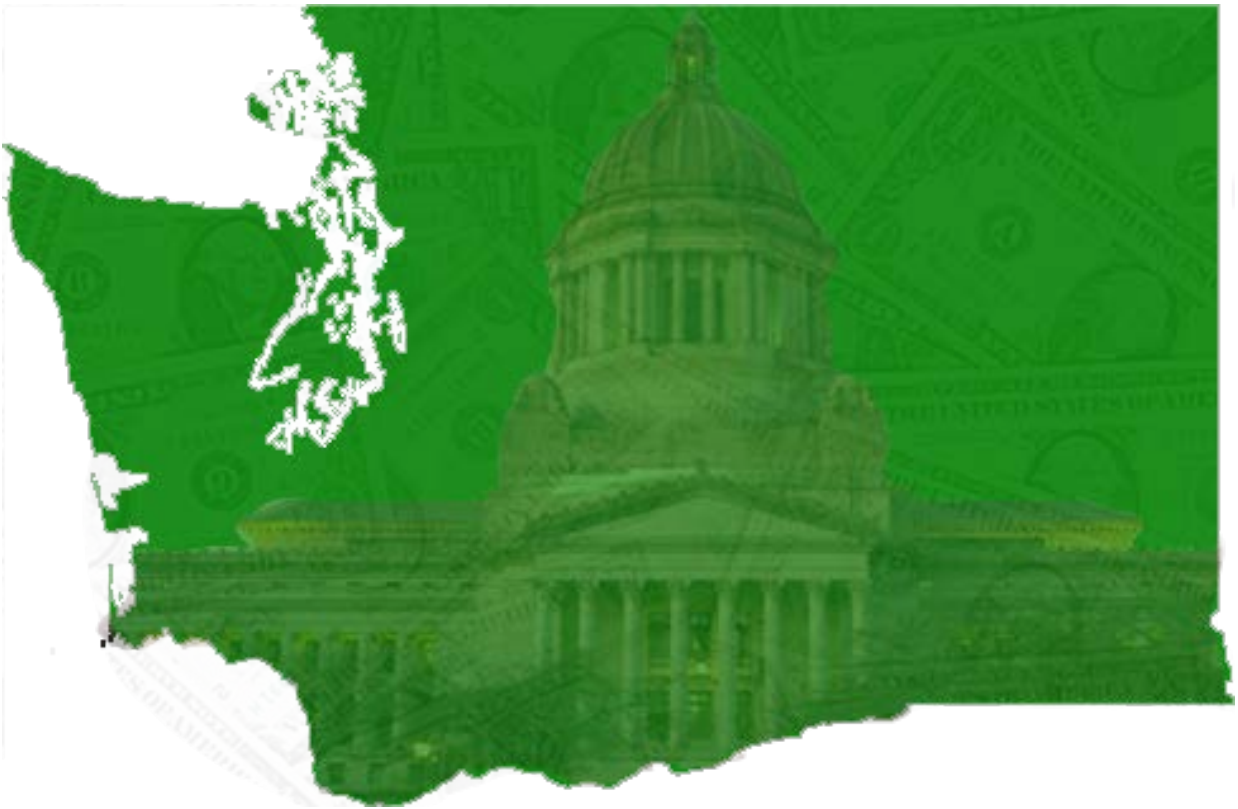


A Citizen's Guide to the Washington State Operating Budget



2021

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INTRODUCTION

The 2021 Citizen's Guide to the Washington State Operating 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, and how many staff the state employs.

This guide was developed as a response to requests received by the Senate Ways & 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.

The 2021 Citizen's Guide to the Washington State Operating Budget was prepared by staff of the Senate Ways & Means Committee (within Senate Committee Services) and the Legislative Evaluation and Accountability Program Committee, with invaluable assistance from staff in several state agencies, notably staff of the Budget and Accounting divisions of the Office of Financial Management. Questions regarding the guide or requests for additional copies should be addressed to:

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

HOW IS THE BUDGET CREATED?

State agencies, the Governor, the Legislature, citizens, and interest groups are all involved in the budget process.

