

YOU
may yet
understand
a state budget !

New
budgeting
and accounting
procedures in Olympia

Comparisons • Recommendations

WASHINGTON STATE RESEARCH COUNCIL

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INTRODUCTION

Suggested — Credit Where Credit Is Due

Many persons will remember that a new system of budgeting and accounting has been in effect for a little more than a year in our state government. The new methods of accounting — and of building accounting information into a budget — differ considerably from methods to which officials and interested citizens have been accustomed in the past.

As we prepare this booklet to present summary information and recommendations about the new system, the Research Council feels that it is fitting to make the following statement concerning the Central Budget Agency:

The changing of the fiscal system created problems requiring patience and diplomacy as well as technical ability. The Research Council's judgment is that the operation was performed (and still continues) on a commendable level of efficiency. Individuals in the Central Budget Agency, as well as cooperating persons throughout state offices, deserve the public's appreciation for improvement which will bring us better information on state finance in years to come.

This report has four separate matters to present concerning the new fiscal system.

FIRST, we consider it timely to ask:

Is the new system a final improvement, beyond which we do not expect our ingenuity to progress, OR, by taking additional steps, can we produce budget information even more readily understood by our citizens and by our lawmakers?

Part One will present a major recommendation (in addition to some recommendations less sweeping, set out in Parts Two and Four). We think the recommendation will be welcomed by many of the persons whose interest in state or local government has been frustrated by "fiscal confusion."

SECOND, on behalf of those who seek information about the vital subject of education, we request:

Additional change, beyond present improvements, in reporting fiscal information on education.

Part Two suggests such a change.

THIRD, we will offer some solution to a problem created by the changes in grouping, or classifying, income and expenditures. Those who make use of the detail of state finances find themselves faced with this question:

As we make use of financial information reported now and in the future, how shall we compare that information with what we have used in the past?

Part Three of this booklet will present tables of "conversion" information from which past receipts and expenditures (as far as 1955) can be read according to presently used classifications.

FOURTH, we think it will be constructive to perform a service for:

A comparatively exclusive group of people whose lack of numbers is offset by their sincere desire to understand state fiscal matters in detail, and who, as a result, are often effective in this field.

Part Four will be of assistance to these individuals as they look for intent and objectives of the new system, and then look farther for the logic of detail which carries out the intent. Explanation of the handling of revenue and expenditures will be made. The steps in the new program budgeting will be shown in summary form.

PART ONE

Recommended — Another Step Forward

Under our system of government, it is fundamental that the people, through their elected representatives, shall have the right to determine what their government shall do. The exercise of this right is made difficult by the complex nature of government, and by the absence of reporting techniques which make it easier for them to exercise this right.

It is difficult to expect the Legislature, even with its interest and experience in government, let alone the general public, to evaluate the State's plan for a 24-month period (the budget) in sixty days. While it can determine how much is requested to support various functions such as education, it cannot determine readily how much of the requested amount will be recurring and how much will be non-recurring, and within these categories how much is for continuing existing operations, maintaining present service levels, changing the quality or quantity of existing services, and how much is for new services.

A government's budget, and its supporting system of reporting, have a twofold objective: to make it possible to understand and to evaluate services which are

- 1) actually provided, and
- 2) proposed.

The new system recently installed by our state (and currently being refined) takes a major step toward accomplishing this twofold objective. The Research Council believes, however, that yet another major step should be taken.

Additional classifications should be made in the program budget, by agency and by program, to create a greatly improved tool for efficient management, and more than that, for improved understanding by the public and by legislators.

Although the proposed additional classifications are recommended here for use by our state government, they can and should be adopted also by the smaller governmental units (county, city and district).

Neither technical background nor detailed knowledge of governmental affairs is needed to understand the proposed procedure.

As a reminder of (or perhaps an introduction to) the basic terminology used by the accounting and budgeting experts, we point out that the term "program budget" refers to the grouping of expenditures for particular programs of activity. One way to contrast the old and the new would be to realize that formerly the accounting followed lines of administration or administrative units; the new classifies by the purposes for which administrative units exist — the work programs.

The Council-proposed addition to the new system would result in a specific procedure which is substantially as follows:

- 1) The administrator requests authority to spend, by program, as at present.
- 2) He further identifies the program costs as to frequency — that is, whether costs are recurring or non-recurring.

Some recurring costs would be — salaries and wages of permanent employees, or pension costs, or rent.

Some non-recurring costs would be — contract costs for engineering, management or other consulting services, or salaries and wages to meet emergency or special purpose conditions (storm), or costs of financing special interim legislative activities.

- 3) Within these recurring and non-recurring groups, program costs are classified as follows:

- The amount required to CONTINUE THE CURRENT YEAR'S OPERATION \$XX
(Including changes in costs which will be required to duplicate operations, such as changes in position grades of personnel, changes in prices, etc.)

- The amount required to MAINTAIN PRESENT LEVEL OF SERVICE \$XX
(For example, the increase or decrease in number of pupils attending public schools or number of inmates housed in an institution would increase or decrease the costs, but the level of service to students or inmates would remain the same.)

