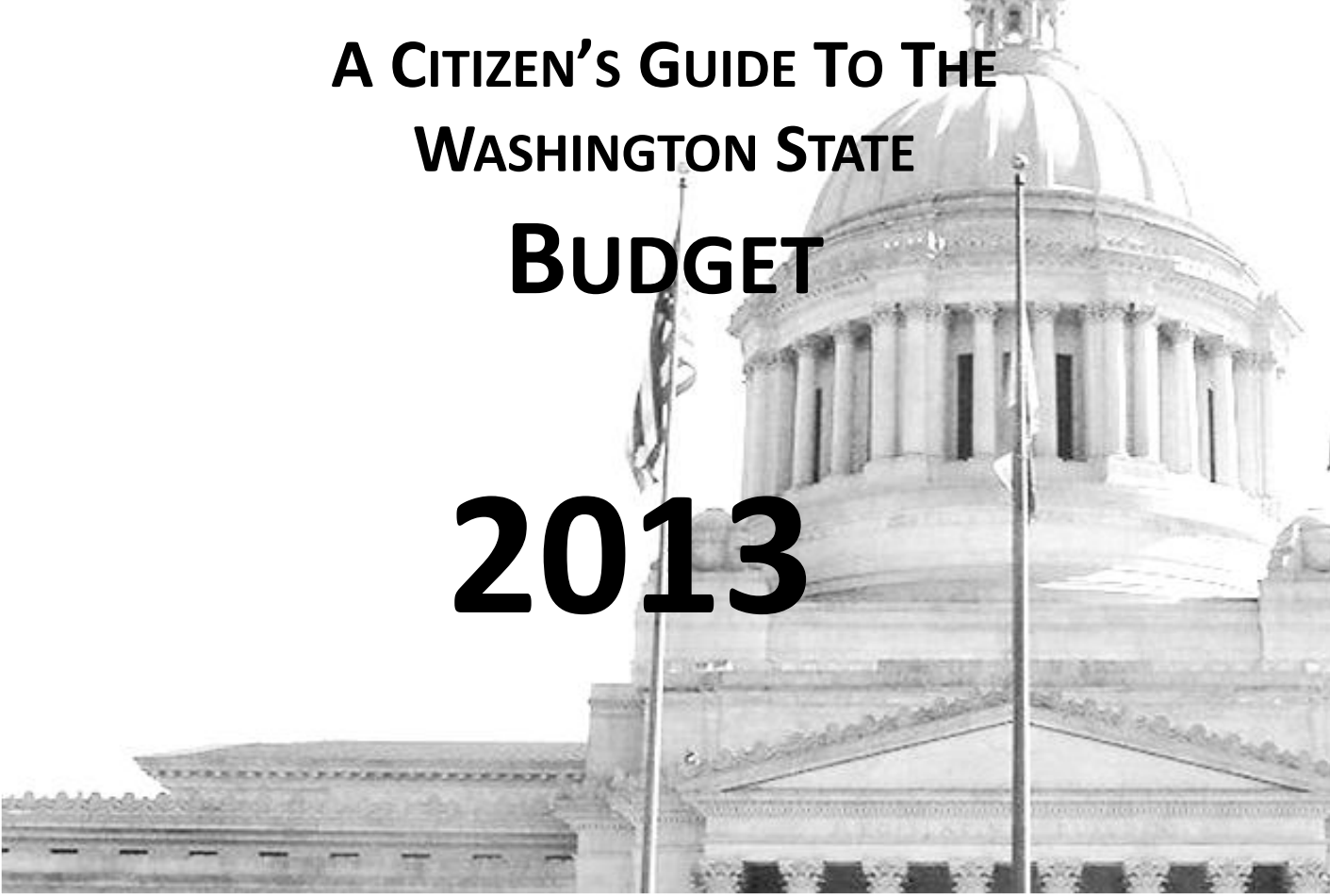


# A CITIZEN'S GUIDE TO THE WASHINGTON STATE

## BUDGET

# 2013



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# INTRODUCTION

*The 2013 Citizen's Guide to the Washington State Budget* is offered as a resource for citizens, members of the Senate, their staff, and other interested persons to provide a clear and simple overview of the state budget and state revenues. It describes the three basic state budgets and their interrelationships, the sources of revenue that support those budgets, how the money is spent, how many staff the state employs, the timeline for budget decisions and information about state debt and the Initiative 601 spending limit.

This guide was developed as a response to requests received by the Senate Ways and Means Committee for a brief and easy-to-understand document that would explain the state budget to the general public. The Legislature produces a number of documents and reports that provide highly-detailed information regarding budget and revenue actions and the many programs and tax sources contained therein. This guide provides a pamphlet-style brief introduction to the state budget and taxes.

*The 2013 Citizen's Guide to the Washington State Budget* was prepared by staff of the Senate Ways and Means Committee (within Senate Committee Services) and the Legislative Evaluation and Accountability Program (LEAP) Committee, with invaluable assistance from staff in several state agencies, notably staff of the Budget and Accounting divisions of the Office of Financial Management (OFM). Questions regarding the guide or requests for additional copies should be addressed to:

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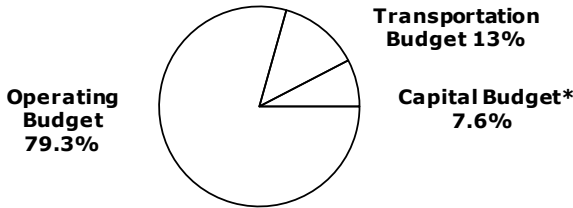
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<http://www.leg.wa.gov/Senate/Committees/WM/Pages/default.aspx>

# HOW BIG IS THE STATE BUDGET?

As of the 2013 Legislative Session, the State of Washington will spend a total of \$76.8 billion for the 2011-13 biennium (or about \$105 million per day on average during the two-year spending period). This \$76.8 billion includes amounts from three different budgets, which are plans of how the state will spend the money. The relative size of each of the three state budgets is shown in the following chart:



**2011-13 State Budgets**  
(Dollars in Billions)

Operating Budget	\$61.0
Transportation Budget	\$10.0
Capital Budget*	\$5.9
<b>Total</b>	<b>\$76.8</b>

\*Includes Capital Re-appropriations.

