

4 5 t h L E G I S L A T I V E D I S T R I C T

2010 Guide to the Washington State Budget

PLUS

2010 Resource Guide—Reverse cover



Senator Eric Oemig

**A clear and simple overview of the
state budget and revenue**

STAY IN TOUCH

Web: senatedemocrats.wa.gov/senators/oemig

Olympia office: (360) 786-7672

Email: oemig.eric@leg.wa.gov

Legislative Hot Line: 1-800-562-6000

Budget Review

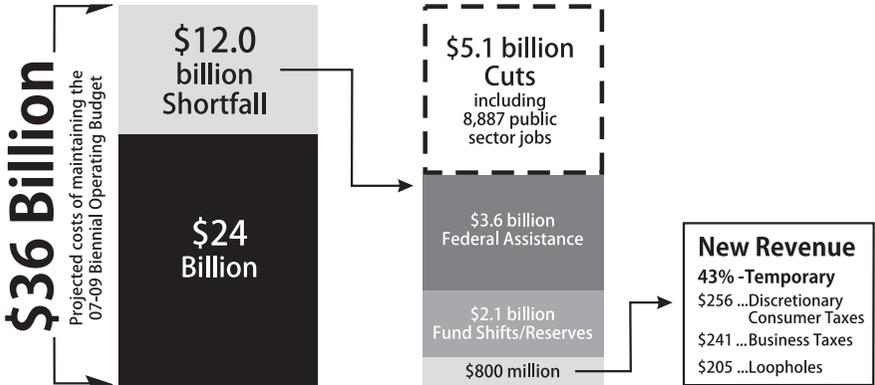
Dear Friends and Neighbors,

The recession has strained and devastated many families and businesses. Forty-eight out of 50 states face budget problems. Companies have failed. People have lost jobs. More people are using public schools or need social services to help bridge the gap.

Last year, when the economy had shown no encouraging signs of turning around, we vowed to balance a \$9 billion budget gap with cuts only, without raising taxes. To accomplish this we had to make some painful decisions. I reluctantly voted to suspend two people's initiatives, I-728 (smaller class size) and I-732 (teacher pay) and we were able to hold the line on taxes.

Then the economy got worse. Our revenue continued to decline and costs escalated. When session started this year, we were another \$2.8 billion in trouble.

The 2009-2011 Operating Budget Solution



For every \$1 in new revenue, we cut \$6.4, including 8,800 layoffs

This year, in all good conscience we could not achieve a balanced budget on cuts alone. For instance, one way to balance the budget would be to cut 100% of state employee salaries by 100% for 13 months. While that demonstrates the magnitude of the problem, it is not a reasonable solution. So, I voted to suspend I-960 (super majority).

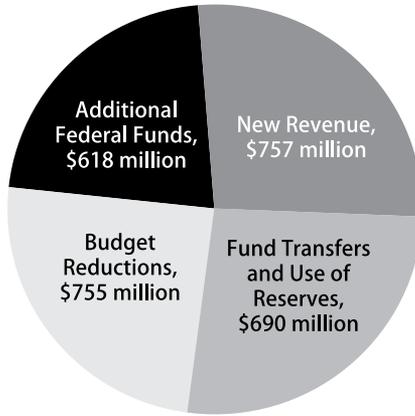
Cuts versus Taxes

We made \$750 million difficult cuts to education and other state services. And we directed state agencies to save around \$50 million through furloughs and other pay reductions for state employees. We made progress in closing our most expensive prison, an under-utilized institution for the disabled, and the state printing office. Even as the economy improves, we have set the stage for more government reforms and reducing its footprint.

Budget Review

The 2010 Supplemental Budget Solution

(Dollars in Millions)



Total Budget Solution = \$2.8 Billion

We balanced the budget with a combination of financing tools

More than a third of new revenue is raised by closing loopholes that allow some companies to shift their responsibilities onto others while by avoiding paying their fair share. We helped level the playing field for our home-grown businesses by making out-of-state companies pay the same rates that in-state companies pay.

We also temporarily increased the B&O rate for some businesses while simultaneously giving a bigger tax exemption. The increase is for three years. The exemption is permanent. That means that small companies will net a tax cut immediately, and in three years, all companies in this category will see lower taxes.

On the consumer side, we focused on nonessential items so that some households can avoid paying additional taxes by choosing what they buy.

We added a dollar per pack tax to cigarettes, and eliminated the sales tax exemption from bottled water, candy and gum.

We also temporarily increased taxes on beer and soda — both will go away in three years.

