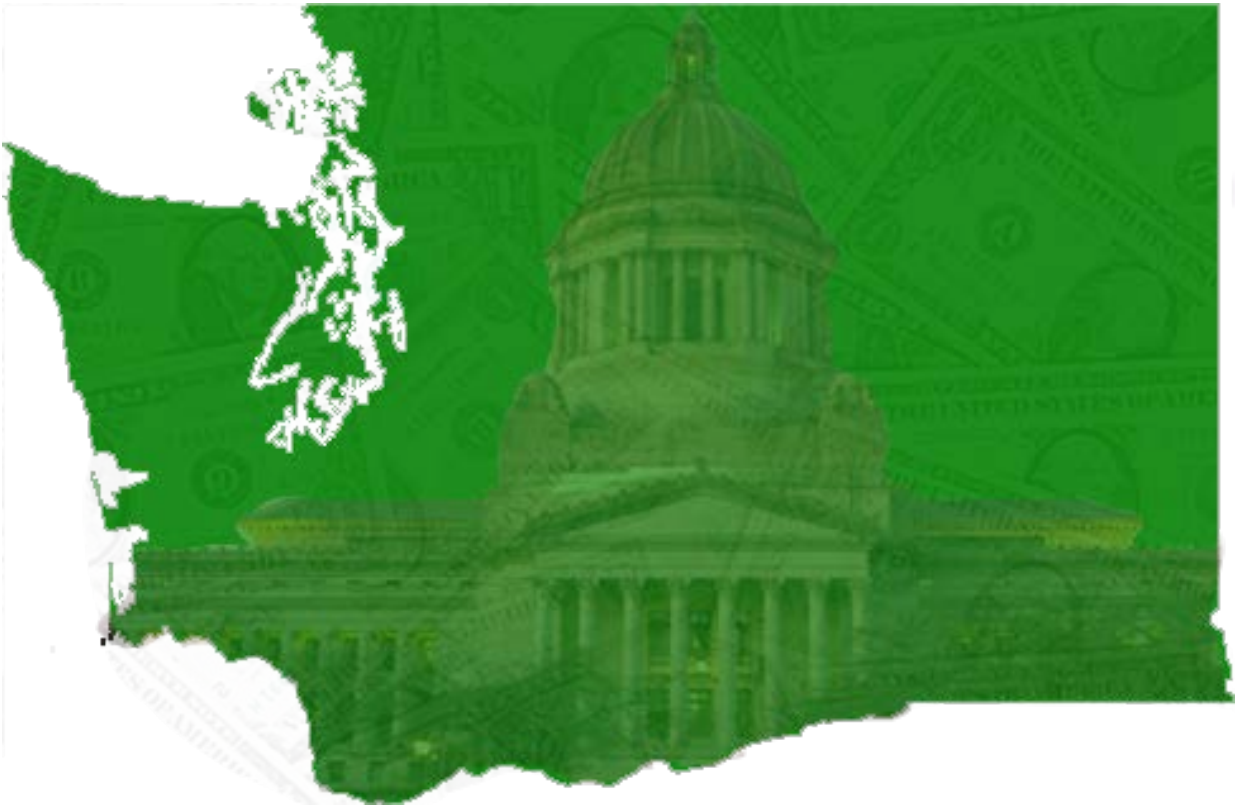


A Citizen's Guide to the Washington State Capital Budget



2021

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Introduction

The 2021 Citizen's Guide to the Washington State Capital Budget is offered as a resource for citizens, members of the Senate, their staff, and other interested persons to provide a clear and cogent overview of the state capital budget. It also places the capital budget in the context of other state budgets.

This guide was developed as a response to requests received by the Senate Ways & Means Committee for a brief and easy-to-understand document that would explain the capital budget to the public. The Legislature produces a number of documents and reports that provide highly detailed information regarding budget and revenue actions. This guide provides a brief introduction to the capital budget.

