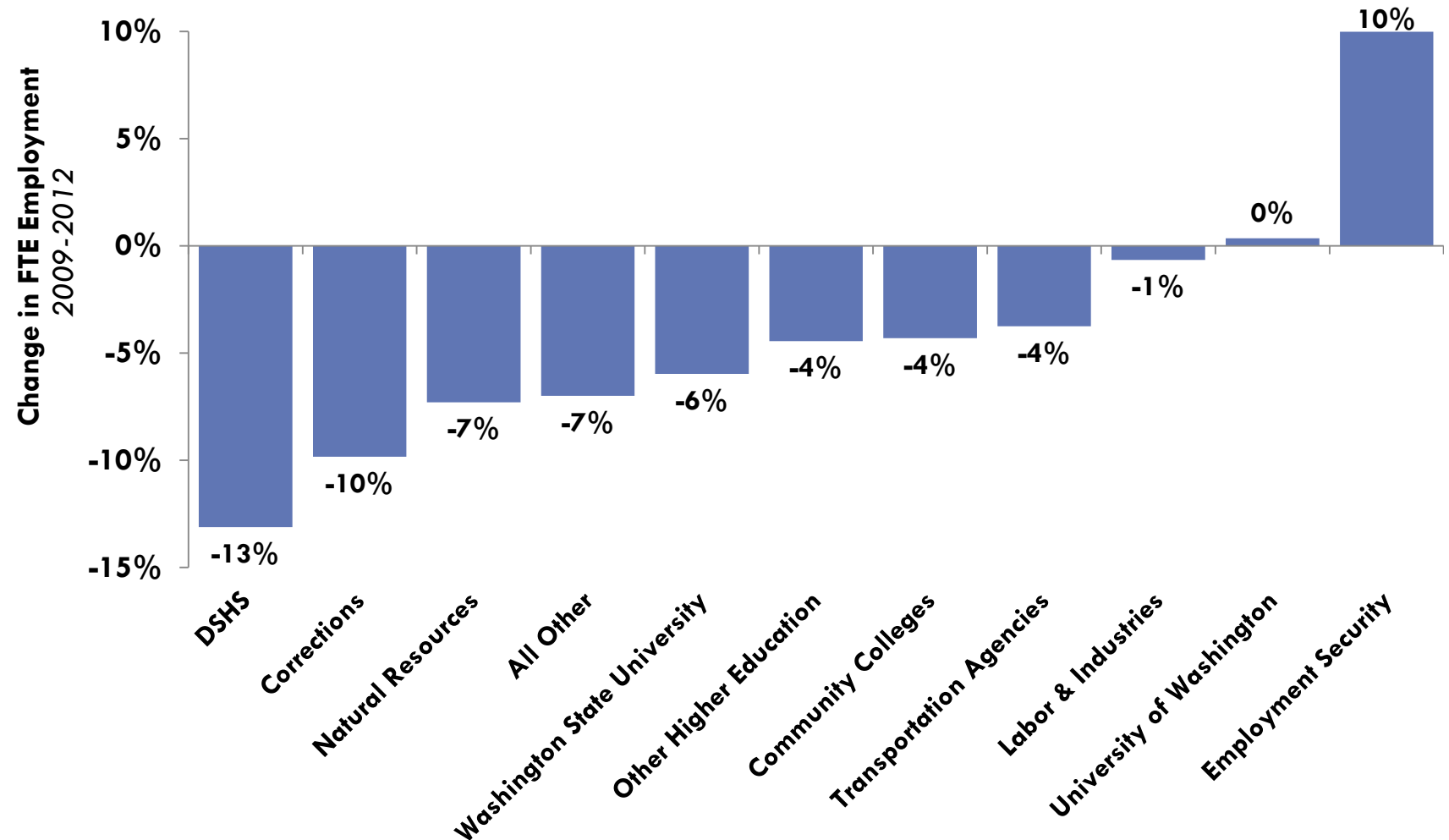
* Reflects operating omnibus and transportation budgets, excluding the approximately 3,200 positions funded in the capital budget.

The number of state employees continued to increase through the recession, but has declined since then



* Reflects operating omnibus and transportation budgets, excluding the approximately 3,200 positions funded in the capital budget.

