

A Citizen's Guide to the Washington State Budget



2015

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INTRODUCTION

The 2015 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 limits.

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 2015 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:

Senate Ways and Means Committee

339 John A. Cherberg Building

Olympia, Washington 98504-0482

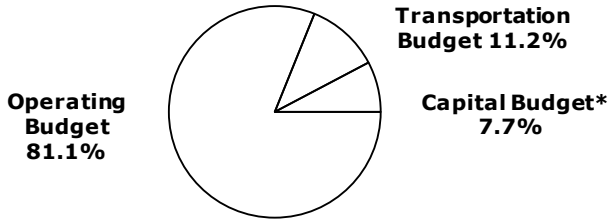
Telephone: 360-786-7716

Fax: 360-786-7615

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

HOW BIG IS THE STATE BUDGET?

Prior to the 2015 Legislative Session, the State of Washington will spend a total of \$83.4 billion for the 2013-15 biennium and 2014 enacted supplemental budget (or about \$114 million per day on average during the two-year spending period). This \$83.4 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:



2013-15 State Budgets (Dollars in Billions)

Operating Budget	\$67.6
Transportation Budget	\$9.3
Capital Budget*	\$6.4
Total	\$83.4

*Includes Capital Re-appropriations.

Sources: Winsum and Buildsum budget development systems for the 2014 Session.

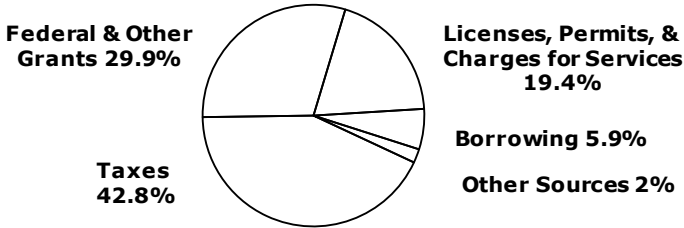
- The budget that pays for the day-to-day operations of state government (including federal funds and dedicated funds) is called the **Operating Budget (\$67.6 billion)**.
- The budget that pays for transportation activities, such as designing and maintaining roads and public transit, is called the **Transportation Budget (\$9.3 billion)**. This budget includes amounts for both transportation operating activities (\$3.7 billion) and transportation capital activities (\$5.6 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 (\$6.4 billion)**.

Budget-related materials frequently refer to the “Near GF-S & Opportunity Pathways Account” which are the largest state funds; they

represent more than half of the \$67.6 billion operating budget. A discussion of the Near GF-S and Opportunity Pathways Account budget begins on page 11.

WHERE DOES THIS MONEY COME FROM?

To pay for its activities in 2013-15, the state will tax citizens and businesses \$35.9 billion; receive federal and other grants of \$25 billion; collect fees and assess charges for licenses and permits of \$16.2 billion; and borrow \$4.9 billion. Other sources, including transfers, account for \$1.7 billion. The relative size of each of these sources is shown in the following chart:



2013-15 Sources of Revenue

(Dollars in Billions)

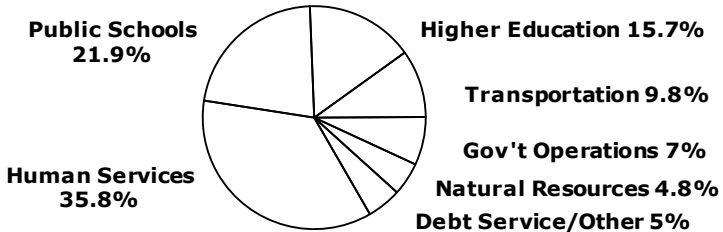
Taxes	\$35.9
Federal & Other Grants	\$25.0
Licenses, Permits, & Charges for Services	\$16.2
Borrowing	\$4.9
Other Sources (including Transfers)	\$1.7
Total 2013-15 Sources of Revenue	\$83.7

Source: OFM Revsum database for 2013-15 as of January 2015, adjusted by legislative staff.