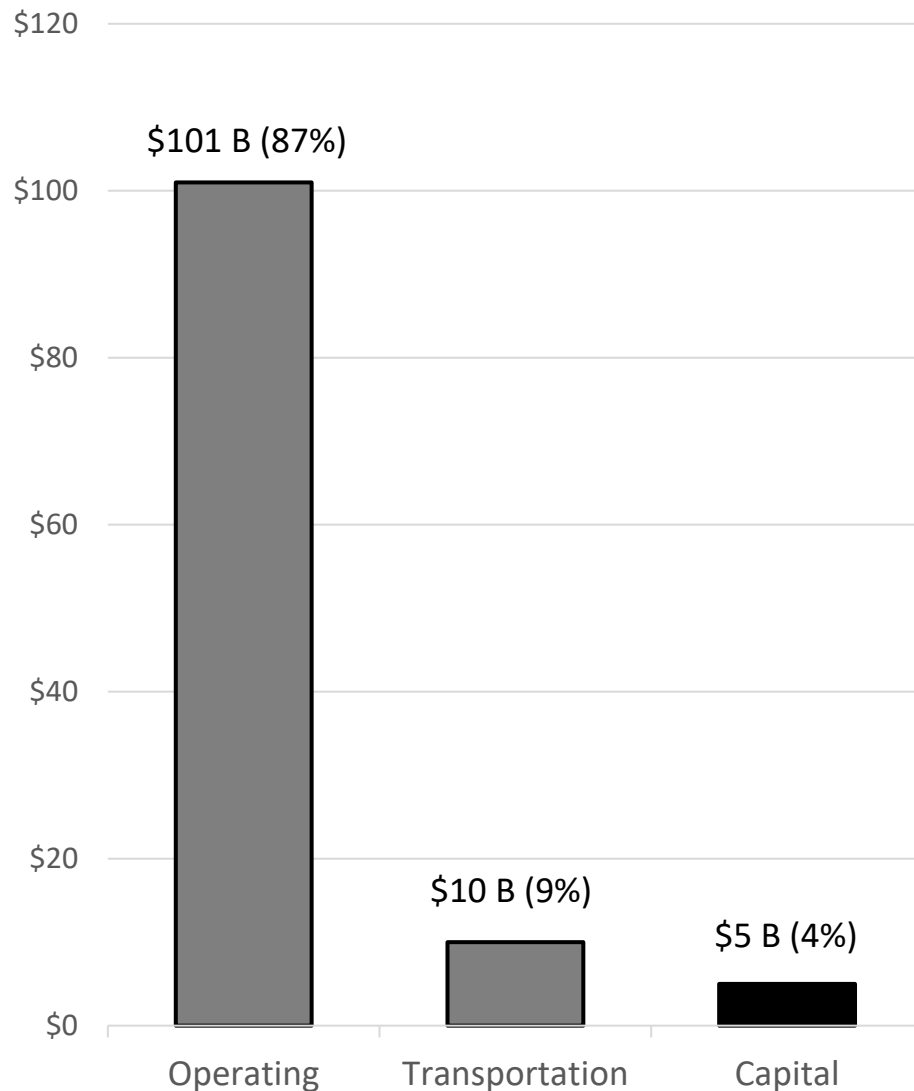
The 2021 Citizen's Guide to the Washington State Capital Budget was prepared by staff of the Senate Ways & Means Committee (within Senate Committee Services) and the Legislative Evaluation and Accountability Program Committee, with valuable assistance from staff of several state agencies, notably staff of the Budget and Accounting Divisions of the Office of Financial Management. Questions regarding the guide or requests for additional copies should be addressed to:

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Budget overview: Washington State's Three Budgets

As of the 2020 Legislative Session, the State of Washington will spend a total of \$121 billion for the 2019-21 biennium. This amount includes funding from three different budgets -- operating, transportation and capital; these budgets are plans of how the state will spend the money. The relative size of these budgets is shown in the following chart:



The operating budget pays for the day-to-day operating of state agencies, colleges and universities, and public schools. Employee salaries and benefits, leases, goods and services, apportionment allocations to school districts, and public assistance payments are typical operating expenses.

The transportation budget includes appropriations for both the operating and the capital costs of highways, ferries, bridges, public airports, rail, as well as motor vehicle registration and enforcement.

The capital budget includes new appropriations for a broad range of construction and repair projects; the description of the capital budget (below) includes these projects. In addition, the budget reappropriates funding for uncompleted projects approved in prior biennia.

How is the budget created?

State agencies, the Governor, the Legislature, citizens, and interest groups are all involved in the budget process. The operating and capital budgets follow a similar process.

