

Washington State Fiscal Trends

1983-85 — 1993-95

March 1995

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Washington Research Council
1301 5th Avenue, Suite 2810
Seattle, Washington 98101-2603
(206) 467-7088 or 1-800-294-7088 (instate)
Fax (206) 467-6957

Acknowledgments

The Research Council would like to thank both state legislative and executive agency administrators and staff for their cooperation and assistance in the preparation of this publication. They include staff from the Office of Financial Management, the Department of Social and Health Services, the Department of Corrections, the Office of the Superintendent of Public Instruction, the Office of the Forecast Council, House Program Research, the Department of Transportation, the State Board for Community and Technical Colleges and the Higher Education Coordinating Board. We want to express our special appreciation to the staff of the Accounting Division of the Office of Financial Management for their invaluable assistance.

This publication was prepared by Kim L. Gorsuch, research analyst and Dr. Kriss Sjoblom, economist.

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Economic and Demographic Trends

Washington's Economy 1983-1995

The Washington economy went through cycles of rapid and slow growth in 1983-95 with significant impacts on state revenues and expenditures.

The national recession of the early 1980s was deepened by major contractions in the aerospace industry, and the recovery began later here than in most of the rest of the nation. By the end of 1983 the Washington economy, fueled primarily by the aerospace and services sectors, had begun a period of long and rapid expansion. Initially, the Puget Sound area was the primary beneficiary.

State growth was especially strong toward the end of the decade, when the economic boom of the '80s was beginning to moderate in other parts of the country. In fiscal 1988 through fiscal 1990 Washington enjoyed annual growth in wage and salary employment averaging 5.4 percent, well ahead of the nation, and strong personal income growth. Labor shortages and skyrocketing land prices in the Puget Sound area began to push the prosperity of the '80s from the I-5 corridor into smaller metro areas throughout the state.

The national recession of 1990-91 was felt later and with less severity in Washington than in most of the rest of the United States. The state's unemployment rate rose from 4.5 percent in the summer of 1990 to 7.8 percent in the fall of 1992. Notwithstanding this increase in unemployment, the state technically avoided recession as it did not experience a sustained drop in employment or real personal income.

If the downturn in the state was less severe than in the nation, the recovery is correspondingly weak. Aerospace employment peaked in January 1990 at 118,000 workers. In January 1995 employment was 89,000 and state economists were expecting further declines. Besides aerospace, the state's weakest sectors from January 1992 to January 1995 were logging and ship and boat building. The three strongest sectors were truck manufacturing; computer and data processing services; and textiles, apparel and leather.

With the decline in aerospace employment, the brightest spots in the state economy have been away from the Seattle area. From 1990 to 1994, among the state's nine metropolitan areas,

the Tri-cities enjoyed the greatest employment growth; Vancouver, the second greatest; and Bellingham, the third.

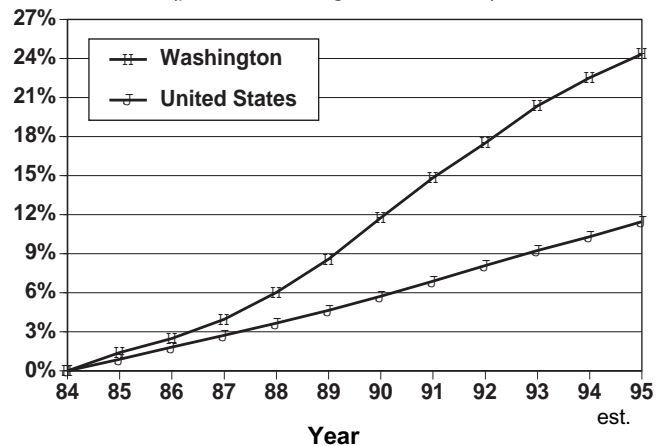
At mid-decade, Washington's economy is much less dependent on Boeing. Although the company continues to dominate its industry, it no longer totally dominates the local economy. The most recent aerospace downturn was the first of the jet age which did not bring a recession to Washington state.

Population

Growth in a state's total population has an important role in determining both revenue collections and spending requirements. As population grows, state revenue, especially from the retail sales tax, expands, as does the demand for some public services.

The 1990 U.S. Census showed that only nine states (most of them in the West) had faster population growth than Washington from 1980 to 1990. An estimated 5.4 million people, or about 2 percent of the nation's population, live in Washington in 1995. As shown in the figure below, state population increased by an estimated 24.4 percent between 1984 and 1995, compared to 11.5 percent for the nation. The state has gained almost 550,000 new residents since 1990, a 11 percent increase in just five years. The principal cause of this growth was in-migration.

Population
(percent change from 1984)

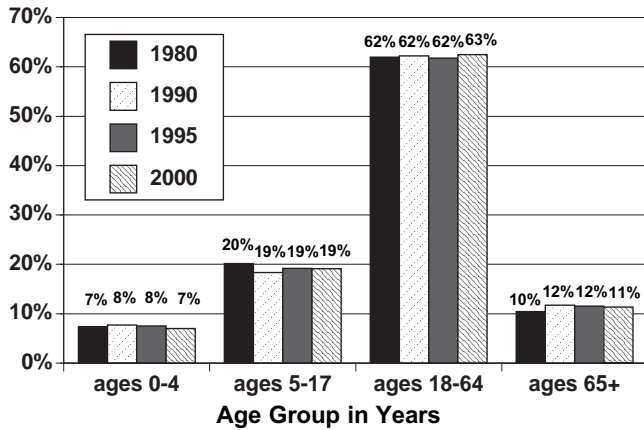


By 2000, the state demographers project that the population will increase by a further 380,000, or 7 percent.

The components of population by age group are as important as total population in explaining the dynamics of spending or the economics of revenue growth. School-age population (5-17) is a major factor driving spending for public education, and working-age population (18-64) helps determine the state's ability to generate tax revenues. The school-age has increased as a share of total population since 1990, while the working-age

population has decreased. Little change in the school age proportion is expected from 1995 to 2000.

Washington State Population (percentage distribution by age)

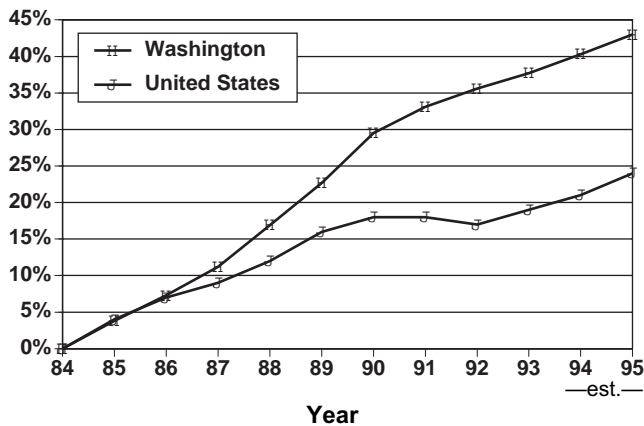


Employment

Employment increased rapidly during the prosperity of the mid-to-late '80s, and flattened out in the 1990s. Washington easily outpaced the nation in employment growth from 1986 to 1992, but may now be slipping behind it as aerospace woes take their toll on the state's economy.

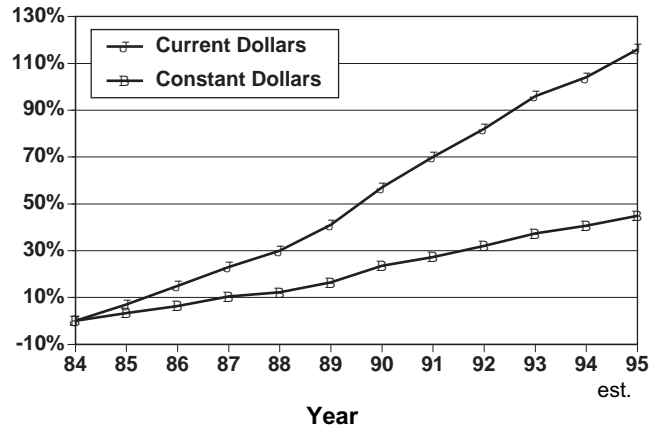
From 1984 to 1995, the state's total non-agricultural wage and salary employment increased 43 percent to a total of 2.3 million workers. This compares to 24 percent growth for the U.S. in these years.

Wage and Salary Employment* (percent change from 1984)



* Non-agricultural.

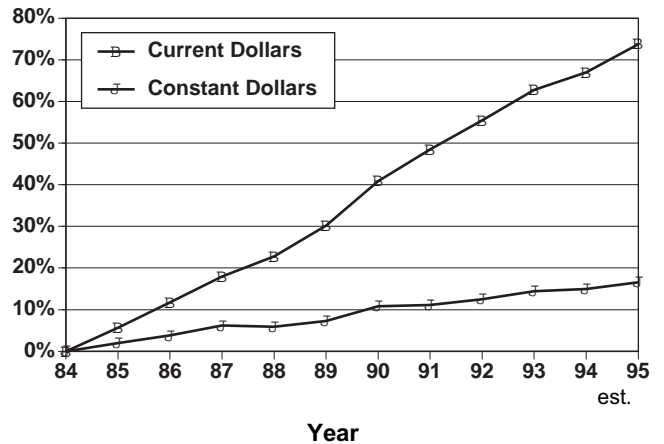
Personal Income (percent change from 1984)



Personal Income

Total income indicates the overall strength of a state's economy, its ability to employ new workers and its capacity to raise government revenues. Per capita personal income relates income growth to population growth, and indicates the relative economic well-being of a state's residents. As the graph below and on page 4 show, personal income growth, both total and per capita, exceeded inflation over the period. In 1994 Washington per capita personal income, \$22,082, exceeded the national average, \$21,267 by 3.8 percent.