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 \$83.4 billion 2013-15 total funds budget is allocated:



2013-15 All Budgeted Expenditures*

(Dollars in Billions)

Human Services	\$29.8
Public Schools	\$18.3
Higher Education	\$13.1
Transportation	\$8.2
Governmental Operations	\$5.8
Natural Resources	\$4.0
Debt Service/Other	\$4.1
Total	\$83.4

*Includes Capital Re-appropriations.

Sources: Winsum and Buildsum budget development systems for the 2014 Session.

Human Services, such as medical and public assistance, long-term care, other health care, and prisons, represents 35.8% 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 21.9%, although it represents the majority of the state general fund budget (see page 13).

Higher Education accounts for 15.7% of total budgeted spending. Higher education includes support for state four-year schools and community and technical colleges.

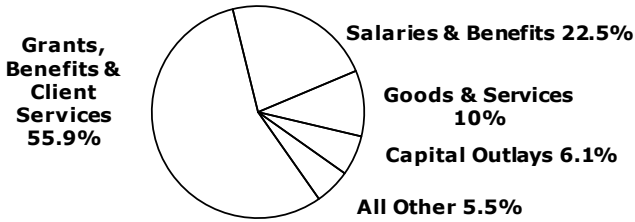
Over \$8 billion is planned to be spent for **Transportation** services and construction in the 2013-15 biennium. These services and construction include highways, state ferries, and other transportation programs in the Washington State Department of Transportation (DOT); the Washington State Patrol (WSP); and the Department of Licensing (DOL), to name the three largest. Of that \$8.2 billion, transportation operating activities account for more than \$3.6 billion (4.4% of statewide spending), and transportation capital activities account for \$5.6 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).

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 2014, the latest period for which complete object data are available:



Fiscal Year 2014 Expenditures by Object*

(Dollars in Billions)

Grants, Benefits & Client Services	\$21.6
Salaries and Benefits	\$8.7
Goods and Services	\$3.9
Capital Outlays	\$2.4
All Other	\$2.1
Total	\$38.6

*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 (55.9%) is for **Grants, Benefits, and Client Services**. Spending on this object occurs mainly in three agencies: \$8.4 billion in the Office of the Superintendent of Public Instruction (OSPI), as apportionment and grants to K-12 school districts; \$6.3 billion in the Health Care Authority (HCA), as payments to hospitals and other service providers for medical assistance; and \$4.1 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 \$8.7 billion **Salaries and Benefits** expenditure provided compensation to the nearly 108,900 full-time equivalent (FTE) staff that the state directly employed in FY 2014. 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.

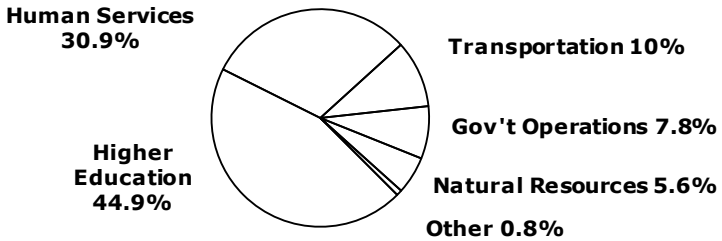
The \$3.9 billion **Goods and Services** expenditure in FY 2014 paid for things like supplies, medications at state-operated hospitals, food at colleges and universities, and small equipment (valued at under \$5,000 per item), as well as services such as data processing, security, rentals and leases, communications, utilities, printing, insurance, training, and vehicle maintenance.

The \$2.4 billion **Capital Outlays** expenditure in FY 2014 paid for highway construction (\$1.2 billion), buildings (\$193 million), and architectural & engineering services (\$233 million), among others. The Washington State Department of Transportation (DOT) accounted for more than two-thirds (68%) of these expenditures (\$1.6 billion), while higher education--the four-year institutions and the community and technical colleges--accounted for 17.6% (\$415 million).