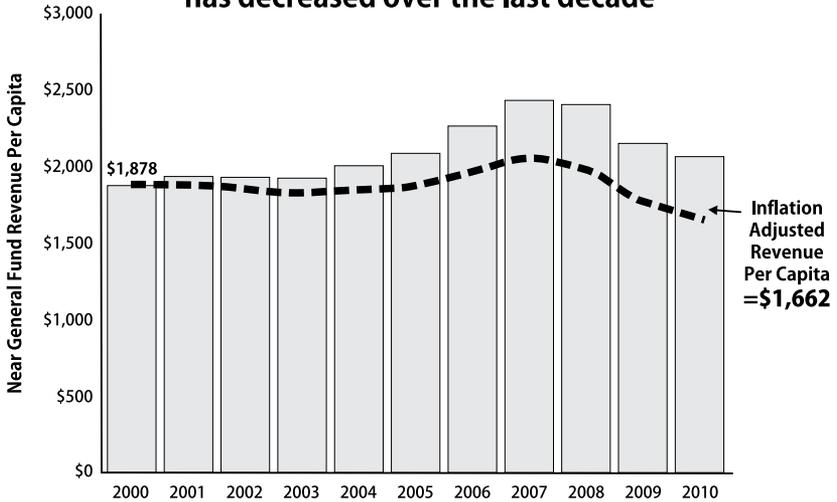
Historical Budget Trends

When examining state spending, it is important to consider population growth and inflation.

Over the last decade, both real revenue and spending have declined when adjusting for population growth.

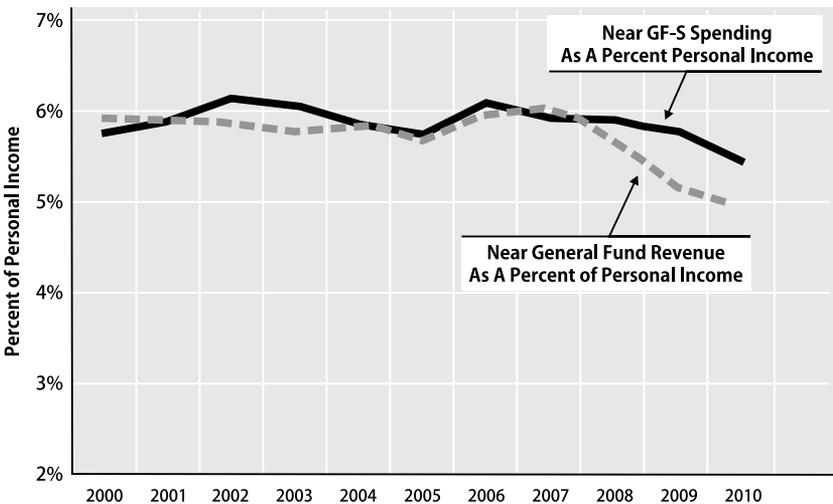
Budget Review

After adjusting for inflation, state revenue per capita has decreased over the last decade



Another interesting measure of spending is as a percentage of personal income. Here too we have declined in the last 10 years.

State spending and revenue relative to the state's economy (measured by personal income) has declined over the decade



Supreme Court Justices — Campaign Finance

Justice should be impartial. And big money should not be able to buy judges. Before we suspended I-960, its provisions killed judicial campaign finance reform. The President of the Senate ruled that a court fee that would help fund the campaigns of Supreme Court justices required a super majority of the Senate to pass. I've been working on campaign finance since before I've been in elective office. Getting the out-of-scale influence of corporate and wealthy donors out of campaigns is one of the most important issues of our time. While my bill had majority support, it could not quite muster the two-thirds requirement.

Education Reform

With the revenue increases, this is what we bought back from the Governor's proposed all-cuts budget:

- funding to reduce class sizes in early grades
- early learning opportunities for 1,500 three year-olds from lower income families
- enhanced funding for 23,000 highly capable students
- full-day kindergarten in schools with high poverty rates
- higher education building maintenance
- financial aid for college students
- funding for rural school districts

We also made several important steps in public education reform. We created significant new ways to remediate under-performing schools, implemented a transparent funding formula, and directed a workgroup to develop rational funding allocations. We also set up a group to study the special needs of highly-capable students.

Healthy People

This is what we saved from the all-cuts knife. As you can see, cutting these might have saved money in the short term, but most certainly would have cost much more in the long run:

- maternity support for women with at-risk pregnancies
- community health centers
- school-based Medicaid services
- service for lower-income adults
- the Senior Citizens Services Act programs
- Medicaid Personal Care services for 1,400 elderly clients and people with developmental disabilities
- health care coverage for 16,000 lower income children

State Constitution

In an historic action to protect public safety, we approved an amendment to the state's Constitution. It allows judges to hold people charged with a violent crime and facing life in prison to be held without bail. Bail is a constitutionally protected civil right. Any amendment to the Constitution must be cautious. Under current law, judges may withhold bail only in cases involving capital offenses.

