

Washington Research Council

= Special Report =

July 1988

How Washington Compares

State and Local Revenue and Expenditures — FY76 to FY86

Introduction

A ten-year look at *How Washington Compares*, from fiscal year 1976 (FY 76) to FY 86, the most recent year for which comparative data are available, casts light on the relationship between the state's economy and its pattern of taxation and public spending. And it reveals some significant changes in the way in which public dollars are spent. For example:

- **The state and local tax burden in Washington was higher as a share of personal income at the end of the period than it was at the beginning.** Washington's state and local governments collected \$115.91 per \$1,000 of personal income (per \$1000 PI) in taxes in FY 86, more than the receipts of \$112.24 in FY 76 and closer to the composite of all state and local governments (All States) than in earlier years. Total taxes were about \$3 more than All States in FY 86 compared to about \$7 less in FY 76.
- **Although inflation-adjusted state and local revenue grew more than the national average over the study period, revenue as a share of personal income varied for Washington.** With collections of \$195.91 per \$1000 PI in FY 86 Washington ranked 25th nationally, up from 33rd in FY 76.
- **Inflation-adjusted state and local spending also increased more than the national average from FY 76 to FY 86.** In FY 86 Washington spent \$187.09 per \$1000 PI and ranked 27th in the nation.
- **K-12 education spending**, 24 percent of general expenditures, was \$44.68 per \$1000 PI in FY 86, 30th among the states and about \$1 higher than All States. The margin was larger in FY 81 when the state spent \$7 per \$1000 PI more than All States and ranked 8th. In FY 76 the state spent less than All States — \$50.32 compared to \$51.76.
- **Public welfare spending**, which was less than the national average throughout the period, is increasing. In FY 76, when the state ranked 34th, welfare spending was \$17.10 per \$1000 PI, about \$7 less than All States, com-

pared to FY 86 when spending totaled \$20.31 per \$1000 PI, about \$2 less than All States.

These figures represent a small sample of data from the 18 categories of general revenue and 26 categories of general expenditures examined in *How Washington Compares*. Figures are also presented for several categories of non-general revenue and expenditures, unemployment, and per capita personal income.

Included in this report is a capsule history of events that affected Washington's spending and collections, an examination of taxes and other revenue sources, and an analysis of major areas spending areas — education, social services and transportation.

In using the data presented here it is important to be aware of some limitations. First, over the years covered in this report the Washington economy experienced one of its greatest growth periods (the late 1970s) and the deepest recession in more than 40 years. Understanding state and local revenue and spending priorities during times of economic volatility can be instructive in assessing various aspects of public policy. However, the economic fluctuation which occurred during this period must be factored into any analysis.

Second, some of the figures here are the product of two variables — personal income and government revenue or expenditures. As a result, equal changes in spending or collections will appear smaller in years of high personal income growth than in low growth years. Large increases in public spending during the late 1970s may not be apparent when looking at spending as a share of personal income, and equal percentage increases in tax collections will appear larger during the recession than before when viewed per \$1000 PI.

Finally, although from the most reliable source available — the U.S. Census Bureau — some figures — particularly for local governments — are estimates based on sample data and the Census Bureau's data classifications don't always coincide with those of state and local governments.

Overview

From FY 76 to FY 86, the combined revenue of Washington's state and local governments generally exceeded expenditures. But during the 1981-83 recession, revenue collections as a share of personal income fell (see figure 1). This recession was the worst one for the state in over 40 years and, according to the Department of Revenue, revenue collections were much harder hit than in previous recessions.

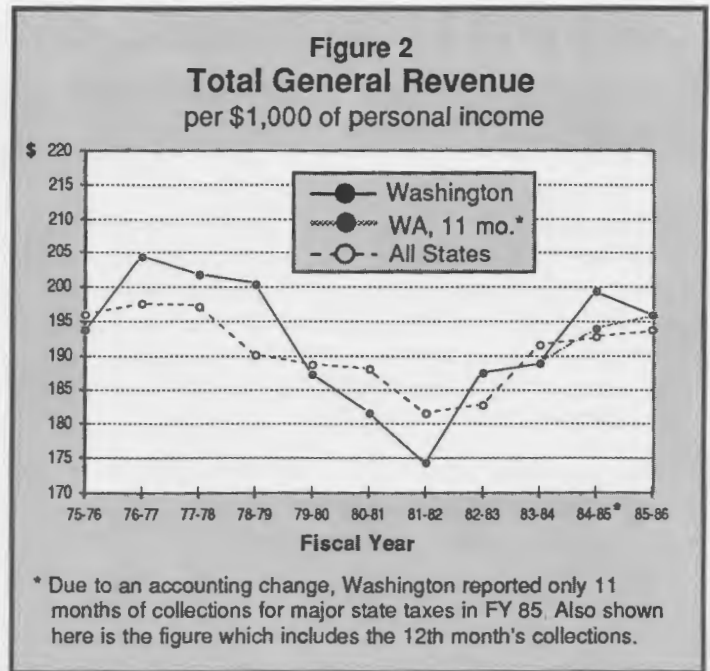
During the recession reserve balances were depleted, programs were reduced or eliminated, and taxes were raised to balance the budget. The discussion which follows examines the state's financial condition before, during and after the recession, and provides a perspective from which to understand how Washington compares.

The Late 1970s

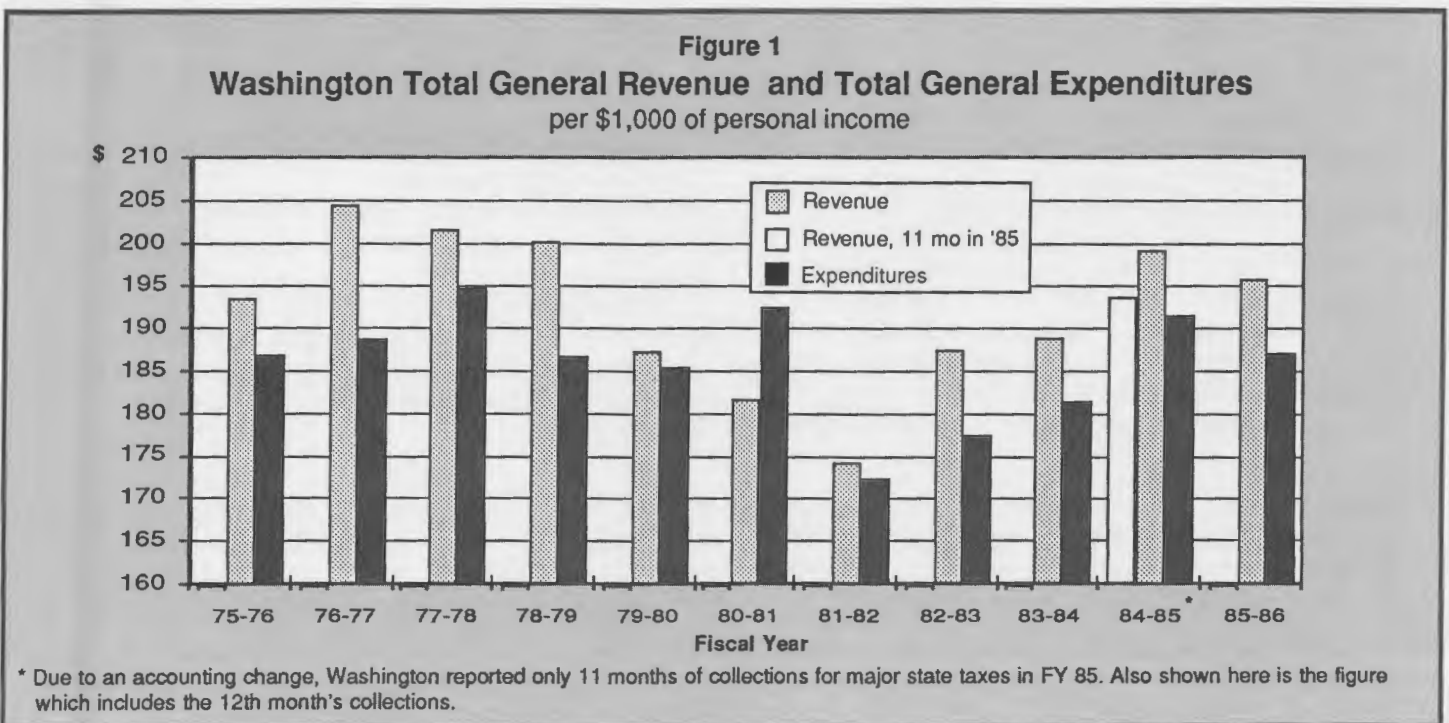
With the economic boom of the late 1970s, Washington's revenue picture was strong. It was one of the fastest growing periods in the state's history with population increasing and personal income on the rise. Employment was high and growing. Major industries, like timber and aerospace, were performing well. Consumer purchases of items such as houses and cars spurred the economy. In turn, the economy generated record levels of tax revenues, and public spending grew.