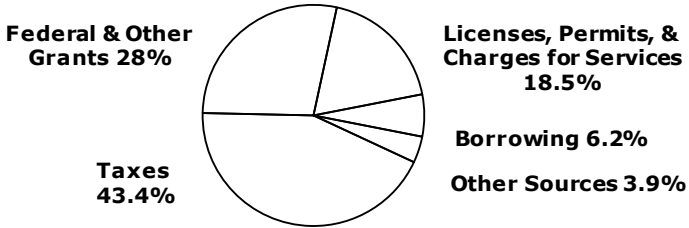
Sources: Winsum and Buildsum budget development systems for the 2012 Session.

- The budget that pays for the day-to-day operations of state government (including federal funds and dedicated funds) is called the **Operating Budget (\$61 billion)**.
- The budget that pays for transportation activities, such as designing and maintaining roads and public transit, is called the **Transportation Budget (\$10 billion)**. This budget includes amounts for both transportation operating activities (\$3.3 billion) and transportation capital activities (\$6.7 billion).
- The budget to acquire and maintain state buildings, public schools, higher education facilities, public lands, parks, and other assets is called the **Capital Budget (\$5.9 billion)**.

Budget-related materials frequently refer to the “state general fund” or General Fund-State (“GF-S”), which is the largest state fund; it represents more than half of the \$61 billion operating budget. A discussion of the GF-S budget begins on page 10.

# WHERE DOES THIS MONEY COME FROM?

To pay for its activities in 2011-13, the state will tax citizens and businesses \$32.8 billion; receive federal and other grants of \$21.2 billion; collect fees and assess charges for licenses and permits of \$14 billion; and borrow \$4.7 billion. Other sources, including transfers, account for \$2.9 billion. The relative size of each of these sources is shown in the following chart:



**2011-13 Sources of Revenue**  
(Dollars in Billions)

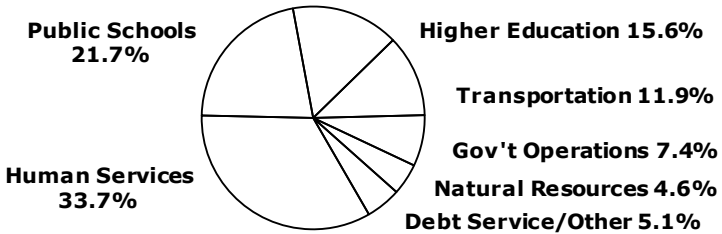
Taxes	\$32.8
Federal & Other Grants	\$21.2
Licenses, Permits, & Charges for Services	\$14.0
Borrowing	\$4.7
Other Sources (including Transfers)	\$2.9
<b>Total 2011-13 Sources of Revenue</b>	<b>\$75.6</b>

Source: OFM Revsum database for 2011-13 as of January 2013.

Most of the money the state uses to pay for services comes from state taxes. Washington's major tax sources include the sales tax, the property tax, and a rather unique tax called the Business and Occupation (B&O) tax, which is a tax on gross receipts rather than on profit or income. Washington is one of seven states that does not levy a personal income tax.

# HOW ARE THESE FUNDS SPENT BY FUNCTION?

The following chart shows how the \$76.8 billion 2011-13 total funds budget is allocated:



**2011-13 All Budgeted Expenditures\***  
(Dollars in Billions)

Human Services	\$25.9
Public Schools	\$16.7
Higher Education	\$12.0
Transportation	\$9.1
Governmental Operations	\$5.7
Natural Resources	\$3.5
Debt Service/Other	\$3.9
<b>Total</b>	<b>\$76.8</b>

\*Includes Capital Re-appropriations.

Sources: Winsum and Buildsum budget development systems for the 2012 Session.

**Human Services**, such as medical and public assistance, long-term care, other health care, and prisons, represents 33.7% of total budgeted expenditures. Most human services programs are partnerships between the state and the federal government, with the federal government providing about half of the money and the state providing the rest. The state provides human services to one out of every three citizens, including services to over one million children residing in Washington.

**Public Schools**--state funding of kindergarten through twelfth grade (K-12) school districts--is the next largest category of total budgeted expenditures at 21.7%, although it represents the majority of the state general fund budget (see page 12).

**Higher Education** accounts for 15.6% of total budgeted spending. Higher education includes support for state four-year schools and community and technical colleges.

Over \$9.1 billion is planned to be spent for **Transportation** services and construction in the 2011-13 biennium. These services and construction include highways, state ferries, and other transportation programs in the Washington State Department of Transportation (DOT); the Washington State Patrol (WSP); and the Department of Licensing (DOL), to name the three largest. Of that \$9.1 billion, transportation operating activities account for more than \$3.3 billion (4.3% of statewide spending), and transportation capital activities account for \$6.7 billion (nearly 8.8% of total spending).

Other major spending categories include **Natural Resources** (agencies for environmental protection, management, and recreation); **Governmental Operations** (administrative, judicial, and legislative agencies); and other expenditures, such as the payment of **Debt Service** (the interest and principle costs of facilities and services funded through general obligation bonds).



# HOW ARE THESE FUNDS SPENT BY OBJECT?

Another way to look at state spending is to identify what the state purchases. For example, payments to contractors and vendors for services rendered, and to school districts for K-12 education; salaries and benefits for state employees; and payments for buildings and lands, among others. These classifications are called “objects” of expenditure.