Agency Requests - In early fall, state agencies submit requests to the Office of Financial Management. The Governor reviews the requests and makes final decisions to incorporate into 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 proposal for spending and taxation in December of even-numbered years, the month before the Legislature convenes for regular session.

The Legislative Budget Process - For the operating budget, the chairs of the House Appropriations Committee and the Senate Ways & Means Committee work with members and staff to review items in the Governor's proposal. The transportation budget is developed by separate committees in the House and Senate. The capital budget is developed by a separate committee in the House. The initiation of legislative budget proposals alternates between chambers each biennium.

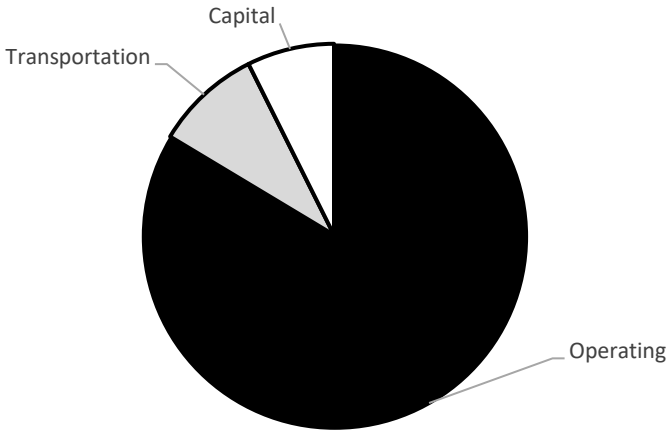
After each chamber has passed its version of the budget, the differences must be reconciled. Fiscal leaders representing both chambers meet to negotiate a final budget that will be submitted to the full Legislature. After final passage, the budget is delivered to the Governor for his or her signature.

The Governor may veto all or part of the budget, which can eliminate 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 budget become law.

In the 2021 Legislative Session, the Legislature will adopt a new budget for the 2021-23 biennium, and will amend appropriations for the 2019-21 biennium through a **Supplemental Budget**. Generally, a supplemental budget represents 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.

HOW BIG IS THE STATE BUDGET?

As of the 2020 Legislative Session, the budget for the State of Washington will total \$121 billion for the 2019-21 biennium. This \$121 billion includes amounts for three different budgets, which plan how the state will spend that money. The relative size of each of the three state budgets is shown in the following chart:



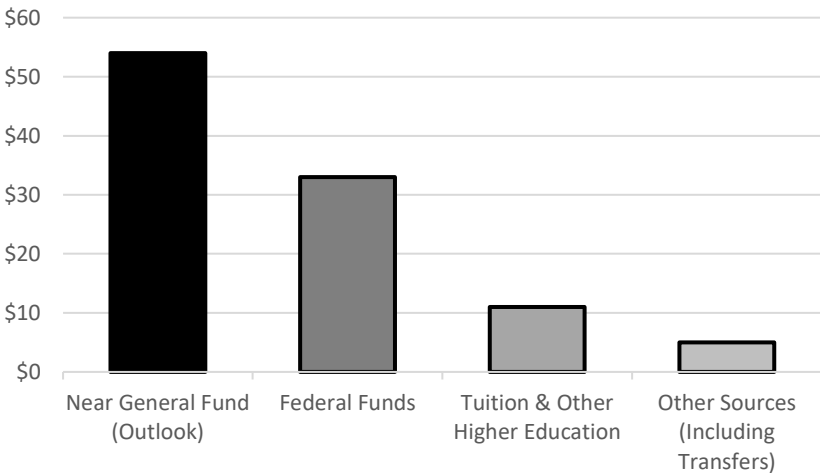
	<i>2019-21 Biennium</i>	
<i>Operating Budget</i>	\$102 B	84%
<i>Transportation Budget</i>	\$11 B	9%
<i>Capital Budget</i>	\$ 9 B	7%
Total	\$121 B	

- The budget that pays for the day-to-day operations of state government (including federal funds and dedicated funds) is called the **Operating Budget (\$102 billion)**.
- The budget that pays for transportation activities, such as designing and maintaining roads and public transit, is called the **Transportation Budget (\$11 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 (\$9 billion)**.