The resolution we passed now says that bail may be denied for those who show "clear and convincing evidence of a propensity for violence" and pose "a substantial likelihood of danger to the community".

We spent a lot of time and I hope you will consider this when you have the chance to vote on this issue in November.

Serving you has been a privilege. And in times like these, I am grateful to be part of the solution.

Sincerely,

A handwritten signature in black ink, appearing to read 'Eric Oemig', with a long horizontal flourish extending to the right.

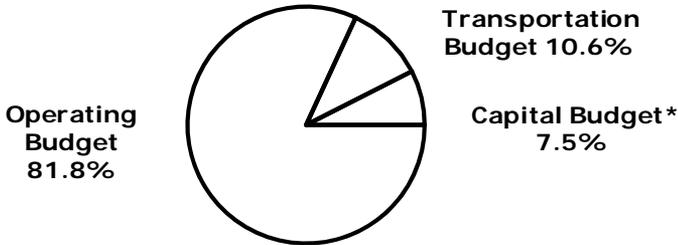
Eric Oemig
Senator

P.S. Please continue reading for a detailed description of how the state budget works.

Budget Review

How Big Is The State Budget?

As of the 2009 Legislative Session, the State of Washington will spend a total of \$71.8 billion for the 2009-11 biennium. That is an average of \$98 million per day during the two-year spending period. This \$71.8 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:



2009- 11 State Budgets (Dollars in Billions)

Operating Budget	\$58.7
Transportation Budget	\$7.6
Capital Budget*	\$5.4
Total	\$71.8

*Includes Capital Re-appropriations excluded previously from Citizen's Guides.

Sources: Winsum and Buildsum budget development systems for the 2009 Session.

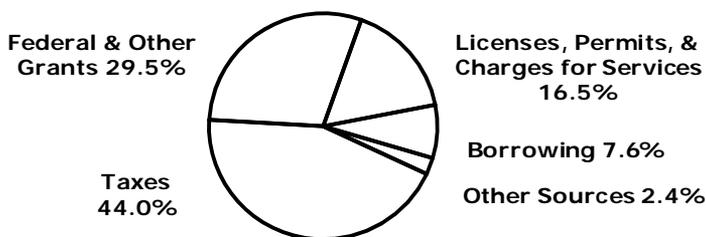
- The budget that pays for the day-to-day operations of state government (including federal funds and dedicated funds) is called the Operating Budget (\$58.7 billion).
- The budget that pays for transportation activities, such as designing and maintaining roads and public transit, is called the Transportation Budget (\$7.6 billion). This budget includes amounts for both transportation operating activities (\$2.9 billion) and transportation capital activities (\$4.7 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 (\$5.4 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 \$58.7 billion operating budget.

Budget Review

Where Does This Money Come From?

To pay for its activities in 2009-11, the state will tax citizens and businesses \$31.4 billion; receive federal and other grants of \$21.1 billion; collect fees and assess charges for licenses and permits of \$11.8 billion; and borrow \$5.4 billion. Other sources, including transfers, account for \$1.7 billion. The relative size of each of these sources is shown in the following chart:



2009-11 Sources of Revenue (Dollars in Billions)

Taxes	\$31.4
Federal & Other Grants	21.1
Licenses, Permits, & Charges for Services	11.8
Borrowing	5.4
Other Sources (including Transfers)	1.7
Total 2009-11 Sources of Revenue	\$71.4

Source: OFM Revsum database for 2009-11 as of February 2010, with technical adjustments.

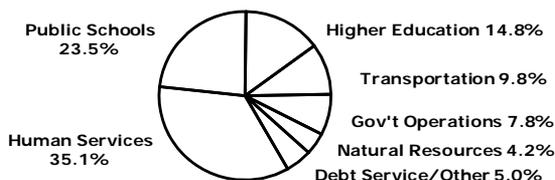
Most of the money the state uses to pay for services comes from state taxes. Washington's major tax sources include the sales tax, the property tax, and a rather unique tax called the Business and Occupation (B&O) tax, which is a tax on gross receipts rather than on profit or income. Washington is one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

When the state projects that expenditures will exceed revenues, it must take action to address the imbalance. The actions it may take include: spending reserves; reducing expenditures; increasing revenues; borrowing money; or some combination of these four actions.