The following chart shows large objects of expenditure for a single year, fiscal year 2012, the latest period for which complete object data are available:



## Fiscal Year 2012 Expenditures by Object\*

(Dollars in Billions)

Grants, Benefits & Client Services	\$18.9
Salaries and Benefits	\$8.2
Goods and Services	\$3.7
Capital Outlays	\$2.3
All Other	\$1.9
<b>Total</b>	<b>\$34.9</b>

\*Includes actual expenditures for Omnibus Operating, Transportation, and Capital Budgets.

Source: Monitor database from statewide accounting system.

Data include technical adjustments for transfer of Medical Assistance to Health Care Authority.

As the chart shows, more than half of state spending (54.1%) is for **Grants, Benefits, and Client Services**. Spending on this object occurs mainly in three agencies: \$7.9 billion in the Office of the Superintendent of Public Instruction (OSPI), as apportionment and grants to K-12 school districts; \$4.8 billion in the Health Care Authority (HCA), as payments to hospitals and other service providers for medical assistance; and \$3.8 billion in the Department of Social and Health Services (DSHS), as welfare, child care, and other social service payments. Many other federal and state grant programs have expenditures in grants, benefits, and client services.

The \$8.2 billion **Salaries and Benefits** expenditure provided compensation to the nearly 106,000 full-time equivalent (FTE) staff that the state directly employed in FY 2012. In addition to salaries and wages, this amount includes health, life, and disability insurance; Old Age and Survivors Insurance (OASI is sometimes referred to as “Social Security”); retirement and pensions; and other employee benefits.

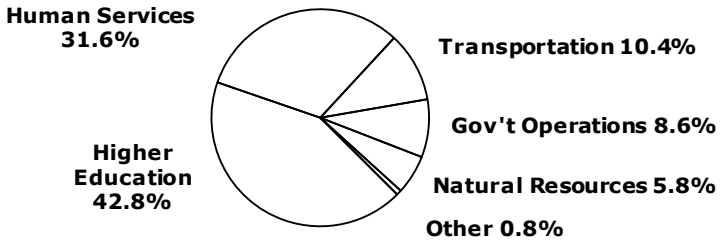
The \$3.7 billion **Goods and Services** expenditure in FY 2012 paid for things like supplies, medications at state-operated hospitals, food at colleges and universities, and small equipment (valued at under \$5,000 per item), as well as services such as data processing, security, rentals and leases, communications, utilities, printing, insurance, training, and vehicle maintenance.

The \$2.3 billion **Capital Outlays** expenditure in FY 2012 paid for highway construction (\$1.3 billion), buildings (\$200 million), and architectural & engineering services (\$194 million), among others. The Washington State Department of Transportation (DOT) accounted for nearly three-quarters (74%) of these expenditures (\$1.7 billion), while higher education--the four-year institutions and the community and technical colleges--accounted for 17% (nearly \$400 million).

The **All Other** category of objects includes debt service, personal service contracts, travel, and transfers that total \$1.9 billion.

# HOW MANY STATE EMPLOYEES ARE THERE?

For budget purposes, the state counts its employees in terms of full-time equivalent (FTE) staff. One FTE equals 2,088 paid hours per fiscal year. Generally, one FTE is thought of as one full-time position, although an FTE may be composed of multiple part-time positions. As the following chart shows, for the 2011-13 biennium, the state's budgets anticipate approximately 105,700 annual FTEs.



## Average Annual FTE Staff for 2011-13

Higher Education	45,217
Human Services	33,362
Transportation	11,005
Governmental Operations	9,115
Natural Resources	6,174
Other	807
<b>Total*</b>	<b>105,679</b>

\*Includes FTEs from Omnibus Operating, Transportation, and Capital Budgets.

Sources: Winsum and Buildsum budget development systems for the 2012 Session.

**Higher Education** represents the largest category of state employees. The budget for the University of Washington includes approximately 20,000 FTEs and there are approximately 14,600 FTEs in the budget for the community and technical colleges. The next largest area is **Human Services**. Nearly 16,500 FTEs are budgeted for the Department of Social and Health Services and approximately 8,000 FTEs work for the Department of Corrections.

Three agencies in **Transportation** employ 99% of the staff in this area of state government: Washington State Department of

Transportation (7,206 budgeted FTEs), Washington State Patrol (2,412), and the Department of Licensing (1,318).

Similarly, in **Natural Resources**, the largest employers are the Departments of Fish and Wildlife (1,550 budgeted FTEs), Natural Resources (1,424), and Ecology (1,597).

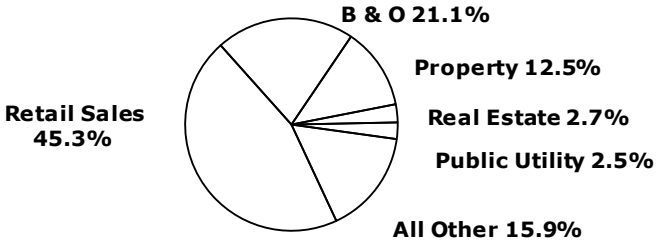
In the preceding chart, **Other** includes the Office of the Superintendent of Public Instruction (OSPI) with 289 budgeted FTEs and the Department of Early Learning with 223 budgeted FTEs. They are the only agencies in this category with budgets that exceed 110 FTEs.

Of the approximately 105,700 budgeted FTEs, the state general fund will pay for approximately 35%, Higher Education non-appropriated funds will pay for over 30%, federal funds, including funds from the American Recovery and Reinvestment Act of 2009, will pay for over 12%, and numerous dedicated funds will pay the remaining 23%.

The more than 100,000 FTEs of K-12 local school district employees are not included in the FTEs that the state directly employs.