Agency Requests - In early fall, state agencies submit budget requests to the Office of Financial Management (OFM). The Governor reviews the requests and makes final decisions for his or her budget proposal.

The Governor's Budget - By law, as the chief executive officer of the state, the Governor must create a biennial budget proposal for spending and taxation in December of even-numbered years, the month before the Legislature convenes in regular session.

The Legislative Budget Process - For the operating budget, the chairs of the House Appropriations Committee and the Senate Ways & Means Committee work with members and staff to review items in the Governor's proposal. The transportation budget is developed by separate committees in the House and Senate. The capital budget is developed by the Senate Ways & Means Committee and the House Capital Budget Committee. The initiation of legislative budget proposals alternates between chambers each biennium. After each chamber has passed its version of the budget, the differences must be reconciled. Fiscal leaders representing both chambers meet to negotiate a final budget that will be submitted to the full Legislature. After final passage, the budget is delivered to the Governor for his or her signature.

The Governor may veto all or part of the budget, which eliminates funding for certain activities; however, the Governor cannot add money for an activity for which the Legislature provided no funding. Only after the Legislature passes a budget and the Governor signs it has the budget become law.

In the 2021 Legislative Session, the Legislature will adopt a new budget for the 2021-23 biennium, and will amend appropriations from prior biennia through **supplemental budgets**.

The capital budget requires three distinct bills:

The **bond bill** authorizes the state finance committee to issue debt subject to the debt limit. Article VIII, Section 1 of the State Constitution establishes a debt limit and prohibits the State Treasurer from issuing bonds where the debt service of prior and current bonds exceeds the average of general state revenues. The Constitutional limit provides that debt service may not exceed 8.25 percent of the six-year average of general state revenues. General state revenues (GSR) are defined as all unrestricted state tax revenues. In 2034, the debt limit percentage will decrease to 8 percent of the six-year average of GSR. The authority to issue debt must receive a 3/5 majority, or 60 percent vote in each house.

A model administered by the State Treasurer's Office is used to calculate the available bond capacity for the current budgeting period and for future biennial planning purposes. The model calculates the actual debt service on outstanding bonds and estimates future debt service based on certain assumptions. These assumptions include revenue growth, interest rates, capital budget growth in future biennia, rate of bond issuance, and other factors. A working group that includes

non-partisan staff from the House, Senate and the OFM, agrees on the inputs to the model.

In effect, the debt model prohibits one Legislature from spending at a level that constrains future Legislatures. However, the debt model and the assumptions on which it rests are not authorized by law or subject to review and approval by the Legislature. Rather, the model is an informal constraint on bond-based capital budget spending.

The Legislature and the Governor, in consultation with the State Treasurer, agree on the assumptions and bond capacity for the biennium so that decision makers can focus on policy and projects and not on bond capacity.

The **capital budget bill** makes specific appropriations of the proceeds from bond sales, other dedicated state funds, and federal funds. Appropriations are for the construction and repair of the following:

- public school buildings;
- college and university buildings;
- prison facilities and juvenile rehabilitation facilities;
- mental health institutions;
- state office buildings;
- parks and recreation facilities;
- low-income housing;
- state and local museums and cultural facilities;
- local government infrastructure improvements, including water and sewer systems;
- toxic waste sites; and
- habitat conservation and restoration projects.

The capital budget also appropriates money for state land acquisition, water supply enhancement, storm water improvement, and floodplain management and control projects, as well as for many other purposes.

In general, capital projects have a useful lifespan of more than 13 years. Such projects may include acquisition of land and buildings; construction of new buildings; major repairs, reconstruction, and additions to an existing building; utility, landscaping, and infrastructure work; and equipment that is necessary for the operation of a particular facility if the equipment is part of a construction or reconstruction project. In addition, capital budgets include funding for architectural planning and design, engineering studies for a specific capital project, and administrative costs directly related to the capital project.

