Fiscal Report

Washington Research Council August 8, 1997

Key Budget Actions; Revenues and Expenditures

Wrap-up of the 1997 Legislative Sesssion

Introduction

This Fiscal Report presents the major revenue and expenditure actions of the 1997 Legislature. The biennial budget session typically runs into overtime; this one didn't. With different parties controlling the Legislature and the governor's office, compromise was necessary and few partisans will be completely satisfied. A strong economy and the discipline of general fund spending limits helped, but credit is due lawmakers and the governor for coming together to make timely decisions. Overall, the legislative session can be considered a success for advocates of responsible fiscal policy.

The session featured several highlights: significant tax relief, a prudent general fund budget, welfare reform, and a low-fat capital plan. The public schools received priority funding and progress was made in addressing critical higher education objectives. Salary and benefit increases were provided for state employees, with enough flexibility granted to permit the state to recruit and retain top candidates for critical positions.

There were also some disappointments. Property tax relief will ultimately be decided by the voters in November. Business and occupation tax rollbacks are delayed a year. Privatization and contracting out did not even receive a hearing. Polarizing debate on the gas tax stalled transportation policy.

Appropriations for operations totaled $31.8 billion for the 1997-99 biennium. The sources of these funds are shown in Figure 1, on page 2. The general fund state represents the largest share, 60 percent at $19.1 billion. The Legislature has great flexibility in allocating general fund state moneys, compared to other funds in the operating budget. As a consequence general fund state appropriations receive a great deal of attention during budget deliberations. The Initiative 601 spending limit applies to the general fund state. Federal funds, at $7.2 billion, represent 23 percent of the operating budget. Next come a collection of dedicated funds, which receive the revenues from specific state taxes and fees. Spending from each of the dedicated funds is earmarked for specific purposes.[1] These total $5.1 billion and 16 percent of operating spending. Finally, private and local funds provide 1 percent of the operating budget, $417 million.

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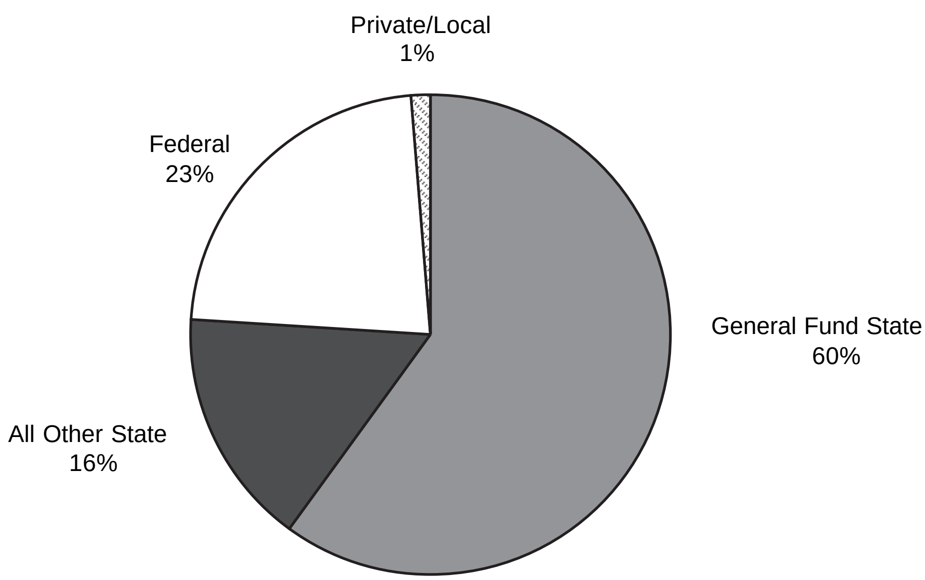
The legislature appropriated funds for the 1997-99 biennium through three distinct budget processes. Most of the state's operations were funded by an omnibus appropriations act. Operations and capital spending for the state transportation agencies were funded through the transportation budget. All other capital projects were funded through the capital budget.

In the following pages, we look into the major areas of fiscal concern. We begin with an overview of key tax policy decisions and the revenue backdrop. Then we look at operating, transportation and capital budgets.

Figure 1

Sources of Funds for the Operating Budget



Source: Office of Financial Management

Revenue Report

While Washington has not experienced a true statewide recession since 1982, it has seen considerable variation in the its economic growth rate. The period of rapid growth in the late 1980s brought with it a growth in state revenues and a corresponding, even greater, increase in state spending. When the boom ended in the first half of this decade, the Legislature found itself in a classic fiscal lose-lose situation: 1993's agony of tax hikes and spending cuts (too much of the former, too little of the latter).

As the 1997 session opened, the state economy was once again in a period of vigorous growth. The strength is concentrated in the Central Puget Sound region, where Microsoft and the technology firms it has attracted continue their phenomenal growth while Boeing, more dominant than ever in the world wide airplane market, rides a strong cyclical upturn in demand. State revenue is increasing. Unlike the late 1980s, however, when growth fueled expenditures, the general fund is now limited by the terms of Initiative 601.

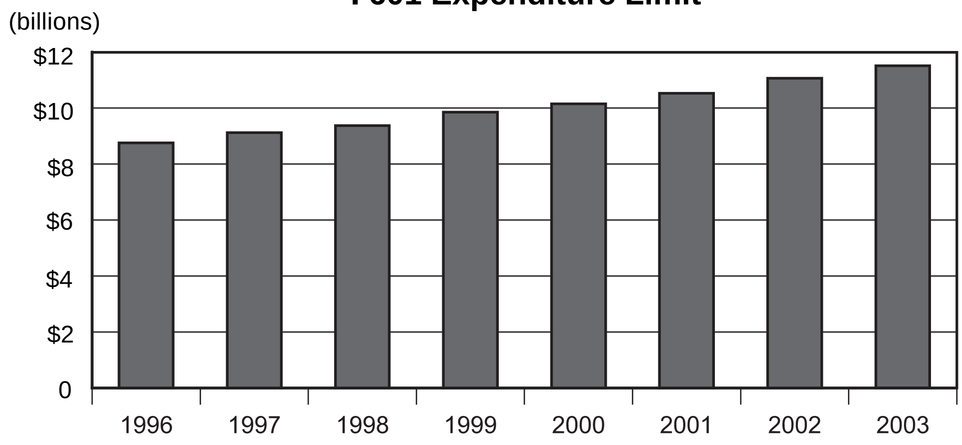
The 601 Limit

Voters adopted Initiative 601 in 1993. I 601 limits growth in general fund state expenditures to a "fiscal growth factor" — equal to a three year moving average of the rates of population growth and inflation. It limits, not mandates, expenditures. In both 1995 and 1997 the Legislature adopted biennial budgets below the maximum allowed.

Each November the state Office of Financial Management calculates the expenditure limit for the upcoming fiscal year based on the actual expenditures for the preceding fiscal year. This creates a "skipping" pattern. That is, the computation for Fiscal Year 1998, performed in Fiscal Year 1997, is based on 1996 actual expenditures; the computation for 1999 is based on 1997 expenditures; and so on. Once officially established, the limit undergoes no further adjustment.

The adjusted limit for the 1997-99 biennium calculated by the Office of Financial Management and based on the approved general fund state operating budget totals $19.235 billion. This is a preliminary determination and may change when the official rebasing for Fiscal Year 1999 occurs in November 1997.

I 601 Expenditure Limit



Note: The limits for Fiscal Year 1998 and beyond represent estimates given current information.
No Supplemental Budgets have been assumed in the calculations for Fiscal Years 1998 forward.

Source: Office of Financial Management

In addition to the spending limits, revenue forecasts prepared by the state Office of the Forecast Council provide the context within which the Legislature writes budgets. The early deliberations of the session were informed by the November 1996 revenue forecast, while the final budget deliberations followed the release of the March 1997 revisions.

Figure 2 shows the revenue outlook as reflected in the March forecast. Before accounting for property tax changes and supplemental appropriations enacted by the 1997 Legislature, the ending balance forecast for the general fund state for the 1995-97 biennium was $596.6 million. Over the 1997-99 biennium forecast revenues were $19.46 billion. Thus the Legislature had about $20 billion in resources to allocate between spending, tax cuts and reserves.

Figure 2
Revenue Outlook for the 1997 Legislature
(This reflects the March 1997 Revenue Forecast
but not the property tax cuts enacted early in the session.)