# WHAT IS THE STATE GENERAL FUND?

The state general fund is the largest single fund within the state budget. It is the principal state fund supporting the operation of state government. All major state tax revenues are deposited into this fund. The sources of tax revenue for the state general fund are shown in the following chart:



**2011-13 Sources of  
State General Fund Revenue  
(Dollars in Billions)**

Retail Sales	\$13.8
Business & Occupations (B & O)	\$6.4
Property	\$3.8
Real Estate	\$0.8
Public Utility	\$0.8
All Other	\$4.8
<b>Total</b>	<b>\$30.5</b>

Source: Economic and Revenue Forecast, November 2012 (Cash Basis).

For the 2011-13 budget period, the state general fund will receive \$30.5 billion in revenues. Nearly half of that amount is from the state retail sales tax. The second largest tax is the Business and Occupation (B&O) tax, which accounts for 21.1%. The third largest tax is the state property tax, which accounts for 12.5% of the total.

The state sales tax, the B&O tax, and the state property tax account for 78.9% of all state general fund revenues. In addition, the general fund relies on real estate excise taxes, use taxes, a public utility tax, insurance premium taxes, and a number of other smaller taxes. (For a description of these and other state taxes, refer to the Washington State Department of Revenue web site at <http://dor.wa.gov>.)

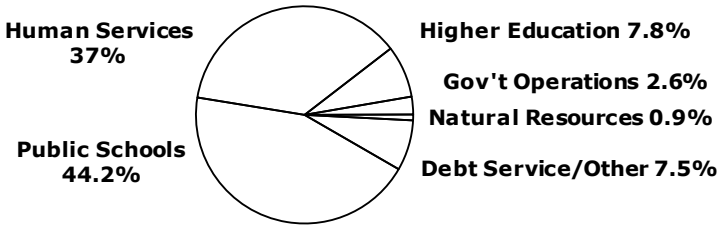
The major difference between the state general fund revenues (\$30.5 billion) and the total of all budgeted funds revenues (\$75.6 billion) is the dedication of revenue sources to specific uses. Most of the difference can be attributed to four types of funds:

- Federal funds for specific federal programs (\$17.5 billion)
- Higher Education-specific funds such as the Grants and Contracts Account, Higher Education Dedicated Local Accounts, the Tuition and Fees Account, and the University of Washington Hospital Account (\$10 billion)
- Bonds for capital purposes (\$4.7 billion)
- Gas taxes for transportation purposes (\$2.5 billion)

These four sources account for nearly 77% of the difference between revenues available for all state government budgets and the state general fund budget.

# HOW IS STATE GENERAL FUND MONEY SPENT?

Because of the nature of its tax sources, the state general fund receives the most attention during the budget-building process. During the 2011-13 biennium, the state will spend approximately \$30.8 billion (or about \$42 million per day on average) from the state general fund. The following chart shows how the state general fund budget is allocated:



**2011-13 General Fund-State Expenditures**  
(Dollars in Billions)

Public Schools	\$13.6
Human Services	\$11.4
Higher Education	\$2.4
Governmental Operations	\$0.8
Natural Resources	\$0.3
Debt Service/Other	\$2.3
<b>Total</b>	<b>\$30.8</b>

Source: Winsum budget development system for the 2012 Session.

The largest single state general fund program is **Public Schools**, which includes state support for K-12 education. Public schools account for 21.7% of total budgeted expenditures, but that share increases to 44.2% when examining only the state general fund. In the 2011-13 biennium, the state will provide public education funding for more than 1,000,000 children.

**Human Services** state general fund spending consists primarily of the operating budget for the Department of Social and Health Services, the State's umbrella organization that provides medical, social, and income assistance to citizens in need. It also includes spending for the Department of Corrections, the Department of Health, and Health Care Authority.

**Higher Education** spending includes funding for six public universities, and thirty-four community colleges and technical schools serving more than 235,000 FTE students. It also includes state financial aid to approximately 87,000 students attending both state supported and private colleges and universities. Expenditures for higher education represent 15.6% of all budgeted funds and 7.8% of the state general fund. In addition to money from the state general fund, higher education receives \$9.1 billion of dedicated revenues, principally grants and contracts, and tuition and fees.

Other general fund spending categories include **Natural Resources, Governmental Operations, Other Education, Transportation** and other expenditures such as the payment of **Debt Service**.



## WHY DOES THE BUDGET GO UP YEAR AFTER YEAR?

The budget increases each year because there are either more citizens to serve, those services cost more, and/or because citizens may request new or different services. Public education may be the easiest example of these trends.

- Article IX, Section 1 of the Washington State Constitution declares, “It is the paramount duty of the state to make ample provision for the education of all children residing within its borders ...” The cost of meeting this constitutional requirement takes nearly half of the state general fund budget. In 1990, there were approximately 800,000 children in Washington State K-12 public schools. In 2011-13, the K-12 system will educate more than 1,000,000 children. The education of these additional 200,000 children costs billions of dollars. Since 1990, the population of the state increased by nearly 2 million people, so there are more taxpayers to shoulder these costs.
- Teaching supplies, materials, equipment, and energy cost more in 2012 than they did in 1990, so the overall cost of educating each student has increased.
- Finally, in 1993, the Legislature passed new requirements for public education. Referred to as “education reform,” these requirements continue to change the cost of education for each child. This too causes the budget to increase.

## HOW IS THE BUDGET CREATED?

Through the budget process, the Legislature and the Governor decide how much money to raise and spend. State agencies, the Governor, the Legislature, citizens, and interest groups are all involved in this process. Washington State operates on a two-year (biennial) basis, beginning on July 1st of each odd-numbered year. For example, the current budget is for the period July 1, 2011 through June 30, 2013.