Per Capita Personal Income (percent change from 1984)

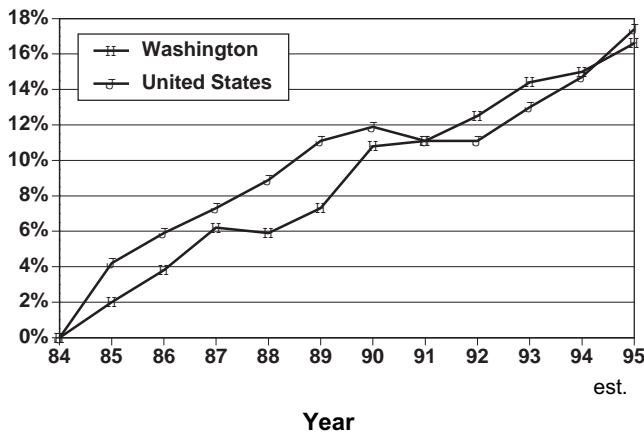


Per Capita Personal Income

	Current	Constant
1984	\$13,222	\$15,025
1985	13,976	15,325
1986	14,774	15,601
1987	15,601	15,952
1988	16,231	15,913
1989	17,220	16,124
1990	18,624	16,643
1991	19,639	16,686
1992	20,555	16,904
1993	21,525	17,193
1994 est.	22,082	17,279
1995 est.	22,982	17,517

Real Per Capita Personal Income

(U.S. and Washington, percent change from 1984)

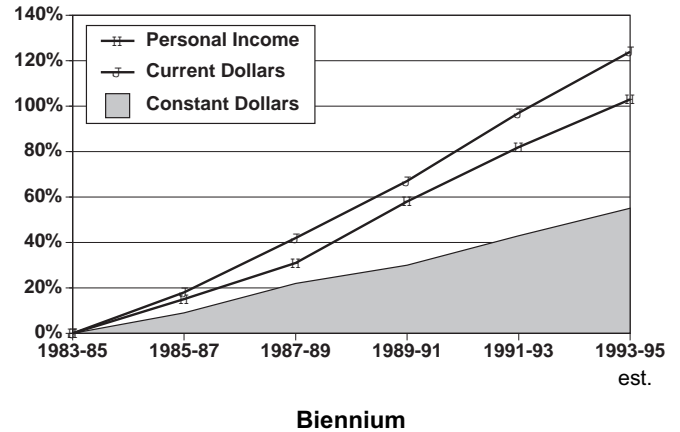


Revenue

Washington state government estimates it will have \$33.7 billion in total revenue available in the 1993-95 biennium. As seen below, between 1983-85 and 1993-93 total state revenue grew 124 percent in nominal terms and 55 percent in real (inflation-adjusted) terms — well ahead of state economic growth over this time.

Total Revenue

(percent change from 1983-85)



General Fund-State Revenue

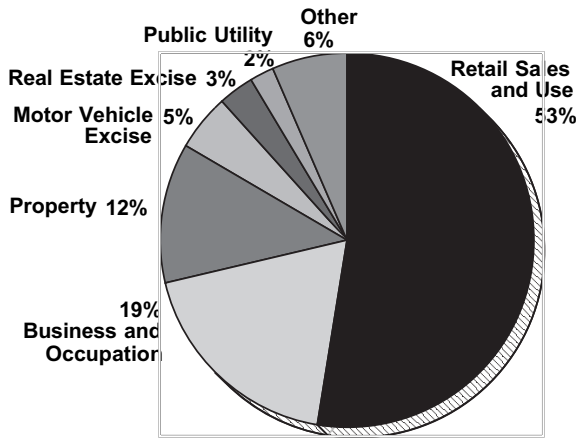
General fund revenue comes from state-imposed taxes, non-tax sources such as fees for services, and federal grants-in-aid. Revenue outside the general fund includes most dedicated funds, such as motor vehicle and other special revenue funds, bond retirement and interest funds, working capital, business enterprise, and trust and agency funds.

General fund-state revenue makes up the largest portion of Washington's total state revenue, accounting for \$16.5 billion, or 49 percent, of all revenue in the 1993-95 biennium. This fund is the object of most legislative deliberation over the state budget every two years.

Taxes, totalling \$16.2 billion in the current biennium, make up about 98 percent of general fund-state revenues. As shown in the figure below, the three largest general fund-state tax sources are the retail sales and use tax, the business and occupation (B&O) tax and the property tax. Together, they will produce 83 percent of general fund-state revenue and 40 percent of all state revenue for 1993-95.

Non-tax sources account for the remaining \$275 million in general fund-state revenue in the current biennium. These include lottery receipts, tuition, earnings on investments, licenses, permits and fees, and liquor profits and fees.

General Fund-State Taxes (1993-95)

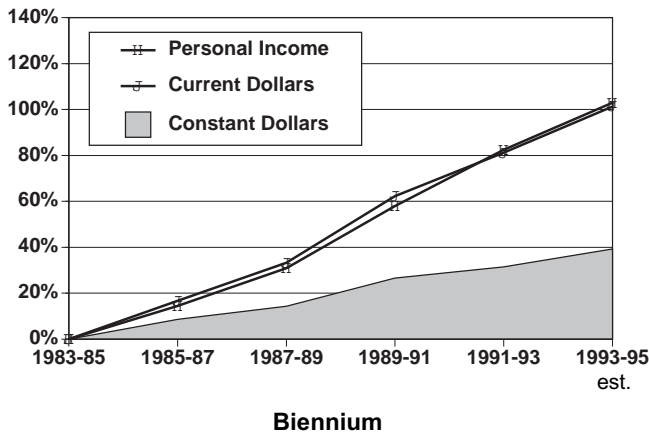


Est. General Fund-State Taxes = \$16.2 billion

Beginning July 1992 tuition revenue was no longer included in the general fund-state total. This must be kept in mind when comparing historical data in state budget documents. In this book, tuition revenue is removed for all years for data consistency.

State revenues have risen substantially over the last 10 years: General fund-state revenue increased 101 percent between

General Fund-State Revenue (percent change from 1983-85)



1983-85 and 1993-95. Adjusted for inflation, revenue increased 39 percent over the period.

General Fund-State Revenue

	Revenue (millions)	Biennial Percent Change
1983-85	\$8,202.3	—
1985-87	9,574.6	16.7%
1987-89	10,934.2	14.2
1989-91	13,307.4	21.7
1991-93	14,860.3	11.7
1993-95 est.	16,510.0	11.1

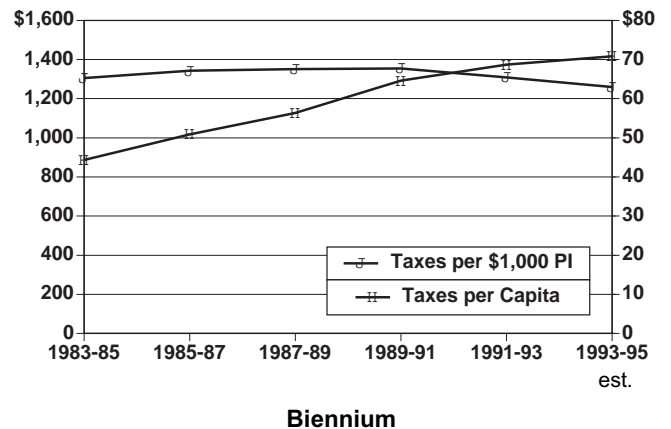
Tax Burden

There are two basic ways to measure tax burden: on a per capita basis and in relation to personal income. Because it relates the level of taxes to the size of a state's economy, and therefore reflects, if imperfectly, ability to pay, taxes as a percent of personal income is often considered a preferable measure.

Since the 1983-85 biennium, the general fund-state tax burden has ranged from a low of \$62.96 per \$1,000 of state personal income in 1993-95 to a high of \$67.73 per \$1,000 of personal income in 1989-91.

In the alternative measure, annual average general fund-state taxes will amount to \$1,416 per capita in 1993-95.

Tax Burden*



* General Fund-State taxes. (Annual average.)

General fund-state taxes represent 94 percent of total state taxes in the current biennium. The total state tax burden, therefore, is somewhat higher than shown above.

Annual Average GF-S Taxes

	Taxes per \$1,000 PI	Taxes per Capita
1983-85	\$65.25	\$886.13
1985-87	67.10	1,018.09
1987-89	67.50	1,126.88
1989-91	67.73	1,291.65
1991-93	65.43	1,372.99
1993-95 est.	62.96	1,415.86

Tax Changes

Significant general tax changes took effect in the 1981-83 biennium. The next five biennia saw many minor changes, most with little impact on the general fund. Tax issues returned to center stage in the 1993-95 biennium.

The following is a list of the more notable changes made in state revenue laws over the last 12 years.

1983-85 Biennium

- The sales tax was taken off food effective July 1, 1983.
- The high B&O surtaxes imposed in the previous biennium were dropped and lower surtaxes made permanent. The new surtaxes were 10 percent on manufacturing and wholesaling, 7 percent on retailing and 50 percent on service and miscellaneous businesses.
- The value of trade-ins was exempted from sales tax by voter initiative, effective in 1984.
- The timber excise tax rate was reduced from 6.5 percent to 5.0 percent over a three-year period.

1985-87 Biennium

- The legislature reinstated the sales tax deferral program for certain expansions by manufacturing and research and development firms.
- The B&O tax rate on meat processing was reduced, and a new B&O tax credit allowed under certain conditions for companies adding new employees.
- The cigarette tax was increased from 23 cents to 31 cents per pack, and the tobacco products tax also increased, with the revenues dedicated to water pollution control projects.
- Increases were enacted on taxes for water distribution, refuse collection, sewer disposal and real estate conveyances, and the receipts earmarked for local public works.

1987-89 Biennium

- The real estate excise and conveyance taxes were combined into one tax. General fund revenue was unaffected, but an additional .06 percent tax on real estate transfers was to provide new revenue for conservation programs. (See the WRC special report, *Real Estate Excise Taxes*, February 1993.)
- The sales tax was extended to certain foods prepared for off-premise consumption.
- In response to a court decision that questioned the constitutionality of taxing power generated in Washington and sold outside the state, the B&O tax on export power was eliminated, and export power was excluded from the public utility tax. To replace revenue lost as a result of the decision, the legislature raised the public utility tax rate for power and light companies.
- A two-step increase in the state motor vehicle excise tax was adopted and earmarked for ferry operations.
- The sales tax deferral for certain manufacturing and research and development firms was extended to July 1, 1994.
- A tax on hazardous substances at the rate of 0.8 percent of wholesale value was put in place by voter initiative, replacing one enacted by the legislature. Revenues from the tax were earmarked for the cleanup of hazardous waste throughout the state.