	(millions)
Beginning Balance 7/1/95	$593.5
Plus Forecast Revenue	$17,584.9
	$17,581.1
Equals Forecast Ending Balance 6/30/97	$597.3
Beginning Balance 7/1/97	$597.3
Plus Forecast Revenue	$19,446.0
Equals Resources 1997-99	$20,043.3

Source: Office of the Forecast Council

Tax Relief

The vigor of the state economy combined with general fund spending limits virtually assured that tax relief would be granted by the 1997 Legislature. The first priorities of the Republican majorities in both the Senate and the House were to complete what they considered to be last year's unfinished business: To enact permanent property tax relief to benefit all property owners, and to rollback the B&O taxes to their pre-1993 levels.

They delivered. The Legislature adjourned April 27 having passed the anticipated tax relief and more: 80 bills had been sent to the governor or to the voters. For the 1997-99 biennium the bills would provide tax savings in excess of $400 million, primarily in property and B&O taxes.

Property Taxes

Although Washington state property tax burdens are not out of line when compared to other states, recent increases in assessed valuation and a generally rising property tax burden ignited legislative interest in tax relief. Legislators of both parties and the governor seemed fearful that a "property tax revolt," in the form of a property tax initiative, could undermine the state's current system of property taxes. This system, based on a constitutional mandate that all property be taxed uniformly and a statutory requirement that all property be assessed at "market value," is widely regarded as both productive and fair.

Policymakers had enacted a *temporary* property tax reduction in 1995, which affected only the 1996 levy. Thus, in the absence of new legislation to provide continued relief, the 1997 state levy would be set as if the reduction in 1996 had never occurred, causing a “tax increase” for almost all property owners. It was not surprising, then, that the very first bill delivered to the governor was aimed at reducing property tax burdens. HB 1037 permanently extended the 4.718 percent reduction in the state property tax, otherwise scheduled to expire on December 31, 1996. It was estimated that this bill would save property tax payers $159 million through the 1997-99 biennium.

Governor Locke vetoed that bill and urged the Legislature to pass a one-year extension of the temporary reduction and to work for more “meaningful long-term tax relief” targeted to homeowners. Because of the uniformity requirement, such targeted relief would have required a constitutional amendment.

As county treasurers were on the verge of mailing 1997 tax statements, immediate action was needed, and the Legislature obliged on the one-year extension. They sent the governor HB 1417 reducing the state property tax collected in 1997 by 4.718 percent. The impact is estimated at $32.3 million for the current biennium and $26.4 million for the 1997-99 biennium. Simultaneously, the Legislature began work on a referendum to enable the people to vote on a permanent extension of the 4.718 percent reduction.

Next the Legislature passed ESSB 5212, reducing the 106 percent limit and providing a “smoothing” mechanism that phases in reassessments for rapidly appreciating property.

The 106 percent levy limit reduces property tax rates as necessary to limit the total amount of property taxes received by a taxing district.[2] The limit for each year is the sum of (a) 106 percent of the highest amount of property taxes levied in the three most recent years and (b) an amount equal to last year’s levy rate multiplied by the value of new construction. ESSB 5212 changed the 106 percent factor to the lesser of 106 percent or 100 percent plus inflation, measured by the implicit price deflator for personal consumption expenditures. Taxing districts with populations of less than 10,000 may continue to levy at the 106 percent limit. And any tax district other than the state may levy up to 106 percent in any year with a supermajority vote of its legislative authority.

In addition, ESSB 5212 introduces a distinction between the *assessed* value of property, against which taxes are levied, and the *appraised* value, the assessor’s estimate of the property’s true and fair value.

Each year the assessor would set the assessed value according to the current appraised value and the previous year’s assessed value as shown in Figure 3. The annual rate of growth in assessed value is capped at 15 percent, except in the (presumably rare) case where appraised value exceeds assessed value by more than 60 percent. In that event the increase in assessed value is to be one quarter of the difference. The intent of the Legislature is that extraordinary increases in property values be phased in over several years so that individual property owners are protected from large year to year increases in their tax levies.

Figure 3

How Smoothing Works

Percentage Difference Between Appraised Value and Old Assessed Value	New Assessed Value
Negative to +15%	Appraised value
Between 15% and 60%	Old assessed value plus 15%
Over 60%	Old assessed value plus 25% of the difference

Proponents of the smoothing mechanism assert that it maintains over time a property tax system based on market values while effectively addressing the real problem faced by homeowners: rapid appreciation of property values which outstrips the owner's ability to pay. Opponents argued that the smoothing mechanism departs from the constitutional requirement of uniformity by not taxing all property at 100 percent of market value. Citing case law, legal counsel for the Senate argued, "...the state Supreme Court could uphold the methodology as a nondiscriminatory, systematic approach applied consistently to all taxpayers to address legitimate public policy concerns." The governor vetoed ESSB 5212 saying it would "substantially reduce state revenues..." yet provide only "minimal relief to homeowners" ($31 per year for the average homeowner).

The Legislature then rolled the two vetoed measures (HB 1037 and ESSB 5212) into one bill — SB 5835 — which, bypassing the governor, they referred directly to the voters. If approved by the voters in November, the impact on the state general fund is estimated to be nearly $195 million for the 1997-99 biennium and more than $426 million for 1999-2001. If local governments do not exercise their authority, by supermajority vote, to increase taxes to the 106 percent limit, the reduction in local levies is estimated by the Department of Revenue to be $108 million during the 1997-99 biennium, growing to $313 million in the subsequent two-year period.

Intangibles

The next significant property tax issue also was a carryover from the 1996 legislative session — the taxation of intangible personal property. Although the state constitution defines property to be "*everything, whether tangible or intangible, subject to ownership,*" little tax has been collected on intangible property. Over the years many intangibles, including money, stocks and bonds, personal service contracts and athletic franchises have been exempted. Other intangibles, such as trademarks, patents, licenses and permits, customer lists and copyrights or a firm's "good name," have remained technically subject to property tax but seldom have been assessed or taxed.

Fearing that aggressive application of the law by assessors would result in a greatly increased property tax burden, businesses with substantial intangible assets began discussions with county assessors and the Department of Revenue in 1995. The parties generally agreed that it was desirable "to preserve the status quo" while assuring that the assessed value of real property reflected fair market value. The business community, with support from the Department of Revenue, sought a general exemption of intangibles from taxation. Many assessors opposed such a general exemption, expressing concern that it would result in a significant reduction in business property tax payments.

In 1997 the Legislature passed ESSB 5286, granting a general exemption for intangibles. The bill included a requirement that the Department of Revenue (DOR) submit a report to the Legislature and the governor by December 1, 2000 on any tax losses, tax shifts, or litigation arising from the legislation. Governor Locke signed the bill on April 23 saying he "made this decision to support the businesses of the future, especially our state's high technology and growth industries."

DOR estimates a $589,000 reduction in state property tax receipts during the 1997-99 biennium with the impact rising to $15.7 million for the 2001-03 biennium. Local revenues are expected to be reduced by approximately $2.8 million in the first year.[3]

Business & Occupation Taxes

In 1993 the service category for the state Business & Occupation Tax was divided into three parts, and the 1.5 percent rate was increased as follows: “ Selected Business Services,” including computer services, data processing, legal services, accounting, business consulting, business management, protective services, and public relations, to 2.5 percent; “Financial Services,” banking, lending, investment advice, and other financial services, to 1.7 percent; and “ Other activities,” beauty and barber shops, doctors, dentists, cable TV, advertising, and many other services, to 2.0 percent.

The 1993 tax increases were immediately controversial and led directly to Initiative 601. Attempts to repeal them failed in 1994 and 1995, but in 1996 the increases were cut in half. As the 1997 session opened, both the governor and legislative leadership were on record as supporting full repeal of the 1993 increases. The Legislature passed a bill, ESB 7902, would have done just that effective July 1, 1997. This became the second major tax bill to be vetoed by Governor Locke.

The fiscal impact of ESB 7902 was estimated at nearly $200 million for the 1997-99 biennium. The governor announced himself unable to support this revenue loss when coupled with the property tax reduction that the Legislature would send to the voters: “The size of the total reduction ($400 million) is not compatible with my proposed budget for state spending.”

In the end, the Legislature accepted the governor’s alternative, delaying the effective date of the B&O service rate rollback until July 1, 1998, costing taxpayers an additional $100 million more in the 1997-99 biennium. The tax rates changed by the bill finally enacted, EHB 1821, are summarized in Figure 4.

Figure 4
B&O Rates for Services

	Current	7/1/98
Business Services	2.0%	1.5%
Financial Services	1.6%	1.5%
All other services	1.75%	1.5%

Economic Development and a Hodgepodge of Tax Relief

One measure of the effectiveness of Initiative 601 may be the number of tax relief bills passed by the Legislature. Figure 5, on page 8 shows the revenue impact of the enacted exemptions and tax reductions significant enough to affect the balance sheet for the state budget.