Coupled with the strong economy were the revenue effects of temporary tax rate increases imposed at the state level in 1976. These measures, including a 6 percent surtax on B&O taxes and a 0.1 percentage point increase in the sales tax,

contributed to three years of revenue collections substantially exceeding the All States average as a share of personal income (see figure 2).



With increased revenue, Washington's state and local governments also began spending more money per \$1000 PI after FY 77 than the nation as a whole (see figure 3), particularly for education.



Then, in 1978, with relatively high spending compared with the nation and growing reserve balances, food purchases were exempted from the sales tax by initiative, explaining in major part the revenue decrease between FY 78 and FY 79. Even so, Washington took in significantly more revenue as a share of personal income in FY 79 than did All States (see figure 2).

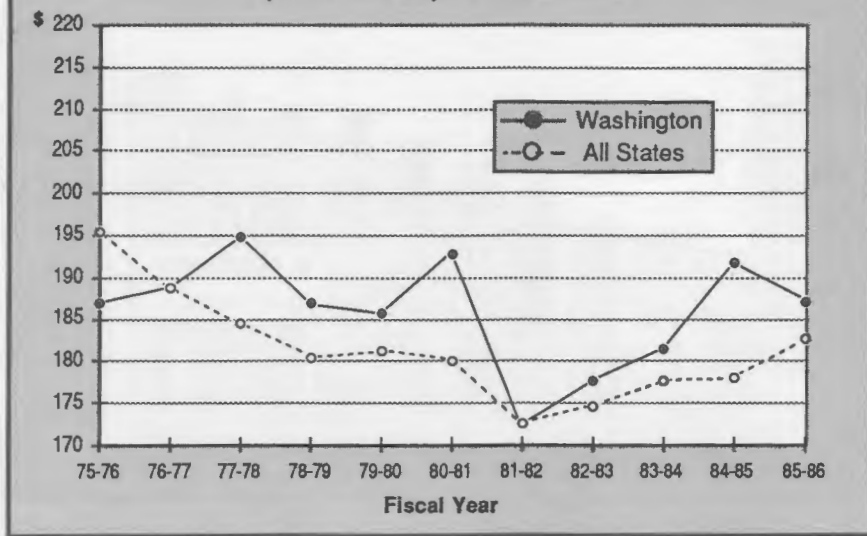
The Early 1980s

Going into the recession, the short-term forces that had caused unusually high revenue growth began to reverse. Interest rates began to rise, inflation was at double-digit levels, unemployment was increasing in the state and across the nation, and personal income growth slowed.

The recession hit Washington ahead of the nation in the first month of 1981, and was deeper here than in other parts of the country. Our unemployment rate peaked in 1982 at 12.1 percent compared with 9.7 percent nationally (see figure 4). The state's unemployment rate is normally higher than the nation's, but the spread widened during the recession years. Employment in most Washington industries either grew more slowly than their national counterparts, or declined more rapidly during the recession. And Washington's per capita personal income, which had been growing faster than the nation up to 1979 began growing more slowly (see figure 5, next page). Between 1979 and 1983 per capita personal income grew 29 percent, compared to a 34 percent increase for the nation.

At the same time, revenue from the federal government fell for Washington and the other states. Nationally, state and local governments had been receiving over \$40 per \$1000

Figure 3
Total General Expenditures
per \$1,000 of personal income



PI of federal funds through FY 81; after FY 82, however, the annual revenue from the federal government for All States did not exceed \$35 per \$1000 PI (see figure 6, next page).

In Washington, revenue from this source fell by almost \$11 as a share of personal income, from \$42.63 to \$31.76 per \$1000 PI between FY 81 and FY 82 — a loss of over \$300 million — while federal contributions to All States dropped by about \$6.50 per \$1000

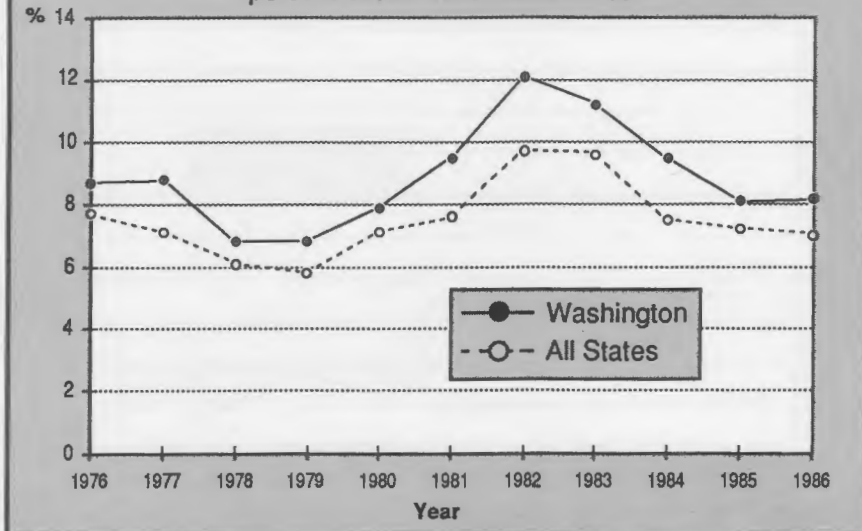
PI. Washington's drop was due in part to loss of federal matching funds for programs cut during the recession. In the following years, Washington's receipts of federal revenue stayed lower, on average, than in the 1970s, totaling \$33.51 per \$1000 PI in FY 86.

The year-to-year fluctuations in revenue received from the federal government are related to accounting cycles and changes in federal priorities. They explain part of the year-to-year fluctuations in total general revenue. Peaks in Washington's collections occur in the second year of each biennium, reflecting more aggressive billing and collections in the second year of each budget cycle.

As illustrated in figure 1, spending growth was not reduced to keep pace with the slowed growth in revenue. When revenue as a share of personal income fell in FY 80, general expenditures per \$1000 PI held nearly steady. In FY 81, with general revenue per \$1000 PI still dropping, expenditures increased, exceeding revenues by about \$10 per \$1000 PI and representing a shortfall of about \$500 million.

The state adjusted in FY 82 with a series of budget cuts and tax rate increases. Actual state and local general ex-

Figure 4
Unemployment Rate
percent of the civilian labor force



penditures fell by about \$80 million from the previous year — over \$20 per \$1000 PI.

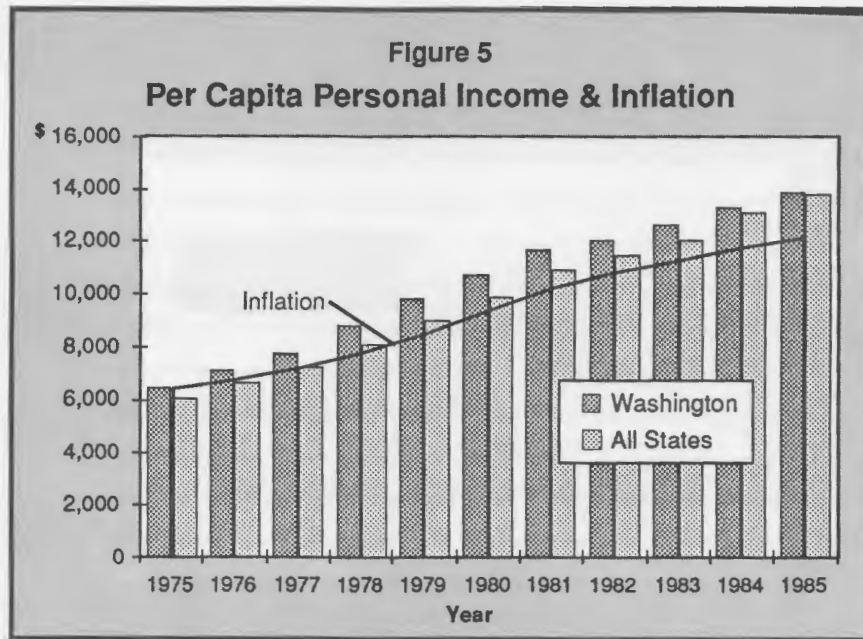
Most areas of spending experienced budget cuts or freezes, but due to their large shares of the total budget, education and welfare were the primary areas affected. Starting in 1981, limits were placed on higher education enrollments and a number of social service programs were reduced or eliminated. In FY 82, spending on elementary and secondary education was reduced through freezes and budget cuts. Enrollment declines also helped stem the need for increased spending.