1989-91 Biennium

- The legislature increased taxes on cigarettes, soft drinks and alcoholic beverages and dedicated the proceeds to drug enforcement and education.
- The temporary increase in the state motor vehicle excise tax enacted in 1987 and earmarked for ferry operations was made permanent in 1990.
- A surcharge was imposed in 1989 on the sales tax on adult entertainment materials and services and dedicated to crime victim compensation.
- A tax on petroleum products was enacted in 1989 and earmarked for the cleanup of leaking underground petroleum storage tanks. An additional tax on the off-loading of petroleum products was imposed in 1991 to fund oil spill cleanups.
- An excise tax on transfers of corporate ownership that are comparable to a sale of real property was enacted in 1991.
- The transportation funding package passed in 1990 included a 5 cent increase in the state's gas tax, a 40 percent increase in gross weight fees on trucks and a surtax on the state's motor vehicle excise tax.

1991-93 Biennium

- A new B&O tax was levied at a rate of 15 percent of the gross income of intermediate residential health care facilities for the mentally retarded that are licensed by DSHS and which receive federal Medicaid funds, effective April 1992. The cost of the tax to the facilities was to be reimbursed in full through their federal/state Medicaid rates.
- The qualifying income threshold for the senior citizen property tax exemption program was again raised, and the qualifying age reduced.
- The legislature replaced the motor vehicle excise tax paid by car rental firms with new annual fees and an increased state sales tax of 5.9 percent on the rental of the vehicles, effective January 1993. Local motor vehicle excise taxes on car rentals were replaced by a similar rental tax.
- Church-operated day care facilities were exempted from the B&O tax.
- Businesses operating private correctional industries at Department of Corrections facilities were exempted from the leasehold excise tax.
- Changes were made in the open space property tax law to add to the categories of open space land that may be taxed based on the current use of the property, rather than on the highest and best use.
- The use of resale certificates, which exempt purchases of goods intended for resale from the sales tax, was tightened, and penalties were increased for their misuse.
- New insurance prepayments tax replaced the previous 1.5 percent B&O tax on health maintenance organizations. And, insurance companies can no longer take deductions from insurance premium taxes for contributions to guaranty associations.
- A loophole was eliminated in the real estate excise tax which allowed corporations to acquire real property through stock purchases or reorganizations while avoiding payment of the state's transfer tax.
- The Health Services Act of 1993 raises "sin" taxes and taxes on medical providers to fund health care reform. The cigarette tax was increased by 20 cents per pack effective fiscal 1994, and is scheduled for a 41 cent increase in fiscal 1998. Taxes on other tobacco products were increased, as well as liquor and beer taxes. B&O taxes on HMO's, health care service contractors and certified health plans were replaced with a 2 percent premium tax: Basic Plan enrollees were added to the list in 1994. A new tax was imposed on the gross income of nonprofit hospitals.
- The exemption from property tax for nonprofit charitable organizations was extended to property owned by nonprofits used to solicit gifts, donations or grants.
- "Free hospitals," ones that do not charge patients for the care they provide, are now exempted from the retail sales and use tax.

1993-95 Biennium

- The old "service" category for the B&O tax was divided into three new categories, to which three separate tax rates now apply.
 - 1) Selected business services saw their B&O rates boosted from the previous services rate of 1.5 percent of gross receipts to 2.5 percent.
 - 2) Financial services will pay the B&O tax at a new rate of 1.7 percent.
 - 3) All remaining services, now categorized as "general services," will pay the B&O tax at a rate of 2.0 percent.
- The legislature added a four-year surtax of 6.5 percent to B&O tax rates on all business classifications except
 - 1) the selected business services now paying at the 2.5 percent rate, 2) the financial services now paying at the 1.7 percent rate, and 3) retailing. The 1994 Legislature reduced the 6.5 percent rate to 4.5 percent, effective Jan. 1, 1995.
- The sales tax was extended to included "personal" services. Local sales taxes also apply. Because these services are now subject to the sales tax, their B&O rates are reduced.
- The legislature reauthorized and expanded certain state sales and B&O tax incentives intended to promote economic development. In 1994, the legislature added deferrals and exemptions for research and development in distressed areas.
- The \$1,000 gross income per year threshold for B&O tax was replaced with credit against tax equal to \$35 per month and \$420 per year.
- Other tax changes passed in the 1993-95 biennium included: eliminating tax subsidies for public utilities for capital costs; suspending the pari-mutuel tax for the thoroughbred racing fund; repealing the fuel tax exemption for alcohol used as motor fuel; reducing the B&O tax on magazine and periodical printers; exempting nonprofit youth organizations from the sales tax; revising the tax on business property used in state by nonresident businesses; allowing tax deductions for rural electronic companies; reauthorizing and expanding certain state sales and B&O tax incentives intended to promote economic development; providing tax credits to employers for ride-sharing.

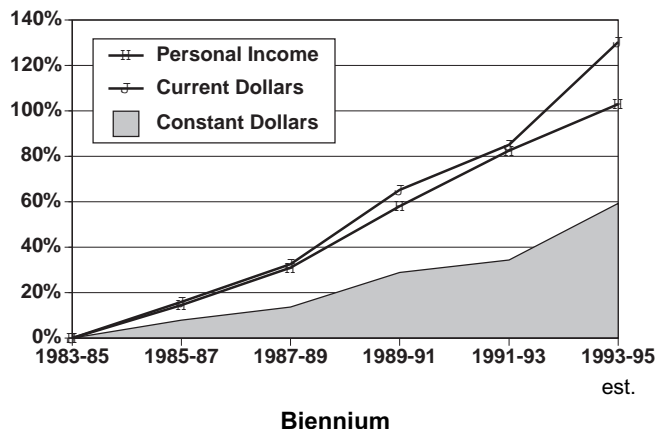
Expenditures

Washington state's spending for operations during the 1993-95 biennium is expected to total \$29.9 billion, an increase of 24.5 percent over the previous biennium. Total state spending has grown 130 percent since the 1983-85 biennium, or 59 percent after adjusting for inflation. As shown in the figure below, growth in spending has far exceeded growth in personal income over this period.

Expenditures by program

The largest components of all-funds spending on a program or function basis are elementary and secondary education, at 28

Total State Spending
(percent change from 1983-85)



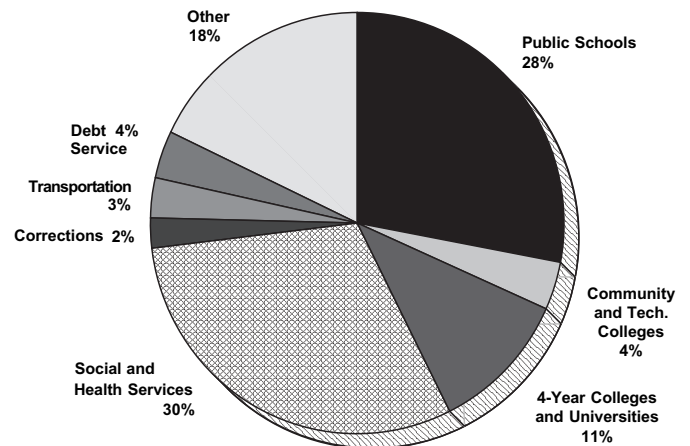
percent, and social and health services, at 30 percent of the total. Higher education accounts for another 15 percent. These and other program areas are discussed in more detail later.

Total Expenditures

	Spending (millions)	Biennial Percent Change
1983-85	\$12,963.6	—
1985-87	15,021.8	15.9%
1987-89	17,180.7	14.4
1989-91	21,413.4	24.6
1991-93	23,986.7	12.0
1993-95 est.	29,855.3	24.5

Since 1983-85 spending by the Department of Social and Health Services, which claims about 30 percent of total expenditures, has grown the fastest — about 116 percent over the period when adjusted for inflation. Most program expenditures in

Total State Expenditures
(1993-95 spending by agencies)



Est. expenditures = \$29.9 billion

human resources are entitlements, including Medicaid and Aid to Families with Dependent Children. Over the past decade, more people have qualified for these programs (thus the rapid increase in caseloads), forcing legislators to allocate a greater portion of the state's budget to this area. The increase also reflects the high rate of inflation in health care costs.

Expenditures by Agency
(1993-95 est.)

Agency	Spending (millions)	Percent Change*
Public Schools	\$8,357.5	42.9%
Comm. Colleges	1,102.3	35.5
4-Year Colleges/Univ.	3,267.3	38.2
Social and Health Services	9,094.2	115.6
Corrections	682.5	67.1
Transportation	920.3	41.5
Debt Service	1,087.3	42.8
Other	5,343.9	45.6

*Inflation-adjusted change since 1983-85.

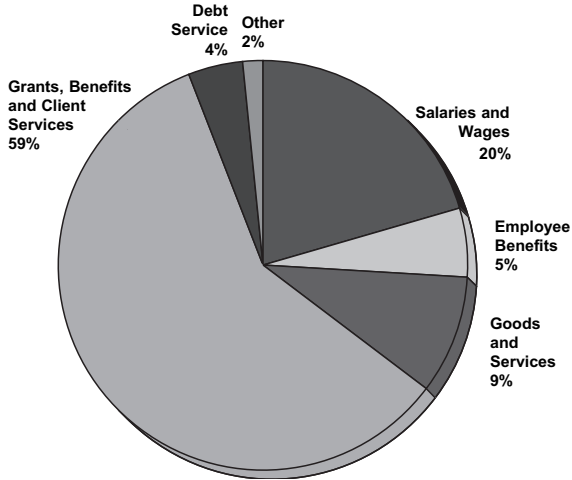
The areas experiencing the slowest growth were community colleges and four-year colleges and universities, where spending grew by 35.5 percent and 38 percent respectively, when adjusted for inflation. This is due in large part to the legislative limits placed on increases in enrollment in these institutions.

Object expenditures

Spending may also be examined on an object basis, in which we total expenditures for similar activities, goods or services made by programs and agencies throughout the state budget. The distribution of spending by object for 1993-95 is shown in the figure below.

