



OFFICE OF FINANCIAL MANAGEMENT

S T A T E O F W A S H I N G T O N

WASHINGTON STATE BUDGET PROCESS

BUDGET DIVISION

FEBRUARY 2012

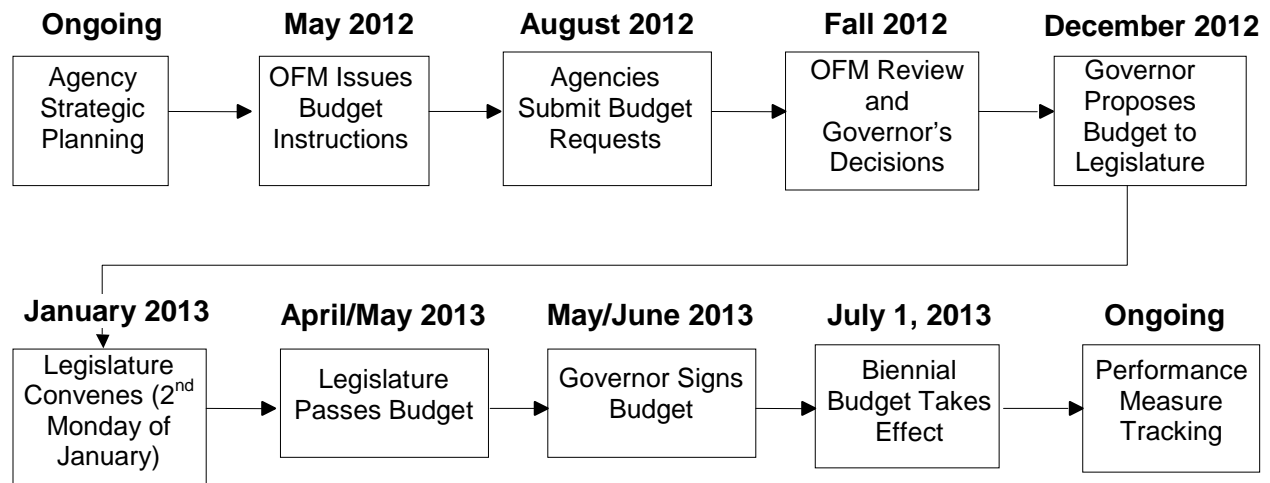


A DESCRIPTION OF Washington State's Budget Process

The Biennial Budget Cycle

Washington enacts budgets for a two-year cycle, beginning on July 1 of each odd-numbered year. The budget approved for the 2011-13 Biennium remains in effect from July 1, 2011 through June 30, 2013. By law, the Governor must propose a biennial budget in December, the month before the Legislature convenes in regular session. The biennial budget enacted by the

Legislature can be modified in any legislative session through changes to the original appropriations. Since the inception of annual legislative sessions in 1979, it has become common for the Legislature to enact annual revisions to the state's biennial budget. These revisions are referred to as supplemental budgets.



Roles and Responsibilities in the Budget Process

State agencies are responsible for developing budget estimates and submitting budget proposals to the Governor. Once the budget is enacted by the Legislature, agencies implement approved policies and programs within the budgetary limits imposed by legislation. Under Washington's budget and accounting statutes, individual agency directors are accountable for carrying out the legal intent of appropriations.

The **Governor** recommends a budget to the Legislature consistent with executive policy priorities. Appropriation bills, like other legislation, are subject to gubernatorial veto authority and may be rejected in part or in their entirety within a defined number of days after legislative passage. After a budget is enacted, the Governor's general administrative duties include monitoring agency expenditures and helping to achieve legislative policy directives.

The **Office of Financial Management** (OFM) coordinates the submittal of agency budget requests and prepares the Governor's budget recommendation to the Legislature. Budget staff from OFM work closely with state agencies to explain and justify planned expenditures. Analysts evaluate all budget requests for consistency with executive policy priorities and to ensure that proposed expenditures match fiscal constraints. OFM is also responsible for maintaining the state's central accounting system and developing certain population and demographic forecasts.