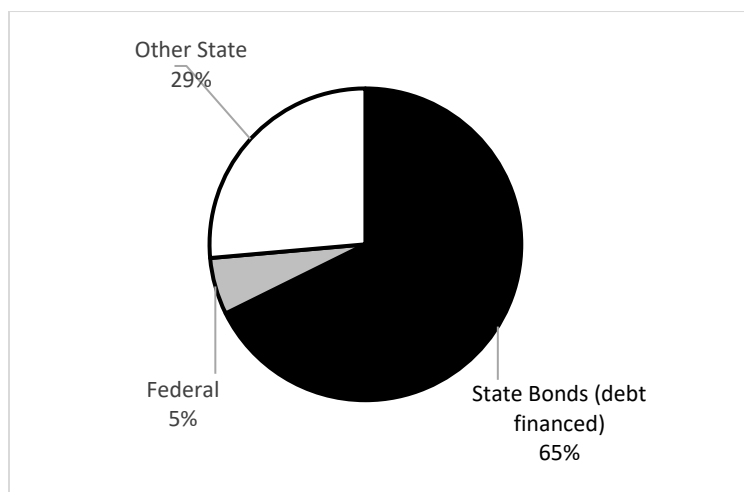
Capital projects do not include commodities, replacement parts, cars and trucks, or maintenance supplies.

The **operating budget bill** appropriates the debt service (principle and interest) on bonds. This includes bonds issued in prior years as well as the new issues in the bond bill. In the 2019-21 biennium, debt service appropriations totaled \$2.46 billion.

How big is the capital budget? Where does the money come from?

The size of the capital budget is determined by the available bond capacity and by moneys available from dedicated accounts, trust revenues, and other funding sources.

In the 2019-21 biennium, more than half of the \$5 billion in new appropriations was funded from state debt.



State bond accounts include, for example:

- State Building Construction Account
- Taxable Building Construction Account funds loan programs (e.g. Housing Trust Fund)
- Watershed Restoration and Enhancement bonds (Hirst)

Examples of other state funds include:

- Revenues from trust land management (Common School Construction Account; Charitable, Educational, Penal and Reformatory Institution Account, Capitol Building Trust Account). These trust assets were granted to the state by the federal government at statehood.
- Public Works Assistance Account (PWAA). With the appropriations of the PWAA in the capital budget the Public Works Board makes low interest loans to local governments for public works projects.
- Model Toxic Control Act (MTCA) accounts.
- Higher education building accounts funded as part of the tuition and fees paid by higher education students. The higher education institutions use the funds appropriated by the Legislature for minor works and facility preservation.

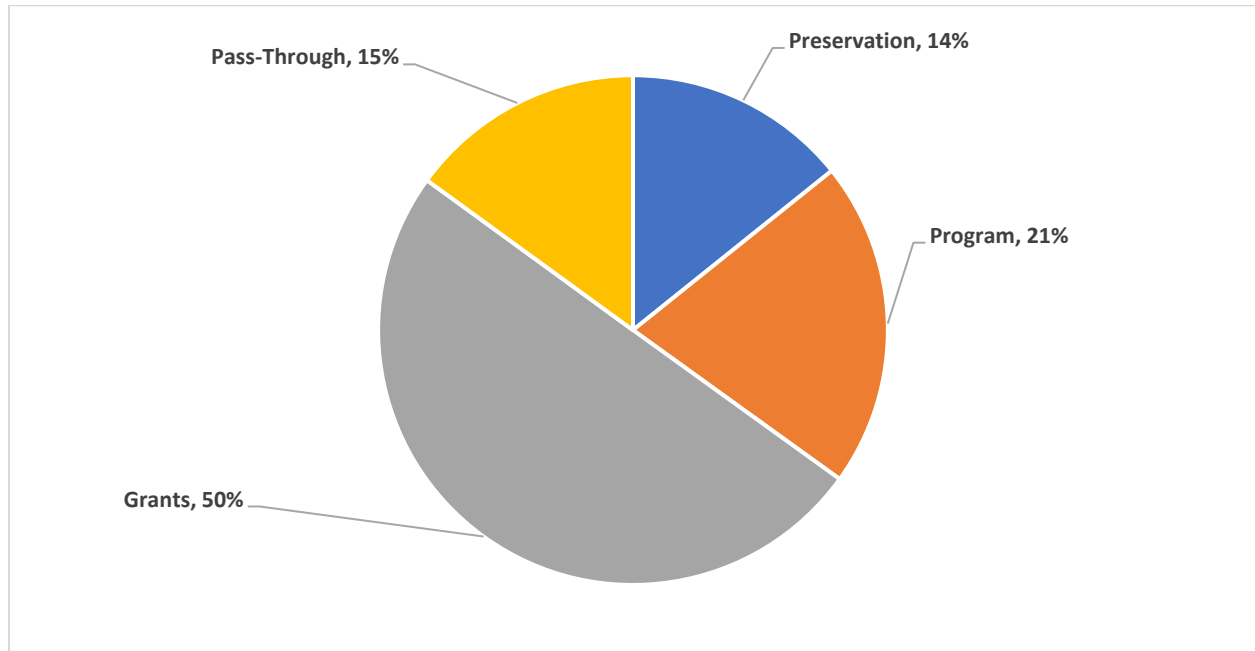
Federal funds are appropriated to the:

- Department of Ecology for water pollution control.
- Department of Health for drinking water assistance.
- Military Department to match state funds for construction of readiness centers.
- Recreation and Conservation Office for salmon recovery.

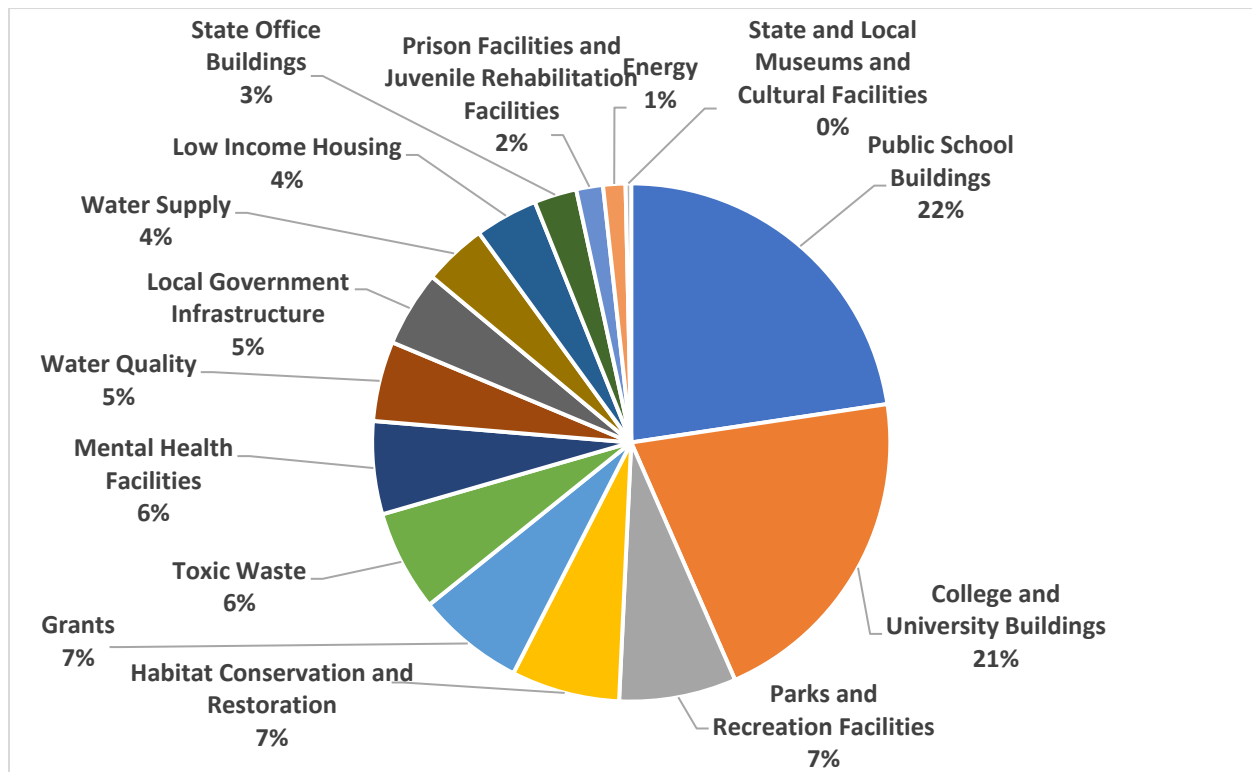
What does the capital budget buy?

The following chart illustrates the classes of projects from the 2019-21 enacted capital budget.

