



Office of  
Financial Management  
STATE OF WASHINGTON

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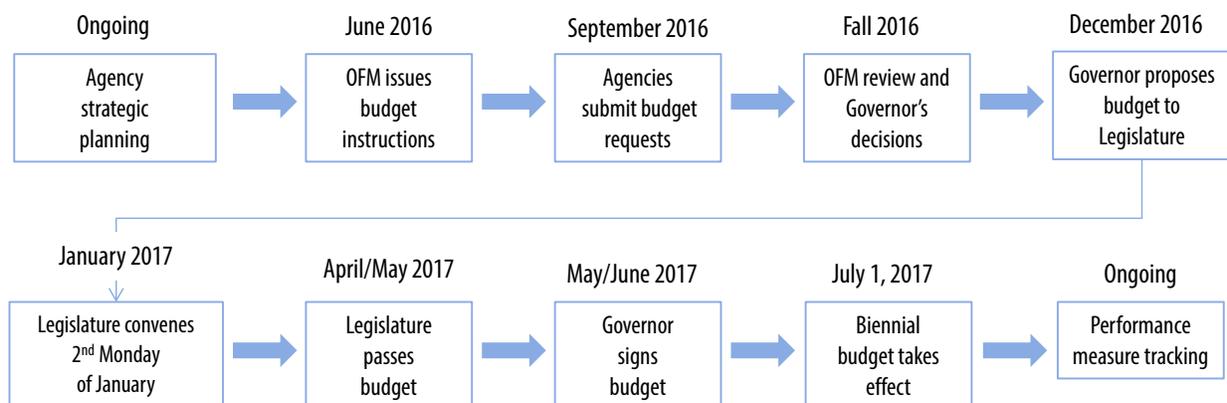
This guide contains information on:

- The biennial budget cycle
- Roles and responsibilities in the budget process
- Budget development approach
- Budget and accounting structure
- Source of state revenue
- Size and distribution of the state budget
- The General Fund-State operating budget
- State staffing levels
- Budget drivers
- State spending limit
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## A GUIDE TO THE WASHINGTON STATE BUDGET PROCESS

### The Biennial Budget Cycle

Washington enacts budgets on a two-year cycle, beginning July 1 of each odd-numbered year. The budget approved for the 2015–17 biennium remains in effect from July 1, 2015, through June 30, 2017. 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

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**State agencies** are responsible for developing budget estimates and submitting budget proposals to the Governor. Once the budget is enacted by the Legislature and approved by the Governor, 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 implement 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 members

in the Senate and 98 members in the House of Representatives. Specific fiscal committees have primary responsibility for preparation of the legislative budget. These include the Appropriations, Capital Budget and Transportation committees in the House; and the Ways & Means and Transportation committees in the Senate.

The House and Senate employ staff analysts to 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 legislators may be convened to reconcile the differences.

Beginning with the 2013–15 biennium, the Legislature must enact a budget that leaves a positive ending fund balance in the General Fund-State (GF-S) and related funds.

The **Economic and Revenue Forecast Council (ERFC)** is composed of representatives from both the legislative and executive branches. Each fiscal quarter, the council adopts an official forecast of 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.

Beginning in 2012, the ERFC also became responsible for overseeing preparation of GF-S expenditure outlooks for future biennia. With the technical assistance of a State Budget Outlook Work Group composed of legislative and executive staff, expenditure outlooks are published in November, January (for the Governor's budget proposal) and within 30 days of enactment of the operating budget.

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](#), composed 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.

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## Budget development approach

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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 along with a performance budgeting approach in decision-making.

For the 2015–17 biennial budget, agencies were required to rebase state program budgets to a level below the maintenance level budget request for programs not protected from reduction by either state constitutional provisions or federal law. Agencies with protected programs and activities must continually evaluate these services for improvements that can be achieved within current funding. But OFM asked all agencies to identify, describe and prioritize budget reductions equal to **15 percent** of unprotected Near GF-S maintenance level budgets. Options describing these reductions were the first step in a two-step agency budget process.

Prioritized budget reductions were also required from central service provider agencies and from agencies whose dedicated revenue is derived from, subsidized from, affects or interacts with the General Fund.

Budget reductions identified in the first step of the agency reduction process resulted in a rebased Near GF-S budget, below the levels necessary to sustain currently authorized services and programs as they were delivered.

Agencies were then asked to submit budget requests for funding building off this lower budget base. Decision packages requesting incremental funding above the new base budget level were submitted in ranked priority order, including both proposals to restore identified reductions necessary to achieve the lower base budget as well as any new funding requests for services or enhancements not currently provided.

## Budget and accounting structure

State government is organized among 114 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.