Through appropriations bills, the **Washington State Legislature** mandates the amount of money each state agency can spend and, in varying degrees of detail, directs agencies where and how to spend it. Washington's bicameral legislature consists of 49 senators in the Senate and 98 representatives in the House. Specific fiscal committees have primary responsibility for preparation of the legislative budget. These include the Ways and Means, Capital, Finance, and Transportation committees in the House; the Ways and Means and Transportation committees in the Senate; and the Legislative Transportation Committee.

The House and Senate employ staff analysts to help review and evaluate the state budget and to prepare appropriation bills. As with other legislation, if the two houses cannot

agree on a budget or revenue proposal to implement the budget, a conference committee of legislative representatives may be convened to reconcile the differences.

The **Economic and Revenue Forecast Council** is composed of representatives from both the legislative and executive branches. Each fiscal quarter, the Council adopts an official forecast of General Fund-State (GF-S) revenues for the current and (at some point) the ensuing biennia. These forecasts, together with any reserves left over from previous biennia, determine the financial resources available to support estimated expenditures.

The **Caseload Forecast Council** was created by the 1997 Legislature and began operations in the 1997-99 Biennium. The Council consists of two members appointed by the Governor and four appointed by the legislative political caucuses. The Council prepares official caseload forecasts for state entitlement programs, including public schools, long-term care, medical assistance, foster care, adoption support, adult and juvenile offender institutions, and others.

The **State Expenditure Limit Committee**, consisting of legislators and representatives of the Governor and Attorney General, was established in 2000 to determine the state General Fund expenditure limit created by Initiative 601.

Budget Development Approach

In general, Washington State's budget process cannot be characterized by any single budget decision model. Elements of program, target, and the traditional line item budgeting associated with objects of expenditure (e.g., salaries, equipment) are

all used with performance budgeting in budget decision-making.

Starting with the 2003-05 Biennium budget proposal, Washington adopted a statewide results-based approach called "Priorities of

Government” that complements the traditional focus on incremental changes. This process starts by identifying the key results that citizens expect from government and the most effective strategies for achieving those results. Agency activities were reviewed in this statewide context and

prioritized in terms of their contribution to achieving these statewide results.

More information on the Priorities of Government is available on our website at <http://www.ofm.wa.gov/budget/pog/default.asp>.

Budget and Accounting Structure

State government is organized into 118 agencies, boards, and commissions representing a wide range of services. While many state agencies report directly to the Governor, others are managed by statewide elected officials or independent boards appointed by the Governor. Most agencies receive their expenditure authority from legislative appropriations that impose a legal limit on operating and capital expenditures. Appropriations are authorized for a single account, although individual agencies frequently receive appropriations from more than one account.

A few agencies are "nonappropriated," meaning that they operate from an account that is legally exempt from appropriation. Expenditures by these agencies are usually monitored through a biennial allotment plan. There is no dollar limit as long as expenditures remain within available

revenues and are consistent with the statutory purpose of the agency.

The state's budget and accounting system includes more than 670 discrete accounts, which operate much like individual bank accounts with specific sources of revenue. The largest single account is the state General Fund. State collections of retail sales, business, property, and other taxes are deposited into this account. Expenditures from the state General Fund can be made for any authorized state activity subject to legislative appropriation limits.

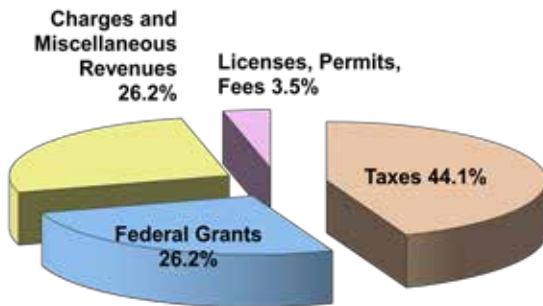
Other accounts are less flexible. Certain revenues (for example, the motor vehicle fuel tax or hunting license fees) are deposited into accounts that can only be spent for the purpose established in state law. In budget terms, these are referred to as "dedicated accounts."

Sources of State Revenues

Washington receives most of its revenue from taxes, licenses, permits and fees, and federal grants. Each individual revenue

source is designated by law for deposit into specific accounts used to support state operating or capital expenditures.