Action was also taken on the revenue side. The state sales tax rate was raised from 4.5 percent to 5.5 percent in 1981 and again, in 1983, to 6.5 percent. The sales tax was put back on food for 14 months starting in 1982. Surtaxes were placed on the B&O and other taxes, and an additional local option sales tax of 0.5 percent was authorized in 1982. In 1983 the state lottery was established and the gas tax increased from 12 cents to 16 cents a gallon. This was the first step of a two phase increase in the gas tax and it automatically went up by an additional 2 cents, to 18 cents a gallon, in 1984.

The Mid-1980s

After FY 82, both general revenue and general expenditures increased as a share of personal income, though not to pre-recession levels. As before the recession, revenue collections and spending per \$1000 PI of Washington's state and local governments again exceeded those of All States, although by smaller margins than prior to the recession.

Between FY 85 and FY 86 total general revenue as a share of personal income decreased, as did total



general expenditures, while taxes held steady. The drop is explained in major part by the decline in federal revenue as a share of personal income, which occurs on a two-year cycle, and spending in programs supported by federal funds. Comparing the graphs for total general revenue (figure 2) and revenue from the federal government (figure 6), shows that total general revenue per \$1000 PI tends either to decline more sharply or increase more slowly in

the first year of the cycle, in response to the lower federal revenue.

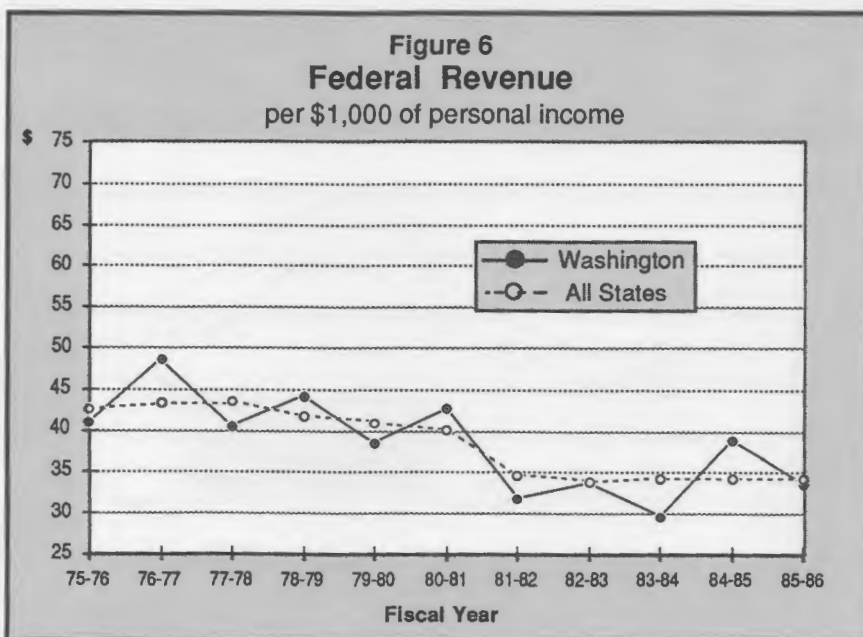
Total taxes per \$1000 PI equalled or exceeded those of All States between FY 83 and FY 86, in contrast to the years prior to FY 83 when taxes in Washington were consistently lower than the All States figure.

Compared with the rest of the nation Washington ranked 25th in general revenue per \$1000 PI and 27th in general expenditures per \$1000 PI in FY 86. Total general spending had returned to FY 76 levels. And, in certain areas, particularly K-12 and higher education, spending per \$1000 PI was down from FY 76 levels.

Following 1982 the unemployment rate in Washington decreased, from 12.1 percent in 1982 to 8.2 percent in 1986.

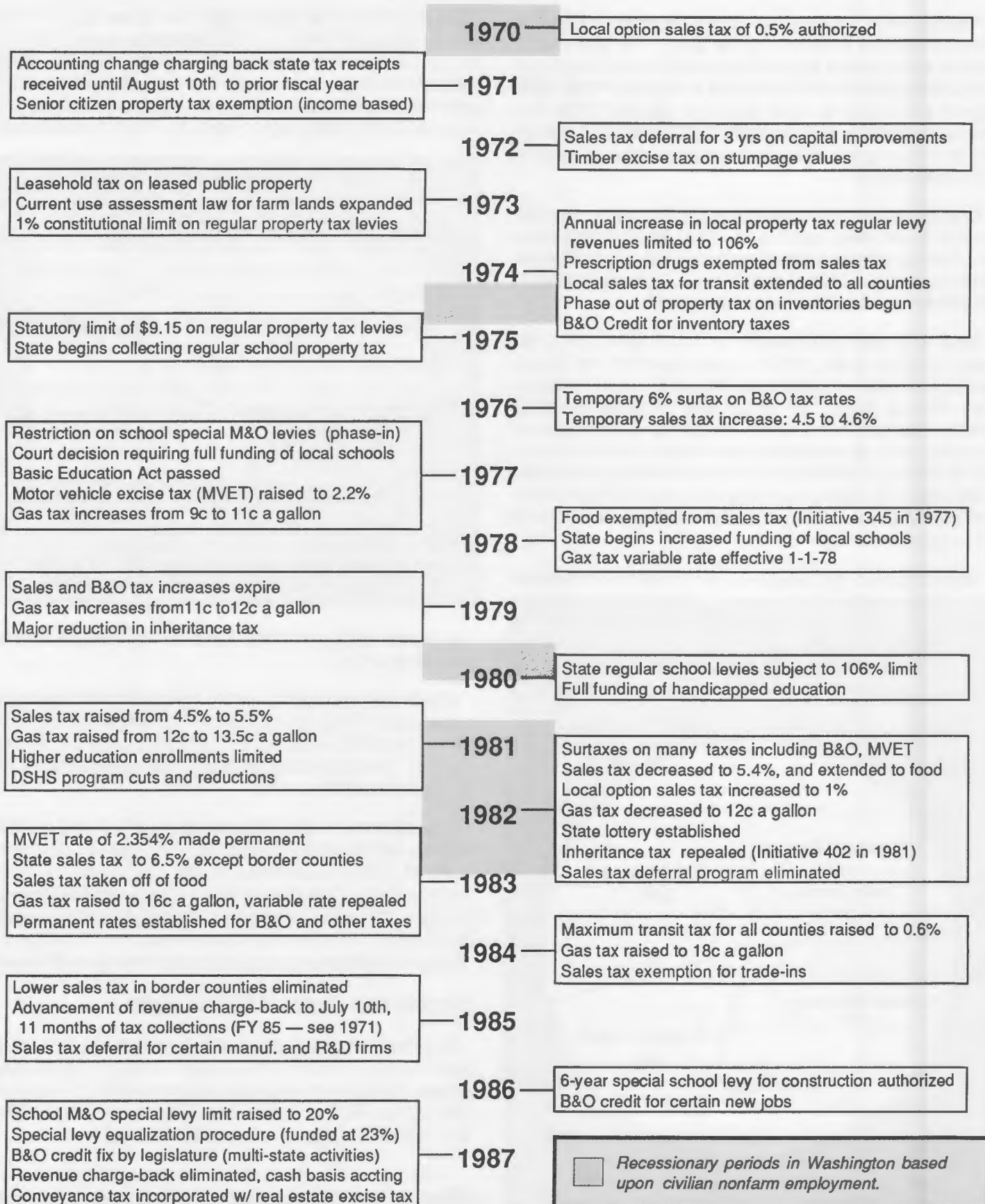
Nationally unemployment went from 9.7 percent of the civilian labor force to 7 percent.

Recovery was slow to come to areas of the state with heavy reliance on natural resource-based industries, like wood products and agriculture. In 1985 the state legislature authorized sales tax deferrals on capital plant and equipment for firms locating in these "distressed" areas to promote job growth.



Significant Events in State/Local Spending and Taxation

Calendar Years 1970 to 1987



Recessionary periods in Washington based upon civilian nonfarm employment.