**Agency Requests** - In late summer and early fall of each even-numbered year, state agencies submit budget requests to the Office of Financial Management (OFM). The Governor reviews the requests and makes the final decisions for his or her budget proposal.

**The Governor's Budget** - By law, as the chief executive officer of the state, the Governor must propose a biennial budget in December of even-numbered years, the month before the Legislature convenes in regular session. The Governor's budget is his or her proposed spending and taxation plan for the biennium.

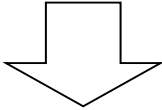
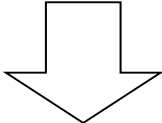
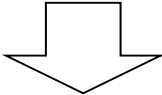
**The Legislative Budget Process** - After receiving the Governor's budget proposal, the Legislature reviews it and formulates its own budget during the legislative session which begins in January. The chairs of the Senate Ways and Means Committee and House Appropriations Committee work with their respective members and staffs to analyze the Governor's budget and develop recommendations and alternative proposals. The transportation portions of the budget are developed by separate committees in the House and Senate. By tradition, the initiation of the budget alternates between chambers each biennium.

After each chamber has passed its version of the budget, the differences between the two must be reconciled in the budget conference process. Generally, six fiscal leaders representing both chambers and both political parties meet as a conference committee to prepare one legislative budget that is submitted to the full Legislature for final passage and then ultimately delivered to the Governor for his or her signature.

The Governor may veto all or part of the budget, thereby eliminating funding for certain activities; however, the Governor cannot add money for an activity for which the Legislature provided no funding. Only after the Legislature passes a budget and the Governor signs it has the state created a real budget.

**Supplemental Budgets** - Each year, the Legislature considers changes to the biennial budget in what is called a Supplemental Budget. Generally, such changes represent mid-course corrections to the two-year spending plans to account for changes in school enrollments, prison populations, public assistance caseloads, or significant changes in the economy of the state.

## Timeline of Budget Decisions (2013-15 Biennium)

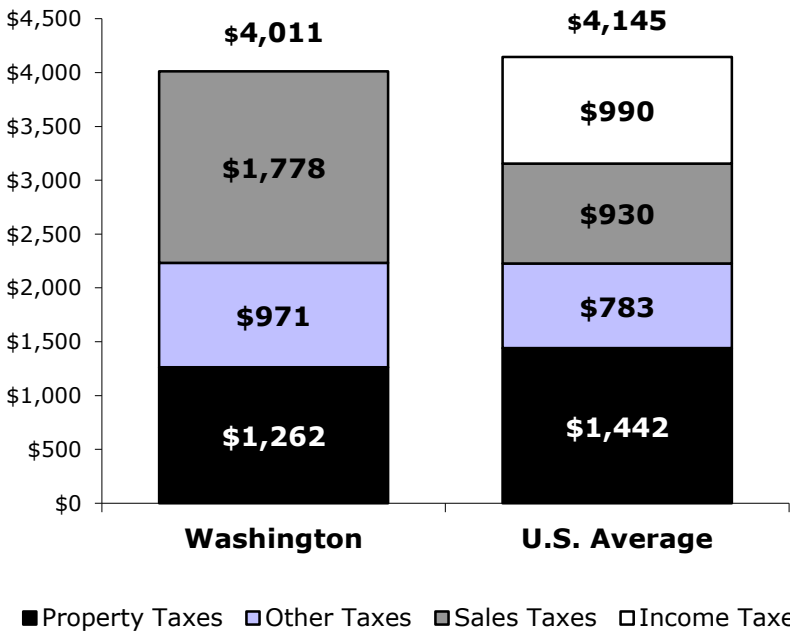
<p>Formulation of the Governor's Budget</p>	<p>State agencies prepare budget requests and submit them to the Office of Financial Management</p>  <p>The Governor reviews the requests and makes decisions about what goes in the Governor's proposed budget.</p>	<p><b>July 2012 - December 2012</b></p>
<p>Legislative Action on the Budget</p>	 <p>The Legislature reviews the Governor's proposed budget, develops its own budgets, and approves revenue bills. The budget is signed or vetoed by the Governor.</p>	<p><b>January 2013 - April 2013</b></p>
<p><i>The Biennium Begins</i></p>		<p><b>July 2013</b></p>
 <p>Agencies execute the enacted budget.</p>		<p><b>July 1, 2013 - June 30, 2015</b></p>
<p>Supplemental Budgets</p>	<p>The 2013-15 biennial budget may be adjusted in the 2014 and 2015 Legislative Sessions.</p>	<p><b>January 2014 - March 2014</b> <b>January 2015 - April 2015</b></p>

# HOW DOES WASHINGTON'S TAX BURDEN COMPARE TO OTHER STATES?

Analysis of state and local taxes per capita provides one comparison of tax burdens among the states. As the following chart shows, for FY 2010 (the most recent year for which all data are available), the amount for state and local taxes per capita for Washington State is \$4,011, which is more than 3% lower than the national average of \$4,145.

The components of the tax structure of Washington State differ noticeably from national averages. Washington is one of only seven states that does not impose a personal or corporate income tax; at the same time, Washington has relatively high sales taxes. According to the Washington State Department of Revenue, in FY 2010 Washington ranked 27th in the nation with property taxes per capita of approximately \$1,262 (the national average was \$1,442).