However, the magnitude of the change varied by agency and function of government



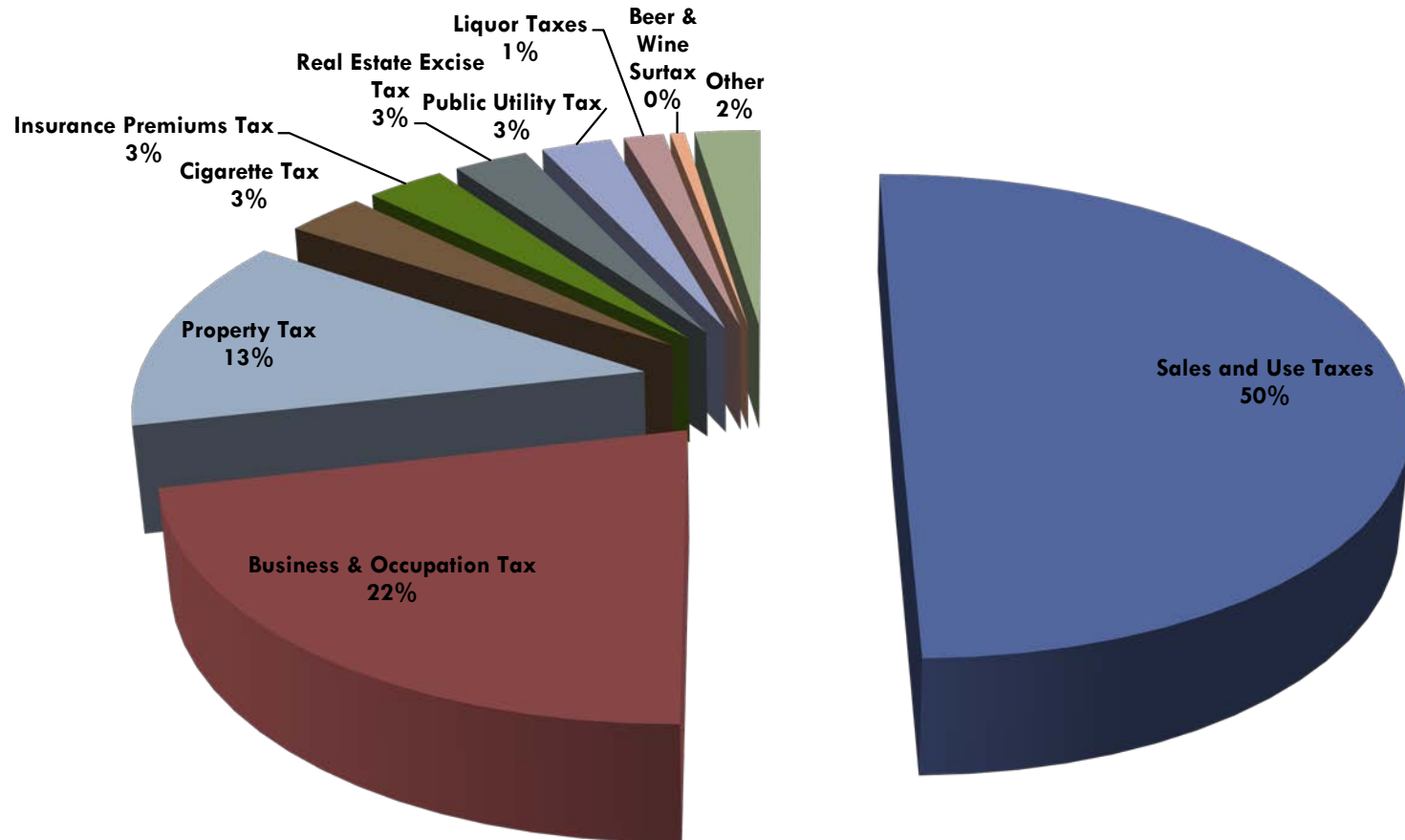
* Reflects operating omnibus and transportation budgets, excluding the approximately positions funded in the capital budget.

The “Means” of the Budget

Major State Tax Revenue Sources

- Washington has 3 major tax sources:
 - ▣ Sales and Use Tax
 - ▣ Business and Occupation Tax
 - ▣ Property Tax
- Washington has no personal or corporate income tax
- These taxes constitute 85% of General Fund revenues

Tax Revenue to the General Fund



Retail Sales Tax

- \$15.3 billion projected for the 13-15 biennium
- 50% of General Fund revenue
- Tax Base:
 - ▣ Sales Tax: Retail sales of goods and some services
 - ▣ Use Tax: Items acquired without payment of sales tax (e.g, out-of-state purchases)
- State tax rate: 6.5% of the selling price
 - ▣ Plus local option taxes
 - ▣ Combined state and local rate varies from 7.0% to 9.5%

Major Sales and Use Tax Exemptions

- Services
- Food Products
- Motor Vehicle Fuel
- Manufacturing Machinery and Equipment
- Prescription Drugs
- Automobile and other Trade-ins

Business and Occupation Tax

- ❑ \$6.7 billion forecasted for 2013-15 biennium
- ❑ 22% of General Fund revenue
- ❑ Base: Business gross receipts
 - ▣ No deductions for the cost of doing business
 - ▣ Pyramiding: The tax is imposed at each level of activity
- ❑ Principle Rates:

▣ Retailing	0.471%
▣ Wholesaling/Manufacturing	0.484%
▣ Services	1.8%

(The service rate will be reduced to 1.5% July 1, 2013)

Major B&O Tax Exemptions

- ❑ Investments of nonfinancial firms
- ❑ Government grants to nonprofits
- ❑ Public and nonprofit hospitals
- ❑ Agriculture

Property Tax

- \$3.9 billion forecasted for 2013-15 biennium
- 13% of General Fund revenue
- Base: Assessed value (AV) of property
- Rate: Varies each year-
 - Total state and local average rate for 2012 is \$11.78
- Limits
 - Constitutional 1% rate limit (\$10 per \$1,000 AV)
 - Statutory limits
 - State: \$3.60 per \$1,000 AV
 - Regular local levies: \$5.90 per \$1,000 AV
 - Statutory Revenue Limit
 - Total tax levy increase on existing properties in each district limited to 1%