The **All Other** category of objects includes debt service, personal service contracts, travel, and transfers that total \$2.1 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 2013-15 biennium, the state’s budgets anticipate approximately 109,700 annual FTEs.



Average Annual FTE Staff for 2013-15

Higher Education	49,215
Human Services	33,871
Transportation	10,958
Governmental Operations	8,559
Natural Resources	6,133
Other	924
Total*	109,661

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

Sources: Winsum and Buildsum budget development systems for the 2014 Session; includes legislative action from November 2013 and the 2014 Legislative Session.

Higher Education represents the largest category of state employees. The budget for the University of Washington includes nearly 22,500 FTE staff and there are nearly 15,600 FTE staff in the budget for the community and technical colleges. The next largest area is **Human Services**. More than 16,800 FTE staff are budgeted for the Department of Social and Health Services and approximately 8,100 FTE staff 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 (7,100 budgeted FTEs), Washington State Patrol (2,400), and the Department of Licensing (1,300).

Similarly, in **Natural Resources**, the largest employers are the Departments of Fish and Wildlife (1,580 budgeted FTEs), Natural Resources (1,450), and Ecology (1,580).

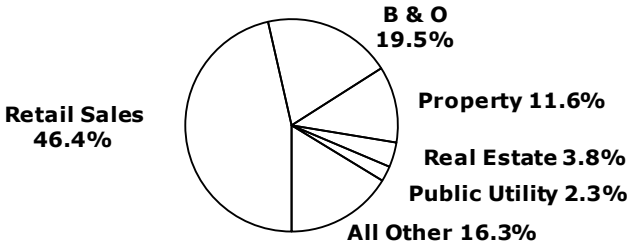
In the preceding chart, **Other** includes the Office of the Superintendent of Public Instruction (OSPI) with 370 budgeted FTEs and the Department of Early Learning with 255 budgeted FTEs. They are the only agencies in this category with budgets that exceed 110 FTEs.

Of the nearly 109,700 budgeted FTEs, the Near General Fund- State and Opportunity Pathways Accounts will pay for approximately 35%. Higher Education non-appropriated funds will pay for nearly 33%, federal funds will pay for over 11%, and numerous dedicated funds will pay the remaining 22%.

Nearly 104,000 FTEs work in K-12 local school districts. These employees are not included in the FTEs that the state directly employs.

WHAT IS NEAR GF-S AND OPPORTUNITY PATHWAYS?

These are the funds 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; (3) Pension Funding Stabilization Account; and (4) Opportunity Pathways Account. The sources of tax revenue for the Near GF-S & Opportunity Pathways Account are shown in the following chart:



**2013-15 Sources of
Near General Fund State and Opportunity Pathways Revenue
(Dollars in Billions)**

Retail Sales	\$15.8
Business & Occupations (B & O)	\$6.7
Property	\$4.0
Real Estate	\$1.3
Public Utility	\$0.8
All Other	\$5.6
Total	\$34.1

Source: Economic and Revenue Forecast, November 2014 (Cash Basis).

For the 2013-15 budget period, the Near GF-S and Opportunity Pathways will receive \$34.1 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 20%. The third largest tax is the state property tax, which accounts for nearly 12% of the total.

The state sales tax, the B&O tax, and the state property tax account for 77.6% of Near GF-S and Opportunity Pathways revenues. In addition, these funds rely 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>.)

