

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 principles:

- SUSTAINABILITY
- COMPETITIVENESS
- CONTINGENCY
- CLARITY

The Washington state economy fared remarkably well throughout the middle part of this decade, chalking up a steady series of state revenue increases from 2004 through 2007. However, a national economic slowdown and reductions in projected state revenues during the 2007-09 and 2009-11 biennia are clear signs that our state is headed for leaner times. The economic picture locally is likely to remain better than that of the nation as a whole, but history tells us that the economic growth seen in Washington in the last few years cannot be sustained. Further, the high level of state spending approved in the 2007-09 biennial budget (an increase of 16.3 percent over what was spent in the previous biennium) will very likely prove to be unsustainable.

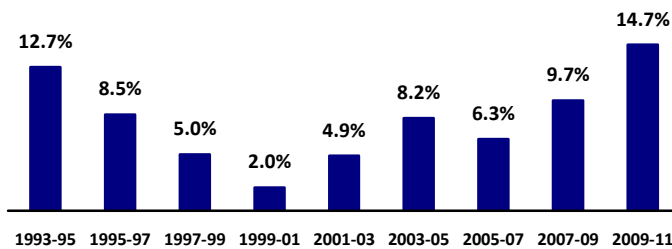
A great deal of fiscal restraint will be required of state budget writers who, in developing the 2008 supplemental budget, must balance the reality of declining revenue growth with an established pattern of overspending. The Roundtable urges state lawmakers to limit new spending in the supplemental budget and leave a large reserve. This will help cushion against the impacts of economic slowdown or unforeseen emergency. In addition, it would be wise for policymakers to take steps to reduce the alarmingly high carry-forward and ensure the tax burden in Washington state is fair and competitive. The extent to which lawmakers are successful in these efforts will determine if our state is able to weather a potential economic downturn and come out of it stronger and more competitive.

IS OUR BUDGET SUSTAINABLE?

General fund carry-forward

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

General Fund Carry-Forward



Source: data derived from Senate Ways & Means reports

Historic performance: Poor

With the exception of the 2003-05 budget, when carry-forward costs into 2005-07 were reduced to 6.3 percent, the bow wave has increased steadily since 1999.

Current situation: Poor

The carry-forward of 14.7 percent leading into the 2009-11 biennium is the highest in nearly two decades.

Long-term outlook: Although the state enjoys a supplemental budget surplus now, the carry-forward to 2009-11 is alarmingly high and will contribute to a deficit in future biennia. It is critical that lawmakers take action to reduce the carry-forward and put Washington in a more stable fiscal position going into the next two biennia, particularly given that at least some economic downturn is likely during that period.

State spending & personal income growth

Guideline: total state spending growth should not exceed average long-term personal income growth.

Historic performance: Good

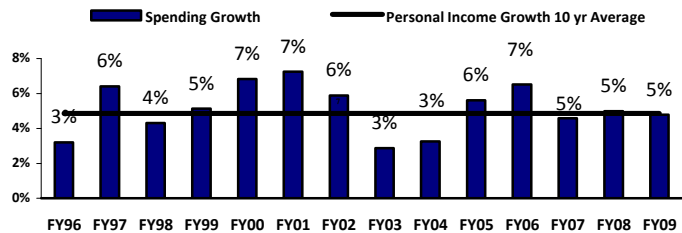
Lawmakers have made progress in recent years to bring the rate of growth in state operating spending closer to that of personal income growth.

Current situation: Good

For 2008, growth in state operating spending is projected to essentially equal the 10-year average of personal income growth.

Long-term outlook: The rise in total state spending growth is projected to remain flat at five percent in 2008 and 2009, staying in line with the 10-year average of personal income growth. However, lawmakers should be cautious about any efforts to increase spending as the downturn in the national economy may impact state performance and subsequently reduce personal income growth for Washingtonians.

Total State Operating Spending v. Personal Income Growth

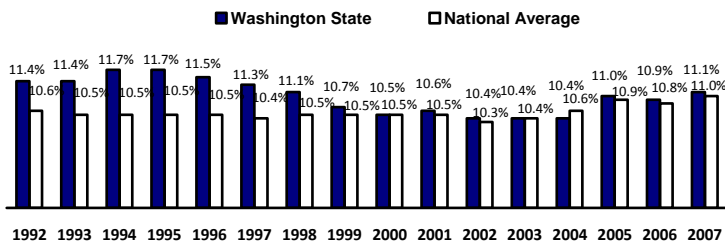


Source: Legislative Evaluation and Accountability Program

IS OUR STATE COMPETITIVE?