Grants, benefits and client services, mostly by health and social services agencies, make up 59 percent of object expenditures in 1993-95, up from 53 percent in 1983-85. This category

Total State Expenditures (1993-95 spending by object)



Est. expenditures = \$29.9 billion

includes income and medical assistance to needy persons and the state's contribution to the salaries and benefits of public school teachers.

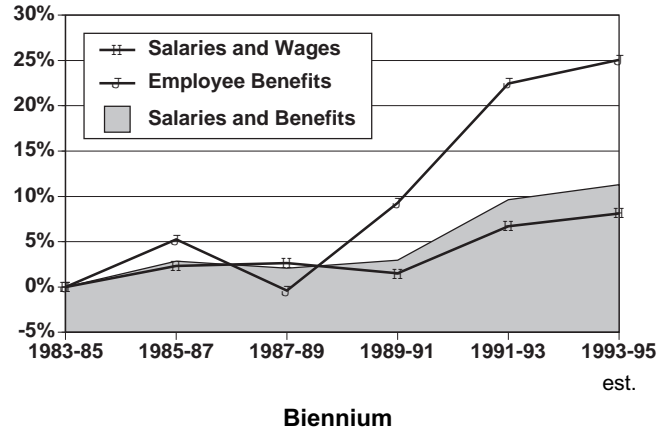
Salaries, wages and benefits for state employees are the second largest area of object expenditures at 25 percent in 1993-95, down from 28 percent in 1983-85. Spending for employee benefits alone, however, remained at the same level. Debt

Expenditures by Object (1993-95 est.)

Object Category	Spending (millions)	Percent Change*
Salaries and Wages	\$6,120.3	42.1%
Employee Benefits	1,621.2	64.4
Goods and Services	2,801.2	33.6
Grants, Benefits, Client Svcs.	17,543.6	76.7
Debt Service	1,287.5	59.7
Other	481.4	(21.2)

*Inflation-adjusted change since 1983-85.

Salary, Wage and Benefit Expenditures per Full-Time Equivalent Employee (percent change from 1983-85)



*Adjusted for inflation.

service and personal services contracts have slightly increased their shares of total object expenditures.

The preceding table illustrates spending growth for the major object categories. Of the object areas representing large portions of the budget, grants, benefits and client services registered the largest growth between 1983-85 and 1993-95, increasing 77 percent over the period after adjusting for inflation. Employee benefits increased by 64 percent. Of smaller object expenditures, travel increased 25 percent and, despite legal hindrances to contracting out for state services, spending on personal services contracts rose by 45 percent after inflation.

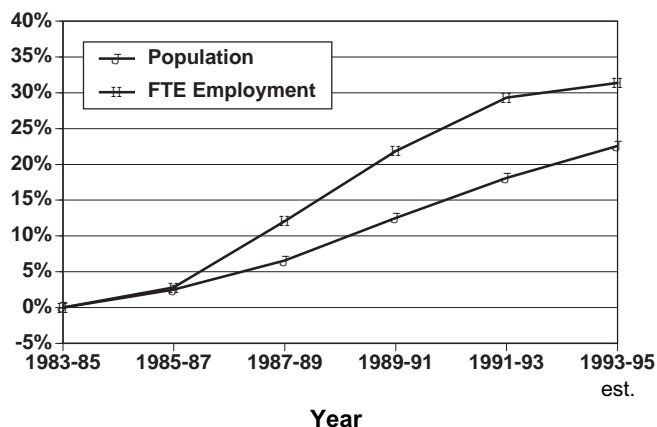
The figure above illustrates the change in state spending on salaries and benefits per full-time equivalent (FTE) employee.

Washington State Employment (Operating Budget, FY 1983-95)

Year	FTEs	Annual Percent Change
1983-85	66,349	—
1985-87	69,681	5.0%
1987-89	74,350	6.7
1989-91	80,823	8.7
1991-93	86,537	7.1
1993-95 est.	87,185	0.8

Salary and wages per average annual FTE employee, adjusted for inflation, increased 8 percent between 1983-85 and 1993-95, while spending per FTE for benefits rose 25 percent. The overall impact is an average total compensation level about 11 percent higher in real terms in 1993-95 than in 1983-85.

State Government Employment* (percent change from 1984)



*Operating Budget only.

During the 1993-95 biennium, the state employed an estimated annual average of 87,185 FTEs, up 31 percent from the 66,349 employed in 1983-85. As shown above, growth in state government employment ran well of state population growth during this period.

State employees receive salary increases in two ways: first, through across-the-board percentage increases granted by the legislature, and second, through the regular provisions of the state's personnel and compensation system. These provisions include "step" increases based on salary schedules, comparable worth increases, salary survey increases, reclassifications, selective increases for specific job classifications, and promotion to a different job classification.

General Fund-State Spending

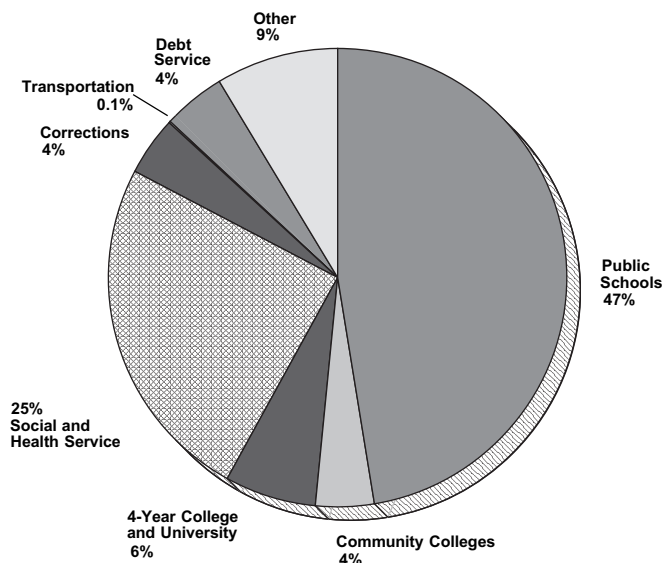
The general fund, and in particular that portion financed from the general fund-state, usually commands most attention when the state budget is examined. The legislature has most discretion in allocating money from the general fund-state because most other funds are dedicated to specific programs.

Legislative discretion in allocating general fund-state resources is also limited, however, by the dominant shares of the budget held by the education and welfare functions. As seen in the chart above, public schools and social and health services together make up about 72 percent of the general fund-state budget. Because of constitutional mandates in K-12 education and federal mandates in health and welfare, appropriations levels in these areas tend to be driven by enrollments and caseloads, rather than by budgetary policy. Total education,

including K-12, community colleges, and four-year colleges and universities, takes up almost 83 percent of the budget.

General fund-state expenditures of \$16.3 billion account for more than half of total state spending in 1993-95. The ratio of general fund-state to total spending remained in the 60 to 62

General Fund-State Spending by Agency (1993-95)



Est. expenditures = \$16.3 billion

percent range until the 1993-95 biennium when it fell to 55 percent.

Between 1983-85 and 1993-95, general fund-state spending increased 105 percent in nominal terms and 42 percent after adjusting for inflation. The state's population grew about 24

General Fund-State Spending by Agency (1993-95 est.)

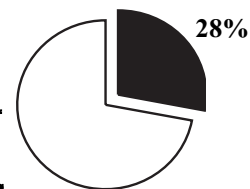
Agency	Spending (millions)	Percent Change*
Public Schools	\$7,741.3	39.9%
Comm. Colleges	674.9	4.9
4-Year Colleges/Univ.	1,051.5	2.4
Social and Health Services	4,030.0	65.0
Corrections	678.5	66.3
Transportation	17.5	(37.8)
Debt Service	721.9	69.0
Other	1,409.2	42.3

*Inflation-adjusted change since 1983-85.

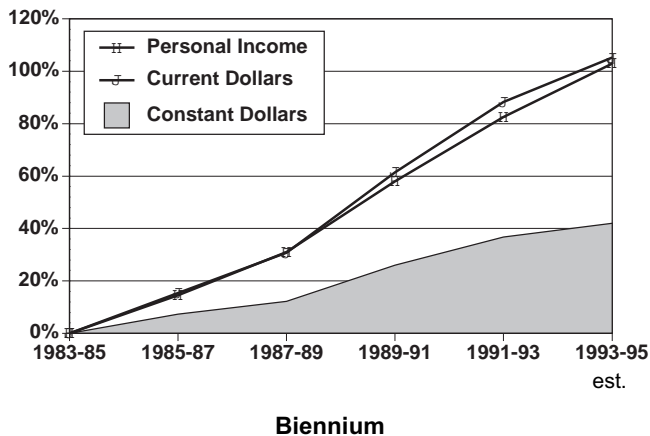
percent over that time, and its economy, as measured by personal income, grew about 45 percent after adjusting for inflation.

Biennial increases in general fund-state spending have averaged 15.6 percent over the last five biennia. The largest increase was in 1989-91, in which spending rose by more than 23 percent.

Elementary and Secondary Education

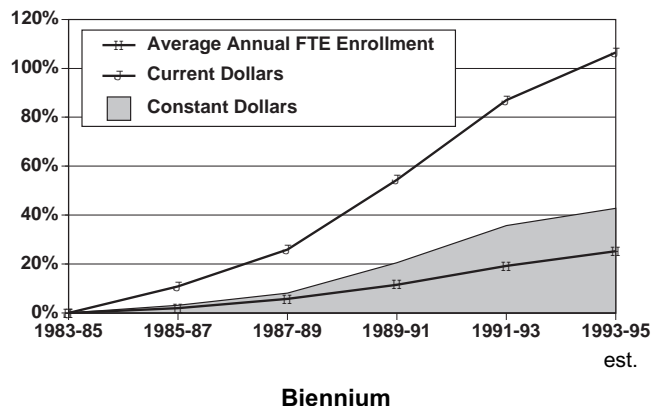


General Fund-State Expenditures
(percent change from 1983-85)



Elementary and secondary education is the largest single expenditure in the state's operating budget. Spending on public schools for kindergarten through 12th grade students (K-12) of \$8.4 billion in 1993-95 represents about 28 percent of total state spending. The current expenditure level is 43 percent greater, after adjusting for inflation, than spending in 1983-85, when K-12 education made up 31 percent of the total. The nominal spending increase is 106 percent. School enrollment has increased about 25 percent over that time.