Property Tax: Budget-Based System

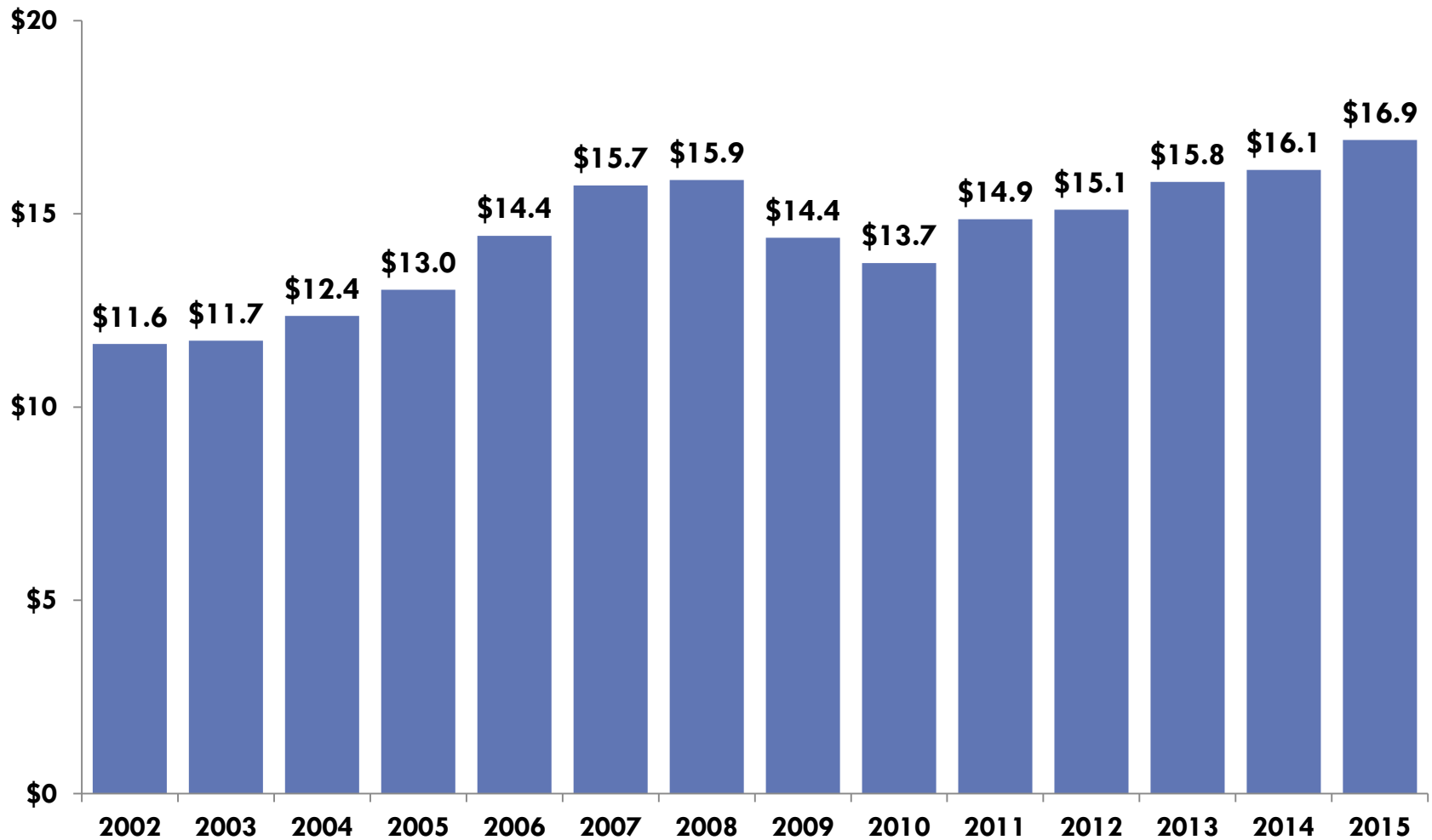
1. Taxing jurisdictions calculate levy
2. Property within the district is assessed
3. Levy rate calculated based on levy and assessed value (AV)
4. The levy rate is applied to individual assessed values

Major Property Tax Exemptions

- ▣ Intangible Property
- ▣ Public Property
- ▣ Motor Vehicles
- ▣ Business Inventories
- ▣ Household Goods
- ▢ Exemptions result in tax shifts/losses
 - ▣ Taxable value of districts decrease
 - ▣ Tax rates increase to compensate
 - Taxing district loses revenue to the extent the district bumps up against the maximum rate limit
 - Higher taxes for other taxpayers because of higher rates

Near General Fund + Opportunity Pathways

(Dollars in millions)



“Initiative 960”

- 2/3 vote of the Legislature is required for any bill which raises taxes
- The legislature may raise taxes in a referendum to the voters with a simple majority vote
- “Raises taxes” means any actions or combination of actions which increase state tax revenue to any state fund or account, such as:
 - ▣ New taxes
 - ▣ Increased tax rates
 - ▣ Broadening the tax base
 - ▣ Repealing or narrowing tax preferences (credits, deductions, exemptions)

