

THE WASHINGTON STATE ECONOMY IS GROWING, OUR STATE IS NO LONGER VYING FOR THE HIGHEST UNEMPLOYMENT IN THE NATION AND STATE REVENUES HAVE EXCEEDED PREDICTIONS IN THE LAST YEAR. HOWEVER, AS LAWMAKERS DEVELOP A SUPPLEMENTAL BUDGET THIS YEAR THEY MUST BE MINDFUL THAT THE FUTURE FISCAL PICTURE IS NOT AS PROMISING AS THE CURRENT VIEW.

RECENT REVENUE GROWTH, DRIVEN IN LARGE PART BY A ROBUST HOUSING MARKET, IS NOT SUSTAINABLE AND THE EXTENDED FISCAL FORECAST PROJECTS A BUDGET DEFICIT IN 2007-09. THE CARRY-FORWARD, OR COST OF MAINTAINING CURRENT SERVICES INTO 2007-09, IS ALSO ALARMINGLY HIGH AT 10.4 PERCENT.

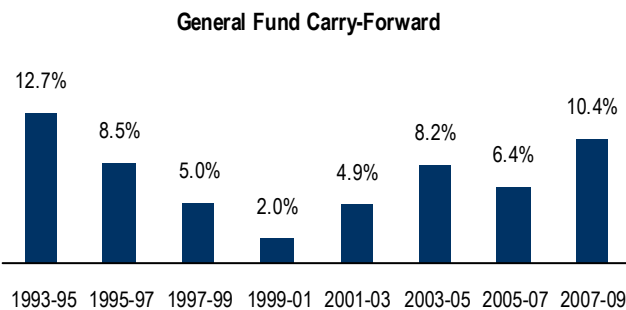
GIVEN THE LONG-TERM FISCAL OUTLOOK, GOVERNOR GREGOIRE IS RIGHT TO URGE LAWMAKERS TO RESTRAIN SPENDING GROWTH THIS YEAR AND SAVE A SIGNIFICANT PORTION OF THE SURPLUS TO OFFSET FUTURE DEFICITS AND DEFERRED OBLIGATIONS. THE ROUNDTABLE URGES LAWMAKERS TO USE MUCH OF THE SURPLUS TO REDUCE THE CARRY-FORWARD AND BUILD UP RESERVES. LAWMAKERS ARE ALSO ENCOURAGED TO CURTAIL ESCALATING COSTS IN FAST GROWING BUDGET AREAS AND TAKE STEPS TO MAKE THE BUSINESS TAX BURDEN MORE COMPETITIVE WITH THAT OF OTHER STATES.

The Washington Roundtable joins the governor, executive agencies and the Legislature in supporting the use of performance benchmarks to measure progress in state government. The Roundtable provides this assessment of state fiscal management regularly to review performance, acknowledge successes and identify areas requiring action. This review is based on four fiscal principals:

- SUSTAINABILITY
- COMPETITIVENESS
- CONTINGENCY
- CLARITY

IS OUR BUDGET SUSTAINABLE?

GENERAL FUND CARRY-FORWARD



Source: Senate Ways & Means Committee

Guideline: the carry-forward (cost of maintaining services into the future) should be minimized to ensure long-term budget sustainability.

Historic performance: Fair

Carry-forward costs increased steadily from 1999 to 2005. However, by prioritizing services and limiting spending, lawmakers were able to reduce the carry-forward going into the 2005-07 biennium.

Current situation: Poor

The carry-forward of 10.4 percent leading into the 2007-09 biennium is the highest in more than a decade.

Long-term outlook: Although Washington enjoys a budget surplus in 2006, the carry-forward to 2007-09 is alarmingly high and contributes to a deficit projected for the next biennium. Lawmakers must take steps to limit the carry-forward and make state budget sustainability a priority.

HEALTH CARE EXPENDITURES AS PERCENT OF GENERAL FUND

Guideline: average growth in a specific spending area should not exceed long-term growth in general fund spending.

Historic performance: Poor

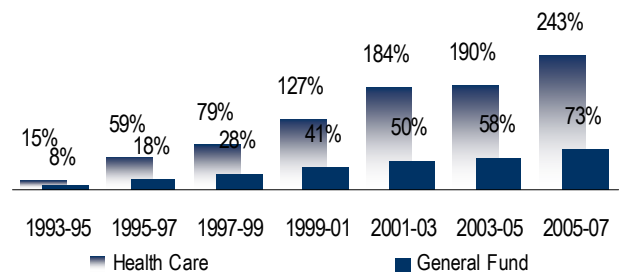
Growth in health care spending has tripled that of growth in general fund spending for the last decade.

Current situation: Crisis

The gap between health care spending growth and growth in general fund spending continues to widen at an alarming rate.

Long-term outlook: There is no sustainable way to fund health care at its current growth rate. Washington must contain growth in health care spending or risk eroding funding for state priorities such as public education.

General Fund Growth vs. Health Care Growth



Source: Legislative Evaluation & Accountability Program

IS OUR STATE COMPETITIVE?

WASHINGTON TAX LEVELS

Guideline: Washington's state and local tax levels should be consistent with, or lower than, other states.