Elementary and Secondary Education
(percent change from 1983-85)



General Fund-State Expenditures

	Spending (millions)	Biennial Percent Change
1983-85	\$7,956.3	—
1985-87	9,178.7	15.4%
1987-89	10,401.7	13.3
1989-91	12,842.1	23.5
1991-93	14,980.7	16.7
1993-95 est.	16,324.8	9.0

Most of the funding for K-12 education comes from the general fund-state. K-12 education makes up 47 percent of general fund-state spending in 1993-95, down slightly from 48 percent in 1983-85.

Funding for K-12 education is appropriated by the legislature to the Office of the Superintendent of Public Instruction, which distributes the funds to the state's 296 locally governed school districts. The state provides about 76 percent of the funding for K-12 education in Washington, much higher than the 46 percent average share for all U.S. states.

The high percentage of state funding stems from a 1977 state Superior Court decision commonly called Doran I (later affirmed by the state Supreme Court), which directed the state to make ample provision for basic education through regular state sources, rather than relying for school funding on local special

tax levies. In response, the legislature adopted what became known as the Basic Education Act of 1977, which defined basic education, established a new school funding formula, substantially increased state funding and limited special levies.

This mandate for state funding of basic education was strengthened by succeeding legislation and court decisions. The Doran II decision in 1983, for example, expanded the definition of basic education to include supplementary programs such as special education for handicapped children, transitional bilingual education and remedial education.

The state also provides funding for a number of other programs. These include education for highly capable students, traffic safety education, education for children in juvenile institutions and pupil transportation.

Elementary and Secondary Education

	Spending (millions)	Percent of Total	Biennial Percent Change
1983-85	\$4,047.9	31.2%	—
1985-87	4,487.8	29.9	10.9%
1987-89	5,097.2	29.7	13.6
1989-91	6,250.1	29.2	22.6
1991-93	7,568.8	31.6	21.1
1993-95 est.	8,357.5	28.0	10.4

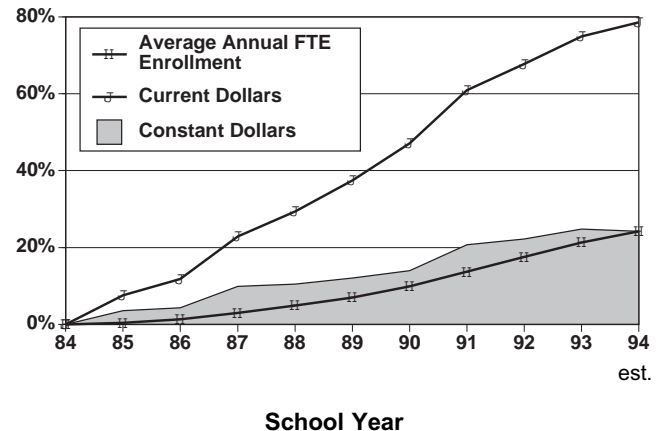
The Office of Superintendent of Public Instruction accounts for less than 1 percent of state employment, with an annual average of 248 FTEs. Although OSPI employment has dropped slightly since 1991-92, it is expected to return to the 1990-91 count of 265 FTEs in 1994-95. These figures do not include the employees of local school districts.

More important than total state spending in assessing support for K-12 education is spending per student. Total expenditures per FTE pupil from state, local and federal sources were \$5,532 for the 1993-94 school year, about \$4,664 of which was state funds. As shown in the following figure, per pupil spending increased 79 percent in nominal terms and 24 percent in real terms between 1983-85 and 1993-95.

After a period of almost continuous decline dating from 1969-70, enrollment in Washington public schools began rising again with the 1984-85 school year. Enrollment increased 24 percent during the last decade. The trend toward rising enrollments is expected to continue through most of the 1990s.

These enrollment trends have significant implications for state finances. As enrollment dropped through the '70s and into the early '80s, it was possible to increase per pupil spending without extraordinary efforts, even as spending on K-12 education fell slightly as a share of total spending. Rising enrollments make this much more difficult. It was only the state's exceptional economic growth over the period — and the priority of educa-

Per FTE Spending (percent change from 1983-85)

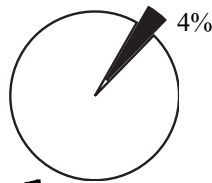


tion in state budget planning — that allowed the legislature to increase per pupil expenditures. Slower growth in the state economy is likely to make such a rate of increase in school expenditures unattainable in the years ahead. And, with enrollment forecast to grow to more than 200,000 by the end of the decade, spending demands in K-12 education will place a great strain on other, more discretionary parts of the budget during the 1990s.

K-12 per Pupil Expenditures

	Spending (millions)	Annual Percent Change	Average Annual FTE Enrollment
1983-84	3,097	—	699,622
1984-85	3,333	7.6	702,550
1985-86	3,463	3.9	708,949
1986-87	3,805	9.9	720,744
1987-88	4,008	5.3	733,872
1988-89	4,259	6.3	748,418
1989-90	4,556	7.0	768,619
1990-91	4,984	9.4	795,736
1991-92	5,196	4.3	823,040
1992-93	5,417	4.2	848,967
1993-94	5,532	2.1	868,924

Community and Technical Colleges



are. Community and technical colleges also offer self-supporting noncredit courses to the general public. And, CTCs conduct research projects and offer specific classes under contracts with other public agencies and private companies. In fact, contracts and grants generated 9 percent of total revenues for the CTC system in 1993-95.

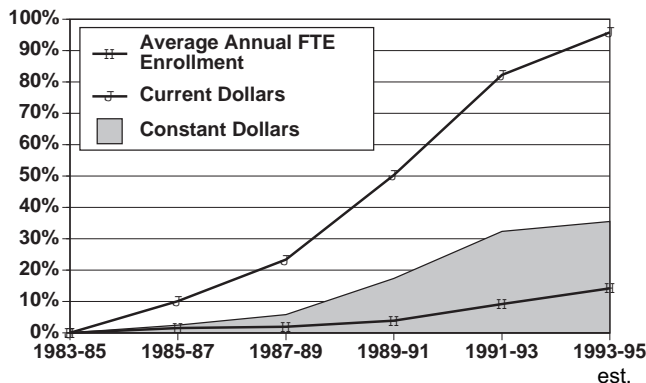
Community and technical college employment accounted for

Community Colleges			
	Spending (millions)	Percent of Total	Biennial Percent Change
1983-85	\$563.0	4.3%	—
1985-87	619.4	4.1	10.0%
1987-89	694.1	4.0	12.0
1989-91	846.3	4.0	21.9
1991-93	1,025.9	4.3	21.2
1993-95 est.	1,102.3	3.7	7.5

In 1967 the legislature created a state system of community colleges to provide opportunities for easily accessible academic training, vocational training and basic skills development. The distribution of students enrolled in each of these programs is shown in the pie chart below. The community college system currently provides services in more than 500 locations statewide.

In 1991 the legislature combined five technical colleges and

Community Colleges
(percent change from 1983-85)



Biennium

13 percent of the state total in 1993-95 at 11,207 FTEs. About half of FTE employees serve the instruction program.

By statute, resident community and technical college students paid almost 29 percent of the cost of their education in tuition fees and an additional \$127.50 in building fees in the 1994-95 school year. The remainder is subsidized by the general fund-state. Tuition and fees for nonresidents are intended to cover the full cost of their education.

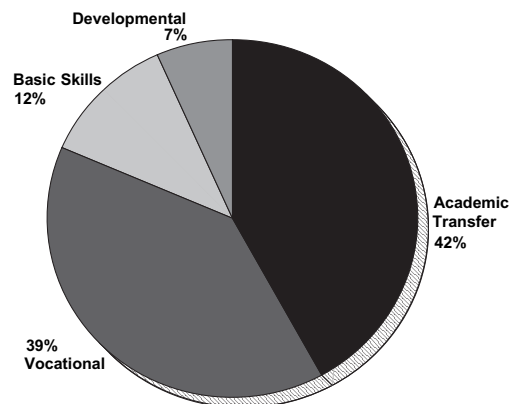
For the first time in more than a decade, the 1993 Legislature raised enrollment caps for higher education institutions. Most of the increase was slated for new job training programs in the community and technical college system. The increased costs associated with the higher enrollment is to be supported by employer taxes.

Enrollment only includes state-supported FTEs.

the Seattle Vocational Institute with the community college system. Then, in 1994, the legislature added a 30th Community and Technical College district to the system, and authorized the creation of Cascadia Community College. These organizational changes should be kept in mind when considering enrollment, employment and expenditure trends. The consolidated system is now governed by the nine-member State Board for Community and Technical Colleges, while each district in the system has a local governing board of five trustees.

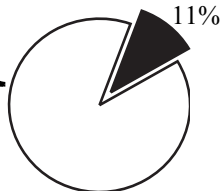
The state is estimated to have spent \$1,102.3 million on community and technical colleges in 1993-95, representing 3.7 percent of total state expenditures. This spending level is 35.5 percent above that in 1983-85, after adjusting for inflation. Note, however, that total CTC expenditure figures are not limited to state supported programs, although enrollment figures

Community Colleges
(1993-94 enrollment by program)*



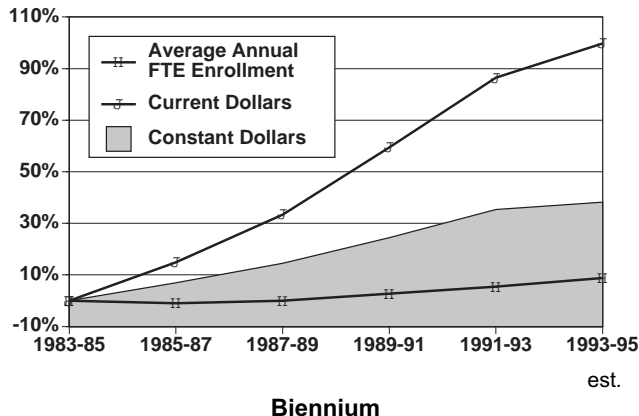
* Based on state and contract-supported FTEs.