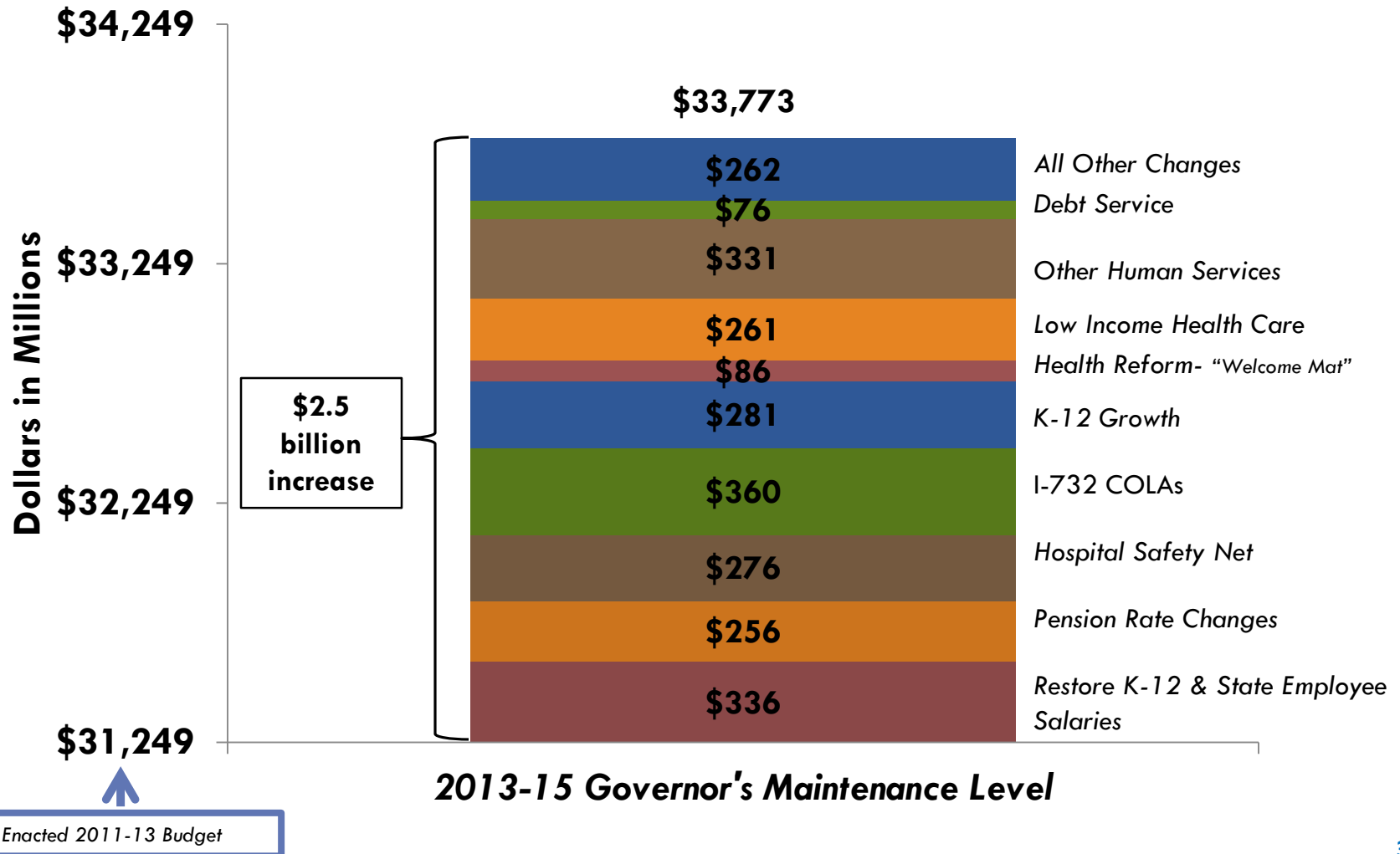
Other “I-960” Provisions

- ❑ Bills which “raise taxes” that are passed by a 2/3rds majority must go to an advisory vote of the people
- ❑ Legislative approval of fee increase is required
- ❑ OFM must provide a 10-year projection on bills that “raise taxes”
- ❑ Publication of bill information, sponsorship and committee information during the course of the legislative process on bills that “raise taxes”