Sources of State Revenues - All Governmental Funds 2011-13 Biennium Estimates



Category	Dollars in Millions
Taxes	\$ 32,302
Federal Grants	19,139
Licenses, Permits, Fees	2,537
Charges and Miscellaneous Revenues	19,168
TOTAL	\$ 73,146

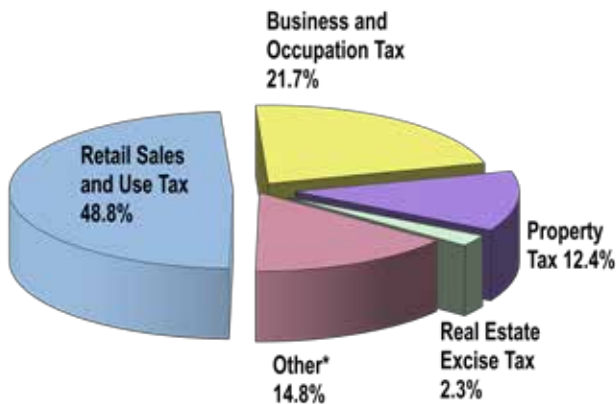
Source: 2011-13 Office of Financial Management budget database

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The chart below displays the major revenue sources for General Fund-State expenditures

in the current biennium. The Department of Revenue collects most of these revenues.

Sources of General Fund-State Revenues 2011-13 Biennium Estimates



Category	Dollars in Millions
Retail Sales and Use Tax	\$ 14,736
Business & Occupation Tax	6,541
Property Tax	3,753
Real Estate Excise Tax	704
Other*	4,454
TOTAL	\$ 30,188

Source: November 2011, Revenue Forecast Council, GF-S cash basis

* Other includes revenue from liquor sales, tobacco taxes, insurance premiums, etc.

Note: This chart reflects forecasted revenues only. Additional resources, such as prior biennium balances or transfers from other funds, may be included in the budgetary balance sheet.

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Size and Distribution of the State Budget

The state's current operating budget for the 2011-13 Biennium (from all fund sources) is \$64.7 billion. A separate capital budget finances major building, renovation, and land acquisition projects. The 2011-13 (non-transportation) capital budget for new projects is \$2.8 billion. An additional \$2.2 billion is available in reappropriated funds to allow the completion of capital construction projects authorized in previous biennia. Roads, bridges, and other transportation capital projects are budgeted at \$5.9 billion. (Total Operating/Capital Budget = \$75.6 billion).

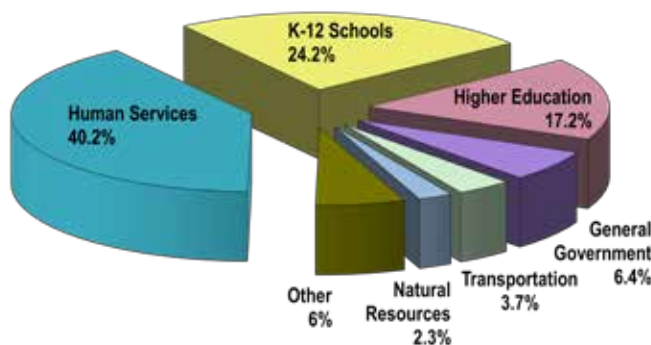
Operating expenditures are supported by general state tax revenues, federal funds, dedicated tax and fee revenues, and other miscellaneous sources, such as earned interest and lottery receipts. The capital budget is primarily funded through general obligation bonds (\$2.3 billion in 2011-13) and cash revenues from dedicated accounts. The debt service on non-transportation general obligation bonds is paid by General Fund-State resources in the operating budget.

State operating expenditures can be grouped into seven broad categories of services:

- **Human Services**, such as mental health and other institutions, public assistance, health care, and correctional facilities.
- **Public Schools**, which represents state support for Kindergarten-Grade 12 (K-12) education.
- **Higher Education** in public universities, community colleges, and technical schools.
- **Natural Resources** expenditures for environmental protection and recreation.
- **Transportation**, which includes highway maintenance, state ferry operations, and the Washington State Patrol.
- **General Government**, including the administrative, judicial, and legislative agencies.
- **Other** (miscellaneous) expenses, such as the payment of debt service and pension contributions for local law enforcement, firefighters, and judges.

The following chart shows the distribution of operating expenditures from all funds for the 2011-13 Biennium.