Four-Year Colleges and Universities



Washington's higher education system includes the University of Washington (UW), Washington State University (WSU), Western Washington University (WWU), Eastern Washington University (EWU), Central Washington University (CWU), The Evergreen State College (TESC) and The Joint Center for Higher Education (JCHE). Branch campuses are located in communities around the state that are believed to be lacking in public upper-division higher education opportunities. Recent additions to the system, reflected in spending and enrollment trends, are branch campuses of UW at Bothell and of WSU at Vancouver.

Four-Year Colleges and Universities (percent change from 1983-85)



Enrollment only includes state-supported FTEs.

Annual average, state-supported, full-time equivalent enrollment at the state's four-year colleges and universities over the last ten years has ranged from a low of 69,191 in the 1986-87 school year to a high of 76,460 just last year. On a biennial basis, enrollment of 76,093 FTEs in the 1993-95 biennium is about 8.8 percent above that of 1983-85. As with the community colleges, the flat pattern of enrollment growth shown on the graph above results from statutory lids imposed during the recession of the early 1980s. And again as with community colleges, the legislature has recently permitted larger increases, although the increases are considerably less than in the community and technical colleges.

Tuition and fees at the four-year colleges and universities are divided by statute into two categories. Undergraduate students at the University of Washington and Washington State University, which are considered research universities, paid 41 percent of per student undergraduate educational costs in the 1994-95 school year, plus building fees of \$120. This equates to \$2,907

Four-Year Colleges and Universities Annual Average Enrollment

	FTEs	Annual Percent Change
1983-84	70,127	—
1984-85	69,753	-0.5%
1985-86	69,311	-0.6
1986-87	69,191	-0.2
1987-88	69,562	0.5
1988-89	70,315	1.1
1989-90	71,075	1.1
1990-91	72,566	2.1
1991-92	73,071	0.7
1992-93	74,391	1.8
1993-94	76,460	2.8
1994-95 est.	75,726	-1.0

*Figures only include state supported enrollment, not contract supported or student funded enrollment.

in tuition and fees for the 1994-1995 school year, a 55 percent increase in the last 10 years, after adjusting for inflation. Students at The Evergreen State College and Eastern, Western and Central Universities paid 31.5 percent of per student costs and \$76.50 in fees, or \$2,256 for the 1994-95 school year. Tuition and fees at these regional universities rose more than 54 percent, after inflation-adjustment.

Estimated spending of \$3.3 billion for public four-year colleges and universities accounts for about 11 percent of total state expenditures in 1993-95, down from about 12.6 percent in 1983-85. This spending level represents an inflation-adjusted increase of 38 percent over the \$1.6 billion spent 10 years ago.

While the University of Washington has by far the largest research program in the state, all of the four-year institutions

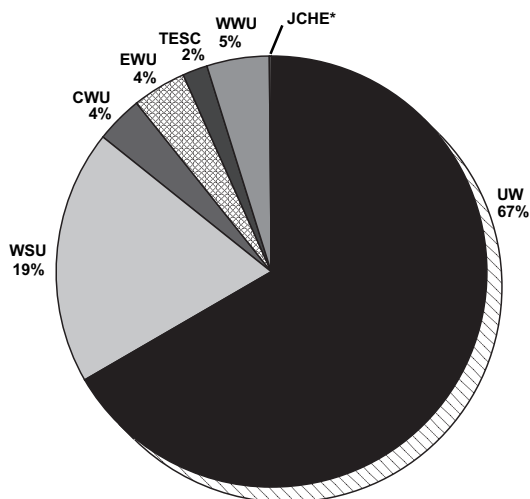
Four-Year Colleges and Universities

	Spending (millions)	Percent of Total	Biennial Percent Change
1983-85	\$1,636.0	12.6%	—
1985-87	1,880.4	12.5	14.9%
1987-89	2,182.4	12.7	16.1
1989-91	2,607.8	12.2	19.5
1991-93	3,050.0	12.7	17.0
1993-95 est.	3,267.3	10.9	7.1

engage in sponsored research. Sponsors financing research include the federal government and state and local governments, as well as private industry.

In part because of these research activities, about 67 percent of total expenditures by the state's four-year colleges and universities are currently financed from sources other than the general fund-state. The trend toward financing higher education outside the general fund-state was furthered by the 1992 supplemental budget, which reclassified tuition revenue from general fund-state to operating fee accounts under the supervision of each institution, effective July 1, 1992. The expenditure data in this book adjusts for that accounting change.

Four-Year Colleges and Universities
(1993-95 spending by school)



Est. spending = \$3.3 billion

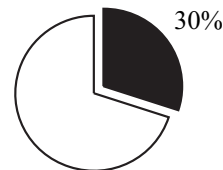
*JCHE = Joint Center for Higher Education - .15%

The chart above shows the distribution of all-funds spending by institution in 1993-95. The University of Washington's share is up from about 62 percent in 1983-85.

Average annual employment of 24,565 FTEs at four-year colleges and universities made up 28 percent of total state employment in 1993-95, down from 30 percent in 1983-85. Over the period the number of employees increased 23 percent, while the number of state-supported students increased 9 percent.

The share of employees assigned to the instruction function in the 1994-95 school year range from a high of 51 percent at Central Washington University to a low of 29 percent at the University of Washington. About 36 percent are in sponsored research at the UW, and about 31 percent at WSU.

Department of Social and Health Services

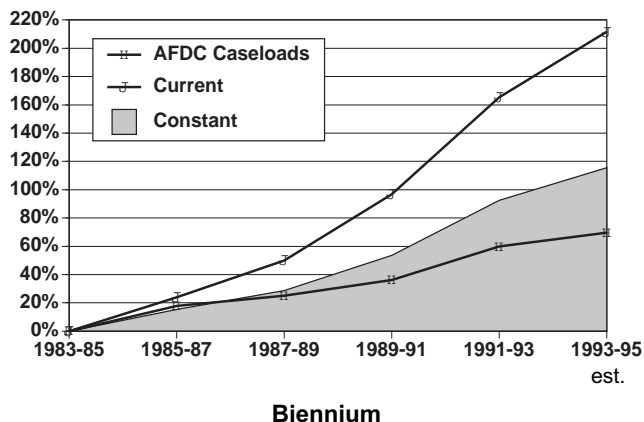


With average annual employment of 16,470 and a biennial budget of \$9.1 billion, the Department of Social and Health Services (DSHS) is by far the largest state agency in Washington. In 1993-95, DSHS will spend an estimated 30 percent of the state's operating budget and employ almost one out of five state employees.

As shown in the graph below, DSHS is also one of the fastest growing agencies in state government. Since 1983-85, total spending by DSHS has risen 211 percent in nominal terms and 116 percent after adjusting for inflation. This is because most of the department's spending goes for entitlement programs, such as Medicaid and Aid to Families with Dependent Children (AFDC), under which services are provided to all who meet eligibility guidelines. (The state may, and in some cases does, set eligibility guidelines exceeding federal requirements.) Rapidly rising caseloads in major assistance programs over the last decade have meant sharp increases in agency expenditures.

Although the state's chief welfare program, Aid to Families with Dependent Children (funded 50/50 by the state and federal governments), represents only about 20 percent of all DSHS spending, AFDC caseloads have tended in the past to track with the department's total expenditures, mainly because AFDC eligibility often correlates with a person's eligibility for other

Department of Social and Health Services
(percent change from 1983-85)



DSHS services, such as Medical Assistance. Between 1983-85 and 1993-95, the number of persons enrolled in AFDC and in the Family Independence Program (FIP), the state's major welfare-to-work program, has climbed almost 70 percent. During the last decade the state has followed a national trend toward significant increases in AFDC caseloads even in good economic times. This is believed to be due to a number of factors, including a lack of education and job skills among

Department of Social and Health Services			
	Spending (millions)	Percent of Total	Biennial Percent Change
1983-85	\$2,917.9	22.5%	—
1985-87	3,616.3	24.1	23.9%
1987-89	4,377.4	25.5	21.0
1989-91	5,739.1	26.8	31.1
1991-93	7,740.7	32.3	34.9
1993-95 est.	9,094.2	30.5	17.5

some segments of the population, geographically uneven job growth, a rise in the number of female-headed households, and even, perhaps, federal welfare reforms that widened eligibility for some services and benefits. The results have been greater demands on state budget resources.

Like most other states, Washington has also seen rapidly escalating expenditures for Medicaid, the jointly financed, federally mandated program of health care for the needy that is administered through Medical Assistance and other programs in DSHS. Grant expenditures for Medicaid in Washington, according to DSHS staff, rose from \$302 million in FY 1984 to almost \$1.3 billion in FY 1994, an increase of 328 percent. This extraordinary rate of growth is attributable both to an increase of 117 percent in the Medicaid-eligible population and to inflation in health care costs.

About 49 percent of DSHS's budget currently comes from the federal government, usually in the form of matching funds for specific programs at federally established rates. Another 44 percent is appropriated from the general fund-state, and 1.5 percent from other state funds.

DSHS is state government's omnibus social service agency, formed through consolidation of other agencies in 1970. According to the department, about one out of five persons living in Washington used at least one DSHS service in FY 90.

Major programs include Children and Family Services, Juvenile Rehabilitation, Mental Health, Developmental Disabilities, Long Term Care Services, Income Assistance, Alcohol and Substance Abuse, Medical Assistance, Vocational Rehabilitation, Community Services, and Revenue Collections. DSHS's public health functions were transferred to the new Department of Health in 1989.

The figure on page 17 illustrates the distribution of DSHS

spending by major program. Medical Assistance accounts for almost one-third of all DSHS spending. Each program is discussed below.

Children and Family Services provides child protective services, foster care, day care, family reconciliations, temporary care for runaways, and social services to protect children from abuse, neglect or exploitation. The state will spend \$503 million on this program in 1993-95, of which 43 percent is from federal funds. The number of children served by this program has greatly increased over the last 10 years, especially those receiving day care services.