WHERE DOES THE MONEY COME FROM?

To pay for the operating budget in 2019-21, the state will primarily utilize revenue from taxes, federal sources, and tuition. Other sources, including transfers between accounts, represent a smaller portion of revenue. The relative size of each of these sources is shown in the chart shown below.

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 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.

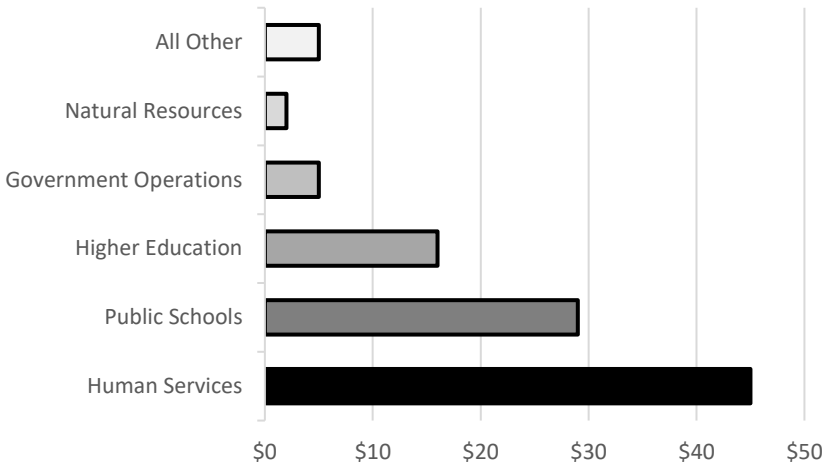


<i>Near General Fund (Outlook)</i>	\$54 B	53%
<i>Federal Funds</i>	\$33 B	32%
<i>Tuition & Other Higher Education</i>	\$11 B	11%
<i>Other Sources (including Transfers)</i>	\$5 B	4%
Total	\$102 B	

HOW DOES THE BUDGET BREAKDOWN BY FUNCTION?

Public schools represent roughly 51 percent of Near GF-State Outlook expenditures (see page 14). Because of the nature of its tax sources, and the flexibility to utilize funds for multiple purposes, Near GF-State Outlook receives the most attention during the budget-building process.

However, if all sources of funding are taken into account, then the following chart shows how the operating budget is allocated by function:



2019-21 Biennium		
<i>Human Services</i>	\$45 B	44%
<i>Public Schools</i>	\$29 B	29%
<i>Higher Education</i>	\$16 B	15%
<i>Government Operations</i>	\$5 B	5%
<i>Natural Resources</i>	\$2 B	2%
<i>All Other</i>	\$5 B	5%
Total	\$102 B	

Human Services, such as medical and public assistance, long-term care, other health care, and prisons, represents 44 percent 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 29 percent. Public schools represent over 50 percent of the Near GF-State Outlook budget (see page 14).

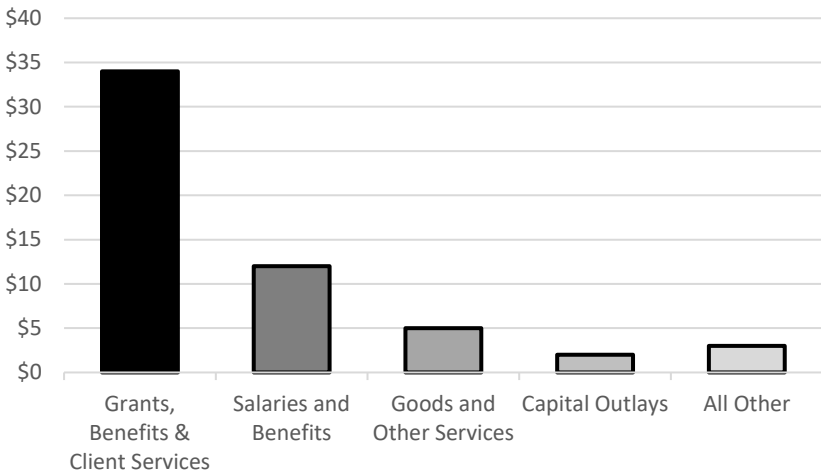
Higher Education accounts for 15 percent of total budgeted spending. Higher education includes support for state four-year schools and community and technical colleges.