Distribution of 2011-13 State Operating Expenditures - All Funds



Category	Dollars in Millions
Human Services	\$ 26,034
K-12 Schools	15,677
Higher Education	11,117
General Government	4,122
Transportation	2,393
Natural Resources	1,494
Other*	3,855
TOTAL	\$ 64,692

Source: 2011-13 operating budget database

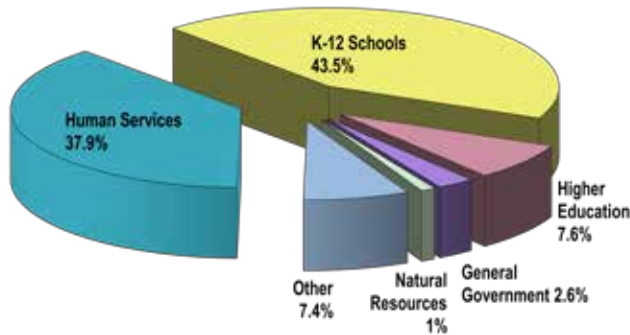
* Other includes debt service, pension contributions to Law Enforcement Officers and Fire Fighters (LEOFF) and Judges, other education agencies, and special appropriations.

The General Fund-State Operating Budget

Approximately \$31.4 billion of the state operating budget for 2011-13 is supported by General Fund-State (GF-S) tax and fee revenues and reserves. Because the Governor and Legislature have the greatest discretion over how these state revenues are spent, programs supported by GF-S receive substantial attention during budget deliberations.

The following chart shows the distribution of estimated General Fund-State expenditures for the 2011-13 operating budget. The majority of the state General Fund is spent on education, which includes the state share of funding for public schools (K-12), four-year colleges and universities, and two-year community and technical colleges.

Distribution of 2011-13 State Operating Expenditures - State General Fund Enacted Budget as of December 2011



Category	Dollars in Millions
K-12 Schools	\$ 13,658
Human Services	11,896
Higher Education	2,402
General Government	827
Natural Resources	301
Other*	2,314
TOTAL	\$ 31,398

Source: 2011-13 operating budget database

*Other includes debt service, pension contributions to Law Enforcement Officers and Fire Fighters (LEOFF) and Judges, other education agencies, transportation, and special appropriations.

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General Fund-State Expenditure Trends 1989-91 to 2011-13

Biennium	Dollars in Millions	Change in Millions
1989-91	12,822.3	2,481.9
1991-93	15,179.9	2,357.6
1993-95	16,315.1	1,135.2
1995-97	17,732.4	1,417.3
1997-99	19,157.8	1,425.4
1999-01	21,046.4	1,888.6
2001-03	22,548.8	1,502.4
2003-05	23,671.7	1,122.9
2005-07	27,766.1	4,094.4
2007-09	29,233.1	1,467.0
2009-11*	29,858.7	625.6
2011-13*	31,398.1	1,539.4

* The 2011-13 biennial amount is based on appropriations as of December 2011. Previous biennia represent actual expenditures. Dollars have not been adjusted for inflation.

Legislation passed in 2009 merged six accounts into General Fund-State (Public Safety and Education, Equal Justice, Water Quality, Violence Reduction and Drug Enforcement, Student Achievement, and Health Services Accounts). Dollars in biennia prior to 2009-11 have not been adjusted for this merger.

State Staffing Levels

The current state budget assumes approximately 106,700 FTEs (Fiscal Year 2013) on an annual basis, with the largest number of people employed in higher education institutions, correctional facilities, state social service and health agencies, and transportation agencies. For budget purposes, the number of state employees is measured in Full Time Equivalent (FTE)

staff years; i.e., one person working 40 hours a week for a full year is counted as one FTE staff year. Two people working half time also count as one FTE. Although the state provides funding for compensation for local school teachers, this support is in the form of grants. Therefore, K-12 teachers are not considered state employees in statewide FTE statistics.

Budget Drivers

In addition to new policies adopted by the Governor, Legislature, or federal government, the state budget can also be significantly influenced by demographic and economic factors. Differences in these "budget drivers" affect the cost of services or the number of persons requiring services. An example of the demographic connection

appears in K-12 education, where expenditures for the state's constitutionally mandated responsibilities for basic education are closely tied to the number of school-age children in the state. Higher-than-average inflationary costs – such as those for medical expenses – also affect expenditures in the state budget.

