

Changing the Budget Status Quo

by Paul Guppy & Jason Mercier

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Recommendations

1. Adopt performance-based, Priorities of Government budgeting to slow the rate of spending growth.
2. Place performance outcomes directly into the budget.
3. Adopt a 72-hour budget timeout.
4. Require updated six-year budget forecasts be tied to quarterly revenue forecasts or adoption of new budgets.
5. Require completed fiscal notes before bills can be acted on.
6. Adopt a constitutional amendment to limit the growth of spending to inflation and population growth.

When lawmakers come to Olympia in January they will be tasked with solving a projected \$5 billion budget deficit. Thankfully there are several common sense reforms that policymakers can adopt to change the budget status quo and help put the state on the path toward sustainable budgeting. Adopting these reforms will help promote efficiency, improve the quality of services to the public and resolve the constant sense of crisis that pervades the state's public finances.

Defining the Problem

Although the amount of money the state collects from citizens continues to increase, lawmakers regularly boost state spending by an even faster rate. The result is a structural deficit created by the gap between the increased level of planned spending and the actual increase in tax revenues.

General Fund State Revenue Growth¹
(Dollars in Millions)

Budget	Revenue	\$ Increase	% Increase
1991-93	\$14,862.2	-	-
1993-95	\$16,564.6	\$1,702.4	11.5%
1995-97	\$17,637.7	\$1,073.1	6.5%
1997-99	\$19,620.1	\$1,982.4	11.2%
1999-01	\$21,262.1	\$1,642.0	8.4%
2001-03	\$21,140.7	<\$121.4>	<0.6%>
2003-05	\$23,388.5	\$2,247.8	10.6%
2005-07	\$27,772.0	\$4,383.5	18.7%
2007-09	\$28,626.6	\$854.6	3%
2009-11	\$30,070.4	\$1,443.8	5%

To understand the structural deficit, it helps to look at the budget in a broader context. Citizens tend to forget that state government is constantly growing. The fiscal issue the legislature usually debates is how fast spending should rise. The table below shows how much the legislature has increased spending, one budget cycle to the next over the past thirty-years.

State Spending Increases 1979-81 to 2007-09
General Fund State (GFS) and Near General Fund State (NGFS)²
(Source: Based on data from the Legislative Evaluation and Accountability Program)

Biennium	GFS Expenditures	% Increase	NGFS Expenditures	% Increase
1979-81	\$5,775,901,000	N/A	\$5,775,901,000	N/A
1981-83	\$6,539,951,000	13.2%	\$6,539,951,000	13.2%
1983-85	\$7,957,920,000	21.7%	\$7,957,920,000	21.7%
1985-87	\$9,184,246,000	15.4%	\$9,230,046,000	16.0%
1987-89	\$10,404,193,000	13.3%	\$10,484,133,000	13.6%
1989-91	\$12,844,273,000	23.5%	\$13,056,989,000	24.5%
1991-93	\$14,982,598,000	16.6%	\$15,294,588,000	17.1%
1993-95	\$16,314,035,000	8.9%	\$16,722,260,000	9.3%
1995-97	\$17,732,644,000	8.7%	\$18,527,285,000	10.8%
1997-99	\$19,158,884,000	8.0%	\$20,082,207,000	8.4%
1999-01	\$21,046,741,000	9.9%	\$22,352,753,000	11.3%
2001-03	\$22,548,787,000	7.1%	\$24,545,518,000	9.8%
2003-05	\$23,671,703,000	5.0%	\$25,607,496,000	4.3%
2005-07	\$27,766,066,000	17.3 %	\$30,171,238,000	17.8 %
2007-09	\$29,838,204,000	7.5 %	\$33,655,219,000	11.5 %

Although the amount of money the state collects from citizens continues to increase, lawmakers regularly boost state spending by an even faster rate.

When lawmakers discuss “cuts,” they are generally referring to reductions in the *rate* of spending increase. When tax revenues rise more slowly than *planned* spending, the difference is called a “deficit.” When revenue rises faster than the rate of spending increase, the result is a surplus. Either way, except in very rare cases, overall public spending is constantly rising.

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Lawmakers’ instinctive attraction to new spending, while satisfying in the short run, makes it harder for them to meet their obligations in the long term. State government is badly overextended because it tries to do too much. The legislature and the governor make permanent promises but only provide temporary funding. When money inevitably runs short, elected officials often seek more revenue from the public, leaving citizens with less of their own earnings to meet life’s daily needs.

The result of this approach is an ongoing financial crisis in which recurring deficits are an endemic part of the budget process.