Figure 5

Revenue Impact of Major Tax Legislation

1997-99 Biennium

		(thousands)
E2SSB 5074	Tax incentives for warehouses	$6,850.5
SSB 5121	Estate tax; waiver of delinquency penalties	$16.0
2SSB 5127	Fee on vehicles for trauma care; B&O impact	$29.0
SSB 5175	B&O exemption/rate reductions; hay cubing, etc.	$403.6
SB 5193	Sales tax exemption; farmworker housing	$288.0
SB 5195	B&O taxation of discount memberships	$198.4
SSB 5230	Exemptions from compensating tax; forest land	$51.0
ESSB 5286	Property tax exemption for intangibles broadened	$589.0
SB 5353	Use tax exemption; new residents' vehicles	$150.0
SSB 5359	Sales taxation of aircraft design materials	$386.3
SB 5402	Exemptions for nonprofit camps/conf. centers	$297.0
E2SSB 5710	Sales tax exemption; youth-in-crisis housing	$192.0
2SSB 5740	Distressed areas; 0.04% local sales tax/B&O jobs credit rev.	$12,000.8
SB 5835	Property tax reductions (assumes voter passage)	$194,569.0
SSB 5888	B&O tax exemption; aluminum master alloys	$38.0
SHB 1257	Sales/property tax exemptions; Centralia plant	$1,751.1
SHB 1261	B&O credit; small businesses	$835.5
HB 1267	Use tax exemption; vessel dealers & manufacturers	$531.0
SHB 1342	Excise tax interest rates	$161.3
SHB 1358	Sales tax exemption; habitat improvement	$27.0
EHB 1417	State levy reduction of 4.7187% for CY 1997	$26,430.0
SHB 1592	Public utility tax exemption; small water districts	$776.0
SHB 1813	Sales tax exemption; movie/video production vehicles	$207.7
EHB 1821	B&O service rates reduced to 1.5%	$94,320.0
HB 1959	B&O exemption; wholesale auto auctions	$825.0
ESHB 2192	Financing of football stadium (DOR sources only)	$6,782.2
ESHB 2272	Cigarette tax enforcement transferred to LCB	$806.0
	Net Impact (All funds)	**$347,841.2**

Source: Department of Revenue, Research Division

During legislative deliberations, some of those bills were categorized as important for economic development. The rest address unique circumstances, covering exemptions for such disparate activities as habitat improvement and the cubing of hay. Among the more important economic development bills are:

- **2SSB 5740** expands tax incentives for economically distressed counties. The existing program, which provides a $2,000 B&O tax credit for newly created jobs in distressed areas, was scheduled to sunset July 1, 1998. SB 5740 extends the program indefinitely and increases the credit to $4,000 for jobs whose wages and benefits exceed $40,000 per year. The $300,000 limit per employer is removed; no longer must a business increase its workforce by 15 percent to qualify; and the annual cost of the program is capped $5.5 million for FYs 1998 and 1999 and $7.5 million thereafter.

  The bill also allows distressed rural counties to levy a local sales tax of up to 0.04%, credited against the state sales tax, to fund infrastructure investments. The local tax may be levied for a term of 25 years and can continue even if the county ceases to be economically distressed.

- **SHB 1257** provides a series of sales and use tax exemptions to construction and maintenance at the Centralia Steam Plant. The bill was considered vital to saving 300 jobs in Lewis County. This bill is notable because it requires a portion of the exempted tax to be repaid if subsequently production of electricity falls below 20 percent of annual capacity.

  The bill also exempts from sales and use taxes coal burned to generate electricity at the plant. Initially, the taxes will be collected and placed into a sulfur dioxide abatement account. If the plant meets certain environmental goals, its owners will receive the funds from the account. Violation of the emissions limitation results in loss of the sales/use tax exemption for the coal.

  SHB1257 is projected to reduce state revenues by $1.8 million during the 1997-99 biennium. The impact rises to $9.3 million during the next budget period before dropping to $6.9 million during the 2001-03 biennium.

- **E2SSB 5074** exempts from sales/use tax 100 percent of construction costs and 50 percent of machinery and equipment purchases for warehouses of over 200,000 square feet. Grain elevators with capacities between one million and two million bushels receive a 50 percent exemption for construction, machinery and equipment . Grain elevators larger than two million bushels receive a 50 percent exemption on machinery and equipment and a 100 percent exemption on construction.

  Traditionally, sales and use tax exemptions apply equally to state and local taxes. Under E2SSB 5074, however, the exemption applies to state taxes only.

Other “jobs” bills include:

- **SB 5195** provides a B&O tax exemption for sales of memberships in a discount program when such sales are made out of state. This bill is targeted to a firm which employs about 70 people in the Yakima area and which claims the exemption is essential to their continued operation in this state.

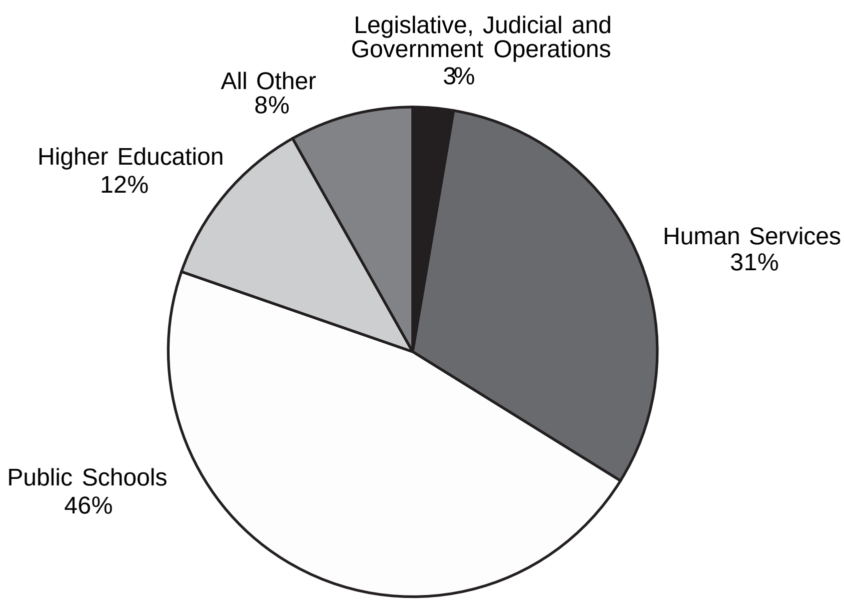
- **SHB 1813** expands the sales and use tax exemption for motion picture or video production businesses to include any vehicles used solely for production activities.

- **HB 1959** creates a new B&O tax exemption for sales of motor vehicles by vehicle manufacturers at auctions conducted within Washington if purchasers of the vehicles are licensed auto dealers. Proponents of the bill pointed out that this business activity had relocated out of state to avoid the B&O tax and that enactment of the exemption would restore lost jobs.

1997-99 Operating Budget General Fund State

The Legislature passed and the governor signed, with partial vetoes, the omnibus operating budget including $19.077 billion in general fund state (GFS) spending for the 1997-99 biennium. This GFS spending is $161 million below the level proposed by Governor Locke and $158 million under the projected I 601 limit for the 1997-99 biennium. Other legislation contains $8 million in GFS appropriations, reducing the I 601 gap to $150 million for the new biennium.

Figure 6
Distribution of General Fund State Spending 1997-99



Source: Office of Financial Management

The initial omnibus budget bill passed by the Legislature was substantially re-written after the governor vetoed budget language addressing social services, the public schools, higher education, and natural resources. During the final days of the session a bill was passed by the Legislature and sent to the governor to resolve those areas of disagreement. The new legislation added approximately $27 million to the expenditure level contained in the first budget bill. Operating funds for the transportation agencies were contained in the transportation budget.

Total appropriations from federal sources increased by $638 million (9.7 percent) over the 1995-97 level in the operating budget. Future changes in federal funding will depend largely on the impact of the move to block grants for welfare programs and the underlying changes in eligibility criteria.

Again, the governor vetoed sections of the budget, removing legislative restrictions on the use of funds and reporting requirements. His vetoes deleting appropriations provisions without a corresponding reduction in the level of expenditure raise legal questions regarding the status of the appropriations. A successful court challenge could reduce the GFS appropriation for the 1997-99 biennium.

The comparisons by functional area between the adopted budget and projected spending for the 1995-97 biennium are shown in Figure 7.