General Revenue

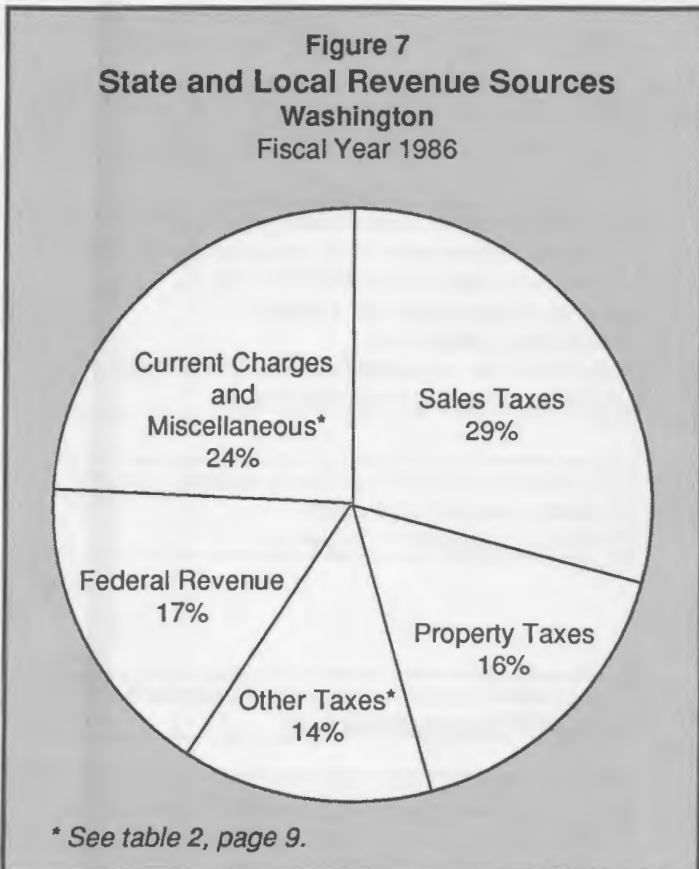
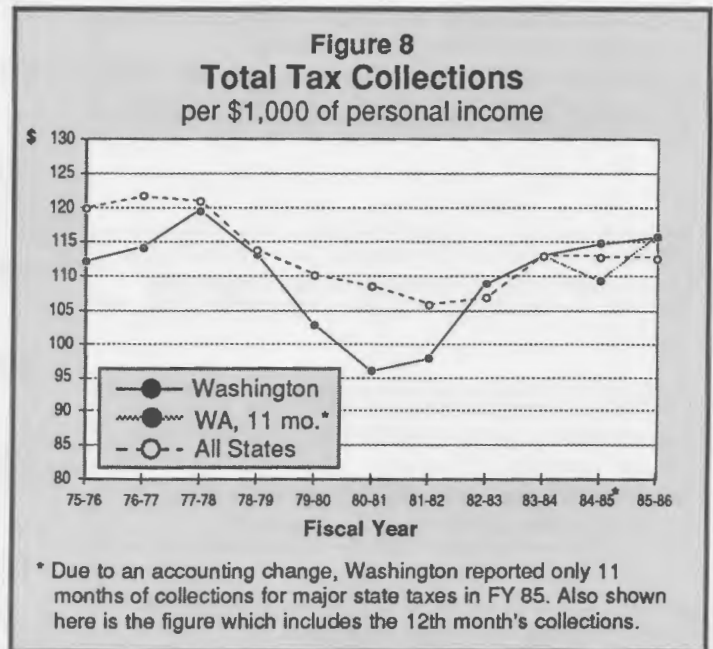
Although Washington's total general revenue in absolute dollars increased steadily over the period, the state's total general revenue as a share of personal income varied from a high of \$204.50 in FY 77 to a low of \$174.31 in FY 82. From high levels relative to other states in the late 1970s, the revenue collections of Washington's state and local governments fell during the 1981-83 recession before recovering in the mid-1980s.

Over the decade there were cutbacks in revenue from the federal government, public pressure to limit property taxation, buildup of reserve balances during the economic prosperity of the mid-1970s, and changes in the application of the sales tax to food and capital investment.

State and local governments in Washington, not unlike those in other states, relied on revenue from the federal government and property taxes for a substantial portion of their revenue during the 1970s. With cutbacks in federal monies and continuing public resistance to increases in property taxes, government turned to other sources of revenue to make up deficits and finance spending growth in the 1980s. In Washington, revenue growth occurred mainly in the category of general sales tax (which includes the business and occupations tax).

Taxes are the largest single source of revenue for state and

local governments in Washington (see figure 7). In FY 76 taxes made up 58 percent of total general revenue. By FY 81 the percentage was down to 53 percent, with the other components of general revenue — revenue from the federal government and current charges and miscellaneous revenue — each contributing a larger share. In FY 86 the pendulum



had swung back and taxes made up 59 percent of total general revenue.

Washingtonians paid about \$116 per \$1000 PI in state and local taxes in FY 86, ahead of the FY 76 level of \$112 and \$20 higher than the ten-year low in FY 81 of \$96 per \$1000 PI (see figure 8). The state ranked 18th in FY 86, up from 28th in FY 76 and 41st in FY 81.

This summary looks at the components of total general revenue and how they changed over the decade. The categories of general sales taxes, property taxes, revenue from the federal government, current charges and miscellaneous revenue, and other taxes are examined to see how each contributed to the current revenue picture and Washington's revenue collections are also compared to those of All States.

Income and General Sales Taxes

Washington has no individual or corporate income tax and general sales taxes in Washington, which in these data include the business and occupations tax (B&O) — a gross receipts tax paid by businesses in the state — therefore, represent a major share of general revenue.

A larger share of Washington's total general revenue came from general sales taxes in FY 86 than in earlier years,

Table 1
State and Local Revenue
Washington's Rank
 per \$1,000 of personal income

	FY 86	FY 81	FY 76*
GENERAL REVENUE			
Total	25	34	33
From Federal Government	32	31	35
For Public Welfare	42	34	—
For Education	21	22	—
General Revenue Sharing	41	48	—
From Own Sources	20	35	24
Total Taxes	18	41	28
Property Taxes	26	31	28
Income & Gen. Sales Taxes	19	39	28
General Sales Taxes	1	4	2
Income Taxes	NA	NA	NA
Other Taxes	17	19	22
Motor Fuel Taxes	15	21	—
Motor Vehicle License	38	40	—
Current Charges & Misc. Rev.	30	20	17
For Education	22	29	—
For Hospitals	33	36	—
Interest Earnings	34	14	—
NON-GENERAL REVENUE			
Total	2	4	—
Utility	3	4	—
Liquor Stores	10	8	—
Employee Retirement	28	21	—
Insurance Trust	1	6	—

* Data not broken out for some revenue categories prior to FY 78.

with the major changes coming during and after the recession. Before the recession, revenue from the federal government and current charges and miscellaneous revenue grew as a percentage of total general revenue while general sales, property and other taxes decreased. During the recession, however, general sales tax rates were increased to help balance the budget.

The percentage of Washington's total general revenue that came from general sales tax receipts increased from about 23 percent in FY 81 to 29 percent in FY 86. The comparable All States category, income and general sales taxes, increased from 27 percent of total general revenue in FY 81 to 29 percent in FY 86.

After FY 81 general sales tax receipts per \$1000 PI in Washington increased from \$42.15 to \$57.15 in FY 86,

compared with income and general sales taxes for All States which grew from \$51.60 per \$1000 PI in FY 81 to \$55.91 in FY 86. Figure 9, on the next page, illustrates this growth in Washington.

Over the decade Washington's rank for income and general sales taxes as a share of personal income went from 28th in FY 76 to 19th in FY 86, after dropping to 39th during the recession.

Property Taxes

Washington, along with many other states, placed several limitations on property tax revenues during the mid-to-late 1970s. This state's measures included a 1 percent constitutional limit on regular tax levies (1973), a regular local property tax limit of 106 percent of the prior year's collections (1974), a \$9.15 statutory limit on regular property tax levies (1975), restrictions on special levies for school maintenance and operation (1977), and application of the 106 percent limit to the state-collected regular levy for schools (1980).

As illustrated in figure 9, property tax collections as a share of personal income in Washington dropped from \$36 to \$32 per \$1000 PI between FY 76 and FY 86. Although they increased as a share of personal income from FY 81 to FY 86, their share of total general revenue did not increase substantially. Over the period property taxes fell from about 19 percent of total general revenue in FY 76 to 15 percent in FY 81, ending the period at 16 percent.

The decline was sharper for All States (see figure 9). Property tax collections fell as a share of personal income and dropped from 22 percent of total general revenue in FY 76 to 17 percent in FY 86. This sharper decline is explained in major part by the limitations enacted in California and Massachusetts which, together, were large enough to skew national trends.