Spending Limits in the State Budget

Major Provisions of Initiative 601 (initially enacted in 1993, statute modified in 2005):

Fiscal Growth Factors and General Fund-State Expenditure Limit

- Establishes a "fiscal growth factor" based on a ten-year average growth in personal income.
- Mandates an annual expenditure limit on the aggregate of the General Fund-State and six related accounts (Public Safety and Education Account, Equal Justice Account, Water Quality Account, Violence Reduction and Drug Enforcement Account, Student Achievement Account, and Health Services Account) to be calculated by the State Expenditure Limit Committee
- each November, based on the fiscal growth factors applied to previous year's limit. As of July 1, 2009, all of these accounts were merged into the General Fund.
- Requires the Governor's budget to be consistent with the expenditure limit, and restricts annual expenditures from General Fund-State and related accounts to the limit.
- Allows temporary expenditures above the limit after declaration of an emergency and a 2/3 vote of the Legislature for a law signed by the Governor.

- The Emergency Reserve Account, created by Initiative 601, was repealed as of July 1, 2008, and replaced by the Budget Stabilization Account. Any fund balance remaining in the Emergency Reserve Fund was transferred to the Budget Stabilization Account.
- make a revenue-neutral tax shift (2005 legislation).
- Additionally requires voter approval if the state revenue measure results in expenditures above the expenditure limit.
- Limits state fee increases to the fiscal growth factor unless legislative approval is received.

Taxes and Fees

- Requires a majority vote of the Legislature to raise state revenues or

The Debt Limit

The Washington State Constitution imposes a limit on the state's ability to borrow funds to finance government programs in the capital budget. This debt limit is 9 percent of general state revenues. The 2009 Legislature (SSB 5537) amended the more restrictive statutory limit of 7 percent of general state revenues to align it with the constitutional limit. The state cannot sell general obligation bonds if the debt service from that sale will cause total debt service to exceed 9 percent of the average of general state revenues for the preceding three fiscal years.

The amount of new bonded capital programs affordable under the debt limit can change depending on:

- The amount of previously-approved projects carried forward in the capital budget,
- Changes in revenue forecasts that increase or decrease state revenues,
- Changes in the structure of borrowing (e.g., length of term on bonds), and/or
- Changes in the interest rates at which bonds are sold.

The Budget Stabilization Account

ESSJR 8206, "Rainy Day Fund," passed by the voters in November 2007, established the Budget Stabilization Account (BSA), also known as the Rainy Day Fund.

- 1 percent of general state revenues must be transferred annually to the BSA.
- 3/5 vote required to appropriate from BSA.
- Exceptions (constitutional majority vote):
 - Employment growth < 1 percent
 - State of emergency due to catastrophic event.
- Effective July 1, 2008 (Fiscal Year 2009).

GLOSSARY OF BUDGET-RELATED TERMS

Account—An independent budget and accounting entity with a self-balancing set of accounts representing all related resources, obligations, and reserves. Most accounts are set up in state law to isolate specific activities.

Allotment—An agency's plan of estimated expenditures and revenues for each month of the biennium.

Appropriation—The legislative authorization to make expenditures and incur obligations from a particular account. Appropriations typically limit expenditures to a specific amount and purpose within a fiscal year or biennial timeframe.

Biennium—A two-year fiscal period. The Washington State biennium runs from July 1 of an odd-numbered year to June 30 of the next odd-numbered year.

Bow Wave—Any additional cost (or savings) that occurs in the future because a budget item in the current biennium is not fully implemented. Example: A program started in the last six months of this biennium might cost \$100,000. If that program operates for a full 24 months next biennium, costing \$400,000, then the current biennium budget decision is said to have a *bow wave* of \$300,000.

Budget Drivers—Economic or demographic factors that have a significant effect on the state budget. Examples: inflation rate changes, state population in certain age groups.

Budget Notes—A legislative fiscal staff publication that summarizes the budget passed by the state Legislature. This publication is usually distributed a few months after the end of the legislative session. Budget notes provide guidance but do not have the same legal implications as appropriation bill language.