Figure 7

State Operating Budget

(Dollars in Thousands)

	1995-97		1997-99		Change	
	GFS	All Funds	GFS	All Funds	GFS	All Funds
Legislative	$108,423	$113,300	$112,884	$119,618	4.1%	5.6%
Judicial	57,404	113,564	59,988	119,614	4.5%	5.3%
Governmental Operations	386,277	1,325,559	338,414	1,319,460	-12.4%	-0.5%
Department of Social and Health Services	4,570,862	9,922,371	4,934,256	10,933,504	8.0%	10.2%
All Other Human Services	910,125	2,409,332	1,013,051	2,610,342	11.3%	8.3%
Natural Resources and Recreation	227,566	786,257	231,215	806,087	1.6%	2.5%
Transportation	30,088	1,534,366	24,507	1,214,737	-18.5%	-20.8%
Public Schools	8,356,258	8,997,290	8,868,051	9,586,996	6.1%	6.6%
Higher Education	1,970,968	2,066,601	2,202,787	2,261,973	11.8%	9.5%
All Other Education	48,040	88,583	49,235	89,342	2.5%	0.9%
All Other Expenditures and Special Appropriations	1,095,418	2,440,379	1,250,226	2,736,717	14.1%	12.1%
Total	**$17,761,428**	**$29,797,603**	**$19,084,614**	**$31,798,390**	**7.4%**	**6.7%**

Source: Office of Financial Management
Includes all operating appropriations, including Transportation agencies

The amounts shown for 1997-99 do not reflect allocations for compensation and health benefit increases, regulatory reform, year 2000 costs, or tort claims. These funds are included as appropriated amounts in the "All Other Expenditures and Special Appropriations" section above. These funds are allocated by the Office of Financial Management as part of the annual allotment process. The grand totals will not change because of the allocations, only functional area amounts

Figure 8 shows the breakdown of the total operating budget by source of funding with the percentage increase between 1995-97 and 1997-99.

Figure 8

Source of Funds

(Dollars in Thousands)

	1997-1999	Percent Change
General Fund State	$19,084,613.5	7.4%
All Other State	5,075,453.0	0.3%
Federal	7,221,405.0	9.7%
Private/Local	416,918.0	7.4%
Total	**$31,798,389.5**	**6.7%**

Source: Office of Financial Management

In the following pages we discuss specific funding issues for K-12 education, higher education, social services, and natural resources. We follow with a discussion of employee compensation, which cuts across functional areas.

Public Schools

1997-99 GFS spending increased by $574.8 million (6.9%) over the current biennium.

The Washington State Supreme Court has held that it is the "paramount duty" of the state to provide basic education to all citizens. The cost of providing basic education in the public schools, grades K-12, consumes approximately 46.5% of the GFS budget. During the coming biennium this totals $8.9 million.

Basic education costs are spread throughout the Superintendent of Public Instruction's budget. Figure 9 displays the programs considered to constitute "Basic Education" and the GFS appropriations approved during the past legislative session. The remainder of the SPI GFS appropriations, excluding salary and benefit increases, for categorical grants, special programs, and support is shown Figure 10.

Figure 9

Basic Education General Fund State Appropriations

Program	Fiscal Year 1998	Fiscal Year 1999
General Apportionment	$3,429,728	$3,511,157
Pupil Transportation	174,344	179,560
Special Education	370,486	374,327
Institutions	18,026	18,983
Bilingual Education	31,145	33,415
Learning Assistance Program	60,309	60,862
Salary Increases[1]	77,742	98,783
Health Benefits Increases[1]	2,224	17,527
Total	**$4,164,004**	**$4,294,614**
Estimated FTE Enrollment	943,019	959,507
Dollars/FTE Student (Estimated)	$4,416	$4,476

[1] The salary and health benefits increases have not been allocated to all programs. The dollars shown represent the totals appropriated to the SPI for GFS funded increases for all programs. The funds will be distributed to local districts within the appropriate program.

Source: Office of Financial Management

Figure 10

Other SPI Appropriations

(Salary and Benefit Increases Excluded)

Program	Fiscal Year 1998	Fiscal Year 1999
State Office	$20,410	$40,424
Food Service	3,075	3,075
Educational Service Districts	4,511	4,510
Levy Equalization	84,347	89,605
Highly Capable (Gifted)	5,752	6,176
Education Reform	18,905	21,868
Block Grants	49,815	56,963
Total	**$186,815**	**$222,621**

Source: Office of Financial Management

Enrollment is expected to climb by 3.9% during the coming biennium increasing 35,888 over the Fiscal Year 1997 enrollment of 923,619. The Fiscal Year 1996 enrollment was 903,986 FTE Students. Gains in enrollment have been forecast by OFM to continue to increase at a lower rate until School Year 2007-2008 when the projected increase is approximately 400 FTEs. The projections will be influenced by the economic health of the state and changes in population growth.

K-12 Technology. The budget provides $39.3 million for technology grants, entirely from the Education Savings Account (ESA). The technology grants will be allocated to local districts to purchase computers and other high technology equipment, and for the development of the necessary support. Fifteen percent of the funds are earmarked for districts in financial distress.

Student Learning Improvement. The final budget includes $50.8 million GFS for Student Learning Improvement Grants. Districts will use these funds to improve learning in reading, writing, math, and communications in conjunction with the new assessment systems being developed by the Commission on Student Learning. Funding in the 1997-99 biennium concentrates on the elementary grades since the four target subjects constitute about 80 percent of the teaching effort in the lower grades, compared to 60 percent in middle schools and 40 percent in high schools. As assessments progress to other subjects, the funding emphasis will shift to middle and high schools.

School construction. A total of $75 million from the ESA is available to match local funds for eligible common school projects: $62.4 million was appropriated in the 1997 supplemental budget and $12.6 in the 1997-99 biennial budget. These funds plus the revenue expected from the trust lands and bond moneys are expected to fund all eligible projects in the 1997-99 biennium.

Reductions and adjustments. Reductions and adjustments saved $39.2 million GFS from baseline projections. A modification to the average salary calculation ($12.7 million) and a delay in the implementation of student learning assessments ($11.2 million) provided the majority of the savings.

The average salary calculation is a major determinate of allocations to school districts for apportionment and special education programs. Excess funding occurs when the average salary of the certificated staff in the apportionment programs is greater than in the special education program. SB 5395 modified the formula to combine the staff of the two programs when determining the average salary.

The budget adopted for the Commission on Student Learning incorporates provisions of ESSB 6072, which modified the schedule for development and implementation of the statewide assessments for the 4th, 7th, and 10th grades. The assessments for reading, writing, communications, and math will be available in the 1996-1997, 1997-1998, and 1998-1999 school years respectively. Science, history, geography, civics, arts, health and fitness will be subsequently phased in for districts' use.

Reduction of funding for complex needs and elimination of the Magnet School, Truancy Board, and Superintendent/Principal Internship programs provide additional GFS savings.

The Educational Savings Account

A new dedicated fund, the Educational Savings Account, was established this session to provide continued funding of the K-12 capital construction and technology needs of local school districts. The funds are derived from the unobligated GFS appropriations of each agency. The Office of Financial Management will determine at the close of each fiscal year the amount of the unobligated appropriations to be transferred to the Educational Savings Account. The account can receive a maximum of $75.0 million from the unobligated GFS appropriations annually. The projected transfer at the end of the current biennium is $51.9 million. Up to $39.3 million is appropriated for technology grants for learning improvements and $12.6 million for K-12 construction purposes.

Higher Education

Accessibility, work-force training, financial aid, accountability, and faculty retention were items on both the executive and the legislative agendas for higher education.

Accessibility to higher education. The final budget addressed accessibility with the increase of 6,390 slots for students at higher education institutions. 2,190 of these were at the baccalaureate institutions; the remaining 4,200, at community and technical colleges, as shown in Figure 11, on page 15. The budget provides $39.8 million GFS to fund this increase in enrollment.

Figure 11
HIGHER EDUCATION ENROLLMENT
1997-1999 BIENNIUM

	FTE Students		Additional GFS Spending
	Additions	Total	(thousands)
University of Washington			
Main Campus	455	31,527	
Bothell	210	895	
Tacoma	245	992	
Total	910	33,414	$9,408
Washington State University			
Main Campus	320	17,723	
Spokane	90	442	
Tri-Cities	90	814	
Vancouver	120	971	
Total	620	19,950	$4,614
Eastern Washington University	-	7,739	-
Central Washington University	90	7,446	$1,279
The Evergreen State College	170	3,576	$887
Western Washington University	300	10,338	$2,090
Total 4 year Enrollment	2,190	82,463	$18,278
Community and Technical Colleges			
General Enrollment	4,200	111,326	
Dislocated Workers	-	7,200	
Total	4,200	118,526	$21,500
Grand Total	**6,390**	**200,989**	**$39,778**

Source: Office of Financial Management

Work-force training. The budget maintained training and financial assistance for up to 7,200 (FTE) dislocated workers enrolled at the technical and community colleges each year of the biennium. This program also provides such services as child care assistance, transportation, and financial aid. To fund this effort, $31.3 million GFS was provided in addition to $26.3 million from the Employment and Training Trust Fund. The dedicated taxes funding the trust fund terminate on January 1, 1998.