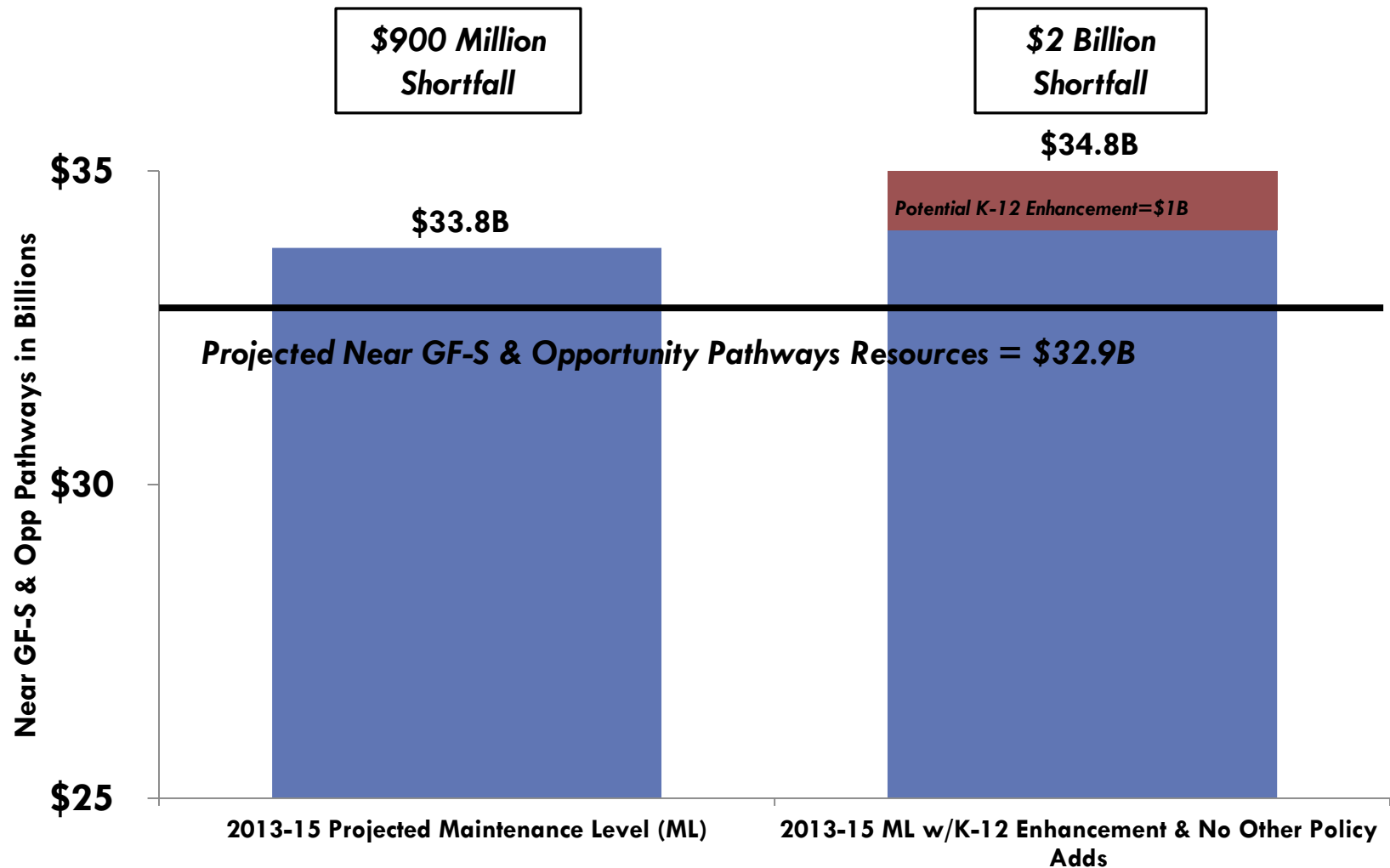


Where We Are Going

Even without funding K-12 enhancements or any policy level increases, the budget is expected to increase by over \$2.5 billion