**FY 2010 Per Capita State and Local Taxes**

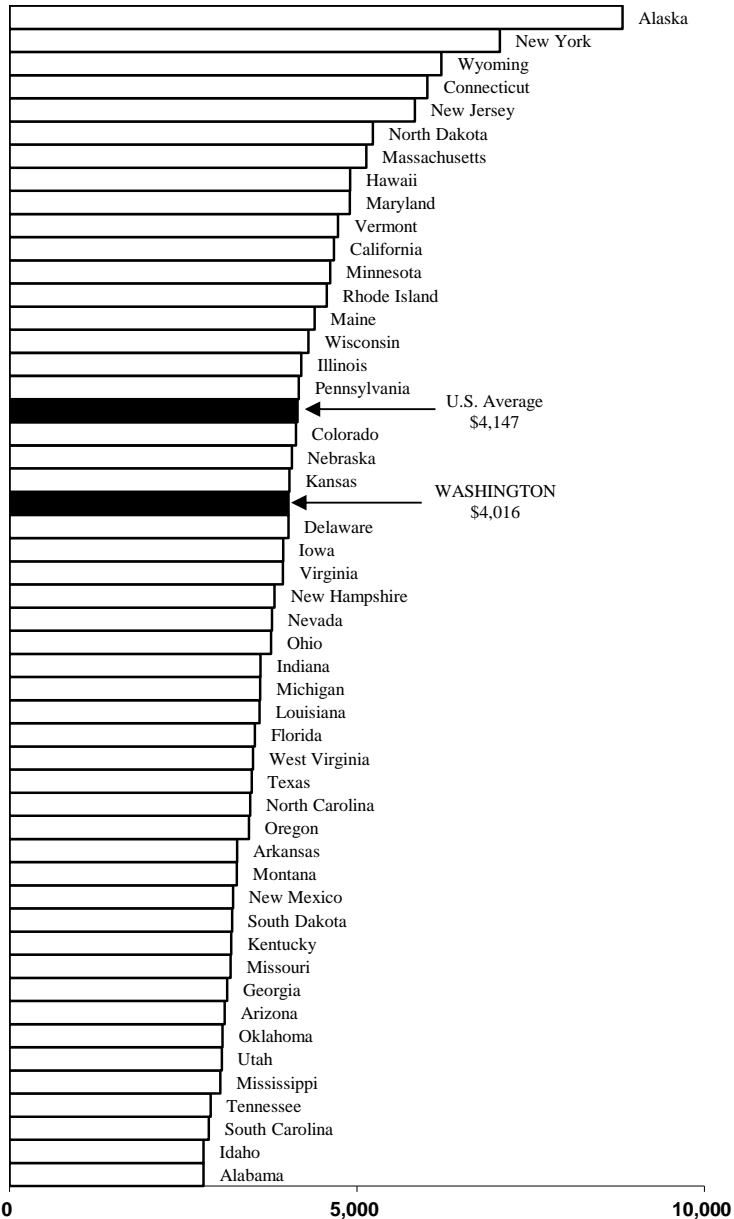


Source US Census Bureau Data @ <http://dor.wa.gov/>

The chart on page 19 shows the total state and local taxes per capita for Washington compared to the other 49 states and to the U.S. average. This chart shows that Washington ranks 21<sup>st</sup> in state and local taxes per capita and that 33 states rank below the U.S. average of \$4,145.

By comparing taxes to personal income, it should be possible to take into account differences in wealth among states when comparing tax burdens. However, in recent years, the incredible increase in Washington State personal income, due in large part to the explosion of stock options during the late 1990s and 2000, distorted this measure and made it less useful as a yardstick of the overall tax burden.

## FY 2010 State and Local Taxes (Dollars per Capita)



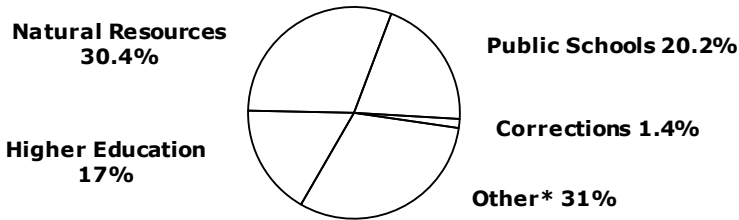
Source: Department of Revenue Research, Table 7 from <http://dor.wa.gov/Content/AboutUs/StatisticsAndReports/2010/Compare10/default.aspx>

# WHY DOES THE STATE BORROW MONEY TO PAY FOR THE CAPITAL BUDGET?

The capital budget uses borrowed money to fund projects that benefit future taxpayers. For example, the benefits of a new higher education facility will last for 30 years or more. Financing that facility with bonds paid off over thirty years spreads the cost over the life of the building and on future taxpayers who benefit from it.

## How Is The Capital Budget Money Spent?

The following chart shows how the 2011-13 total funds capital budget is allocated:



### 2011-13 Capital Budget, Total Funds (Dollars in Millions)

Higher Education	\$630
Natural Resources	\$1,127
Public Schools	\$748
Corrections	\$51
Other*	\$1,151
<b>Total</b>	<b>\$3,708</b>

Sources: Winsum and Buildsum budget development systems for the 2012 Session.

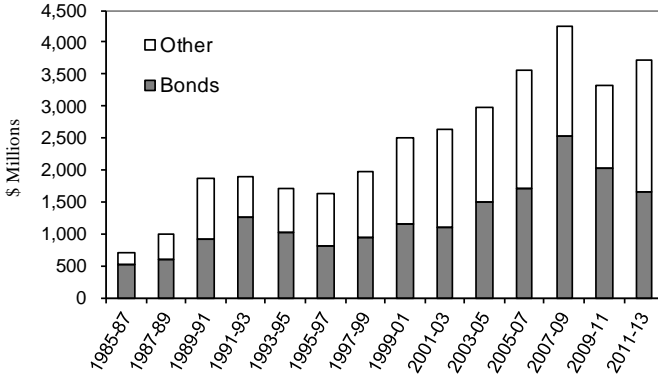
\*Includes agencies in Government Operations, Human Services (excluding Corrections), Other Education, and some transportation capital projects.