Financial aid. Spending was increased by $33.8 million GFS. The budget increases Need Grant funding by $24.2 million GFS, to serve 8,650 additional students each year. Over 2,500 additional aid awards each year are funded in State Work Study ($2.5 million), Educational Opportunity Grants ($2.75 million), and other financial aid programs. In response to the new emphasis in welfare on training and expeditious entry into the work force, $2.0 million was provided for tuition assistance to welfare recipients and other low-skill workers.

Vetoed by the governor was a provision to distribute State Need grants based on a family income index.

Accountability. Two percent of each baccalaureate institution's non-instructional base, $10.7 million total, is placed in reserve. Funds will be released by the Office of Financial Management upon certification by the Higher Education Coordinating Board that the schools have met goals in student progression and retention, time to degree, faculty productivity, and one other measure developed specifically for each institution. Similarly, $6.8 million will be placed in reserve for the community and technical colleges until the two-year institutions have met selected goals.

Tuition. Student tuition is paid directly into a dedicated account. The institutions may spend this money without legislative appropriation. Thus tuition represents resources available for higher education in addition to the appropriated funds shown in Figure 7. Resident undergraduate tuition rate increases were authorized at 4 percent each year of the biennium. Based on the June forecast, higher education institutions should receive $728 million in tuition over the 1997-99 biennium. The Legislature has commissioned a study of the state's tuition and financial aid policies during the 1997-99 biennium.

Faculty retention. The budget includes $4 million GFS for special pay increases to help recruit and retain faculty. In addition, each baccalaureate institution is given the authority to grant faculty and exempt staff an average 1 percent pay increase in 1997 and an additional 2 percent in 1998. This money can be targeted by the institutions to recruitment and retention. (These increases are in addition to the across the board 3 percent increase effective July 1, 1997 discussed at the end of this section.) Funding for these additional increases is to come from tuition rate increases or from institutional efficiencies. These increases are not to be included in the institutions' salary bases for the determination GFS support for future budgets.

Social Services

Welfare reform. The enactment of welfare reform was one of the major accomplishments of the legislative session. Welfare is a federal-state partnership, and reforms on the federal level (with the Temporary Assistance to Needy Families (TANF) program replacing Aid to Families with Dependent Children) provided the impetus for state action. TANF will provide the state a $404 million block grant each year irrespective of the number of families on assistance. Washington must provide at least $290 million per year in state funds for welfare purposes, but otherwise the state has a great deal of flexibility in the operation of its program. The new Washington law, the WorkFirst Temporary Assistance for Needy Families Act (EHB 3901) appropriates "block grants" to the Department of Social and Health Services (DSHS) similar to the federal approach to the states. DSHS will be expected to achieve caseload reductions and other efficiencies within the guidelines contained in the act.

DSHS may transfer funds to achieve the goals set out in EHB 3901, and may also implement programs regionally.

EHB 3901 emphasizes self-sufficiency by incorporating work programs as a condition of receiving benefits. The act eliminated the existing JOBS program and replaced it with a combination of referrals, assessments, and job preparation. EHB 3901 sets a limit as to the length of time recipients may receive benefits.

The governor strongly pushed for funding state programs to protect legal aliens. EHB 3901 contains provisions to continue food stamps and state grants in lieu of Supplemental Security Income for those legal aliens who become ineligible under the new federal law.

Child Protective Services. The budget includes $10 million to reduce caseloads from 32 cases per case worker to 29 cases.

Foster Care. Funding was increased by $30.4 million in GFS to provide enhanced foster care services, implement a "Passport" program for long term foster care children, and to provide intensive assessments on foster children who are in care for over 90 days and are expected to be in care long term.

Juvenile Justice. E3HB 3900 simplifies sentencing for juveniles (with longer sentences on the average the result), automatically transfers certain 16 and 17 year-old offenders to the adult system, adds a new sentencing option for offenders with chemical dependency problems, and establishes an intensive aftercare program for high risk juvenile parolees. $14.7 million GFS was included in the budget to fund these changes, and the increased costs of local governments are fully covered. In addition to the direct criminal justice distributions to cities and counties from the Motor Vehicle Excise Tax Fund, $8.7 million is provided through the Violence Reduction and Drug Enforcement Account, which receives a portion of the MVET previously distributed to the GFS.

Basic Health Plan. The Health Services Account (HSA), a dedicated fund supporting the state's Basic Health Plan (BHP), faced a $165 million deficit in the 1997-99 biennium. The fund derives most of its revenues from tobacco and liquor taxes. The increasing demand for BHP services, funding of other health related activities from the fund, and tax collections short of expectations caused the funding problem. BHP enrollments have grown from 46,000 at the beginning of the 1995-97 biennium to 130,000 currently adding approximately $100 million in costs to be carried forward into the 1997-99 biennium. Approximately $55 million in increased costs are associated with the enrollment in Medicaid of children from families not on welfare but with incomes below 200 percent of the federal poverty level. Enrollment is expected to increase by approximately 40,000 during the 1997-99 biennium to a total of 250,000. Higher BHP and Medicaid cost per enrollee have added $40 million to 1997-99 costs.

The legislative budget addressed the funding shortfall in the 1997-99 biennium by shifting $83.5 million of programs currently funded from HSA to GFS. Actions also were taken to save $23 million by eliminating or reducing program costs in areas including: the Health Care Policy Board; training and data systems for public health officials; BHP marketing, outreach, and broker commissions; and state funding for health care data standards. The final element of the legislature's package saved $56.5 million by restructuring the BHP subsidy structure, benefits package, and co-payment schedule. Total state funding for BHP will increase by $100 million in 1997-99 to a total of $339 million.

This funding package will allow the addition of 11,500 people to the program, 8,000 of whom are currently on the waiting list. The other 3,500 are workers in state-contracted homecare programs who will be added to the existing 1,500 workers enrolled. The enrollment in BHP subsidized programs will rise to approximately 142,000 from the current 130,700.

Natural Resources

Water policy represented the major resource issue affecting the budget. Increasingly, lawmakers believe that the growing demand for water for residential, industrial, and recreational purposes throughout the state will require a coordinated and comprehensive policy to protect the resource.

During the 1997 legislative session the House, Senate and Executive appeared to be coming closer on a coordinated approach to solving a problem that will not go away. The budget includes $9.2 million GFS to fund a number of water resource related initiatives. It provides $3.1 million GFS for water rights processing, development of a water resource data management system and for technical assistance to local governments for local watershed efforts. To fund development of local watershed plans in accordance with 2SHB 2054, $5.0 million GFS will be distributed on a first come, first served basis to established local planning groups. Preference will be given to those local planning groups encompassing more than one Water resource Inventory Area. The budget also includes $2.5 million GFS to implement key items identified in the Puget Sound Action Plan.

Employee and Vendor Compensation

Salary increases. The GFS budget includes sufficient funds to provide a 3 percent across-the-board salary increase for all state and higher education employees effective July 1, 1997 and K-12 employees effective September 1, 1997. The GFS impact of this increase is shown in Figure 12.

Figure 12
General Fund-State Cost of Salary Increases

	(millions)
K-12	$176.5
Higher Education	57.8
State Employees	62.5
Total	**$296.8**

Source: Office of Financial Management

The governor vetoed language requiring that each classified K-12 staff member receive the 3 percent salary increase, leaving the final allocation of pay increases to contract negotiations at the school district level. Also vetoed was a requirement for the Superintendent of Public Instruction (SPI) to reduce 1998-1999 state salary allocations to school districts that appear to be in violation of state salary limits for certificated employees. SPI will prepare a report on the issue of salaries in excess of the state limit for the 1998 Legislature.

Vendor rates. Rates paid to private social service vendors were increased by 3 percent effective July 1, 1997. Examples of the services provided on contract to the state include nursing homes, outpatient mental health services, work training release facilities, and drug treatment programs. The Department of Social and Health Services has been directed to target the funding to areas where recruitment, retention, or quality of private sector service is a concern. The GFS impact of the social service vendor rate increases is $50.7 million.

High priority compensation. The 1996 Legislature directed the Personnel Resources Board to identify job classifications where salary inequities, recruitment and retention difficulties, and increases in duties and responsibilities justified pay increases (SSB 6767).The budget provides $15.9 million GFS to provide adjustments to 13 high priority classifications. The first 10 classifications on the priority list will receive adjustments effective July 1, 1997 with the remaining 13 classifications receiving adjustments effective July 1, 1998. These adjustments are in addition to the across-the-board increases for all employees.