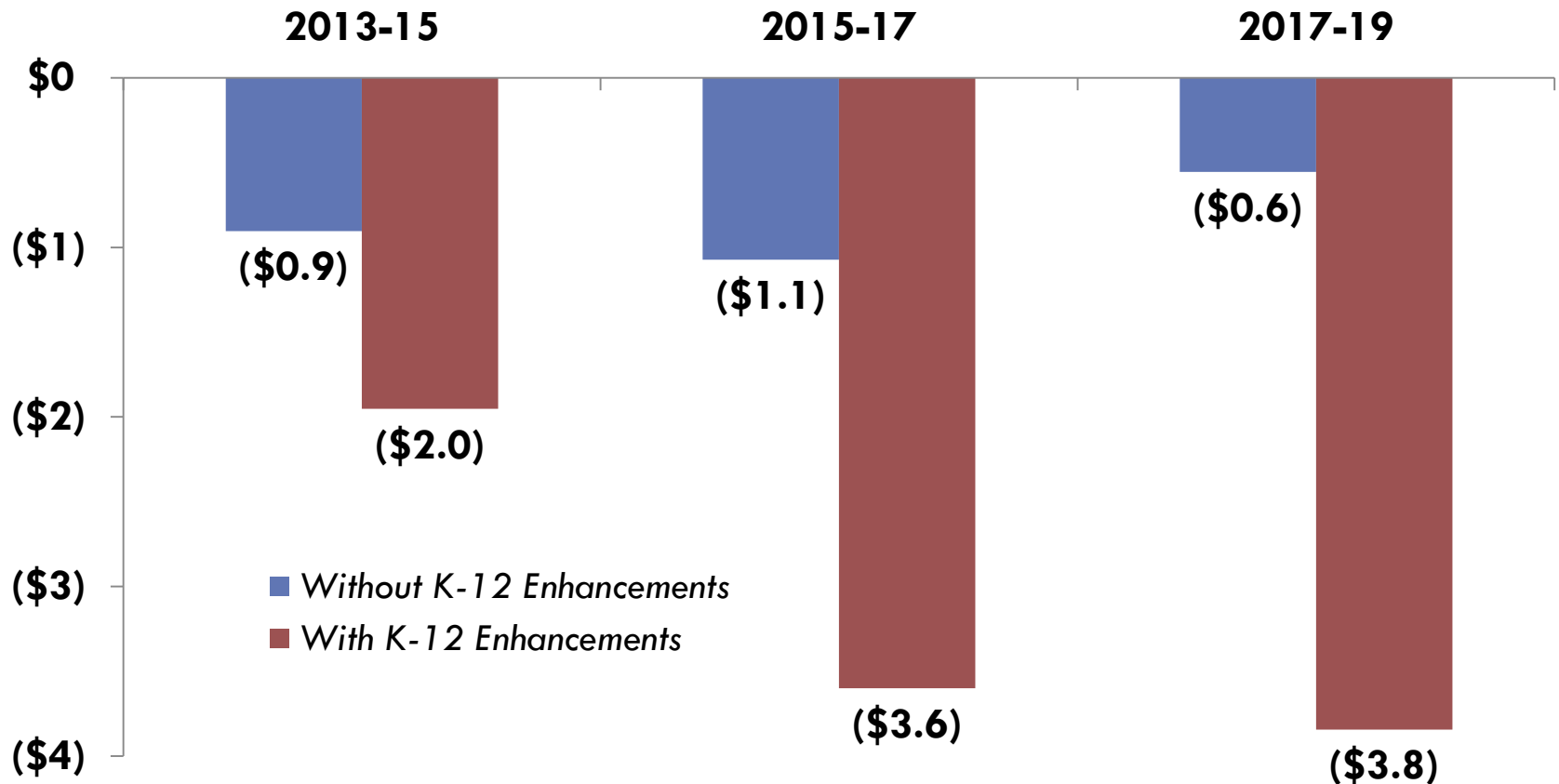


This means that projected spending demands exceed projected resources by \$900 million to \$2 billion next biennium, even excluding other policy adds typically considered by the Legislature



* Projected resources adjusted for the \$288 million transfer into the Budget Stabilization Account and the projected \$134 million beginning fund balance (before the 2013 supplemental). The K-12 amounts represent one possible scenario for the phase-in of SHB 2776 costs only. Finally, the shortfall estimate does not include any new COLAs for state employees or other potential policy enhancements.

In subsequent biennia, this projected budget shortfall increases as a result of the phase-in of additional K-12 enhancements between now and 2018



* The amounts depicted represent estimates provided in the November 2012 Outlook. The shortfall estimate does not include any assumed use of the Budget Stabilization Account and assumes a zero unrestricted ending balance. The K-12 amounts represent one possible scenario for the phase-in of SHB 2776 costs only. Finally, the shortfall estimate does not include any new COLAs for state employees or other potential policy enhancements.



Appendix

Expenditure History - Operating
NGF-S + Opportunity Pathways + Direct Federal Stimulus
(Dollars in Thousands)

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
K-12	6,565,834	7,080,623	6,929,028	6,581,702	6,843,817	6,803,381
Higher Ed - 4 Yrs	853,646	846,923	702,792	652,658	488,758	482,976
Higher Ed - 2 Yrs	695,094	706,643	696,097	650,872	580,544	564,414
Higher Ed - Fin. Aid & Other	233,821	238,039	254,719	231,506	292,480	325,468
Low Income Health Care	2,265,932	2,237,967	2,380,828	2,351,912	2,034,296	2,031,150
Corrections	865,182	904,348	869,641	787,413	815,717	786,627
DSHS - DD	434,758	463,872	461,556	483,868	486,864	505,752
DSHS - LTC	700,305	758,026	779,645	811,871	791,493	809,338
DSHS - Econ Svcs	558,129	762,584	586,291	547,414	415,553	438,483
DSHS - JRA	106,645	104,972	101,399	87,984	85,723	85,258
DSHS - Children's	320,910	341,149	321,917	295,240	287,376	285,381
DSHS - MHD	445,164	476,093	443,842	432,109	438,381	442,445
Other Human Svcs	455,012	449,546	395,655	371,051	345,097	309,541
Debt Svcs	850,506	714,231	869,978	902,700	940,400	981,278
All Other	1,067,560	1,063,805	945,799	894,586	779,562	771,658
Total	16,418,498	17,148,820	16,739,186	16,082,887	15,626,061	15,623,150