The capital budget funds construction and maintenance of state buildings such as higher education facilities and prisons, provides grants to local school districts to help build new schools, and pays for acquisition and maintenance of public lands, parks and other assets. The capital budget also provides grants and loans to local governments and

community groups for public works projects such as water and sewer systems, environmental projects such as toxic waste clean-up and salmon habitat restoration, and for cultural and recreational projects such as youth athletic fields and community service projects.

### Where Does Capital Budget Money Come From?

The following chart shows the history of size of the capital budget for bonds and the total appropriation:



**Capital Budget & Bonds**  
(Dollars in Millions)

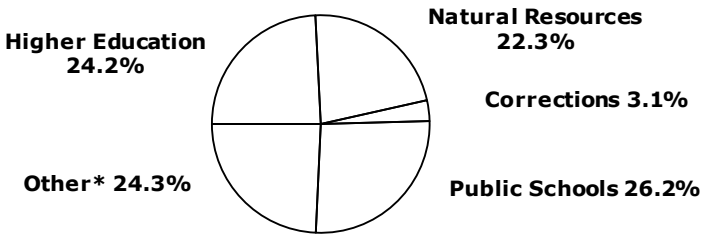
Biennium	Bonds	Total
1985-87	518	695
1987-89	604	988
1989-91	923	1,858
1991-93	1,260	1,885
1993-95	1,011	1,712
1995-97	809	1,627
1997-99	929	1,974
1999-01	1,143	2,508
2001-03	1,102	2,641
2003-05	1,491	2,977
2005-07	1,701	3,554
2007-09	2,519	4,255
2009-11	2,037	3,334
2011-13	1,660	3,708

Source: Buildsum budget development system for the 2012 session.



About half of the money appropriated in the capital budget comes from the sale of bonds. The State Treasurer is responsible for selling and refinancing bonds. The money to pay the debt on these bonds is appropriated in the operating budget and these debt service payments are funded with general taxes. Bond-funded capital projects authorized in a particular legislative session will be paid for with taxes appropriated in future operating budgets. Other funds in the capital budget include federal grants; loan revolving funds, such as the public works assistance account and the water pollution control revolving account; and trust land revenues for common schools and higher education facilities.

Different parts of the capital budget are more or less dependent on borrowed money. Sixty-four percent of capital projects for higher education and nearly all projects for corrections are funded with bonds. Over 40% of the rest of the capital budget is paid for with bonds. The following chart shows the major parts of the state bond portion of the 2011-13 capital budget:



**2011-13 Capital Budget, State Bonds**  
(Dollars in Millions)

Higher Education	\$402
Natural Resources	\$370
Corrections	\$51
Public Schools	\$434
Other*	\$403
<b>Total</b>	<b>\$1,660</b>

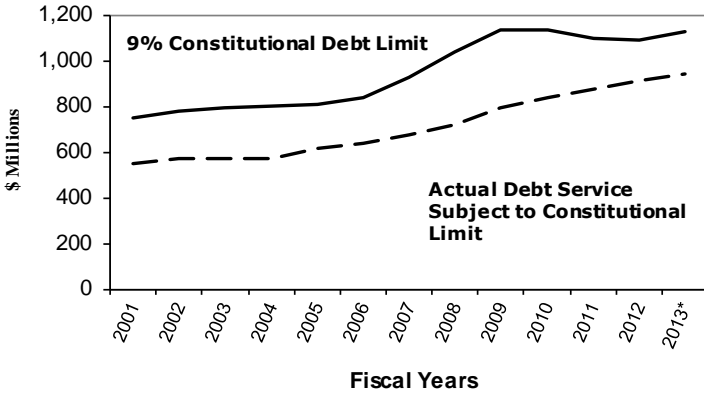
Source: Buildsum budget development system for the 2012 Session.

\* Includes agencies in Government Operations, Human Services (excluding Corrections), Other Education, and some transportation capital projects.

# What is the Debt Limit and How Does it Control the Capital Budget?

The Washington State Constitution indirectly limits the amount of debt the state can incur. Annual debt service payments cannot exceed nine percent of the average general state revenues in the preceding three years. Taxes and fees for specific purposes, such as the gas tax and property tax, are excluded from the definition of general state revenues.

The following chart show the constitutional debt limits and the actual debt service payments.



**Debt Limit vs Actual Debt Service Payments**  
(Dollars in Millions)

Fiscal Year	Constitutional Limit	Actual
2001	748	547
2002	779	574
2003	794	574
2004	799	567
2005	807	613
2006	839	639
2007	928	677
2008	1,037	720
2009	1,136	789
2010	1,130	840
2011	1,096	877
2012	1,087	910
2013*	1,129	939

Limit amounts from debt models from State Treasurer's Office.

\*2013 actuals are based on accounting allotments as of December 2012.

# **HOW DOES THE SUPERMAJORITY TAX VOTE REQUIREMENT WORK?**

## **INITIATIVES 601, 960, 1053, AND 1185**

In 1995, Initiative 601 took effect. It required a two-thirds vote of both houses of the Legislature for any action that raised state taxes. (Initiative 601 had additional provisions, including a limit on the growth in state expenditures.) This supermajority requirement was temporarily suspended by the Legislature from March 2002 through June 2003 and again from April 2005 through June 2006.

Initiative 960, enacted in 2007, restated this supermajority vote requirement for tax increases not approved by referendum to the voters. Initiative 960 also required prior legislative approval of any new or increased state fees. If legislation requiring raising taxes is approved, Initiative 960 further required a tax advisory vote of the people. In 2010, the legislature suspended the two-thirds vote requirement for state tax increases until July 1, 2011, but did not modify the provisions of Initiative 960 regarding prior legislative approval of fee increases.