Other major spending categories include **Natural Resources** (agencies for environmental protection, management, and recreation), **Governmental Operations** (state lottery, revenue, enterprise services, commerce), and **All Other** (judicial and legislative agencies).

HOW DOES THE BUDGET BREAKDOWN BY OBJECT?

Another way to look at state spending within the operating budget 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 2020, the latest period for which complete object data is available:



<i>Fiscal Year 2020</i>		
<i>Grants, Benefits and Client Services</i>	\$34 B	60%
<i>Salaries and Benefits</i>	\$12 B	22%
<i>Goods and Other Services</i>	\$5 B	9%
<i>Capital Outlays</i>	\$2 B	4%
<i>All Other</i>	\$3 B	6%
Total	\$57 B	

As the chart shows, more than half of state spending (60 percent) is for **Grants, Benefits, and Client Services**. Spending on this object occurs mainly in three agencies: \$14 billion in the Office of the Superintendent of Public Instruction, as apportionment and grants to K-12 school districts; \$10 billion in the Health Care Authority, as payments to hospitals and other service providers for medical assistance; and \$5

billion in the Department of Social and Health Services, for food assistance, long-term care, and other social service payments. Many other federal and state grant programs have expenditures in grants, benefits, and client services.

The \$12 billion **Salaries and Benefits** expenditure provided compensation to the nearly 120,000 full-time equivalent (FTE) staff that the state directly employed in fiscal year 2020. 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.

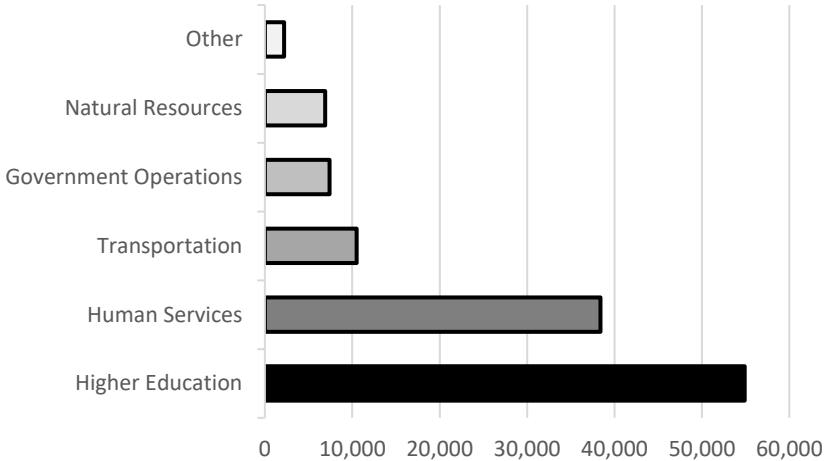
The \$5 billion **Goods and Services** expenditure in fiscal year 2020 paid for things like supplies, medications at state-operated hospitals, food at colleges and universities, and small equipment (valued at under \$5,000 per item), as well as services such as data processing, security, rentals and leases, communications, utilities, printing, insurance, training, and vehicle maintenance.

The \$2 billion **Capital Outlays** expenditure in fiscal year 2020 paid for highway construction (\$877 million), buildings (\$324 million), and architectural and engineering services (\$208 million), among others. The Washington State Department of Transportation accounted for nearly two-thirds (61 percent) of these expenditures (\$1.3 billion), while higher education--the four-year institutions and the community and technical colleges--accounted for 23 percent (\$487 million).

The **All Other** category of objects includes debt service, personal service contracts, travel, and transfers that total \$3 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 fiscal year 2020, the state’s budgets anticipate approximately 120,000 annual FTEs.