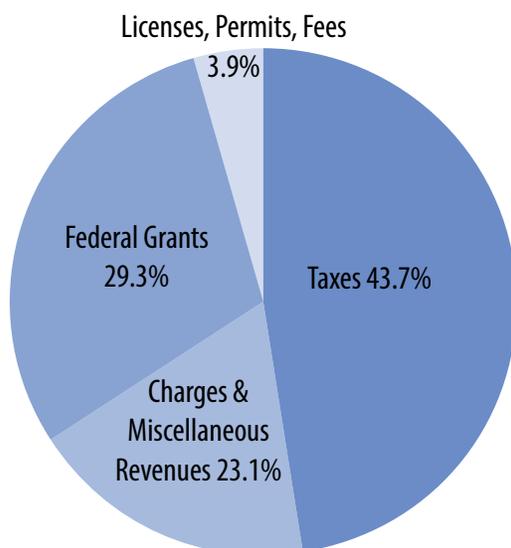
A few agencies are “nonappropriated,” meaning that they operate from an account that is legally exempt from appropriation. Expenditures by these agencies are usually monitored through a biennial allotment plan. There is no dollar limit as long as expenditures remain within available revenues and are consistent with the statutory purpose of the agency.

The state’s budget and accounting system includes more than 640 discrete accounts, which operate much like individual bank accounts with specific sources of revenue. The largest single account is the GF-S. State collections of retail sales, business, property, and other taxes are deposited in this account. Expenditures from the GF-S 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 in accounts that can be spent only for the purpose established in state law. In budget terms, these are referred to as “dedicated accounts.”

## Sources of state revenue

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 in specific accounts to support state operating or capital expenditures.



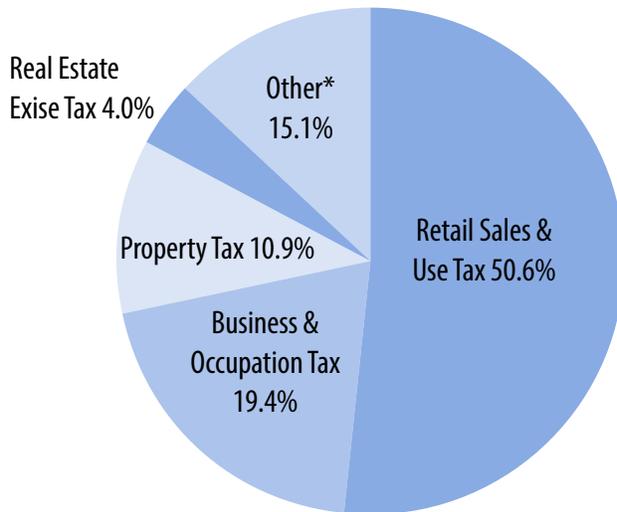
Sources of State Revenues – All Governmental Funds  
2015–17 Biennium Estimates

Category	\$\$ in Millions
Taxes	\$40,849
Charges & Miscellaneous Revenues	21,564
Federal Grants	27,439
Licenses, Permits, Fees	3,683
<b>Total</b>	<b>\$93,535</b>

Source: 2015–17 Office of Financial Management budget database

Office of Financial Management, May 2016

The chart below displays the major revenue sources for GF-S expenditures in the current biennium. The Department of Revenue collects most of these revenues.



#### Sources of General Fund – State Revenue

2015–17 Biennium Estimates

Category	\$\$ in Millions
Retail Sales & Use Tax	\$19,172
Business & Occupation Tax	7,372
Property Tax	4,136
Real Estate Excise Tax	1,515
Other*	5,739
<b>Total</b>	<b>\$37,934</b>

\*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 budget balance sheet.

Office of Financial Management, May 2016

## Size and distribution of the state budget

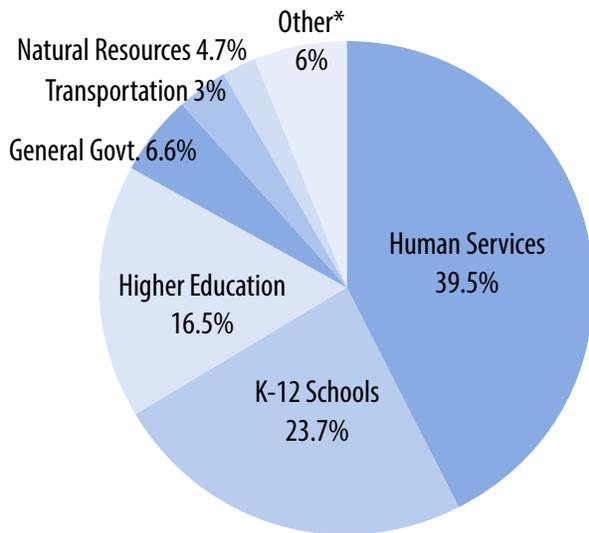
The state’s current operating budget for the 2015–17 biennium (from all fund sources) is \$83.5 billion. A separate capital budget finances major building, renovation and land acquisition projects. The 2015–17 (nontransportation) capital budget for new projects is \$3.8 billion. An additional \$2.8 billion 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 \$4.6 billion. (Total operating/capital budget = \$95 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 2015–17) and cash revenues from dedicated accounts. The debt service on nontransportation general obligation bonds is paid by GF-S 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 represent state support for kindergarten-through-grade 12 (K-12) education.
- » Higher education in public universities, community colleges and technical schools.
- » Natural resources include 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 chart below shows the distribution of operating expenditures from all funds for the 2015–17 biennium.