Juvenile Rehabilitation services provide residential, supervisory and rehabilitative programs for juvenile offenders. These services are provided in five institutions, seven state-operated group homes and in community-based, privately operated facilities. The average daily population in juvenile rehabilitation facilities in 1995 is estimated to be about 1,223, up 45 percent over 1984. This relatively stable population is the result of a decline in the age group most likely to be institutionalized, as well as to passage of the Juvenile Justice Act, which mandated determinate sentencing for juveniles. After a slow decline in the '80s, the JR population picked up sharply in the early '90s, and is expected to continue to grow through the decade. For 1993-95 spending for Juvenile Rehabilitation is estimated at \$121 million, almost all from general fund-state resources.

Mental Health programs provide institutional services for acutely and chronically mentally ill people, as well as grants to community mental health centers. Services are provided directly to patients in two state institutions, Eastern State and Western State Hospitals. With the passage of the Mental Health Reform Act of 1989, the state has embarked on a policy of increasing the number of those served in the community through a system of Regional Support Networks, and utilizing the state hospitals only when services cannot be provided locally.

State funds account for about 54 percent of estimated spending of \$810 million for Mental Health in 1993-95. Federal funding equalled 39 percent of all revenues.

Developmental Disabilities provides residential treatment and community support services for individuals who are mentally retarded or who suffer from epilepsy, cerebral palsy, autism and certain other conditions related to mental retardation. Residential treatment is provided at six state facilities. Additional services are provided through contracts with community-based providers for residential and family support services and with counties for employment services and developmental services for children.

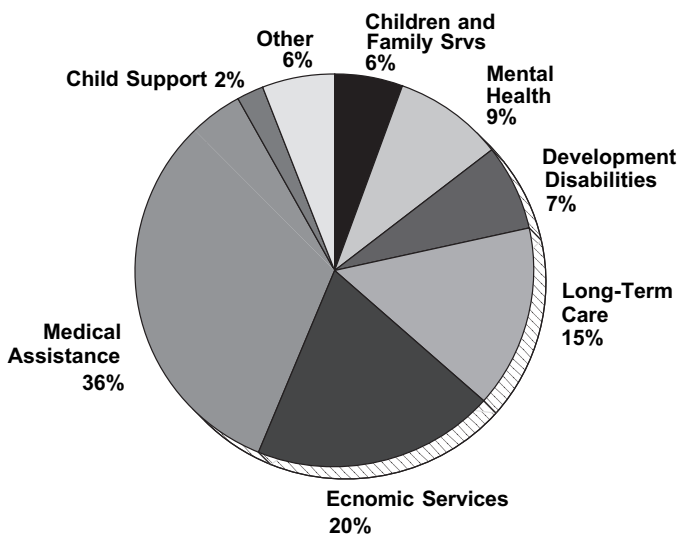
As with the mentally ill, the state is moving in the direction of greater use of community-based services for persons with developmental disabilities, which is intended to both improve quality of care and reduce state costs. This policy is especially evident in residential placement in the current biennium. Developmental Disabilities currently employs about 3,618 persons, or 22 percent of all DSHS employees.

Total expenditures for Developmental Disabilities in 1993-95

are estimated at \$639 million, about 52 percent of which is from general fund-state, and 46 percent from the federal government.

Long Term Care provides a broad range of social and health services to primarily older adults living in the community or in residential care settings, including nursing homes. The state contributes to the care of an estimated annual average of 17,105 people in nursing homes in 1993-95, up from about 15,558 in 1983-85. Most expenditures are in the form of reimbursement to providers through the Medicaid program, whose costs are shared by the state and federal governments.

Department of Social and Health Services
(1993-95 spending by program)



Est. Spending = \$9.1 billion

Washington will spend an estimated \$1.4 billion on its Long Term Care program in 1993-95, 54 percent from federal funds. The remainder comes from general fund-state appropriations.

Economic Services is designed to meet the immediate needs of people determined to have insufficient income and resources to provide for their own support. Monthly cash payments are made to individuals and families through specific programs aimed at different populations.

The vast majority of income assistance benefits are provided through Aid to Families with Dependent Children and the Family Independence Program (FIP), the state's failed welfare reform program, which provide grants and education and job training services to qualifying families with children under 18. AFDC includes a program for single-parent households in which children are deprived by the absence or incapacity of a parent (AFDC-Regular), and a program for two-parent households in which children are deprived by the unemployment of a parent (AFDC-Employable). The state determines grant levels according to family size, and these are matched by federal

funds. The current payment in Washington for a household of three with rent to pay is \$546 per month, and \$332 without rent. AFDC recipients are also eligible for medical benefits through Medicaid and for federally funded Food Stamps.

The combined average monthly caseload for AFDC and FIP in the 1993-95 biennium is estimated at 103,587. The increase has been especially pronounced in the 1985-87 and 1991-93 bienniums, which grew 18 percent and 17 percent respectively from previous bienniums.

Spending for grants to clients (AFDC/FIP grants make up the majority of this category) will total about \$1.2 billion in 1993-95, representing about 67 percent of the Income Assistance budget.

Other income assistance programs are General Assistance-Unemployable (GA-U), Supplemental Security Income (SSI) and Emergency Assistance. GA-U provides cash grants (currently \$339 per month with rent and \$200 without rent) and medical assistance to financially needy adults deemed unemployable due to physical, mental or emotional capacity. A smaller program (GA-S) provides assistance to financially needy pregnant women in their first two trimesters. General Assistance is funded entirely by the state. Estimated 1993-95 spending for GA is estimated at \$120 million.

Supplemental Security Income provides a small cash grant, as required by federal law, as a supplement to federal benefits to blind, elderly or permanently disabled persons. Emergency Assistance provides short-term grants to families with immediate needs for food or shelter who are not eligible for other assistance. State costs are matched 50 percent by the federal government.

Alcohol and Substance Abuse seeks to reduce alcohol and drug abuse through contracted social services. About \$152 million will be spent for this program in 1993-95, about 55 percent from state sources.

Medical Assistance provides health care benefits through the Medicaid program to recipients of federal income assistance and to other persons (including pregnant women and children) with low incomes who do not qualify for income assistance. State law has been extended to cover a number of groups that are optional under federal regulations. The state also provides medical benefits through state-only funds to certain low-income people who do not qualify for federal assistance, such as those in the GA-U program. Total Medical Assistance caseloads have climbed from about 272,119 in fiscal 1984 to about 669,684 in fiscal 1995, an increase of 146 percent.

Medical Assistance expenditures in 1993-95 will reach an estimated \$3.2 billion. Federal matching funds account for about 53 percent of all program expenditures.

Vocational Rehabilitation provides services to citizens handicapped by mental or physical disabilities to aid their return to gainful employment. Spending for this program in 1993-95 is an estimated \$88.7 million (less that 1 percent of DSHS expenditures) mostly from federal funds.

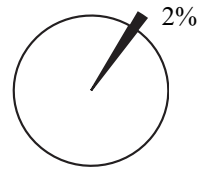
Average Annual DSHS Caseloads

	FIP & AFDC	Nursing Homes	Med. Assis.	Juvenile Rehab
1983-85	61,073	15,558	284,522	842
1985-87	72,021	16,059	337,903	825
1987-89	76,360	16,583	367,811	738
1989-91	83,179	17,177	428,054	824
1991-93	97,658	17,523	530,342	986
1993-95 est.	103,587	17,105	630,228	1,166

Administration and Supporting Services include central executive, personnel, legal, financial and administrative services that support DSHS program delivery. Its staff is about 714, and its costs are about \$95.3 million in the 1993-95 biennium.

Child Support Services activities involve collecting child support payments and debts incurred as departmental services are used. This program will have average annual employment of 1,368 and expenditures of \$195 million in the 1993-95 biennium.

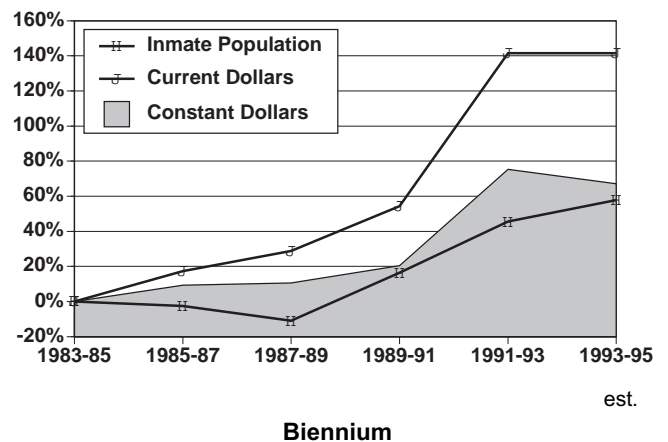
Department of Corrections



The Department of Corrections accounts for about 2.3 percent of total state spending, with expenditures of \$682.5 million in 1993-95. This spending level represents a 67 percent increase, after adjusting for inflation, over that of 1983-85.

Established as a separate agency in 1981, the Department of Corrections is responsible for the management, care and control of adult felony offenders committed to its jurisdiction by the

Department of Corrections
(percent change from 1983-85)



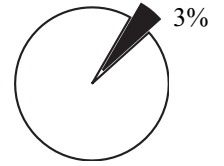
courts. Its activities are shaped by the Sentencing Reform Act of 1981 and by actions of the courts and the Indeterminate Sentence Review Board, as well as by legislative policies.

The department operates 13 institutions, 15 work release facilities and 2 pre-release facilities, housing about 10,829 inmates in locations around the state in fiscal 1994. The two largest facilities are the penitentiary at Walla Walla and the corrections center at Shelton. These institutions housed an average daily population of 3,817 inmates, or 35 percent of the total, in 1994.

The state has experienced a rapid rise in its corrections population since the 1989-91 biennium, putting a considerable strain on state budget resources. The department estimates an average biennial inmate population of 11,041 in 1993-95, including those incarcerated in state facilities, in work release and in pre-release. As show in the graph above, This represents

an increase of 4,042, or 58%, between 1983-85 and 1993-95.