Budget Review

How Are These Funds Spent by Function?

The following chart shows how the \$71.8 billion 2009-11 total funds budget is allocated:



2009-11 All Budgeted Expenditures*
(Dollars in Billions)

Human Services	\$25.2
Public Schools	\$16.8
Higher Education	\$10.6
Transportation	\$7.0
Governmental Operations	\$5.6
Natural Resources	\$3.0
Debt Service/Other	\$3.6
Total	\$71.8

*Includes Capital Re-appropriations excluded previously from Citizen's Guides.

Sources: Winsum and Buildsum budget development systems for the 2009 Session.

Human Services, such as medical and public assistance, long-term care, other health care, and prisons, represents 35.1% 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 five citizens, including services to over half a 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 23.5%, although it represents the majority of the state general fund budget.

Higher Education accounts for 14.8% of total budgeted spending. Higher education includes support for state four-year schools and community and technical colleges. Over \$7.0 billion is planned to be spent for **Transportation** services and construction in the 2009-11 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 \$7.0 billion, transportation operating activities account for more than \$2.9 billion (4.3% of statewide spending), and transportation capital activities account for \$4.7 billion (nearly 6.8% 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).

Budget Review

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 2009, the latest period for which complete object data are available:



Fiscal Year 2009 Expenditures by Object *
(Dollars in Billions)

Grants, Benefits & Client Services	\$19.6
Salaries and Benefits	\$8.2
Goods and Services	\$3.6
Capital Outlays	\$2.5
All Other	\$1.5
Total	\$35.3

*Includes actual expenditures for Omnibus Operating, Transportation, and Capital Budgets.
Source: Monitor database from statewide accounting system.

As the chart shows, more than half of state spending (55.5%) is for **Grants, Benefits and Client Services**. Spending on this object occurs mainly in two agencies: \$8.3 billion in the Department of Social and Health Services (DSHS), as payments to hospitals, nursing homes, other service providers, and as welfare and child care payments; and \$8.2 billion in the Office of the Superintendent of Public Instruction, as apportionment and grants to K-12 school districts. 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 113,000 full-time equivalent (FTE) staff that the state directly employed in FY 2009. 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 \$3.6 billion **Goods and Services** expenditure in FY 2009 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 \$2.5 billion **Capital Outlays** expenditure in FY 2009 paid for highway construction (\$880 million), buildings (\$500 million), and architectural & engineering services (\$360 million), among others. The Washington State Department of

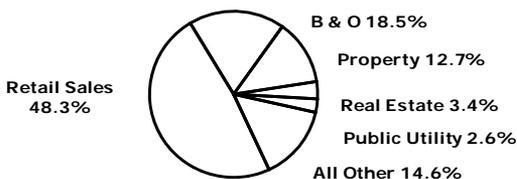
Budget Review

Transportation (DOT) accounted for more than half (54%) of these expenditures, while higher education—the four-year institutions and the community and technical colleges—accounted for just over one quarter (27%).

The **All Other** category of objects includes debt service, personal service contracts, travel, and transfers that total \$1.5 billion.

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:



**2009-11 Sources of
State General Fund Revenue**
(Dollars in Billions)

Retail Sales	\$13.9
Business & Occupations (B & O)	5.3
Property*	3.6
Real Estate	1.0
Public Utility	0.7
All Other	4.2
Total	\$28.7

*Excludes transfers to the Student Achievement Account required by Initiative 728.

Source: Economic and Revenue Forecast, February 2010 (Cash Basis).

For the 2009-11 budget period, the state general fund will receive \$28.7 billion in revenues. More than 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 18.5%. The third largest tax is the state property tax, which accounts for 12.7% of the total.

The state sales tax, the B&O tax, and the state property tax account for 79.5% 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 www.dor.wa.gov.)

Contrary to popular belief, the state lottery does not pay for a large share of K-12 education. Currently, the lottery brings in approximately \$242 million per biennium. Initiative 728 (enacted by the voters in November 2000) requires the transfer of these funds to the Student Achievement Account and the Education Construction Account. Since fiscal year 2005, all lottery revenues have been deposited into the Education

Budget Review

Construction Account (with the exception of about 10%, which was dedicated by previous legislation for debt service on the stadiums in Seattle). The total state budget for public schools is approximately \$17 billion for 2009-11. The state lottery, even if entirely dedicated to K-12 public schools, would represent only 1.8% of the state budget for K-12 education.