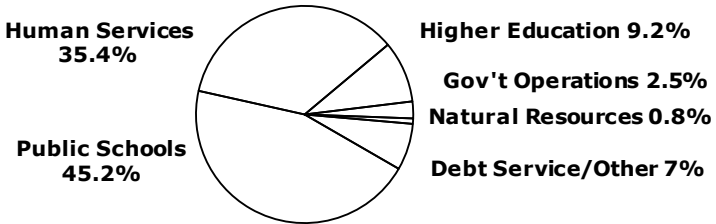
The major difference between the Near GF-S and Opportunity Pathways revenues (\$34 billion) and the total of all budgeted funds revenues (\$83.7 billion) is the dedication of revenue sources to specific uses. Most of the difference can be attributed to four types of funds:

- Federal funds for specific federal programs (\$21 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 (\$9.9 billion)
- Bonds for capital purposes (\$4.9 billion)
- Gas taxes for transportation purposes (\$2.9 billion)

These four sources account for more than 78% of the difference between revenues available for all state government budgets and the Near GF-S and Opportunity Pathways budget.

HOW IS NEAR- GF-S AND OPPORTUNITY PATHWAYS ACCOUNT MONEY SPENT?

Because of the nature of its tax sources, the Near GF-S and Opportunity Pathways portion receives the most attention during the budget-building process. During the 2013-15 biennium, the state will spend approximately \$33.8 billion (or about \$46 million per day on average) from Near GF-S and Opportunity Pathways. The following chart shows how the Near GF-S and Opportunity Pathways Account budget is allocated:



2013-15 Near General Fund-State & Opportunity Pathways (Dollars in Billions)

Public Schools	\$15.3
Human Services	\$12.0
Higher Education	\$3.1
Governmental Operations	\$0.8
Natural Resources	\$0.3
Debt Service/Other	\$2.3
Total	\$33.8

Source: Winsum budget development system for the 2014 Session.

The largest single program is **Public Schools**, which includes state support for K-12 education. Public schools account for 21.9% of total budgeted expenditures, but that share increases to 45.2% when examining the near general fund state and pathways. In the 2013-15 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 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 233,000 FTE students. It also includes state financial aid to approximately 88,785 students attending both state supported and private colleges and universities. Expenditures for higher education represent 15.7% of all budgeted funds and 9.2% of the Near GF-S and Opportunity Pathways. In addition to money from Near GF-S and Opportunity Pathways, higher education receives \$9.9 billion of dedicated revenues, principally grants and contracts, and tuition and fees.

Other Near GF-S and Opportunity Pathways 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 2013-15, 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 million people, so there are more taxpayers to shoulder these costs.
- Teaching supplies, materials, equipment, and energy cost more in 2015 than they did in 1990, so the overall cost of educating each student has increased.
- Finally, in 1993, 2009, and 2010, 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, 2013 through June 30, 2015. In the 2015 Legislative Session, the Legislature will adopt a budget for the 2015-17 biennium covering the period of July 1, 2015 to June 30, 2017.

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.

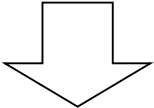
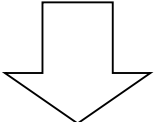
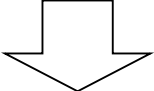
The Legislative Budget Process - After receiving the Governor's budget proposal, the Legislature reviews it and formulates its own budget during the legislative session which begins in January. The chairs of the Senate Ways and Means Committee and House Appropriations Committee work with their respective 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 (2015-17 Biennium)