Employee health. Benefits were adjusted to reflect the increased cost of health benefits due to medical inflation. The adjustment provides funding of a 4.4 percent increase in Fiscal Year 1998 and a 4.6 percent increase in Fiscal Year 1999. The monthly employee contribution rates that are assumed in the budget are $317.34 and $335.75 for Fiscal Years 1998 and 1999 respectively. The GFS impact for state, K-12, and higher education employees is $7.08 million. The final budget spends all of the surplus in the Health Care Authority Insurance Fund to meet the increased health benefits cost.

Other Legislation passed during the 1997 session included GFS appropriations totaling $8 million. $7.7 million was appropriated to the Violence Reduction and Drug Education Account to replace the tax revenues lost as a result of repealing the carbonated beverage surtax. The remaining $.3 million was appropriated to the Departments of Fish and Wildlife and Ecology for habitat restoration.

1997-99 Transportation Budget

The Transportation Budget funds the operating and capital activities of agencies directly involved in the operations and management of transportation activities of the state. Additional agencies may be funded through this budget for administrative support related to transportation.

The 1997-99 Transportation Budget breaks down as shown in Figure 13.

Figure 13
1997-1999 Transportation Budget

Agency	As passed 1997-1999 (millions)	Percent
Department of Transportation	$2,344.3	76.4%
Washington State Patrol	251.0	8.2%
Transportation Improvement Board	221.0	7.2%
Department of Licensing	143.4	4.7%
County Road Administration Board	87.3	2.8%
Other Transportation	20.5	0.7%
Total	**$3,067.5**	

Source: Office of Financial Management

Transportation Overview

The Department of Transportation (DOT) represents the largest portion of the Transportation Budget. Funding for DOT includes the construction, maintenance, preservation, and improvements associated with the state's highway system, including the ferry system. DOT has statutory responsibility for statewide transportation planning, which often requires the coordination with local governments.

Transportation funding involves a complex network of dedicated taxes and fees. Forty-four funds, including the general fund state and two bond retirement accounts pay for transportation-related activities. All but the general fund state are dedicated as to revenue source and use, limiting flexibility.

The Legislature appropriated $1.5 million to the Joint Legislative Audit and Review Committee to conduct a performance audit of transportation agencies, an outgrowth of concerns raised during gas tax discussions. Elements of the audit are sequenced over the 1997-99 biennium. DOT's Ferry System capital and operating programs are the first priority, with a draft report to be completed by October 1, 1997 and the final by January 1, 1998. The report for the remainder of DOT is to be completed by August 1, 1998; those for the Department of Licensing and Washington State Patrol, by November 1, 1998.

The Legislature's 1997-99 Transportation Budget included a $50.0 million GFS expenditure in Fiscal Year 1998 and a $50.0 million transfer from the GFS in Fiscal Year 1999. The governor vetoed the $50.0 million transfer saying it would reduce the I 601 limit in subsequent years.

Department of Transportation

The DOT funding approved by the Legislature and sent to the governor by program is shown in Figure 14. More than 85 percent of DOT's $2,344.3 million budget passed by the Legislature was for Improvements, Preservation, Highway Maintenance, and Ferries.

Figure 14
Department of Transportation Funding
(Dollars in Millions)

Program	Final 1997-1999	Changes from 1995-1997[1] Policy	New	Reapprops	Total
Highway Mgmt and Facilities	49.4	0.4	-	-	0.4
Plant Construction and Supervision	21.7	-	14.0	(1.3)	12.7
Aviation	3.7	0.8	-	-	0.8
Improvements	650.0	-	100.9	9.7	110.6
Economic Partnerships	17.5	-	-	0.2	0.2
Highway Maintenance	242.0	7.0	-	-	7.0
Preservation	566.4	-	18	12.6	30.6
Traffic Operations	29.1	6.4	-	-	6.4
Management	60.5	3.3	-	-	3.3
Planning, Data, and Research	27.9	(5.0)	-	-	-5.0
Charges from other Agencies	25.7	25.7	-	-	25.7
State Ferries-Operating	274.7	2.3	-	-	2.3
State Ferries-Capital	267.4	54.8	-	16.3	71.1
Transit and Rail-Operating	37.1	(10.5)	-	-	-10.5
Transit and Rail Capital	28.5	-	-	28.5	28.5
Financial Assistance	42.7	0.5	-	1.7	2.2
Total	**2,344.3**	**85.7**	**132.9**	**67.7**	**286.3**

[1] Does not include affect of the transfer of $271.7 million to a non-appropriated fiduciary fund.

Source: Office of Financial Management

Improvements. The Legislature approved $650.0 million to fund mobility, safety, economic initiatives, and environmental retrofits. Of this amount $100.0 million will fund improvements to be selected by the Transportation Commission (cut to $50.0 million with the governor's veto of the GFS transfer in Fiscal Year 1999). Priority is to be given to projects supporting freight mobility, economic development, and partnerships.

Preservation. $18.0 million was appropriated for new preservation projects to insure that the roadways and associated components are kept in acceptable condition to meet the demands of users. Of this amount $10.0 million is for roadway preservation projects, $5.0 million for bridges, and $3.0 million for Washington's share of design costs on the proposed Lewis and Clark Bridge across the Columbia River at Longview.

Highway maintenance. $242.0 million was provided for the on-going maintenance of the highway infrastructure. Included in this total is $7 million to maintain the 231 lane miles of roads, 4 park and ride lots, 56 variable message signs, 7 bridges, and 120 new traffic that were added to the highway system during the 1995-97 biennium

Ferries. The ferry system received a total of $542.1 million for operating and capital costs in the 1997-99 biennium. The legislative budget included $57.5 for the acquisition of a fourth Jumbo Mark II ferry. But the bill authorizing the Jumbo ferry did not pass, and, as a result, the acquisition is on hold. Language in the Transportation Budget allows $7.5 million of the appropriation for the fourth vessel to be used for renovation of two Super class ferries. The remaining $50.0 million will not be allotted. A second passenger-only ferry, to serve the Seattle to Bremerton route, is scheduled to begin construction during the 1997-99 biennium. The department has been authorized to enter into an agreement with the US Navy for the for the transportation of personnel between Everett and Bremerton contingent upon federal funding for construction of one or more additional passenger only vessels.

The budget included funding for additional ferry service. The Fauntleroy-Vashon-Southworth route will increase weekend service. The Edmonds-Kingston route will have a third Steel-Electric vessel for 10 hours per day on Friday, Saturday, Sunday, and Monday during the Summer season. For Fiscal Year 1998, the Anacortes-San Juan route will expand service by increasing capacity the first two weeks of the Fall Season and the last two weeks of the Spring season. In subsequent years, following the introduction of the Super ferries, larger vessels will be assigned to the route. During the Fall, Winter, and Spring agent coverage at the Anacortes terminal will be increased 3 hours per day, seven days a week.

Transit and Rail. Inter-city rail passenger operations received $20.5 million including $12.0 million for daily operation of one round-trip between Seattle and Vancouver B.C. and two daily round-trips between Seattle and Portland.

Additional funding of $22.8 million was provided for acquisition of equipment and facilities to support high speed passenger rail activities. Included in this amount is $9.0 million for the acquisition of a Talgo train set, $2.5 million for the rehabilitation of King Street Station, $0.5 million for completion of the corridor EIS, and $10.8 million for track system capital improvements. This addition brings the program funding to a level consistent with the 20-year transportation System Plan. The high speed rail capital program is funded at $30.9 million in the new biennium.

Other Transportation Agencies

Washington State Patrol. The state patrol received funding for an additional 66 Troopers. Fifty-four of these will be from a federal grant through the Department of Justice's Universal Hiring Program (COPS). Eighteen of the COPS positions are to begin in July 1998 and the remaining 36 in January 1999. The federal share of this program for the first year is $1.1 million; the second year, $2.6 million; and the third year, $0.4 million. If the decision is made to keep the 54 COPS troopers the state will need to provide 100 percent of the funding starting the fourth year.

The budget provides $8.2 million to fund additional pay increases to Washington State Patrol commissioned officers, vehicle enforcement officers, and communications officers. This is in addition to the increases contained in the omnibus operating budget. The additional adjustments are 3 percent on July 1,1997 and 6 percent July 1,1998. The purpose of this adjustment is to bring the salary levels into the 50th percentile of other Washington State law enforcement compensation plans.

Transportation funds provide $12.2 million in the Washington State Patrol budget with the expectation that the GFS will assume the funding in the 1999-2001 biennium. Those activities are shown in Figure 15.