Revenue from the Federal Government

Washington's trend in revenue from the federal government has been similar to the trend for All States, although for Washington the drop during the recession was greater.

About half of the revenue received by state and local governments in Washington from the federal government in FY 86 was in three categories: public welfare, education, and general revenue sharing. As a share of personal income, welfare receipts from the federal government dropped between FY 81 and FY 86, as did federal revenue for education and general revenue sharing. General revenue sharing has since been discontinued. Together these three categories accounted for nearly half of the drop in revenue per \$1000 PI from the federal government after FY 81.

Other areas which received federal funds include health and hospitals, highways, housing and community development, and sewerage.

Current Charges and Miscellaneous Revenue

Current charges and miscellaneous revenue, including interest revenue and those amounts received by state and local governments for the provision of services, accounted for 24 percent of Washington's total general revenue in FY 86. The state's revenue from this source as a share of personal income began the study period at a higher level and increased more slowly than All States over the 10 year period, as shown in figure 9.

In FY 76, Washington's revenue from this category as a share of personal income was higher than All States — about \$7 greater per \$1000 PI. By FY 86 the gap had closed and All States received more funds per \$1000 PI than state and local governments in Washington. Washington's rank in this category as a share of personal income fell steadily from 17th in FY 76 to 30th in FY 86 (see table 1, page 7).

This slower growth is also evident in the share of the total general revenue pie made up by this source. Over the period revenue from this category went from 21 percent of Washington's total general revenue in FY 76 to 24 percent in FY 86. For All States, which experienced more growth in these sources, current charges and miscellaneous revenue increased from 17 percent of total general revenue in FY 76 to 24 percent in FY 86.

Declines in interest earning revenue accounted for most of Washington's slowed growth in this category following the recession. Washington's experience reflects the use of state and local revenue reserves to counter revenue shortfalls during the recession.

According to Census Bureau figures, Washington's state and local governments reduced their actual cash and security holdings (not including insurance trust funds) nearly 15 percent of between FY 82 and FY 83. Over the same period,

Figure 9
Selected General Revenue Categories
per \$1,000 of personal income

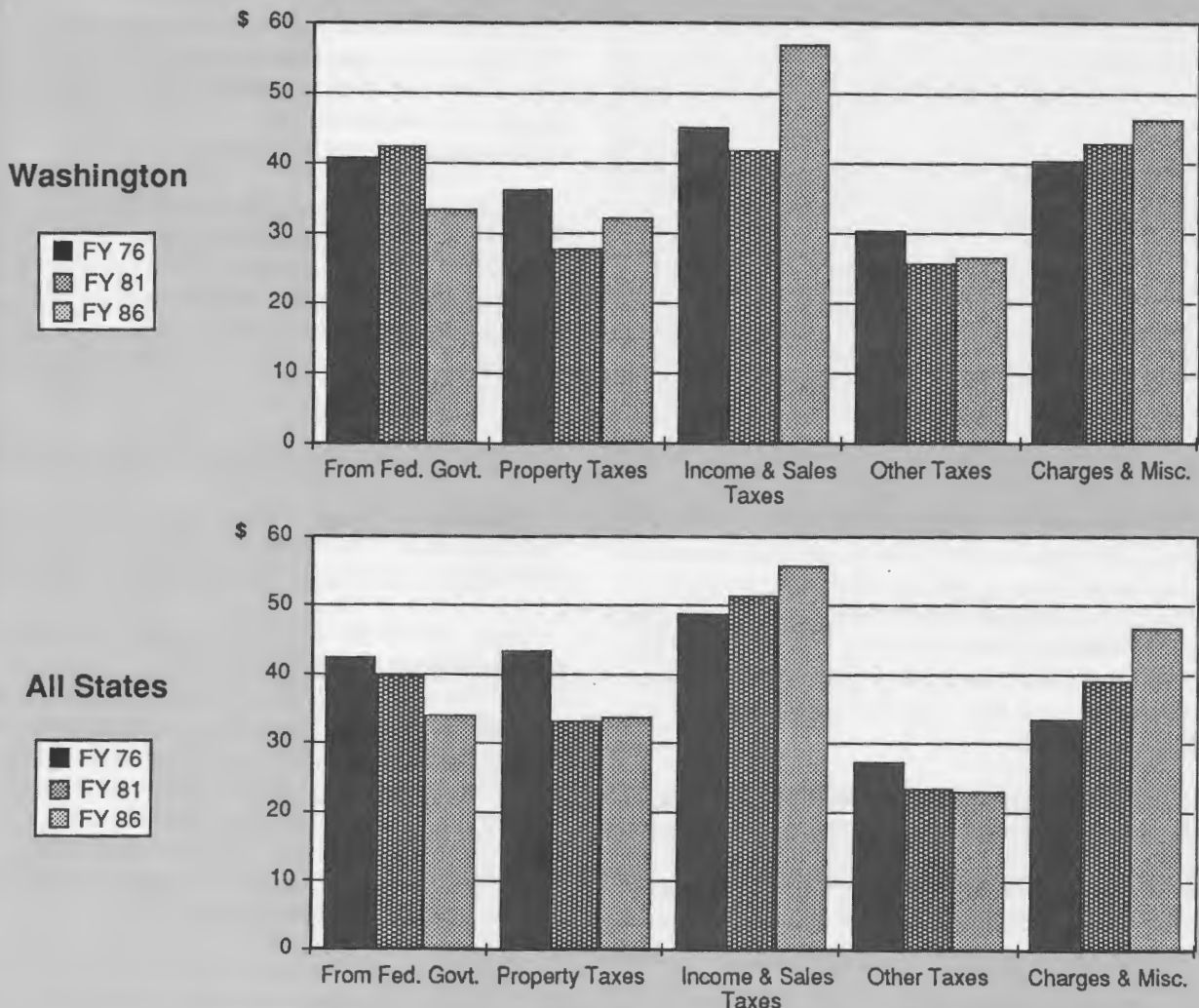


Table 2
State and Local Revenue
Fiscal Year 1986

GENERAL REVENUE	Washington			All States		
	Dollars in Thousands	Percent of Total	Dollars per \$1000 PI	Dollars in Thousands	Percent of Total	Dollars per \$1000 PI
Total	\$11,987	100.0%	\$195.91	\$641,407	100.0%	\$193.75
From Federal Government	2,050	17.1	33.51	113,099	17.6	34.16
For Public Welfare	539	4.5	8.81	42,194	6.6	12.75
For Education	403	3.4	6.59	18,040	2.8	5.45
General Revenue Sharing	72	0.6	1.17	4,424	0.7	1.34
From Own Sources	9,937	82.9	162.40	528,308	82.4	159.58
Total Taxes	7,092	59.2	115.91	373,051	58.2	112.69
Property Taxes	1,971	16.4	32.21	111,711	17.4	33.74
Income & Gen. Sales Taxes	3,497	29.2	57.15	185,079	28.9	55.91
General Sales Taxes	3,497	29.2	57.15	90,710	14.1	27.40
Income Taxes	NA	NA	NA	94,369	14.7	28.51
Other Taxes	1,625	13.6	26.56	76,262	11.9	23.04
Motor Fuels	394	3.3	6.43	14,400	2.2	4.35
Motor Vehicle License	135	1.1	2.21	8,247	1.3	2.49
Current Charges & Misc	2,844	23.7	46.49	155,257	24.2	46.90
For Education	557	4.6	9.11	23,745	3.7	7.17
For Hospitals	303	2.5	4.95	22,830	3.6	6.90
Interest Earnings	545	4.5	8.91	35,850	5.6	10.83

NON-GENERAL REVENUE	Washington			All States		
	Dollars in Thousands	Percent of Total	Dollars per \$1000 PI	Dollars in Thousands	Percent of Total	Dollars per \$1000 PI
Total	\$4,925	100.0%	\$80.49	\$141,786	100.0%	\$42.83
Utility	2,208	44.8	36.09	43,850	30.9	13.25
Liquor	213	4.3	3.49	3,313	2.3	1.00
Employee Retirement	1,048	21.3	17.13	69,365	48.9	20.95
Insurance Trust	1,455	29.5	23.78	25,258	17.8	7.63

All States increased holdings by 16 percent. From FY 81 to FY 86, Washington's holdings increased by about 28 percent, compared with All States holdings, which increased by almost 107 percent.