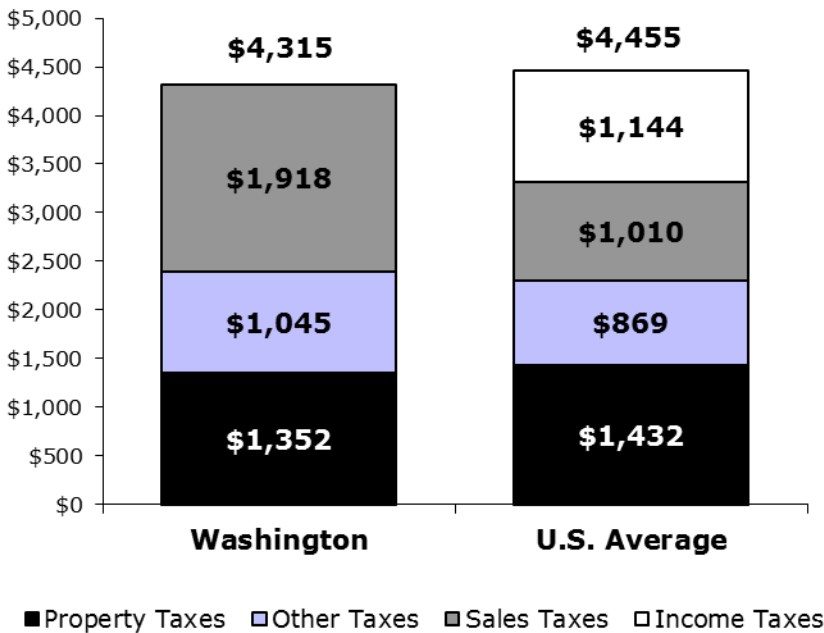
Formulation of the Governor's Budget	<p>State agencies prepare budget requests and submit them to the Office of Financial Management</p>  <p>The Governor reviews the requests and makes decisions about what goes in the Governor's proposed budget.</p>	July 2014 - December 2014
Legislative Action on the Budget	 <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>	January 2015 - April 2015
<i>The Biennium Begins</i>		July 2015
 <p>Agencies execute the enacted budget.</p>		July 1, 2015 - June 30, 2017
Supplemental Budgets	<p>The 2015-17 biennial budget may be adjusted in the 2016 and 2017 Legislative Sessions.</p>	January 2016 - March 2016 January 2017 - April 2017

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 2012 (the most recent year for which all data are available), the amount for state and local taxes per capita for Washington State is \$4,315, which is approximately 3.2% lower than the national average of \$4,455.

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 2012 Washington ranked 23rd in the nation with property taxes per capita of approximately \$1,352 (the national average was \$1,432).