	<i>Fiscal Year 2020</i>	
<i>Higher Education</i>	54,900	46%
<i>Human Services</i>	38,400	32%
<i>Transportation</i>	10,500	9%
<i>Government Operations</i>	7,400	6%
<i>Natural Resources</i>	6,900	6%
<i>All Other</i>	2,200	2%
Total	120,300	

Higher Education represents the largest category of state employees. The budget for the University of Washington includes nearly 27,000 FTE staff and more than 16,000 FTE staff are in the budget for the community and technical colleges.

The next largest area is **Human Services**. More than 16,000 FTE staff are employed by the Department of Social and Health Services and approximately 9,000 FTE staff for the Department of Corrections.

Three agencies in **Transportation** employ 9 percent of the staff in this area of state government: Washington State Department of Transportation (6,700 budgeted FTEs), Washington State Patrol (2,300), and the Department of Licensing (1,400).

Similarly, in **Natural Resources**, the largest employers are the Department of Fish and Wildlife (1,800 budgeted FTEs), Department of Natural Resources (1,700), and Department of Ecology (1,600).

In the preceding chart, **Other** includes the Office of the Superintendent of Public Instruction with 400 budgeted FTEs and the Department of Children, Youth, and Families with 4,300 budgeted FTEs.

Of the roughly 120,000 budgeted FTEs, the Near General Fund-State will pay for approximately 37 percent. Higher Education non-appropriated funds pay for nearly 32 percent, federal funds will pay for nearly 10 percent, and numerous dedicated funds will pay the remaining 21 percent.

Nearly 118,000 FTEs work in K-12 local school districts. These employees are not included in the FTEs that the state directly employs.

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 2019-21, 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 more than 2.6 million people, so there are more taxpayers to shoulder these costs.
- Teaching supplies, materials, equipment, and energy cost more in 2020 than they did in 1990, so the overall cost of educating each student has increased.
- Finally, in 1993, 2009, 2010, 2017, and 2018, 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.

MUST THE STATE HAVE A BALANCED BUDGET?

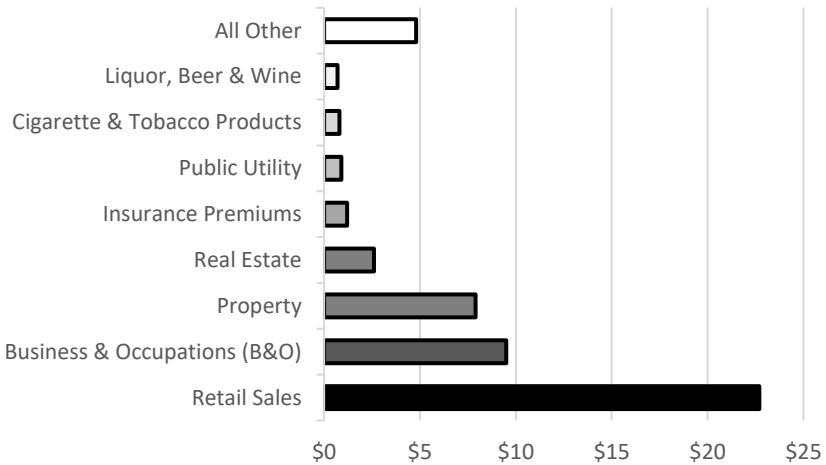
Prior to 2012, neither state law nor the state Constitution required the state budget to be balanced. In 2012, the Legislature enacted a law requiring the state operating budget to be balanced for the current two-year fiscal period. The law also requires the projected state operating budget to be balanced 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 "Budget Outlook" or the "Four-Year Balanced Budget."

See <https://erfc.wa.gov/budget-outlook> for more information on this requirement.

WHAT IS NEAR GF-STATE OUTLOOK?

As of July 2020, the state accounting system includes roughly 600 unique accounts. The largest single account is the state general fund. The state general fund, Education Legacy Trust Account, Opportunity Pathways Account, and Workforce Education Investment Account are all subject to the balanced budget requirements established under the Budget Outlook. Together, these four accounts represent Near GF-State Outlook.