Figure 15

Washington State Patrol Funding in the Transportation Budget

(Dollars in Millions)

Governor's Travel	$0.3
License Fraud Investigation	0.3
Bomb Disposal Unit	0.2
Crime Labs	1.9
Identification Section	1.7
ACCESS Computer Operations	2.3
Executive Protection	2.0
Administrative Support	3.5
Total	**12.2**

Source: Office of Financial Management

Department of Licensing. The License Application Migration Project (LAMP) was terminated by the Information Services Board early in calendar year 1997. No additional funding for the project was included in the 1997-99 Transportation Budget. $3.3 million above the base budget was provided for technology assessments and operations. These funds are to be used to: (a) identify the business objectives and needs regarding technology improvements and integration of drivers and vehicle licensing systems; (b) convert licensing software to recognize the year 2000; (c) convert the field network to a frame-relay system; and (d) operate the headquarters and field networks.

The budget provides $2.5 million to improve driver's license document security including the use of digitized photos and anti-counterfeiting and tampering improvements contained in Substitute Senate Bill (SSB) 5718. The Legislature removed these provisions prior to approval of SSB 5718. The governor vetoed the proviso in the Transportation Budget leaving the funds for other purposes.

County Road Administration Board. To adjust expenditure authority to cash flow and revenue forecasts, the board received a $15.3 million reduction from the 1995-97 level. $87.0 million will be available for projects in the 1997-99 period. These moneys help counties fund improvements to arterial roads.

Transportation Improvement Board. The board received $15.5 million above the 1995-97 level to fund additional road projects.

State Parks and Recreation Commission. The commission received a $3.5 million capital appropriation for preservation of park roads.

All Other Agencies in the Transportation Budget were funded at the 1995-97 level.

1997-99 Capital Budget

Three bills define the capital budget. SSB 6063, the primary capital budget bill, provides $1.87 billion from all sources to finance new construction projects in the coming biennium. This bill received a partial veto from the governor: An emergency reserve appropriation of $10 million was vetoed to allow the funds to be redirected in other legislation. EHB 2255, the second capital bill, redirected the $10 million to fund an increase to state housing assistance, weatherization, affordable housing, Community Service Facilities grants, and the Heritage Park project. The final bill, ESSB 6064, provides authorization to the State Investment Board to issue general obligation bonds to finance the projects contained in the capital budget plan.

Capital financing comes from four sources:

- state bonds subject to the debt limit (see box, on page 24),
- state bonds financed from dedicated revenues and not subject to the debt limit,
- federal grants, and
- private matching funds.

The first two represent the major sources of financing the long-term debt to support capital projects. Authorization to issue the bonds is through legislation passed each biennium and is tied to the funding plan contained in the capital budget.

The capital budget process differs from the operating budget. The capital budget proposed by the governor and considered by the legislature is “new” money for capital projects. Projects appropriated in previous biennia and still in progress do not appear in subsequent capital budget requests although they do continue to appear as part of the overall appropriation authority. The 1997-99 capital budget only reflects new funding and reductions of prior state bond appropriations for projects no longer needed or discontinued by the Legislature.

The breakdown of the capital budget, by functional area is shown in Figure 16, on page 25.

Debt Limitations

With certain exceptions, the amount of state general obligation debt that can be issued is subject to constitutional and statutory limitations. Both restrict the amount of general state revenue available for debt service.

Constitutional Limit. The state constitution sets the maximum annual debt service at 9 percent of the arithmetic average of general state revenues for the preceding three years. Certain revenue sources are excluded from the calculation by the Constitution:

- Debt payable from motor vehicle fuel taxes
- Debt payable from investment revenue derived from the permanent common school fund
- Debt payable from license fees on motor vehicles
- Debt payable solely from the revenues of public improvements
- Temporary debt issued to meet short-term deficiencies in the State treasury
- Debt approved by the Legislature and a majority of the voters in a special or general election

Statutory Limit. Legislative actions over the years have further restricted the calculation of the debt limit. Currently, the statutory debt limit is 7 percent of the arithmetic mean of general state revenues for the preceding three years. The statutory limitation contains the same provisions as the constitutional limit with the following exceptions:

- General obligation debt approved by the Legislature and a majority of the voters is included in the calculation.
- Those bonds authorized by statute which require the State Treasury to be fully reimbursed for debt service costs from other than state general revenues are excluded from the statutory calculation although the constitution includes them. These are referred to as “reimbursable bonds”.

The State Treasurer calculates and manages compliance with the debt limit. The Revenue and Economic Forecast Council calculates the revenue stream used in the computations. Prior to each bond sale, a determination is made as to whether or not the issue would cause the aggregate debt service to exceed the established limit.

Figure 16
1997-99 Capital Budget
(Dollars in Millions)

	Debt Limit	Total
Judicial	$2.5	$2.5
Governmental Operations	98.4	337.1
Department of Social and Health Services	45.6	52.4
All Other Human Services	188.8	244.1
Natural Resources and Recreation	110.7	404.8
Transportation	2.6	2.7
Public Schools	-	277.6
Higher Education	432.8	546.5
All Other Education	16.7	16.7
Total	**$898.1**	**$1,884.4**
New Appropriations	$907.0	$1,884.2
Reappropriation Reductions	-14.6	-14.6
Net New Appropriations and Reductions	892.4	1,869.6
1995-1997 Supplemental	5.7	14.8
Total	**$898.1**	**$1,884.4**

Source: Office of Financial Management

Education received the largest share of the capital budget (43.7 percent). Included are funds for common school construction, branch campuses, technical college renovation, and infrastructure investments and up-grades.

Additional capacity for both adult and juvenile offenders was funded at the Departments of Corrections and Social and Health Services.

Also funded in the capital budget were water programs, public works loan programs, community economic revitalization loans, Building for the Arts, and grants for community services facilities.

Education

Public school construction is fully funded in the 1997-99 capital plan. This reflects the governor's policy expressed in his capital budget proposal submitted to the Legislature. $277.6 million is provided for the funding of eligible projects over the next two years. $75.0 million of this amount is from the general fund state through the Educational Savings Account. Lawmakers expect that this will eliminate the current backlog of requests from local school districts. Through the 2005-07 biennium, the total cost for state support of common school construction is estimated at $1,347.9 million. During this period, $345.5 million from the Education Savings Account is expected to support the common school construction program.

The University of Washington received authorization for a new Oceanography and Fisheries building. $68.9 million is authorized with $33.6 million coming from bonds subject to the debt limit. The Harborview Medical Center received $54.0 million, $41.0 million from debt limit bonds, for construction of a research and training facility.

Washington State University received a total of $38.4 million for major renovation projects to three buildings. The Bohler Gym project received $17.1 million, $16.8 million from debt limit bonds, for mechanical, electrical, plumbing, fire safety, and access upgrades. Thompson Hall will receive similar treatment with an appropriation of $10.9 million, $10.8 million from debt limit bonds. Kimbrough Hall has been approved for major structural work including the addition of two floors to be financed from a $10.4 million authorization, $10.3 million from debt limit bonds.

The Community and Technical College System received $10.0 million from debt limit bonds for renovation to the Bates, Bellingham, and Clover Park Technical Colleges. This work will upgrade the facilities transferred to the system from local school districts when the technical colleges were merged with the community colleges. A related $5.0 million in debt limit bonds were authorized for the Department of Community, Trade, and Economic Development to construct a transportation facility for the Clover Park School District. This will replace a bus facility that the district lost when the Clover Park Technical College merged into the community college system.

Branch campus projects received a total of $126.7 million to continue construction that will eventually add 14,382 full-time-equivalent (FTE) students to the higher education system over the next decade. The five branch campuses currently are authorized a total of 4,114 FTE students in the 1997-99 biennium.

Figure 17

1997-99 Biennium Branch Campus Summary

(Dollars in Millions)

Branch Campus	Parent Institution	Appropriation	Additional Students
Bothell/Cascadia Community College			
Phase I-Construction	UW	43.0	1,200
Phase I-Construction	SBCTC	43.0	800
Future Phases Predesign and Design	UW/SBCTC	6.0	2,000
Total		92.0	4,000
Tacoma Branch Campus	UW		
Phase I-Construction/Phase II-Design		19.7	2,000
Vancouver Branch Campus	WSU		
Phase II-Design and Construction		13.5	1,200
Joint Center for Higher Education	JCH		
Health Sciences Building-Construction		1.4	240
Tri-Cities Branch Campus	WSU		
Science Education Center-Predesign		0.1	910

Source: Office of Financial Management

The total cost of the branch campuses through the 2005-07 biennium is estimated at $443.0 million in the governor's 1997-2007 Capital Plan.

Human Services

Adult and juvenile correctional institutions were included in the budget to continue construction and renovation existing facilities to house the continuing increase in offender population. Major projects receiving authorization include:

The Department of Corrections recieved $155.1 million for the Stafford Creek Corrections Center in Grays Harbor. $143.8 will be from debt limit bonds and $11.3 from federal sources. This will complete the design and construction of a 1,936 bed facility to house longer sentence medium custody inmates with maximum and minimum security components. Total cost of the project is estimated at $173.0 million.