In November 2010, the voters approved Initiative 1053, which reinstated the statutory requirement that any action or combination of actions by the legislature that raises state taxes must be approved by a two-thirds vote in both houses of the legislature or approved in a referendum to the people. The initiative also restated that new fees or increases in state fees must be approved by a majority vote in both houses of the legislature.

At the time of publication, the supermajority requirement for tax increases was the subject of a constitutional challenge pending before the state Supreme Court.

Initiative 1185, approved by voters in November 2012, has the same general requirement of legislative authorization for new or increased state fees and a two-thirds supermajority vote for actions which raise taxes. Initiative 1185 took effect on December 6, 2012.

"Raises taxes" is defined as any action or combination of actions which increase state tax revenue to any state fund or account, which may include:

- New taxes
- Increased tax rates
- Broadening the tax base (for example, sales tax on legal services)
- Repealing or narrowing any preexisting tax preferences (credits, deductions, exemptions)

Other requirements for tax and fee legislation:

- 10-year cost projection of any bill which "raises taxes" or imposes fees
- Publication of bill information, bill sponsorship, and committee member information during the course of the legislative process which "raises taxes" or imposes fees

## **MUST THE STATE HAVE A BALANCED BUDGET?**

Prior to 2012, neither state law nor the state Constitution required the state budget to be balanced. To the contrary, the state Constitution expressly authorizes the state to go into debt by issuing bonds for periods of up to 30 years (see " Why Does the State Borrow Money to Pay for the Capital Budget?", page 20).

In 2012, the Legislature enacted a law requiring the state Operating Budget to be balanced for the current two-year fiscal period. The law also requires the projected state Operating Budget to be balanced for the following two-year period, based on current estimates for state revenues and the projected cost of maintaining the current level of state programs and services. Together, these two requirements are often referred to as the "Four Year Balanced Budget."

# GLOSSARY OF COMMONLY USED BUDGET TERMS

**Appropriation** - A legislative authorization for an agency or other governmental unit to make expenditures and incur obligations: (1) for specific purposes, (2) from designated funding sources, and (3) during a specified time period.

**Biennium** - The 24-month period from July 1st of odd-numbered years to June 30th of odd-numbered years, such as the 2011-13 biennium which runs from July 1, 2011 to June 30, 2013.

**Capital Budget** - The budget that pays for the construction and renovation of state facilities, including public schools, prisons, state hospitals, higher education institutions, parks, etc. Revenues to support capital spending come primarily from bonds and dedicated cash accounts.

**Debt Service** - The interest and principle costs of facilities and services funded through general obligation bonds.

**Dedicated Funds** - The product of reserving certain tax revenues for a specific purpose or purposes. Generally, any fund other than the general fund or a federal fund is referred to as a dedicated fund. There are literally hundreds of dedicated funds in the state treasury. Two of the largest are the Motor Vehicle Account, which receives gas tax revenues and is restricted to roads and highways, and the State Lottery Account, which accounts for revenues from ticket sales and is reserved for the cost of lottery operations and prizes.

**Federal Funds** – Monies provided by the federal government to support state programs. Major operating budget federal programs include Medicaid and the Social Services Block Grant.

**Fiscal Year (FY)** - The 12-month period from July 1st to June 30th, expressed in terms of the first six months of the second calendar year. For example, FY 2012 runs from July 1, 2011 until June 30, 2012.

**FTE Staff** - Full time equivalent (FTE) staff is a way to measure the size of the state's workforce. One FTE is equivalent to 2,088 hours worked per year, which represents one full-time employee. Total FTE staff does not necessarily represent the total number of state employees because some staff work part-time and are thus classified as a percentage of one FTE.

**Governmental Operations** - A functional area of state spending which comprises a large number of central service agencies, such as the departments of General Administration, Personnel, Financial Management, Revenue, etc., as well as the legislative and judicial branches of government.

**Higher Education** - A functional area of state spending that includes the cost of secondary education and workforce training provided through the state's 34 community and technical colleges, four regional universities, and two research universities.

**Human Services** - A functional area of state spending which comprises human services agencies such as the Department of Social and Health Services, the Department of Corrections, the Health Care Authority, and the Department of Health.

**Natural Resources** - A functional area of state spending that includes the state's natural resource agencies such as the departments of Ecology, Fish and Wildlife, Natural Resources, and the State Parks and Recreation Commission.

**Object** - A state accounting classification used to categorize expenditures. Objects of expenditure in the state operating and capital budgets include: Salaries and Wages; Employ Benefits; Personal Service Contracts; Goods and Services; Travel; Capital Outlays; Grants, Benefits, and Client Services; Debt Service; and various transfer objects.

**Operating Budget** - The budget which pays for most of the day-to-day operations of state government and constitutes the majority of all state spending is referred to as the operating budget. Revenue to support this budget comes from a variety of taxes and fees that are deposited into more than 200 separate funds and accounts, the largest of which is the state general fund.

**Other Education** - A functional area of state spending that includes the cost of providing specialized education services at the Schools for the Deaf and the Blind, arts and cultural services provided through the Arts Commission and the two state Historical Societies, and cost of the state Work Force Training, and Education Coordinating Board.

**Public Schools** - A functional area of state spending that includes the cost of educating the state's children from grades kindergarten through high school. It also includes the funding for other activities of the public school system. The Superintendent of Public Instruction allocates these funds to 295 school districts, nine educational service districts and other contractors who provide education services.

**State General Fund** - Often referred to as General Fund-State (GF-S), this fund serves as the principal state fund supporting the operation of state government. All major state tax revenues (sales, business and occupation, property tax, and others) are deposited into this fund.

**Transportation Budget** - The budget which pays for both the day-to-day operation of state transportation agencies and the construction and preservation of state highways and roads, is called the transportation budget. Most of the revenue that supports the transportation budget comes from the state gas tax.