Miscellaneous Taxes

As with property tax receipts, revenue from miscellaneous other taxes in Washington decreased as a share of both total general revenue and personal income. This category includes receipts from taxes imposed on motor fuels, motor vehicles, tobacco, alcohol, public utilities and amusements, and severance taxes (see table 2).

In total these taxes made up almost 16 percent of total general revenue in FY 76, falling to less than 14 percent in FY 86. Comparable All States figures were lower throughout the

period. As illustrated in figure 9, Washington stayed slightly above All States in revenue per \$1000 PI from these taxes over the period and increased its rank from 22nd in FY 76 to 17th in FY 86.

In FY 86 Washington ranked 15th in motor fuel tax receipts as a share of personal income with collections of \$6.43 per \$1000 PI. All States collections were \$4.35. Over the period Washington was consistently above the nation in gas tax revenue as a share of personal income.

While Washington's gas tax rate, at 18 cents a gallon, is currently among the highest in the country, gas tax receipts are dedicated by the state constitution to highway purposes. This differs from some other states where highways are funded, at least in part, from other revenue sources like the state general fund.

General Expenditures

From FY 76 to FY 86, the spending pattern of state and local governments in Washington tracked fairly closely to that of the nation as a whole. In most categories of spending, governments in Washington exceeded All States slightly, ranking among the middle third of the states in spending as a share of personal income.

Spending per \$1000 PI was at a high during the late 1970s. It dropped during the recession, and has since begun to increase again.

of its total general expenditures on education and libraries than All States. By FY 86 Washington was still ahead of the national norm, but the margin was smaller.

Local schools and higher education, which together made up nearly all of education and libraries expenditures in FY 86, experienced declines in spending as a share of personal income between FY 76 and FY 86. Each are discussed in more detail below.

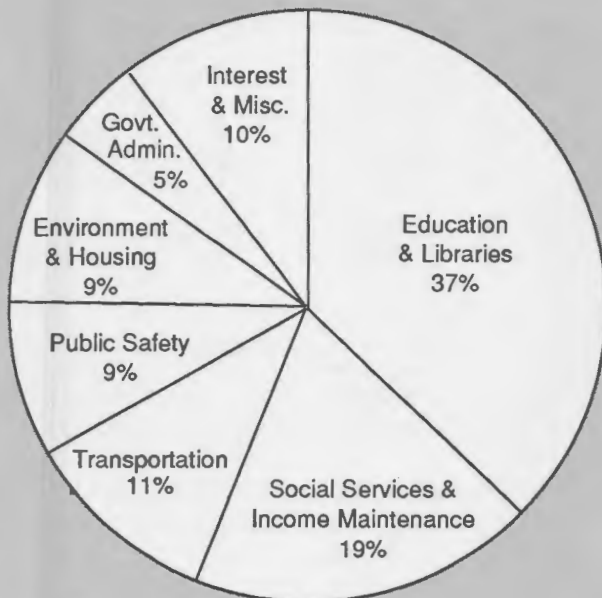
Local Schools

With declining enrollments, spending for local schools, measured as a share of personal income, decreased across the country through the late 1970s and early 1980s. In Washington, however, spending for local schools increased in FY 78 and stayed high relative to All States until the recession.

Driving much of the state's expenditure growth in the late 1970s was the Doran I decision, which expanded the definition of education services to be funded by the state government, and subsequent legislation enacted to insure that programs, staff and funding in all school districts met minimum requirements. With state funding increased to meet these requirements, Washington's rank in spending as a share of personal income (see table 3, next page) jumped from 29th in FY 76 to 8th in FY 81.

After FY 81 spending growth slowed. With the recession in full swing, spending cuts and restrictions were mandated by the legislature, including a freeze on staff expenditures and inflation-based increases, and a \$16 million cut from the state budget appropriation. Spending for local schools in Washington fell between FY 81 to FY 83, while spending by All States increased.

Figure 10
State and Local General Expenditures*
Washington
Fiscal Year 1986



*See table 4, page 14, for details.

Education and libraries, social services and income maintenance, and transportation represented two-thirds of Washington's FY 86 general expenditures (see figure 10). Each is reviewed in the following discussion.

EDUCATION AND LIBRARIES

Washington's state and local governments have consistently devoted a greater portion of their funds to education-related services than the average state and spending on these services has made up a larger portion of total expenditures.

In FY 86 spending on education and libraries accounted for 37 percent of total general expenditures in Washington, compared with 35 percent for All States. As shown in figure 11, prior to the recession the state spent a larger share

Figure 11
Education and Libraries Expenditures
(percent of total general expenditures)

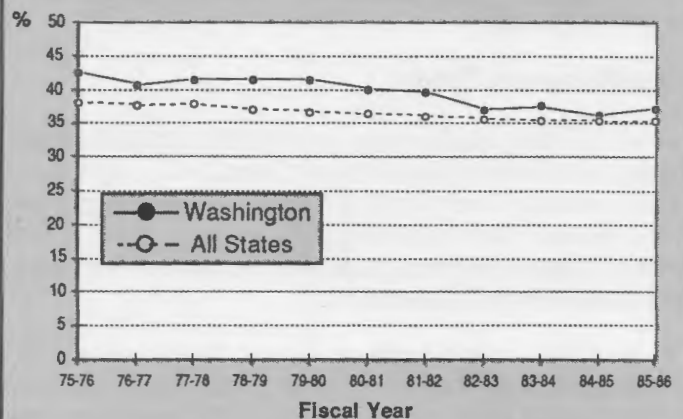


Table 3
State and Local Expenditures
Washington's Rank
(per \$1,000 of personal income)

	FY 86	FY 81	FY 76*
GENERAL EXPENDITURES			
Total	27	21	34
Education & Libraries:			
Education	28	13	18
Local Schools	30	8	29
Higher Education	20	19	15
Other	31	21	29
Libraries	3	4	—
Social Services & Income Maint:			
Public Welfare	23	23	34
Health and Hospitals	30	27	45
Social Insurance Admin.	40	16	—
Veterans' Administration	30	31	—
Transportation:			
Highways	32	23	38
Air Transportation	23	21	—
Other	3	3	—
Public Safety:			
Police	23	31	22
Fire Protection	10	12	19
Corrections	10	7	—
Inspection and Regulation	4	5	—
Environment & Housing:			
Natural Res., Parks & Recr.	14	11	—
Sewerage	17	40	23
Other Sanitation	22	18	20
Housing & Community Dev.	28	43	—
Government Administration:			
Financial Administration:			
General Control	16	21	—
General Public Buildings	25	27	35
Interest & Miscellaneous:			
Interest on General Debt	36	40	24
Other General Expenditures	22	29	—
	FY 86	FY 81	FY 76*
NON-GENERAL EXPEND.			
Total	4	3	—
Intergovernmental	12	12	—
Employee Retirement	13	12	—
Insurance Trust	4	8	—
Liquor Stores	10	7	—
Utility	6	3	—

*Data not broken out for some expenditure categories prior to FY 78.

Once again local school districts, led by Seattle, went to court, this time seeking an expanded definition of "full funding" and some compensation for the \$55 million cut from the original 1981-83 budget appropriation. In the Doran II decision, rendered in April 1983, several of the changes of definition suggested in the suit were not adopted and the state was not required to make up for prior spending cuts.

The decision did require the state to fund handicapped and bilingual programs, the remediation assistance program and pupil transportation, and prohibited the legislature from reducing its 100 percent funding level once it was established.

Largely as a result of this ruling and lower enrollments, expenditures did not return to pre-recession levels. After the two years of decline, in FY 81 and FY 82, Washington's spending on local schools began increasing again, ending the study period at about the same level as that of All States both as a share of total general expenditures and as a share of personal income.

Over the decade Washington moved from a rank of 29th in FY 76 to 30th in FY 86 with \$44.68 per \$1000 PI, down from the state's FY 76 spending level of \$50.32 per \$1000 PI (see figure 12, next page). In total, Washington spent \$2.7 billion for local schools in FY 86, representing about 24 percent of total general expenditures.

Higher Education

Higher education spending made up about 11 percent of Washington's total general expenditures in FY 86 and, throughout the study period, Washington spent more per \$1000 PI on this category than the national average. This greater spending was due, in part, to the larger percentage of students enrolled in public colleges and universities in Washington than in other parts of the country.

Washington's real growth in higher education spending lagged behind All States over most of the period and, as shown in figure 12, spending as a share of personal income dropped off after FY 76. Washington's spending per \$1000 PI dropped steadily throughout the late 1970s and the spending margin over All States gradually decreased. This spending decline continued through FY 83 with the imposition of enrollment limitations and staffing cuts.