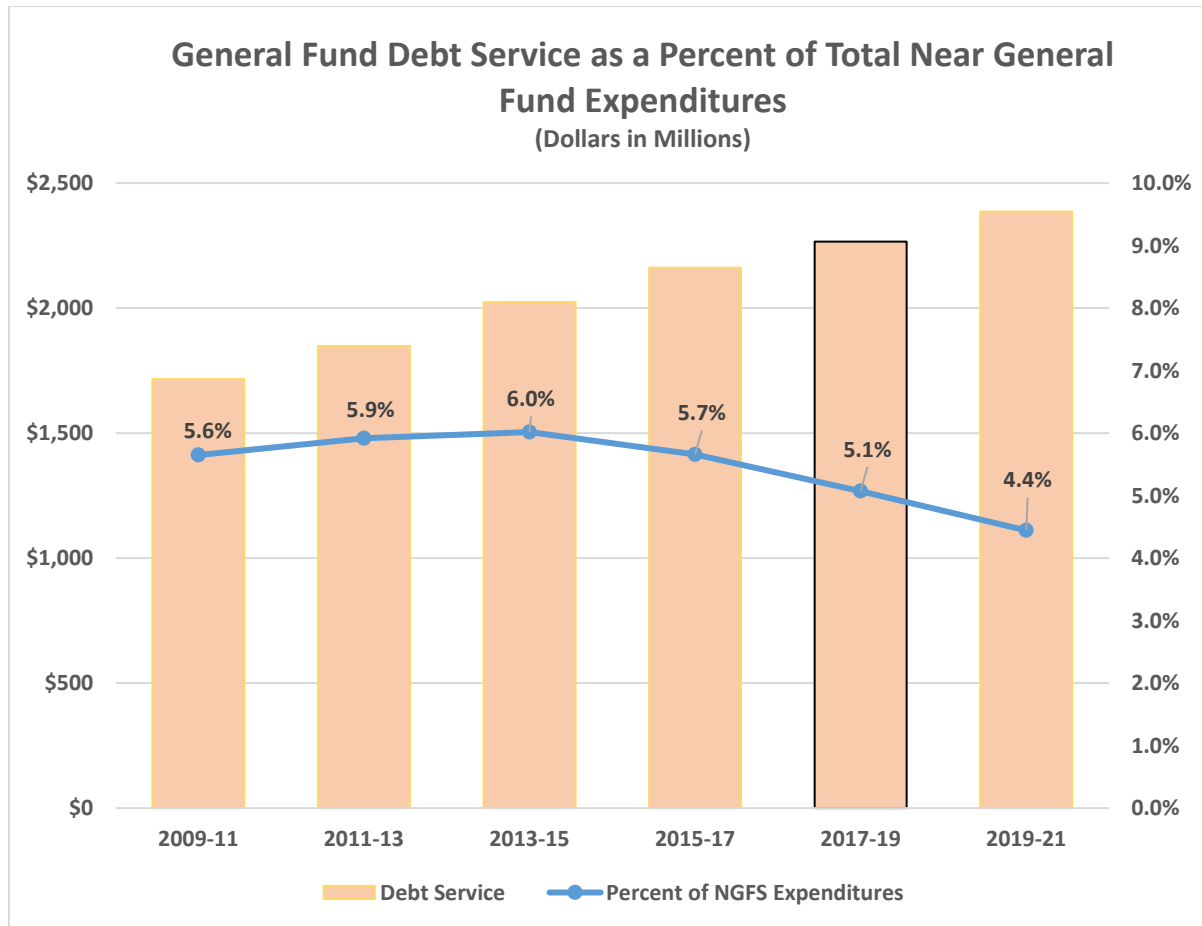
- Preservation is to maintain existing facilities, such as higher education buildings and state institutions.
- Program includes funding for new state facilities.
- Grants and Pass-Through funding represent competitive and directed grants and construction funding for K-12 schools.



The following graph illustrates the relative share of the \$5 billion in total appropriations from the 2019-21 enacted capital budget.



Debt service has increased each biennium; however, the debt service as a percent of near general fund state expenditures has declined.



How have the fund sources changed over time?

Beginning in the 2017-19 biennial capital budget, the share of state bond appropriations has increased relative to other fund sources.