Washington tax levels

Washington State & Local Taxes v. National Average



Source: The Tax Foundation, Washington D.C.

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

Historic performance: Good

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

Current situation: Fair

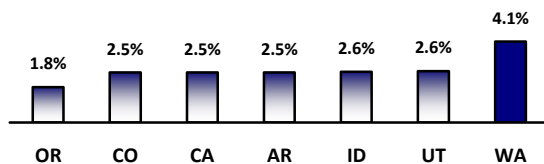
Washington's state and local tax burden slightly exceeded the national average during the last three years.

Long-term outlook: The rate of increased spending in the 2007-09 biennial budget will not be sustainable in an economic downturn. Without corrective action, the resulting deficit will create pressure to increase taxes when the economy slows. Raising taxes on business would create a significant competitive disadvantage as Washington already has the 10th highest business tax share in the nation and employers shoulder 53 percent of the state and local tax burden. Lawmakers should take action now to shrink the gap between spending growth and revenue growth so as to avoid the need to raise taxes down the road.

Business tax burden

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

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



Source: Utah State Tax Commission, Research Publication 2003

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 business tax burden in Washington is higher by far than the business tax burden in other Western states.

Long-term outlook: A high business tax burden puts employers based in Washington at a competitive disadvantage in the national and global marketplaces. This discourages investment in Washington and if employers take jobs elsewhere state revenues will decline. Lawmakers should work to reduce the business tax burden in Washington, or at a minimum, take no steps to exacerbate the problem.

IS OUR CONTINGENCY SUFFICIENT?

Reserve

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

Historic performance: Fair

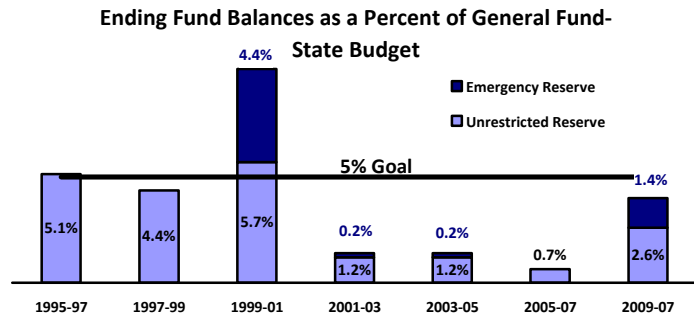
The reserve as adopted in the previous three biennia was dangerously low.

Current situation: Good

Strong economic performance in the 2005-07 and 2007-09 biennia has resulted in better-than-projected reserve levels for the current period. However, the size of the surplus is diminishing due to reduced economic growth projected for 2008 and beyond.

Long-term outlook: Fair

The governor's budget office already projects a significant deficit for the 2009-11 biennium, even if the state maintains a reserve of \$1 billion for the current biennium. Given this, lawmakers would be wise to limit new spending in 2008 in an effort to keep as much of the surplus in reserve as possible.

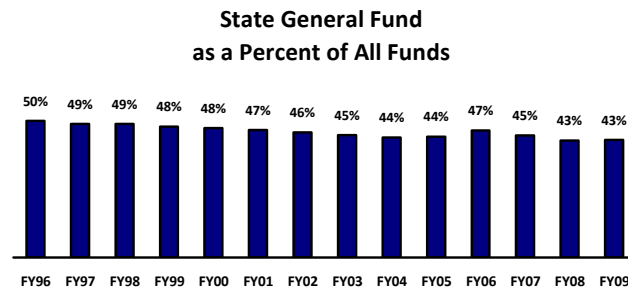


Source: Legislative Evaluation and Accountability Program & Office of Financial Management

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.



Source: Legislative Evaluation and Accountability Program

Historic performance: Poor

During the last decade an increasing share of the state budget has shifted from the general fund to dedicated accounts that receive less scrutiny. Lawmakers made progress in FY06, with the first increase in the state general fund as a percent of all funds in a decade. That progress was reversed in FY07.

Current situation: Poor

The state general fund accounts for only 43 percent of all funds, the lowest percentage.

Long-term outlook: Poor

With more funds being shifted out of the general fund, it is much more difficult to analyze and prioritize spending as a whole. The lack of transparency also fuels citizen mistrust of government. Efforts to increase budget transparency would result in greater accountability for public tax dollars.