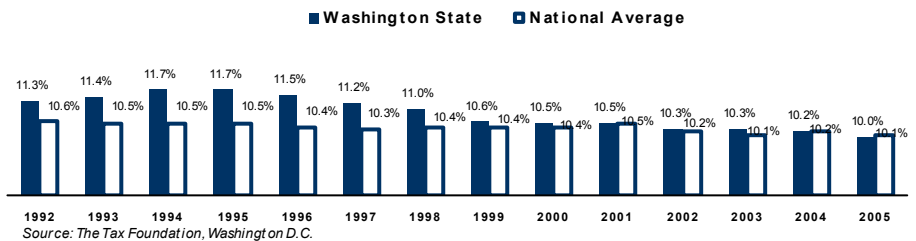
Historic performance: Fair

Washington's combined state and local tax burden has hovered close to the national average since 1999.

Current situation: Good

Washington's state and local tax burden represented 10 percent of personal income in 2005, slightly under the national average of 10.1 percent.

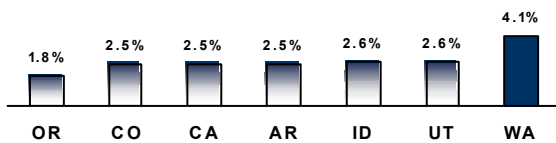
Washington State & Local Taxes v. National Average



Long-term outlook: Although the state has made few tax reductions in recent years, its competitive position has improved as many other states raised taxes in an attempt to deal with revenue shortfalls. As their economies improve, it is likely that many states will seek to improve their competitive positions and some may cut taxes. Washington state lawmakers must remain mindful of this and take steps to maintain and improve Washington's competitive position.

BUSINESS TAX BURDEN

Business Tax Burdens as a Percent of Gross State Product FY03
Selected Western States



Guideline: the relative tax burden between business and individuals should be aligned with that of other states.

Historic performance: Poor

Washington's business tax burden has historically exceeded that of other Western states as a percentage of gross state product.

Current situation: Poor

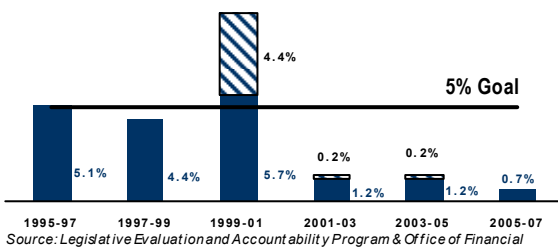
The Washington business tax burden remains high compared to competing states. As a percentage of gross state product, it is more than double that of Oregon and significantly higher than Idaho or California.

Long-term outlook: Washington hasn't made progress in reducing its tax burden as a percent of gross state product in recent years. Currently, Washington businesses pay 50 percent of the total state and local tax burden, the 10th highest in the nation. This encourages employers to invest and create jobs elsewhere, thus reducing potential employment and associated state revenues here.

IS OUR CONTINGENCY SUFFICIENT?

RESERVE

Ending Fund Balances as a % of General Fund
■ Unrestricted Reserve ■ Emergency Reserve



Guideline: Washington needs a reserve sufficient to cover emergencies or make unexpected, necessary purchases.

Historic performance: Poor

The state has not set aside reasonable reserves since 2001, saving less than two percent of the state general fund budget during the last two biennia.

Current situation: Fair

The reserve as adopted in the current biennial budget was dangerously low. Despite the fact that very little money was put aside in the 2005-07, better than projected revenues have provided surplus funds.

Long-term outlook: By not maintaining an adequate reserve, Washington takes great risk in being unprepared for future emergencies or unforeseen expenses. Governor Gregoire's proposal to save \$900 million of the 2006 surplus is wise as a deficit is projected for 2007-09, in spite of encouraging economic growth in the last year.

IS THE BUDGET UNDERSTANDABLE?

THE BUDGET AS A WHOLE

Guideline: budgets should be presented in a transparent manner that provides for ample review and accountability.

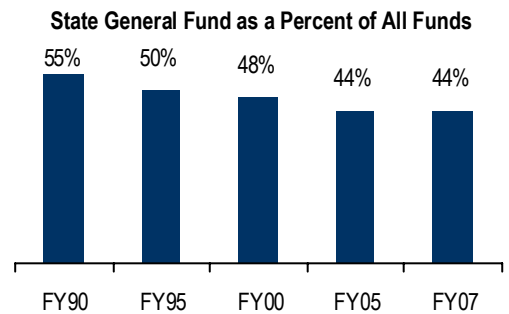
Historic performance: Poor

The state general fund as a percentage of all funds has declined over time.

Current situation: Poor

The general fund currently accounts for 44 percent of all state funds. While that number held steady from 2004 to 2006, it is significantly smaller than the 55 percent level in 1990 and the 50 percent level in 2000. This indicates a trend toward earmarking and less transparency.

Long-term outlook: Over time an increasing share of the total budget has been shifted from the general fund into dedicated accounts that receive less scrutiny. This makes it more difficult for lawmakers to analyze and prioritize all spending and the lack of transparency fuels citizen mistrust.



Source: Legislative Evaluation & Accountability Program



WASHINGTON
ROUNDTABLE

THE WASHINGTON ROUNDTABLE IS A NONPROFIT PUBLIC POLICY ORGANIZATION COMPRISED OF 40 CHIEF EXECUTIVES REPRESENTING MAJOR PRIVATE SECTOR EMPLOYERS THROUGHOUT WASHINGTON STATE. SINCE 1983, THE ROUNDTABLE HAS WORKED TO CREATE POSITIVE CHANGE ON CRITICAL POLICY ISSUES THAT FOSTER ECONOMIC GROWTH, GENERATE JOBS AND IMPROVE QUALITY OF LIFE FOR WASHINGTONIANS. AREAS OF FOCUS INCLUDE ECONOMIC CLIMATE, STATE FISCAL POLICY AND PUBLIC EDUCATION.

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