The size of the state's inmate population depends on policy decisions and prison capacity, as well as on demographic and social trends. The number of inmates showed little growth, and even dipped briefly, in the mid-'80s as a result of high volumes of release occasioned by a review of inmates' terms by the



Transportation

The Department of Transportation represents about 3 percent of total state spending for current operations. *Most transportation spending is through the state's capital budget, and so is not included in the analysis presented in this publication.*

Department of Corrections			
	Spending (millions)	Percent of Total	Biennial Percent Change
1983-85	\$282.5	2.2%	—
1985-87	331.7	2.2	17.4%
1987-89	363.8	2.1	9.7
1989-91	436.2	2.0	19.9
1991-93	549.3	2.3	25.9
1993-95 est.	682.5	2.3	24.3

state's Indeterminate Sentence Review Board. Subsequently, the population rose sharply, growing from 6,047 in FY 1988 to an estimated 11,253 in FY 1995 (an increase of 86 percent).

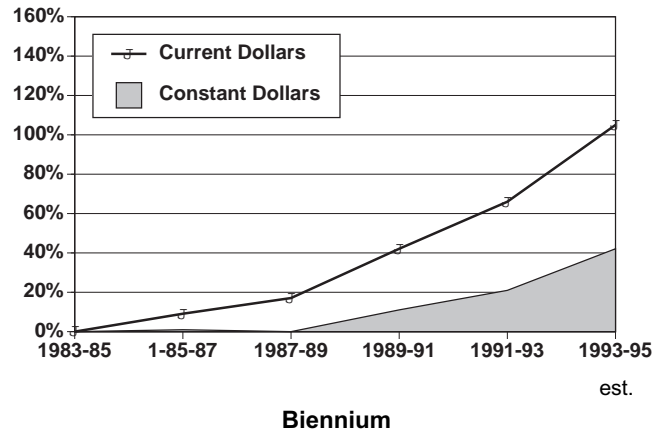
Corrections experts attribute this increase to several factors, including tougher sentencing laws enacted by the legislature, the rising incidence of drug-related crimes and an increase in the age group of the population that is likely to commit crimes resulting in incarceration.

The state has responded to this pressure on the system in two ways: first, by building new prisons in Spokane and Coyote Ridge and expanding existing ones at Purdy, McNeil Island and Clallam Bay, and second, by initiatives aimed at increasing the use of alternatives to incarceration for certain offenders convicted of nonviolent crimes. Sentencing reform legislation has been introduced by both Gov. Gardner and Gov. Lowry to accomplish the latter purpose.

In addition to operating correctional institutions, the department also supervises offenders under community supervision or community custody through its Community Corrections program. In December of 1994, 46,254 offenders were under active supervision, according to the department. This program is responsible for implementing provisions of the Sentencing Reform Act of 1981 that require monitoring of court-ordered community service hours, restitution and the payment of fines and fees.

The Department of Corrections represents about 7 percent of the state work force, with 5,675 average annual FTE employees in 1993-95. Employment of 3,573 FTEs made up about 5 percent of total state employment in 1983-85. The 59 percent increase in corrections employees over the period roughly corresponds to growth in the inmate population and to agency expenditures.

Department of Transportation (percent change from 1983-85)



Department of Transportation expenditures in the state's operating budget will total about \$920 million in 1993-95, 42 percent more than in 1983-85 after adjusting for inflation.

As of the 1993-95 biennium, all funding for the transportation department's operating budget is outside the general fund-state. The state motor vehicle account is the largest single source of operating funds, providing 41 percent of the revenue to support the department's activities. The state marine operating account, which supports the operation of the Washington State Ferries, accounts for another 25 percent. In total, state funds contribute 80 percent of transportation department resources, the rest coming from federal sources and fee-based local funds.

Dedicated funds and user fees are common means of supporting transportation programs. The user fee concept assumes that those who benefit most from a service are the ones who should pay for it. Examples include the use of the gas tax for highway purposes, road or bridge tolls, and ferry fares.

Motor fuel taxes are the largest single revenue source for the state motor vehicle account. Because these taxes are based on the quantity purchased — gallons of fuel — rather than the

value of the purchase, they do not necessarily keep pace with inflation. This tends to be reflected in the department's expenditures as well, with real spending growth of 42 percent between 1983-85 and 1993-95.

Much of the department's responsibilities relate to highway maintenance. This program accounted for 25 percent of its operating budget in 1993-95.

The Washington state ferry system accounts for about 25 percent of operations spending by the transportation department in the current biennium. About half of the funding for the ferries comes from fares, with the remainder subsidized by taxpayers.

The current budget shows a significantly greater commitment by the department to public transportation than was the case a decade ago. Spending for public transit research and planning is 15 percent in 1993-95, compared to 6 percent of total transportation expenditures seen in all the other recent biennium. Two accounts approved by the legislature received the bulk of the increase. The first, Intercity Rail, pays operating and capital subsidies of the Amtrack service from Portland to Vancouver, B.C. The second is the Central Puget Sound Transit Account,

Department of Transportation			
	Spending (millions)	Percent of Total	Biennial Percent Change
1983-85	\$449.9	3.5%	—
1985-87	489.0	3.3	8.7%
1987-89	525.5	3.1	7.5
1989-91	638.7	3.0	21.5
1991-93	747.4	3.1	17.0
1993-95 est.	920.3	3.1	23.1

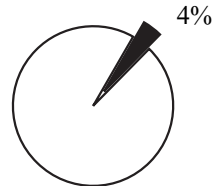
from which money is allocated by committee to transit-related projects in King, Pierce, Snohomish and Kitsap counties.

The department also will spend about \$6 million for the aeronautics program, and purchase about \$131 million in transportation equipment from the operating budget.

Average annual FTE staffing for the department is just less than 5 percent of total state employment in 1993-95 at 4,181 FTEs. This was slightly less than the 5 percent of total employment that the department represented in 1983-85.

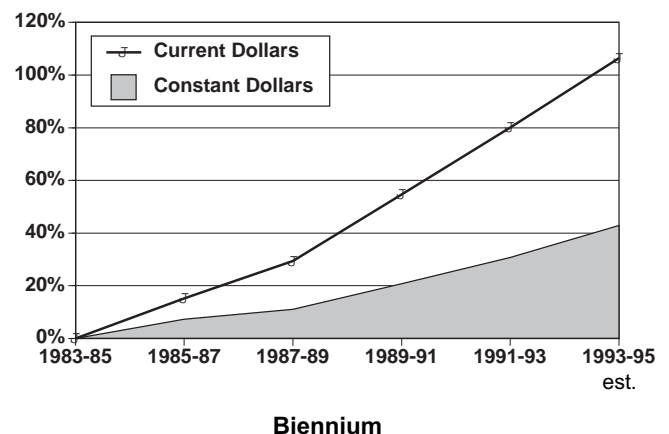
For additional information on transportation spending, including spending on capital related items, see *Transportation Finance in Washington State*, a Washington Research Council special report published in November 1989.

Debt Service



Governments borrow money, and thus incur debt, by selling bonds, which provide a large sum of money immediately and are repaid over time. State bonds are used to finance construction projects including public schools, college and university buildings, roads, ferries and prisons. They are one of the most frequently used methods to pay for capital projects, allowing the cost of the project to be spread over the life of a facility.

Debt Service
(percent change from 1983-85)



About half of this debt is subject to statutory or constitutional limits that have been put in place to ensure that debt service payments remain within levels the state can afford. State statutes require that total debt service paid on bonds in any one year, excluding those with a particular stream of revenue pledged for repayment (reimbursable bonds), is not to exceed 7 percent of the average of general state revenues for the preceding three years. In addition, the Washington Constitution limits total debt service, including reimbursable bonds but excluding voter-approved authorizations, to 9 percent of average general state revenues over the previous three years.

While appropriations from the proceeds of bond sales are made in the capital budget, the operating budget provides appropriations for the debt service payments that have come due on the principal and interest on the bonds. The size of the state's capital budgets therefore has a significant impact on its future operating budgets. Debt service costs on borrowing for capital purposes consume resources that otherwise would be available for other program needs.

As shown in the chart below, the state's capital budgets have escalated from \$1.5 billion in 1983-85 to \$3.2 billion in 1993-95, an increase of 115 percent. The largest biennial increase was in 1991-93, when the legislature approved a state bond package totalling \$3.0 billion, an increase of \$600 million over the previous biennium. This contributed to a 16 percent increase in debt service expenditures in the 1991-93 operating budget.

About the Data

This report compares and analyzes Washington state government operating budget revenue, expenditures and employment between 1983-85 and 1993-95. The data do not include capital or non-budgeted funds.

Expenditure and staffing data were provided by the Office of Financial Management (OFM). Economic and revenue data were provided by the Economic and Revenue Forecast Council and by the Office of Financial Management, and are current to February 1995.

Inflation-adjusted figures were calculated from data received from OFM.

Publications that were consulted in addition to standard state budget and legislative documents and that deserve special acknowledgment include the following:

Office of Financial Management. *Governor's Proposed 1995-97 Operating Budget*. December 1994.

Appropriations Committee, Washington House of Representatives. *Washington State's Family Assistance Programs*. December 1992.

Washington State Department of Social and Health Services. *Briefing Book*. January 1991.

House Fiscal Committees, Washington House of Representatives. *Washington State Budget Factbook*. December 1992.

Senate Ways and Means Committee, Washington Senate. *Introduction to the Washington State Budget for Legislators*. December 1992.

Superintendent of Public Instruction, *Organization and Financing of Washington Public Schools*. May 1992.

Debt Service

	Spending (millions)	Percent of Total	Biennial Percent Change
1983-85	\$526.7	4.1%	—
1985-87	606.6	4.0	15.2%
1987-89	681.6	4.0	12.4
1989-91	814.5	3.8	19.5
1991-93	948.3	4.0	16.4
1993-95 est.	1,087.3	3.6	14.7

Payments for interest and principal on total state debt will cost an estimated \$1,087 million in the 1993-95 biennium. That is 106 percent more than was spent for debt service in 1983-85, and about 43 percent more on an inflation-adjusted basis. As a share of the state's operating budget, debt service has stayed around 4 percent of total expenditures over most of that time.

Capital Budgets

1983-85 to 1993-95