The sources of tax revenue for Near GF-State Outlook are shown in the following chart:

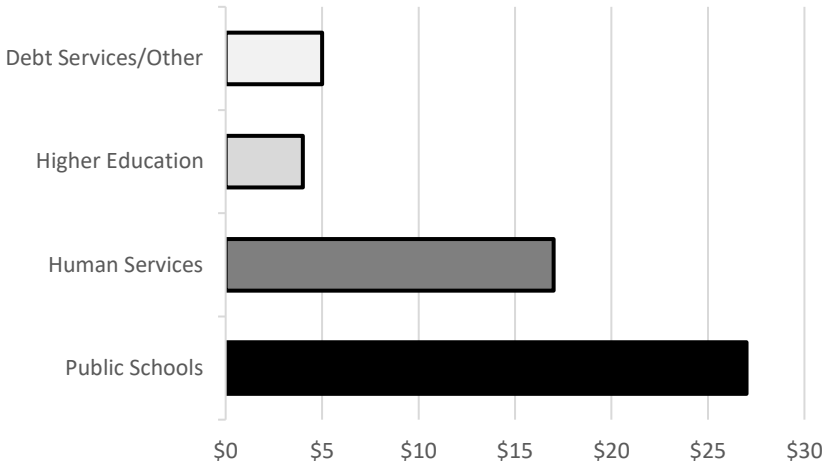


2019-21 Biennium

<i>Retail Sales</i>	\$22.7 B	45%
<i>Business & Occupations</i>	\$9.5 B	19%
<i>Property</i>	\$7.9 B	15%
<i>Real Estate</i>	\$2.6 B	5%
<i>Insurance Premiums</i>	\$1.2 B	2%
<i>Public Utility</i>	\$0.9 B	2%
<i>Cigarette & Tobacco Products</i>	\$0.8 B	2%
<i>Liquor, Beer & Wine</i>	\$0.7 B	1%
<i>All Other</i>	\$4.8 B	9%
Total	\$51 B	

HOW IS NEAR GF-STATE OUTLOOK MONEY SPENT?

During the 2017-19 biennium, the state will spend approximately \$45 billion (or about \$61 million per day on average) from Near GF-State Outlook. The following chart shows how Near GF-State Outlook is allocated:



	2019-21 Biennium	
<i>Public Schools</i>	\$27 B	51%
<i>Human Services</i>	\$17 B	32%
<i>Higher Education</i>	\$4 B	8%
<i>Debt Services / Other</i>	\$5 B	9%
Total	\$54 B	

The largest single program is **Public Schools**, which includes state support for K-12 education. Public schools account for 51 percent of total budgeted expenditures. In the 2019-21 biennium, the state will provide public education funding for more than 1,000,000 children.

Human Services spending consists primarily of the operating budget for the Department of Social and Health Services, the state’s umbrella organization that provides social and income assistance to citizens in need, and the Health Care Authority which provides medical assistance to citizens in need. It also includes spending for the Department of Corrections, Department of Children, Youth, and Families, and the Department of Health.

Higher Education spending includes funding for six public universities, and 34 community colleges and technical schools serving more than 240,000 FTE students. It also includes state financial aid to approximately 70,000 students attending both state supported and private colleges and universities. Expenditures for higher education represent 15 percent of all budgeted funds and 8 percent of the Near GF-State Outlook. In addition to money from Near GF-State Outlook, higher education receives nearly \$11 billion of dedicated revenues, principally grants and contracts, and tuition and fees.

Other Near GF-State Outlook spending categories include **Natural Resources, Governmental Operations, Transportation, Other Education**, and other expenditures such as the payment of **Debt Service**.

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 2015-17 biennium which was from July 1, 2015 to June 30, 2017.

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 - 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, fiscal year 2015 was from July 1, 2014 until June 30, 2015.

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 that comprises many central service agencies, such as the departments of Enterprise Services, Revenue, Consolidated Technical Services, and the Office of the Attorney General.

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 that 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.

Near General Fund - Outlook - These are the funds and accounts that the Legislature primarily focuses on as part of the operating budget development process. These funds are: (1) the state general fund; (2) Education Legacy Trust Account; and (3) Opportunity Pathways Account. The largest of these is the state general fund, which is the fund in which most of the general revenues are deposited. The other funds have more specific purposes.

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 that 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 that 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.