Distribution of 2015–17 State Operating Expenditures All Funds

Category	\$\$ in Millions
Human Services	\$35,661
K-12 Schools	21,425
Higher Education	14,941
Other*	5,399
General Government	6,003
Transportation	2,694
Natural Resources	4,285
<b>Total</b>	<b>\$90,408</b>

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

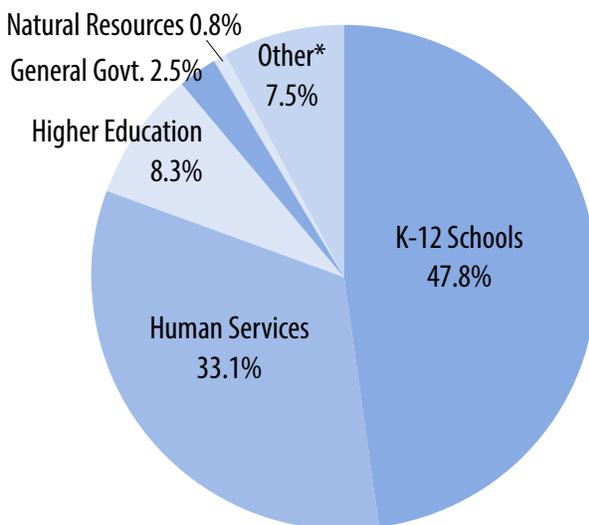
Source: 2015–17 operating budget database

Office of Financial Management, May 2016

## The General Fund-State operating budget

Approximately \$39.1 billion of the state operating budget for 2015–17 is supported by GF-S tax and fee revenues and reserves. Because the Governor and Legislature have the greatest discretion over how these revenues are spent, programs supported by GF-S receive substantial attention during budget deliberations.

The following chart shows the distribution of estimated GF-S expenditures for the 2015–17 operating budget. The majority of the GF-S 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 2015–17 State Operating Expenditures State General Fund

Category	\$\$ in Millions
K-12 Schools	\$18,034
Human Services	12,513
Higher Education	3,130
Other*	2,855
General Government	936
Natural Resources	287
<b>Total</b>	<b>\$37,755</b>

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

Source: 2015–17 operating budget database; does not reflect \$205 million in assumed underexpenditures

Office of Financial Management, May 2016

General Fund-State Expenditure Trends 1991–93 to 2015–17\*

BIENNIUM	DOLLARS IN MILLIONS	CHANGE IN MILLIONS
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
1999–2001	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*	30,758.5	899.8
2013–15	32,750.3	1,991.8
2015–17	37,755.0	5,004.7

*\*The 2015–17 biennial amount is based on appropriations as of May 2016. The 2015–17 amount does not reflect \$205 million in assumed underexpenditures. Dollars have not been adjusted for inflation.*

*Legislation passed in 2009 merged six accounts into GF-S (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

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 persons 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 counts.

The current state budget assumes approximately 111,538 FTEs (fiscal year 2016) 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.

## 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 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.

## State spending limitations

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State expenditures are restricted to available revenues and governed by the GF-S expenditure limit (Initiative 601) and balanced budget requirements.

### **Expenditure limit (Initiative 601):**

Annual expenditures from GF-S are restricted by the expenditure limit. Generally speaking, the expenditure limit is the actual spending level from the prior year multiplied by the fiscal growth factor, plus or minus any adjustments required by statute. The fiscal growth factor is the average growth in state personal income for the prior 10 fiscal years. Each November, the State Expenditure Limit Committee adjusts the limit for the previous and current fiscal year,

and projects a limit for the following two years. Temporary expenditures above the limit are allowed after declaration of an emergency and a law passed by two-thirds vote of the Legislature and signed by the Governor.

### **Balanced budget requirement:**

Beginning in 2013–15, the Legislature is required by law to adopt an operating appropriations bill that leaves a positive ending balance in the General Fund and related accounts. Furthermore, the projected maintenance cost of the budget must not exceed available fiscal resources in the next biennium.

## The debt limit

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With certain exceptions noted below, the amount of state general obligation debt that may be incurred is limited by the Washington State Constitution. The constitutional debt limitation prohibits the issuance of new debt if the aggregate debt contracted by the state would exceed the amount for which payments of principal and interest in any fiscal year would require the state to expend more than 9 percent of the arithmetic mean of general state revenues for the three immediately preceding fiscal years. This limitation restricts the incurrence of new debt and not the amount of debt service that may be paid by the state in future years.