$1.6 million was appropriated for the initial design of a 400 bed pre-release facility in the Tacoma area. The facility will expand to 600 beds in the future. Land for the facility is expected to be obtained through a long-term ground lease from the Puyallup Indian National Trust.

Pre-design, site selection, environmental impact statement preparation, and land acquisition for a new 1,936 bed multi-custody adult facility was provided by an appropriation of $1.2 million from debt limit bonds. Total cost of this project is estimated at $144 million.

The Department of Corrections received $4.5 million from debt limit bonds for improvements necessitated by the change in the juvenile justice sentencing policy. Offenders aged 17 and 18 will be automatically remanded to adult court for trial when serious offenses are committed. If convicted, those offenders will be placed in adult correctional facilities. The law requires, however, that these offenders be housed separate from the adult population.

The Department of Social and Health Services received funding from debt limit bonds for the expansion of juvenile facilities. $9.3 million was provided for the replacement of overcrowded and deteriorated housing units and associated infrastructure improvements to support the population level at the Maple Lane School, south of Olympia. Two 64 bed units will be constructed to replace seven cottages.

Two juvenile institutions received funding to address vocational and educational needs. The Naselle Youth Camp was authorized $1.5 million for construction of two new classrooms and support areas. Echo Glen received $0.1 million to begin predesign work on academic facilities to meet the current vocational needs of the residents, especially the female population.

The Department of Social and health Services also received debt limit bond funding to upgrade and expand the legal offender units at Eastern State Hospital, $17.6 million, 120 beds, and Western State Hospital, $4.2 million, 240 beds. The total costs for these projects is estimated to be $18.7 million and $43.1 million respectively.

Water Programs

The Department of Health received authorization of $33.9 million for the Drinking Water Assistance Program to address clean and safe drinking water. This program provides funds to local governments to upgrade and maintain safe drinking water supplies and is funded from dedicated federal (non-debt limit) funds.

The Department of Ecology received $70.0 million to continue the Centennial Clean Water program providing funds to local governments for pollution control facilities and the control, storage, treatment, and disposal of potentially harmful wastewater. The funding is from a dedicated fund with the total cost of the activity through the 2005-07 biennium currently estimated at $700.4 million. The Local Toxic Control Account, a dedicated fund, will support an additional $43.0 million in grants to local governments for remedial action, safe drinking water, and coordinated prevention grants. These grants include funds for groundwater monitoring wells, solid and hazardous waste planning, solid waste enforcement, and hazardous waste collections. The current estimate of total costs for this activity through the 2005-07 biennium is $319.4 million.

The continued planning, design, acquisition, construction, and improvement of pollution control facilities to meet state and federal requirements was funded by an appropriation of $101.5 million from dedicated funds, $44.0 million is from federal sources. This money will be used for grants to state and local governments to assist in the efforts to meet established pollution guidelines. The current estimated cost of the program through the 2005-07 biennium is $648.3 million.

Ecology also received $6.4 million identify the possible mitigation relating to hazards from older low-level nuclear waste disposal trenches and permanent closure of seven trenches no longer in use at the Hanford Reservation. Total cost of this activity is currently estimated at $7.4 million and is from dedicated funds.

Transportation

Most funding for transportation related capital projects is contained in the Transportation Budget. In addition, the 1997-99 Capital Budget includes $2.6 million of debt limit bonds for work at the Fire Training Academy near North Bend. This facility operates as a training academy for firefighters throughout the state and is operated by the Washington State Patrol.

Governmental Operations

The Department of Community, Trade, and Economic Development received $54.7 million from debt-limit funds for continuance of the Housing Assistance, Weatherization, and Affordable Housing Program. This program provides assistance to local governments, Indian tribes, and non-profit agencies for construction and operation of low-income and assisted-living housing, improvement and rehabilitation to extend the useful life and lower energy costs, and to create rental units and first-time buyer opportunities for families at or below 80 percent of median income. Currently the total cost of this program through the 2005-07 biennium is estimated at $400.5 million.

$10.0 million was provided to continue the Community Economic Revitalization program. This funding is for grants and loans to help local governments construct the infrastructure needed to create or retain jobs through private commercial or industrial development. The funding is provided from dedicated funds. The total cost of this program through the 2005-07 biennium is currently estimated at $67.0 million.

The Public Works Trust Fund which provides loans to local governments to improve bridges, roads, domestic water services, sanitary sewerage, and storm water systems from dedicated funds was authorized at $181.0 million. The total cost of this program through the 2005-07 biennium is currently estimated at $1,416.7 million.

The Building for the Arts program was appropriated $6.0 million to continue the funding, up to 15 percent, for the cost of constructing or rehabilitating performing arts or art museum facilities. A statewide competitive evaluation determines the distribution of the funds. The current estimate of the program's cost through the 2005-07 biennium is $42.8 million.

The Office of Financial Management received a total of $9.0 million from debt limit funds for the Underground Storage Tank, Asbestos Abatement, and Americans with Disabilities Act pools. These funds are allocated to state agencies and institutions to address improvements or remediations relative to the three areas. The total cost of the programs through the 2005-07 biennium is estimated at $10.4 million, $25.5 million, and $30.5 million respectively.

The Department of General Administration, in its capacity as the state's landlord, received funding for renovation and preservation of facilities in the Thurston County area. Significant projects to be undertaken by the department include:

East Campus Plaza and Garage Repairs, $7.1 million from debt limit funds ($8.8 million total), to continue a multi-phase project begun in 1995-97 to provide seismic upgrades and leak repairs. The plaza level will be rebuilt adding a new membrane to waterproof the structure, landscaping, and upgrading interior lighting for better security. The total cost of the project through 2005-07 is currently estimated at $38.3 million.

Preservation of the capitol campus facilities has been funded with $0.2 million from debt limit funds and $2.5 million from dedicated (non-debt limit) funds. The total cost of this project through the 2005-07 biennium is currently estimated at $6.8 million.

The funding for continuation of the Heritage Park project was reconsidered and included in the second capital bill. This project, recommended by the governor, received $4.6 million from debt limit funds for construction work to establish the Arc of Statehood and related in-water work included in a phased master plan. The project adds an element to the existing campus included in the original master plan, linking the Capitol Campus with the Olympia waterfront. The cost of the project through the 2005-07 biennium is currently estimated at $16.9 million.

The project to address safety issues and perform needed repairs and restorations to the legislative buildings received $.04 million from debt limit funds ($3.0 million total). The cleaning and preservation of the historic sandstone buildings on the Capitol Campus received an initial $3.0 million appropriation from non-debt limit funds. This provides funding to begin a multi-phase project to clean and restore sandstone exteriors and develop a comprehensive, cost-effective program for preservation of the sandstone buildings. Currently, the cost of the project through the 2005-07 biennium is estimated at $15.0 million.

$.04 million from debt limit funds was appropriated to address the preservation work on Office Building 2 (Department of Social and Health Services). The total appropriated amount is $4.3 million with an estimated cost through the 2005-07 biennium of $19.7 million.

Other Capital Investments

The Interagency Committee for Outdoor Recreation received $42.5 million from debt limit funds and $2.5 million from other sources to acquire lands for wildlife conservation and outdoor recreation purposes and to develop existing public recreational lands and facilities under the Washington Wildlife and Recreation Program. The funds are allocated equally between recreational and habitat needs. The cost of this program through the 2005-07 biennium is currently estimated at $407.8 million.

The Department of Natural Resources received $34.5 million from debt limit funds for timber trust land transfers. This program identifies state trust lands with special habitat or recreational value that can be transferred out of the Common School Trust and replaced with harvestable land. The value of the land will be deposited in the Common School Construction Account and used to purchase replacement trust lands.

The Jobs for the Environment program was continued with a $9.1 million appropriation from non-debt limit funds. This program employs displaced natural resource workers to complete watershed restoration projects to protect salmon and other species.

The Eastern Washington Historical Society received $1.9 million from debt limit bonds to begin work on a $15.3 million project adding 43,400 gross square feet to the Cheney Cowles Museum. The addition will include exhibit space, collection storage, and care space. Non-state funding of 20 percent is required to complete the project.

End Notes

1 Funding programs through dedicated taxes is controversial. See the Washington Research Council Special Report, *Too Much Earmarking, Dedicating Funds*, July 31, 1996.

2 See the Washington Research Council, *Citizens Guide to Property Taxes.*

3 For a more detailed discussion of the issue of intangibles taxation, see the Washington Research Council Policy Brief, *Grasping at Intangibles,* March 10, 1997.

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