Priorities of Government

In 2002, former Governor Gary Locke initiated an effort to rationalize Washington’s budget structure when he established his Priorities of Government process.³ The process requires each agency to rank program activities in order of their importance to the public.

The Priorities of Government process focuses on three strategies.

1. View state government as a single enterprise.
2. Achieve results, at less cost, through creative budget solutions.
3. Reprioritize spending, eliminating programs or consolidating similar activities in different agencies.⁴

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Allowing an opportunity for a detailed review by the public prior to hearings or votes on budget bills would help increase public trust in government and enhance accountability for the spending decisions being made.

Governor Locke described Priorities of Government as “focusing on results that people want and need, prioritizing those results, and funding those results with the money we have.”⁵

The natural next step in the Priorities of Government budgeting process is to identify measurable performance outcomes for those programs funded in the budget. By having detailed performance information, better prioritization can occur by funding those strategies that deliver the best results.

Understanding Spending Proposals

The state’s combined budget (operating, capital and transportation) runs hundreds of pages long. Despite the length and complexity of these documents, hearings are usually held the same day the budget is introduced, and the bill is amended and enacted with inadequate time for meaningful public input. Allowing an opportunity for a detailed review by the public prior to hearings or votes on budget bills would help increase public trust in government and enhance accountability for the spending decisions being made.

One of the most recognizable measurements of the state’s fiscal health is the six-year budget outlook. These updates, however, are not done on a regular basis. To help provide updated information throughout the year on the state’s fiscal outlook, an updated six-year budget outlook should be issued each time the official revenue forecast is released or a new appropriation bill is adopted.

Along with the budget outlook, fiscal notes are another tool used to help make spending decisions. These analyses help provide information on the impact a spending proposal may have on taxpayers. Unfortunately, bills are sometime acted on before these estimates are completed, robbing the public and lawmakers of the information they need to make an informed decision.

Structural Budget Reform Recommendations

1) Adopt performance-based, Priorities of Government budgeting to slow the rate of spending growth and end the chronic sense of crisis in state finances. The Priorities of Government standard has proved successful in the past. The legislature should adopt it as a permanent part of the budget process by requiring all budgets be adopted against a performance-based, prioritized matrix. Priorities of Government brings discipline to public spending, slows the growth of the tax burden government places on its citizens and directs limited government funding to where it is most needed.

2) Place performance outcomes directly into the budget. To help improve budget accountability, high-level performance outcome expectations should be placed directly into the budget, so lawmakers and citizens can quickly review whether the goals have been met each time new or increased spending is requested.

3) Adopt a 72-hour budget timeout. To help facilitate public involvement, the legislature should adopt a 72-hour timeout period once a tax or spending bill is introduced or amended before hearings or legislative votes could occur.

4) Require updated six-year budget forecasts be tied to quarterly revenue

forecasts or adoption of new budgets. To help provide updated information throughout the year on the state’s fiscal outlook, an updated six-year budget outlook should be issued each time the official revenue forecast is released or a new appropriation bill is adopted.

5) Require completed fiscal notes before bills can be acted on. Lawmakers and the public should know the full impact of a spending proposal before any action is taken. Bills proposing increased spending should not receive hearings or votes until a completed fiscal note is issued.

6) Adopt a constitutional amendment to limit the growth of spending to inflation and population growth.⁶ Reasonable budget limits similar to those of Initiative 601, but as part of the state constitution, would protect taxpayers and bring greater discipline to public finances.

Notes

¹ Washington State Economic and Revenue Forecast Council.

² General Fund State is the largest fund in the state budget. Near General Fund State includes those funds closely related to the General Fund State.

³ “Gov. Gary Locke Announces ‘Priorities of Government’ Strategy for Lean, Results-Oriented State Budget,” news release, Office of the Governor, Olympia, November 14, 2002, <http://www.governor.wa.gov/press/press-view.asp?pressRelease=1222&newsType=1>.

⁴ Ibid.

⁵ “Priorities of Government,” Governor Gary Locke, news conference, November 14, 2002, at www.digitalarchives.wa.gov/governorlocke.

⁶ Please see “Constitutional Protections Needed For Taxpayers,” Washington Policy Center, September 2008. Available at <http://www.washingtonpolicy.org>.

Paul Guppy is Vice President for Research at Washington Policy Center. Jason Mercier is director of WPC’s Center for Government Reform. WPC is a non-partisan independent policy research organization. Nothing here should be construed as an attempt to aid or hinder the passage of any legislation before any legislative body.