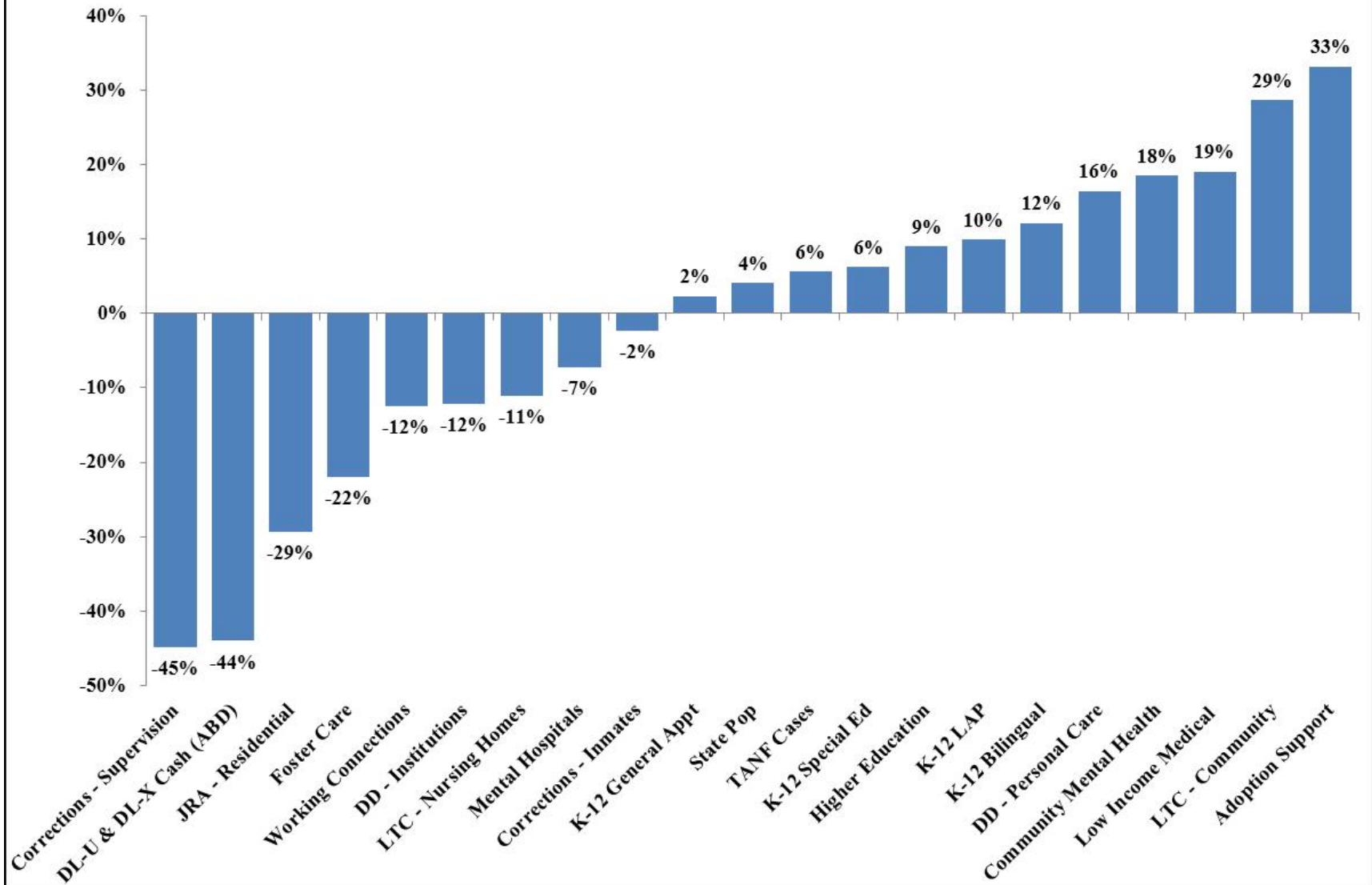
Omnibus Operating Expenditure History

Total Budgeted

(Dollars in Thousands)

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
K-12	7,316,139	7,841,941	7,827,248	7,617,035	7,782,374	7,838,018
Higher Ed - 4 Yrs	3,740,734	3,832,539	4,022,875	4,293,913	3,951,607	4,088,529
Higher Ed - 2 Yrs	1,193,947	1,225,903	1,266,352	1,323,632	1,184,777	1,214,257
Higher Ed - Fin. Aid & Other	256,284	254,169	271,247	249,906	310,738	345,430
Low Income Health Care	4,471,501	4,669,674	4,983,011	5,230,534	5,115,986	5,091,254
Corrections	871,067	909,425	876,194	830,503	826,630	799,305
DSHS - DD	849,517	929,226	921,777	922,071	952,251	980,126
DSHS - LTC	1,446,361	1,551,188	1,585,082	1,592,645	1,684,143	1,726,586
DSHS - Econ Svcs	1,072,066	1,302,713	1,264,207	1,163,997	1,023,483	1,035,561
DSHS - JRA	112,621	109,876	105,468	98,228	91,629	88,061
DSHS - Children's	572,572	599,073	557,716	524,096	533,494	531,913
DSHS - MHD	735,238	792,539	762,346	749,382	787,393	799,638
Other Human Svcs	1,571,637	1,686,719	1,639,660	1,675,001	1,822,849	1,686,485
Debt Svcs	940,741	800,875	956,060	984,705	1,018,362	1,058,463
All Other	3,195,936	3,296,795	3,212,954	3,170,442	3,289,894	3,293,737
Total	28,346,361	29,802,655	30,252,197	30,426,090	30,375,610	30,577,363