FY 2012 Per Capita State and Local Taxes

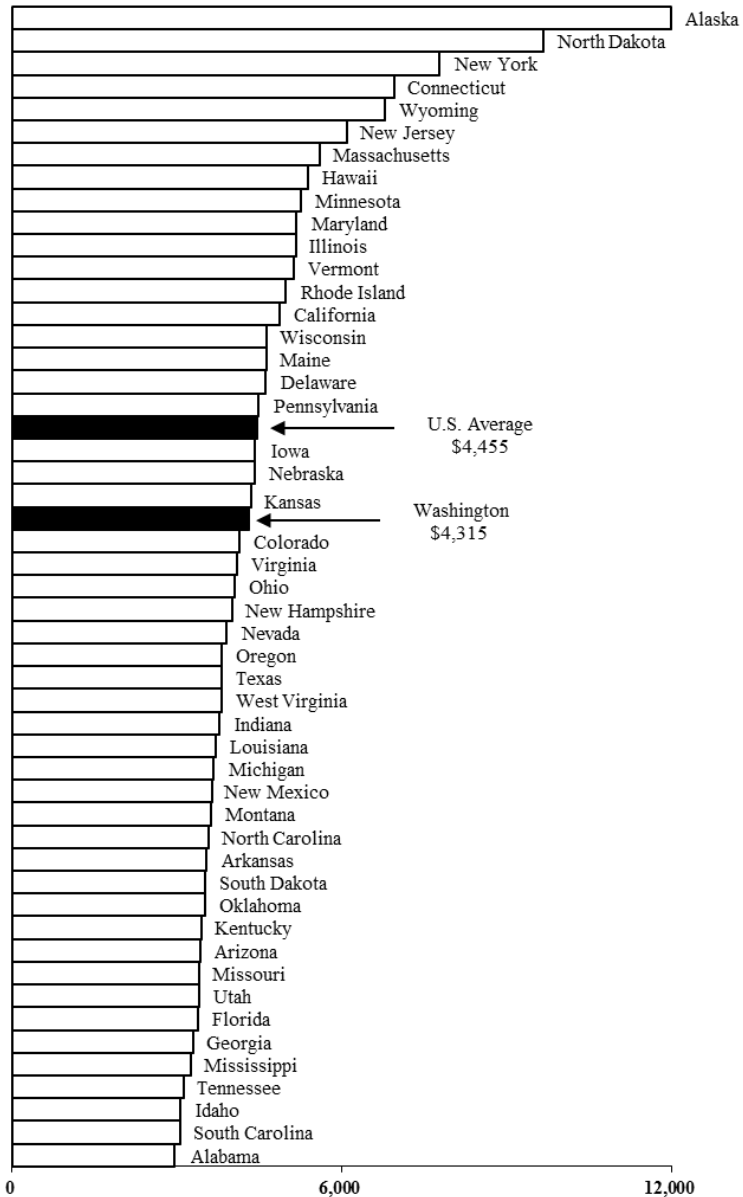


Source US Census Bureau Data @ <http://dor.wa.gov/>

The chart on page 20 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 22nd in state and local taxes per capita and that 32 states rank below the U.S. average of \$4,455.

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 2000s, distorted this measure and make it less useful as a yardstick of the overall tax burden.

**FY 2012 State and Local Taxes
(Dollars per Capita)**



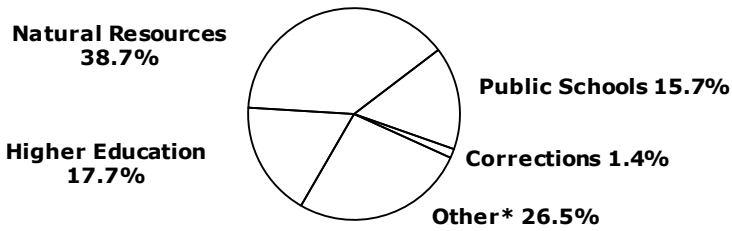
Source: Department of Revenue Research, Table 7 from <http://dor.wa.gov/Content/AboutUs/StatisticsAndReports/2012/Compare12/default.aspx>

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 2013-15 total funds capital budget is allocated:



2013-15 Capital Budget, Total Funds
(Dollars in Millions)

Higher Education	\$637
Natural Resources	\$1,397
Public Schools	\$568
Corrections	\$50
Other*	\$959
Total	\$3,611

Sources: Winsum and Buildsum budget development systems for the 2014 Session.

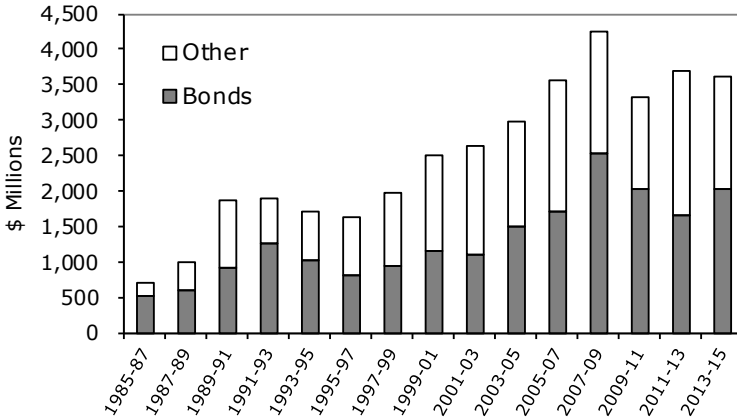
*Includes agencies in Government Operations, Human Services (excluding Corrections), Other Education, and some transportation capital projects.

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:



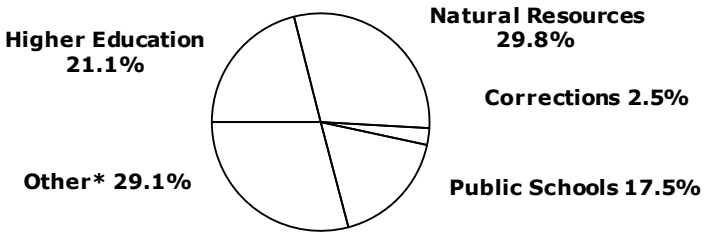
Capital Budget & Bonds
(Dollars in Millions)

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	2,518	4,254
2009-11	2,034	3,330
2011-13	1,664	3,704
2013-15	2,026	3,611

Source: Buildsum budget development system for the 2014 session.