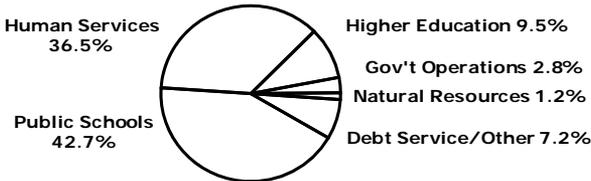
The major difference between the state general fund revenues (\$28.8 billion) and the total of all budgeted funds revenues (\$71.4 billion) is the dedication of revenue sources to specific uses. Most of the difference can be attributed to four types of funds:

- Federal funds for specific federal programs and federal stimulus (\$18.2 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 (\$7.4 billion);
- Bonds for capital purposes (\$5.4 billion); and
- Gas taxes for transportation purposes (\$2.5 billion).

These four sources account for 79% 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 2009-11 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:



2009- 11 General Fund-State Expenditures

(Dollars in Billions)

Public Schools	\$13.2
Human Services	11.3
Higher Education	2.9
Governmental Operations	0.9
Natural Resources	0.4
Debt Service/Other	2.2
Total	\$30.8

So source: Winsum budget development system for the 2009 Session.

Budget Review

The largest single state general fund program is **Public Schools**, which includes state support for K-12 education. Public schools account for 23.8% of total budgeted expenditures, but that share increases to 42.7% when examining only the state general fund. In the 2009-11 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 and the Department of Health.

Higher Education spending includes funding for six public universities, and thirty-four community colleges and technical schools serving more than 230,000 FTE students. It also includes financial aid to nearly 144,000 students attending both state supported and private colleges. Expenditures for higher education represent 14.7% of **all** budgeted funds and 9.5% of the state general fund. In addition to money from the state general fund, higher education receives \$7.4 billion of dedicated revenues, principally grants and contracts, and tuition and fees.

Other general fund spending categories include **Natural Resources**, **Governmental Operations**, 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 2009-11, 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 2010 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, 2009 through June 30, 2011.

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 Ways and Means 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.

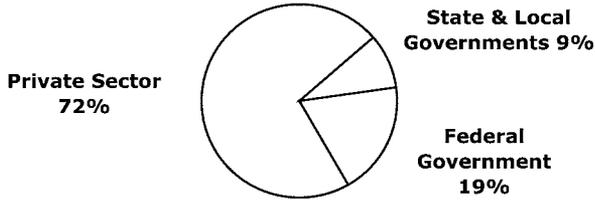
The Governor may veto all or part of the budget, thereby eliminating funding for certain activities; however, the Governor cannot add money for an activity for which the Legislature provided no funding. Only after the Legislature passes a budget and the Governor signs it has the state created a real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

Budget Review

How Significant Is Government In The Economy?

State governments, the federal government, and local governments represent about 28% of all the economic activity in the country, with the federal government financing more than two thirds of the public amount.



Government Spending as a share of U.S. gross domestic product (GDP), 2000.

Source: *A Citizen's Guide to the Federal Budget, Fiscal Year 2002*, <http://www.whitehouse.gov/omb/budget/fy2002/guide.pdf>

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 2007 (the most recent year for which all data are available), the amount for state and local taxes per capita for Washington State is \$4,269, which is .8%, slightly higher than the national average of \$4,234.

The components of the tax structure of Washington State differ noticeably from national averages. Washington is one of only seven states that do 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 2007 Washington ranked 27th in the nation with property taxes per capita of \$1,143 (the national average was \$1,272).



Source US Census Bureau Data @ <http://www.census.gov/>

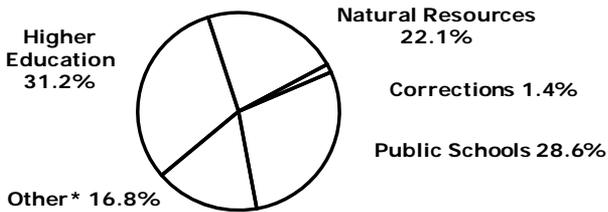
Budget Review

Why Does The State Borrow Money to Pay For The Capital Budget?

The capital budget uses borrowed money to fund projects that benefit future tax payers. 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 tax payers who benefit from it.

How Is The Capital Budget Money Spent?

The following chart shows how the 2009-11 total funds capital budget is allocated:



2009-11 Capital Budget, State Bonds

(Dollars in Millions)

Higher Education	\$576
Natural Resources	407
Corrections	26
Public Schools	528
Other*	310
Total	\$1,846

Source: Buildsum budget development system for the 2009 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.

To find out more about the budget please visit www.leg.wa.gov/Senate/Committees/WM