Under the constitution, “general state revenues” includes all state money received in the state treasury, with certain **exceptions**, including:

- » fees and revenues derived from the operation of any undertaking, facility or project;
- » certain moneys received as gifts, grants, donations, aid or assistance;

- » retirement system moneys and performance bonds and deposits;
- » trust fund money, including money received from taxes levied for specific purposes; and
- » proceeds from sale of bonds or other indebtedness.

In November 2012, voters approved an amendment to the constitutional limit specifying that (1) beginning July 1, 2014, general state revenues will be averaged over the six immediately preceding fiscal years; (2) for the purpose of the calculation, the definition of general state revenue will be expanded to include property taxes received by the state; and (3) the 9 percent constitutional limit on debt service will be reduced to 8 percent by July 1, 2034 (in downward steps to 8.5 percent starting July 1, 2014, to 8.25 percent starting July 1, 2026, and finally to 8.0 percent starting July 1, 2034). The amendment was intended to stabilize and smooth the state’s ability to borrow, gradually reduce the state’s long-term debt

## The debt limit

burden and lower the share of the operating budget used to pay principal and interest on debt. In some years, the new constitutional limits are anticipated to be more restrictive than the previously approved statutory working debt limits.

The amount of new bonded capital program that is affordable under the debt limit can change depending upon:

- » the amount of previously approved projects carried forward in the capital budget;
- » changes in revenue forecasts that increase or decrease general state revenues;
- » changes in the make-up of funds included in general state revenues; and
- » changes in the interest rates at which bonds are sold.

## The Budget Stabilization Account

Senate Joint Resolution 8206, passed by the voters in November 2007, established the Budget Stabilization Account, also referred to as the “Rainy Day Fund.”

By June 30 of each fiscal year, the State Treasurer transfers an amount equal to 1 percent of the general state revenues deposited in the General Fund for that fiscal year to the Budget Stabilization Account.

Moneys may be appropriated from the Budget Stabilization Account by a majority vote of each house of the Legislature if: (1) forecasted state employment growth for any fiscal year is less than 1 percent; or (2) the Governor declares an emergency resulting from a catastrophic event that requires government action to protect life or public safety. Other withdrawals from the Budget Stabilization Account may be made only by a three-fifths vote of the Legislature.

## 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 biennium in Washington 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 or state population in certain age groups.

**Budget notes** – A legislative fiscal staff publication that summarizes the budget passed by the 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 10-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’s legal restriction (RCW 39.42.130) on the amount that can be paid for debt service on bonds, notes or other borrowed money. The Washington State Constitution (Article 8, Section 1(b)) mandates that payments of principal and interest in any fiscal year cannot exceed 9 percent of the arithmetic mean of general state revenues for the three preceding fiscal years. This debt limit of 9 percent of revenues is to be reduced in downward steps to 8 percent by July 1, 2034.

**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 12-month period used for budget and accounting purposes. The state fiscal year runs from July 1 through June 30 of the following year, and is named for the calendar year in which it ends (e.g., July 1, 2016, through June 30, 2017, is fiscal year 2017). The federal fiscal year runs Oct. 1 through Sept. 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 Fund-State** – The general fund represents all financial resources and transactions not required by law to be accounted for in other accounts. 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.

**General obligation bonds** – Bonds whose repayment is guaranteed by the “full faith and credit” of the state.

**GMAP** – Government Management, Accountability and Performance was a management initiative to improve the results of state government. Agency directors reported in regular meetings with the Governor on the most important management and policy challenges. Reports focused on performance in measurable terms. GMAP was closed out April 24, 2013, to transition to Results Washington.

**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 approved by voters in the November 1993 general election. Its primary requirements are an expenditure limit based on inflation and population growth (applicable to GF-S 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.

**Lean** – Lean is a systematic approach to improving value to customers by eliminating waste. The focus is on the customer and the work steps (or “value stream”) that create products or services for customers. Lean thinking, tools and techniques offer an opportunity to streamline business processes to save time, effort and money that can be better used on what customers value most.

**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 conditions and limitations 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."

**RCW** – The Revised Code of Washington is the compilation of all permanent state laws now in effect. It is a collection of session laws (enacted by the Legislature and signed by the Governor, or enacted via the initiative process), arranged by topic, with amendments added and repealed laws removed. It does not include temporary laws such as appropriations acts.

**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.

**Results Washington** – Results Washington combines the best aspects of previous performance management and performance budgeting efforts such as Government Management, Accountability and Performance and Priorities of Government with a significantly expanded Lean initiative that involves all state agencies.

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

**Supplemental budget** – Any legislative change to the original budget appropriations.