Over 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-seven percent of capital projects for higher education and nearly all projects for corrections are funded with bonds. Over 50% 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 2013-15 capital budget:



2013-15 Capital Budget, State Bonds
(Dollars in Millions)

Higher Education	\$427
Natural Resources	\$605
Corrections	\$50
Public Schools	\$355
Other*	\$590
Total	\$2,026

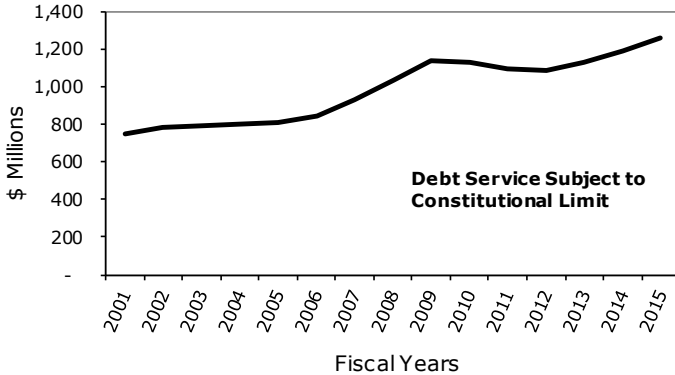
Source: Buildsum budget development system for the 2014 Session.

* 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. 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 Debt Service Payments Subject to the Limit (Dollars in Millions)

Fiscal Year	Constitutional Limit	Actual
2001	748	630
2002	779	648
2003	794	650
2004	799	643
2005	807	695
2006	839	721
2007	928	761
2008	1,037	806
2009	1,136	869
2010	1,130	930
2011	1,096	967
2012	1,087	993
2013	1,128	1,024
2014	1,192	1,057
2015	1,261	1,123

Amounts from debt models from the State Treasurer's Office.

IS A SUPERMAJORITY VOTE REQUIRED TO RAISE TAXES?

As a result of several voter-approved initiatives, a supermajority vote of the Legislature was required to raise taxes during various periods between 1993 and 2013, but a 2013 decision of the state Supreme Court has eliminated that requirement.

Initiative 601, enacted by the voters in 1993, required a two-thirds vote of both houses of the Legislature for any action that raised state taxes. Initiative 960 (I-960), enacted in 2007, reinstated this supermajority vote requirement for tax increases not approved by referendum to the voters. In 2010, the Legislature suspended until July 1, 2011, the two-thirds vote requirement for state tax increases. Initiative 1053 (I-1053), adopted by the voters at the 2010 general election, reinstated the requirement that a two-thirds majority is required to raise taxes. Initiative 1185 (I-1185), approved by the voters in November 2012, also required a two-thirds supermajority vote of the Legislature for actions which raise taxes. I-1185 took effect on December 6, 2012. The Legislature temporarily suspended the supermajority vote requirement to raise taxes in 2002, 2005, and 2010.

The statutory supermajority vote requirement for tax increases was declared unconstitutional in a 6–3 decision by the state Supreme Court on February 28, 2013, *League of Education Voters v. State* (176 Wn.2d 808).

"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. 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."

See <http://www.erfc.wa.gov/forecast/budgetOutlook.shtml> for more information on this requirement.

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 runs 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 (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 2015 runs 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 which comprises a large number of central service agencies, such as the departments of Enterprise Services, 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.

Near General Fund & Opportunity Pathways Account - 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; (3) Pension Funding Stabilization Account; and (4) Opportunity Pathways Account. The largest of these is the state general fund, which is the fund where 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 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.