Since FY 83 the growth in Washington's spending for higher education has exceeded All States. This was made possible, in part, by revenue increases from a 1982 tuition hike.

In FY 86 with total spending of \$1.3 billion, Washington ranked 20th with higher education expenditures of \$21.20 per \$1000 PI down from 15th and a spending level of \$25.54 per \$1000 PI in FY 76.

SOCIAL SERVICES & INCOME MAINTENANCE

Social services and income maintenance, 19 percent of Washington's total general expenditures in FY 86, made up a smaller portion of total general expenditures for Washington than for All States in every year of the study period. However, Washington's spending grew faster than All States and, as figure 13 shows, the difference between Washington and All States in share of general expenditures devoted to this category has decreased.

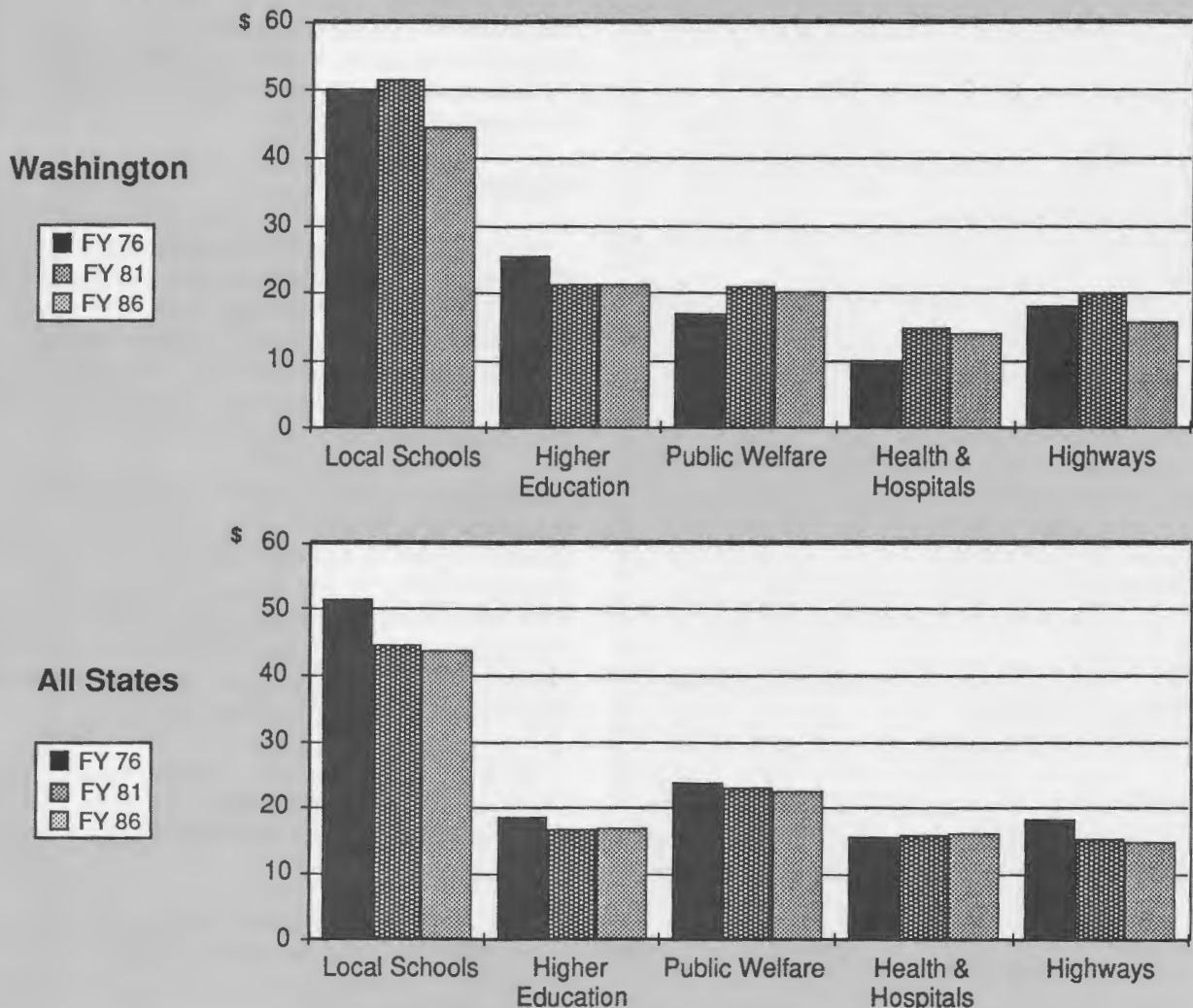
This category includes expenditures for public welfare, health and hospitals, social insurance administration, and veterans services. Public welfare and health and hospitals together account for 98 percent of the category and are discussed in more detail.

Public Welfare

Spending on public welfare, which includes public assistance for senior citizens, families with dependent children, and handicapped persons based on needs, was \$1.2 billion in FY 86, nearly 11 percent of Washington's total general expenditures. Over the study period Washington has consistently spent less per \$1000 PI and less of its total general expenditures for public welfare than All States. This was due in part to fewer recipients as a percentage of the population and lower health care costs.

As shown in figure 12, Washington's public welfare spending as a share of personal income increased between FY 76 and FY 86, while All States decreased slightly. Both before and after the recession the state's welfare expenditures grew faster than the national average, though during the recession spending dropped relative to All States.

Table 12
Selected General Expenditure Categories
per \$1,000 of personal income



Starting in FY 81, cost-cutting measures were instituted by the state and federal governments to help reduce spending. In Washington, Aid to Families with Dependent Children—Employable (AFDC—E) was eliminated for a period of time, as was the adult dental program. Federal Emergency Assistance, General Assistance for the Unemployable, Refugee Assistance and the chore services program experienced eligibility tightening and program cuts. These measures contributed to a drop in welfare expenditures of over \$80 million, or 9 percent, between FY 81 and FY 82, compared to an increase of nearly 8 percent for All States.

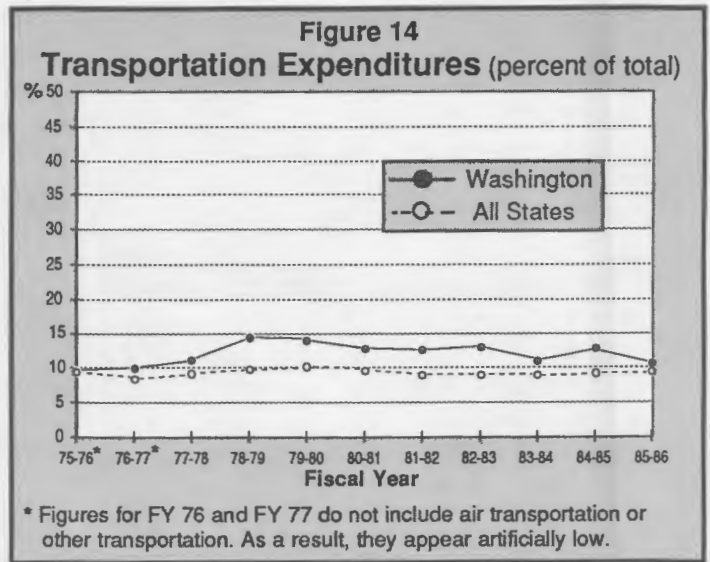
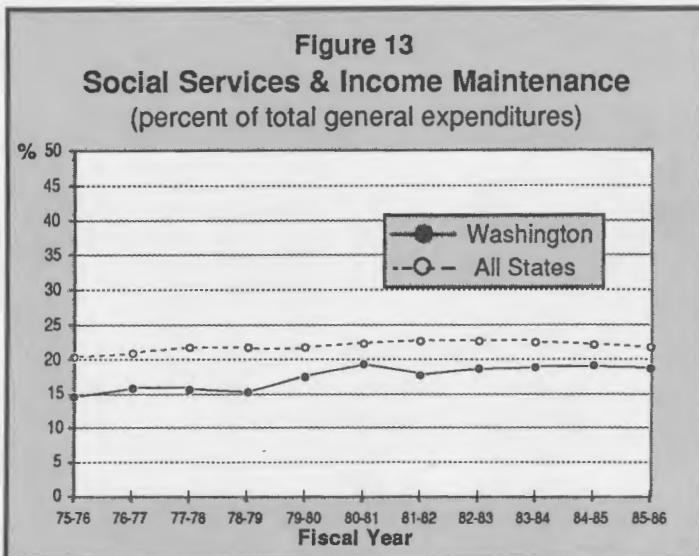
Faster than average AFDC caseload growth accounted for the bulk of Washington's faster expenditure growth. According to a 1988 Legislative Budget Committee report, Washington had the fifth fastest AFDC caseload growth per 1,000 population between 1980 and 1986.