Examples of Caseload Changes 2008 - 2013



Caseload Changes During The Recession

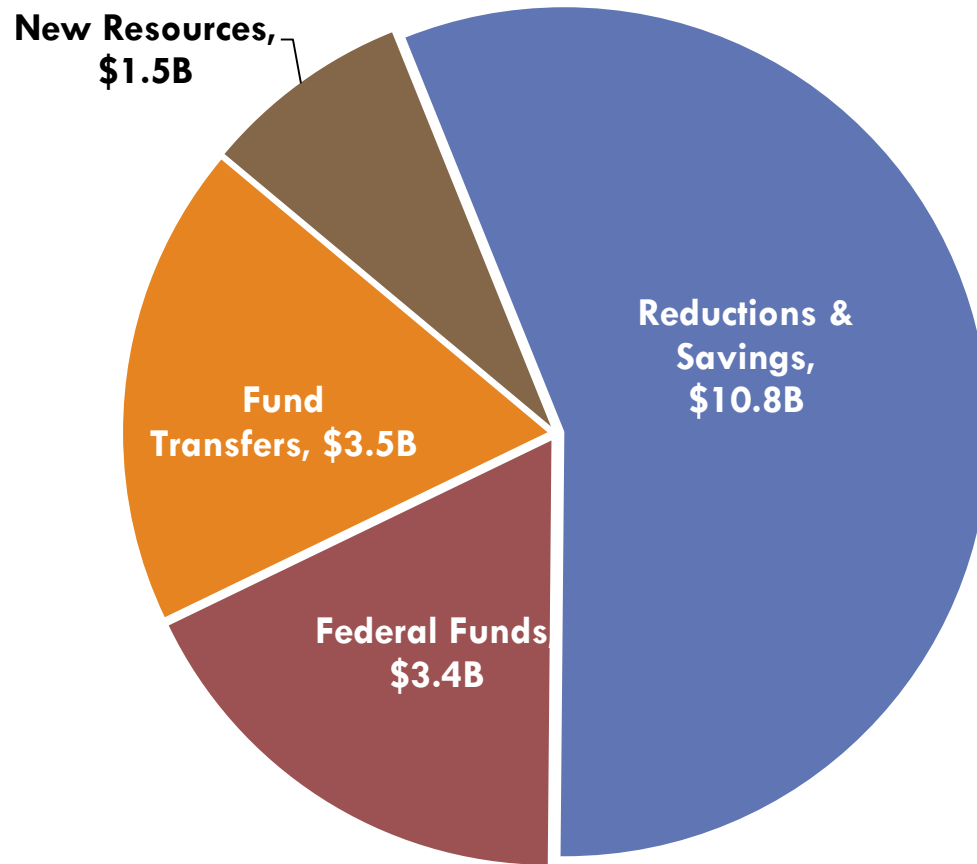
Examples of Recent Caseload Changes

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>Growth</u>	<u># of People</u>	<u>Avg Annual</u>
Corrections - Supervision	28,212	28,894	20,155	18,920	16,258	15,565	-45%	-12,647	-11.2%
DL-U & DL-X Cash (ABD)	31,182	35,001	38,276	37,878	16,963	17,462	-44%	-13,720	-10.9%
JRA - Residential	778	702	716	610	569	550	-29%	-228	-6.7%
Foster Care	7,829	7,347	6,754	6,424	6,205	6,113	-22%	-1,716	-4.8%
Working Connections	59,829	61,113	64,127	60,312	47,032	52,399	-12%	-7,430	-2.6%
DD - Institutions	997	982	951	914	878	876	-12%	-121	-2.6%
LTC - Nursing Homes	11,057	10,699	10,682	10,358	10,092	9,833	-11%	-1,224	-2.3%
Mental Hospitals	1,251	1,172	1,101	1,078	1,161	1,161	-7%	-90	-1.5%
Corrections - Inmates	18,388	18,518	18,360	18,281	17,908	17,961	-2%	-427	-0.5%
K-12 General Appt	975,540	980,979	988,501	992,786	993,194	997,755	2%	22,215	0.5%
State Pop	6,608,245	6,672,159	6,724,540	6,767,900	6,816,600	6,875,900	4%	267,655	0.8%
TANF Cases	50,119	56,458	64,450	65,137	54,856	52,922	6%	2,803	1.1%
K-12 Special Ed	126,053	128,180	130,314	132,255	1,333,393	133,869	6%	7,816	1.2%
Higher Education	231,033	246,292	261,943	265,542	258,097	251,804	9%	20,771	1.7%
K-12 LAP	414,238	416,753	414,238	416,753	433,008	455,148	10%	40,910	1.9%
K-12 Bilingual	80,689	82,915	84,855	89,920	88,883	90,461	12%	9,772	2.3%
DD - Personal Care	11,662	12,338	12,663	12,943	13,259	13,577	16%	1,915	3.1%
Community Mental Health	49,203	44,953	54,166	60,137	56,600	58,300	18%	9,097	3.5%
Low Income Medical	1,027,493	1,088,793	1,149,733	1,181,792	1,187,186	1,222,667	19%	195,174	3.5%
LTC - Community	39,523	41,778	44,080	46,025	48,414	50,831	29%	11,308	5.2%
Adoption Support	11,254	11,978	12,981	13,701	14,308	14,983	33%	3,729	5.9%

Expenditure History - Operating (Excl. Capital)
FTE Staffing Levels

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
University of Washington	19,615	20,024	20,489	20,856	20,793	20,745	21,050	21,499	21,387	21,724
DSHS	17,264	16,766	16,737	17,087	16,928	17,605	18,141	17,942	16,940	15,674
Community Colleges	14,495	14,635	14,778	14,949	15,052	15,269	15,605	15,892	15,634	15,671
Transportation Agencies	7,943	8,015	8,005	8,027	8,047	8,114	8,246	8,245	8,141	8,015
Corrections	7,480	7,774	7,957	8,019	7,890	8,035	8,391	8,662	8,453	7,950
Washington State University	5,554	5,699	5,801	5,893	5,876	6,047	6,206	6,200	5,829	5,774
Natural Resources	6,164	6,125	6,110	6,102	6,111	6,345	6,380	6,277	5,945	5,733
Other Higher Education	4,665	4,727	4,685	4,883	4,907	4,904	5,158	5,219	5,084	5,024
Labor & Industries	2,660	2,613	2,616	2,712	2,679	2,670	2,705	2,675	2,638	2,593
Employment Security	2,384	2,406	2,317	2,083	1,903	1,872	1,860	2,050	2,487	2,553
All Other	12,750	12,777	12,799	13,194	13,355	13,678	14,100	14,293	13,924	13,287
Statewide Total	100,973	101,562	102,292	103,804	103,542	105,283	107,842	108,954	106,463	103,998

Over the last four legislative sessions, the Legislature has addressed a \$19 billion five year budget problem with \$11 billion in reductions and other actions



FY 2009-FY 2013 Budget Solution = \$19.2 Billion