Capital Budget and Ten-Year Capital Plan—The long-term financing and expenditure plan for acquisition, construction, or improvement of fixed assets such as land and buildings.

Debt Limit—Washington State's legal restriction (RCW 39.42.060) on the amount that can be paid for debt service on bonds, notes, or other borrowed money. The statute mandates that payments of principal and interest in any fiscal year cannot exceed 7 percent of the arithmetic mean of general state revenues for the three preceding fiscal years. The State Constitution (Article 8, Section 1(b)) contains a similar, but higher, debt limit of 9 percent of revenues.

Dedicated Accounts—Accounts set up by law to receive revenue from a specific source and to be spent for a specific purpose.

Entitlement—A service or grant that, under state or federal law, must be provided to all eligible applicants.

Fiscal Note—A statement of the estimated fiscal impact of proposed legislation. This cost estimate is usually developed by the state agencies affected by the bill, and then approved and communicated to the Legislature by the Office of Financial Management.

Fiscal Year—A one-year fiscal period. The state fiscal year extends from July 1 through the next June 30. The federal fiscal year runs October 1 through September 30.

Full-Time Equivalent (FTE)—*As a unit of measure of state employees:* refers to the equivalent of one person working full time for one year (approximately 2,088 hours of paid staff time). Two persons working half time also count as one FTE. *As a unit of measure of students in K-12 or higher education facilities:* refers to the equivalent of one student attending class full time for one school year (based on fixed hours of attendance, depending on grade).

General Obligation Bonds—Bonds whose repayment is guaranteed by the "full faith and credit" of the state.

General Fund-State—The *general fund* represents all financial resources and transactions not required by law to be accounted for in other accounts. *General Fund-State* (GF-S) refers to the basic account that receives revenue from Washington's sales, property, business and occupation, and other general taxes, and is spent for operations such as public schools, social services, and corrections.

GMAP—Government Management, Accountability, and Performance is a management initiative focused on improving the results of state government. Agency directors report in regular meetings with the Governor on the most important management and policy challenges. GMAP reports focus on performance in measurable terms.

Incremental Budgeting—Any budget development approach that focuses on incremental changes to a previous spending level or other defined expenditure base.

Initiative 601—A law on state budget restrictions passed in the November 1993 general election. Its primary requirements are: an *expenditure limit* based on inflation and population growth (applicable to state General Fund expenditures only); an *emergency reserve account* for any GF-S revenues above the expenditure limit; a percentage limit on how much state fees can be raised without legislative approval; and a two-thirds legislative vote requirement on certain state tax increases.

Maintenance Level—A projected expenditure level representing the estimated cost of providing currently authorized services in the ensuing biennium. It is calculated using current appropriations, the bow wave of legislative intentions assumed in existing appropriations (costs or savings), and adjustments for trends in entitlement caseload/enrollment and other mandatory expenses. This number establishes a theoretical base from which changes are made to create a new budget.

Nonappropriated Funds—Moneys that can be expended without legislative appropriation. Only funds in accounts specifically established in state law as being exempt from appropriation fall into this category.

Operating Budget—A biennial plan for the revenues and expenditures necessary to support the administrative and service functions of state government.

Performance Measure—A quantitative indicator of how programs or services are directly contributing to the achievement of an agency's objectives. These indicators may include measures of inputs, outputs, outcomes, productivity, and/or quality.

Priorities of Government (POG)—Washington's adaptation of the "Price of Government" budget approach first developed by Peter Hutchinson and David Osborne. This form of budgeting focuses on statewide results and strategies as the criteria for purchasing decisions.

Proviso—Language in budget bills that places a condition on the use of appropriations. Example: "Up to \$500,000 of the General Fund-State appropriation is provided solely for five additional inspectors in the food safety program."

Reappropriation—Capital budget appropriation that reauthorizes the unexpended portion of previously appropriated funds. Capital projects often overlap fiscal periods and it is necessary to reauthorize some expenditure authority to ensure project completion.

Reserve or Fund Balance—In budget terminology, the difference between budgeted resources and expenditures.

Reversion—Unused appropriation authority. If an agency does not spend all its appropriation in the timeframe specified by the budget, the authorization to spend that dollar amount expires.

Supplemental Budget—Any legislative change to the original budget appropriations.