Health and Hospitals

In FY 86 Washington spent \$0.9 million, nearly 8 percent of total general expenditures, on health and hospitals. As with public welfare, Washington's spending for this category per \$1000 PI was less than All States throughout the study period. Lower spending in Washington can be attributed, in part, to shorter hospital stays and greater use of outpatient facilities. These basic characteristics of the health care delivery system, coupled with reimbursement constraints and incentives in Medicaid programs, resulted in lower public welfare expenditures by holding down the medical portion of welfare costs.

TRANSPORTATION

Throughout the study period Washington was consistently above All States in the share of total general expenditures devoted to transportation (see figure 14). Expenditures in this category peaked in the late 1970s, at almost 15 percent of general expenditures, but fell below 11 percent in FY 86. Highway expenditures, which amounted to 80 percent of transportation spending in FY 86, is discussed in more detail.



Highways

Expenditures for Washington's highways accounted for nearly \$1 billion and more than 8 percent of total general expenditures in FY 86. Washington exceeded All States in highway spending as a share of personal income in almost every year of the study period. However, Washington's state and local governments spent less per \$1000 PI on highways in FY 86 than in any other year, and, for the first time since FY 76, spent about the same amount per \$1000 PI as All States.

As figure 12 illustrates, Washington's highway expenditures as a share of personal income increased between FY 76 and FY 81. This increased spending was due in major part to greater federal support for interstate highway and bridge construction. Several interstate construction projects were added to on-going projects during the 1979-81 biennium.

Due to the capital-intensive nature of highways projects, highway spending per \$1000 PI can vary greatly from year to year. Among the variables involved are the phases of construction, the number and magnitude of projects, and federal emphasis on specific programs. These variables likely account for much of the variation in rank and spending.

OTHER EXPENDITURE AREAS

The remaining areas of spending represented about a third of Washington's total general expenditures in FY 86. They include public safety (9 percent), environment and housing (9 percent), government administration (5 percent), and interest and miscellaneous expenditures (10 percent). Each of these categories made up a greater share of general expenditures in FY 86 than it did in FY 76.

Compared with All States, Washington devoted a greater share of its expenditures to public safety and environment and housing, and a smaller share for government administration and interest and miscellaneous expenditures. (Table 4 lists the categories included in each of these groupings.)

Table 4
State and Local Expenditures
Fiscal Year 1986

GENERAL EXPENDITURES	Washington			All States		
	Dollars in Thousands	Percent of Total	Dollars per \$1000 PI	Dollars in Thousands	Percent of Total	Dollars per \$1000 PI
Total	\$11,447	100.0%	\$187.09	\$604,455	100.0%	\$182.58
Education & Libraries:	4,271	37.3	69.81	213,766	35.4	64.57
Education	4,179	36.5	68.30	210,819	34.9	63.68
Local Schools	2,734	23.9	44.68	145,111	24.0	43.83
Higher Education	1,297	11.3	21.20	56,535	9.4	17.08
Other	148	1.3	2.43	9,173	1.5	2.77
Libraries	92	0.8	1.51	2,948	0.5	0.89
Social Services & Income Maint:	2,152	18.8	35.18	131,088	21.7	39.60
Public Welfare	1,243	10.9	20.31	74,646	12.3	22.55
Health and Hospitals	861	7.5	14.07	53,613	8.9	16.19
Social Insurance Administration	47	0.4	0.77	2,707	0.4	0.82
Veterans' Administration	1	0.0	0.02	122	0.0	0.04
Transportation:	1,213	10.6	19.82	56,309	9.3	17.01
Highways	970	8.5	15.85	49,368	8.2	14.91
Air Transportation	66	0.6	1.08	4,257	0.7	1.29
Other	177	1.6	2.90	2,684	0.4	0.81
Public Safety:	1,040	9.1	17.00	51,308	8.5	15.50
Police	383	3.3	6.27	22,685	3.8	6.85
Fire Protection	205	1.8	3.34	9,587	1.6	2.90
Corrections	319	2.8	5.22	14,957	2.5	4.52
Inspection and Regulation	133	1.2	2.17	4,079	0.7	1.23
Environment & Housing:	1,067	9.3	17.44	49,665	8.2	15.00
Nat. Resources, Parks & Recr.	501	4.4	8.19	19,238	3.2	5.81
Sewerage	287	2.5	4.68	13,307	2.2	4.02
Other Sanitation	100	0.9	1.63	5,835	1.0	1.76
Housing and Community Dev.	180	1.6	2.94	11,285	1.9	3.41
Government Administration:	555	4.9	9.08	31,803	5.3	9.61
Financial Administration	260	2.3	4.25	11,897	2.0	3.59
General Control	281	2.5	4.60	15,800	2.6	4.77
General Public Buildings	14	0.1	0.23	4,106	0.7	1.24
Interest & Miscellaneous:	1,148	10.0	18.76	70,516	11.7	21.30
Interest on General Debt	599	5.2	9.79	37,064	6.1	11.20
Other General Expenditures	549	4.8	8.97	33,453	5.5	10.10

NON-GENERAL EXPEND.	Washington			All States		
	Dollars in Thousands	Percent of Total	Dollars per \$1000 PI	Dollars in Thousands	Percent of Total	Dollars per \$1000 PI
Total	\$4,298	100.0%	\$70.25	\$113,861	100.0%	\$34.39
Intergovernmental	20	0.5	0.32	2,106	1.8	0.64
Employee Retirement	569	13.2	9.31	26,521	23.3	8.01
Insurance Trust	876	20.4	14.32	19,937	17.5	6.02
Liquor Stores	184	4.3	3.01	2,867	2.5	0.87
Utility	2,649	61.6	43.29	62,430	54.8	18.86

Conclusions

Inflation-adjusted state and local revenue in Washington grew steadily over most of the economically volatile period covered by this report — the FY 76–FY 86 decade.

As a share of personal income Washington's state and local revenue varied substantially. Starting in the mid-1970s with revenue collections per \$1000 PI similar to national norms, Washington's state and local revenue collections increased rapidly, reaching a high in FY 78, well ahead of the All States average. This was especially true for revenue collected from Washington's own sources.

Although Washington's state and local tax burden was lower than the national norm through much of the period, **increased tax collections accounted for most of the increase in total revenue in the late 1970s.** Tax burden peaked in FY 78 at \$120 per \$1000 PI, very similar to the All States burden that year of \$121. From this high point tax burden fell sharply to its lowest level of the period in FY 81 — \$96 per \$1000 PI.

After the low in FY 81, Washington's tax burden increased steadily each year, surpassing All States for the first time in FY 83, and continued to lead the nation through the end of the study period.

General spending for state and local governments also increased in inflation-adjusted terms between FY 76 and FY 86.

Spending in Washington grew more rapidly than it did for All States during the late 1970s. Court-mandated increases in spending for K-12 schools, availability of federal funds, and revenue growth spurred by a robust economy resulted in rapid growth in public spending.

Growth in state and local spending in Washington con-

tinued into the recession and drastic measures were necessary to balance state and local budgets. State reserves, in particular, were spent, programs were reduced or eliminated, and taxes were increased.

Spending trends for major programs varied over the period. **Although spending per \$1000 PI on most programs dropped from FY 81 to FY 82, most finished the study period ahead of their FY 76 spending levels.**

Education spending, accounting for 35 percent of total state and local general spending in FY 86, **was the primary exception. Education spending per \$1000 PI fell from \$79 to \$68 over the study period.** The decline was shared by local schools (\$5) and higher education (\$4).

The economic and fiscal environment was different at the end of the study period than at the beginning. **By FY 86 Washington had come to rely more heavily on taxes to finance state and local government than in earlier years and Washington's tax burden was closer to national norms.**

On the spending side, whether for education, which was higher than the nation throughout the decade, or for welfare, which was lower, **levels of spending per \$1000 PI in Washington had begun to trend closer to national norms by the end of the study period.**

More detailed supporting statistics and graphs comparing Washington's state and local fiscal patterns with other states are provided in the *How Washington Compares* databook. In addition, data disks are available with the 10-year stream of revenue and expenditure data comparing state and local governments in all 50 states and the District of Columbia. These additional products may be ordered by calling the Washington Research Council office in Olympia at (206) 357-6643.

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