- The amount required to CHANGE QUANTITY OR QUALITY OF SERVICE \$XX
(For example, the increase or decrease of the ratio of teachers to pupils, or institutional staff to inmates, would raise or lower costs, but by raising or lowering the level of service.)

- The amount required to PROVIDE NEW SERVICES \$XX
(A new course of study in the curriculum, or a new type of treatment in an institution would increase costs, by providing services not presently being provided.)

Total Amount Requested \$XX

Note that it is possible that the first three items could be minus items under certain circumstances.

Since there would be some additional labor in preparing and presenting the totals in the segments set out above, there surely should be reasons good enough to justify the change. Immediate and obvious benefits which would be derived are as follows:

- This recommended system would encourage, if not force, administrators to obtain a better understanding of their needs and of the efficiency (or its opposite) of their operations.
- It would improve the ability of the executive to evaluate the agencies' requests for authorization to spend.
- It would make it possible to identify more readily economies which have been made, and to give appropriate credit.
- It would provide a basis for legislative evaluation of spending which has never before been available. Individual legislators and legislative committees would be able to conduct more intelligent inquiries into departmental accomplishments and plans. They would no longer be dependent (as they are now) on information from the departments, which admittedly have a vested interest.
- Finally, and perhaps most significant, is the extent to which such a system will give the taxpaying public the information which makes it easier to understand what state agencies are doing and planning to do.

TIMING:

No technical difficulties stand in the way of adopting the above described classification system. As with most major alterations of a fiscal system, some time would be required to plan and install it. Any government can put it to use for the preparation of the next budget following the one currently being prepared. Thus, in the case of the State of Washington, this system could be adopted immediately after the 1961 legislative session, with its results becoming first apparent to the 1963 session.

PART TWO

Wanted — Broader Information on Education Financing

Over half (53 per cent) of the general fund expenditures for this biennium will be for education. The total in money is \$440 million. While the new system shows a breakdown of this amount between agencies involved in the educational process, sub-totals should be shown for:

public schools,
higher education,
other.

The single classification "education" is too broad and does not indicate the extent to which expenditures are being made for the two basic areas of education; namely, the public schools and the institutions of higher education. Use of the sub-totals shown above, as an expansion of the classification, is recommended. This use would take the form set out in the following tabulation.

RECOMMENDED CLASSIFICATION OF EDUCATION EXPENDITURES

	1959-61	Per Cent of Total	Per Cent of General Fund
EDUCATION	\$ 440.13	100.00	52.80
Public Schools	\$ 346.34	78.69	41.55
State Board of Education . . . . .	.65		
Superintendent of Public Instruction	328.86		
Teacher Retirement	16.84		
Higher Education	\$ 84.67	19.24	10.16
University of Washington	\$ 45.30		
Washington State University	27.37		
Eastern Washington College of Education	3.69		
Central Washington College of Education	3.81		
Western Washington College of Education	4.48		
Western Interstate Conf. for Higher Education . . . . .	.02		
Other	\$ 9.12	2.07	1.09
Department of Institutions	\$ 2.36		
State Board for Vocational Education	5.61		
State Library . . . . .	.92		
Washington State Historical Society . . . . .	.11		
Eastern Washington Historical Society . . . . .	.07		
State Capitol Historical Association . . . . .	.05		

PART THREE

Reconciled — Present and Past Reporting

TABLE I reconciles the new (functional) system of summarizing expenditures with the old (departmental) system, and

TABLE II reconciles the new system of reporting revenue with the one used by the Research Council in its previous reporting of the general fund.

And, in order to make comparisons from the new to the old, or from the old to the new,

TABLE III presents the expenditure figures for the old system in detail, and

TABLE IV presents the expenditure figures for the new system in detail.

TABLE I
SUMMARY CLASSIFICATION OF GENERAL FUND EXPENDITURES
(Amounts in Millions)

Agency Group	Former System		Function	Current System		Per Cent of Total
	1957-59	Per Cent of Total		1957-59	Per Cent of Total	
Elective Officials	\$ 4.47	.64	Revenue Distributed to			
Legislative and Judicial.	3.41	.49	Political Subdivisions	\$.72	.10	
Boards and Committees.	7.59	1.09	Debt Service	11.37	1.64	
Administrative Code and			General Government.	15.96	2.30	
Appointive Departments.	270.60	39.01	Public Safety and Regulation	11.17	1.61	
State Institutions.	55.63	8.02	Correction	14.49	2.09	
Educational Institutions.	70.56	10.17	Public Welfare	235.27	33.92	
School Support.	263.37	37.97	Education.	342.50	49.38	
Miscellaneous.	6.30	.91	Public Schools.	264.82	38.18	
Transfers.	11.68	1.68	Higher Education	70.60	10.18	
			Other	7.09	1.02	
			Health and Hospitals	46.86	6.76	
			Natural Resources & Recr'n	13.32	1.92	
			Agriculture.	1.81	.26	
			Employment Security. . . . .	.05	.07	
			Miscellaneous. . . . .	.06	.09	
Total	\$693.62	99.98	Total	\$693.62	100.14	

TABLE II GENERAL FUND RECEIPTS¹ - 1955-57 Through 1959-61 - (Amounts in Millions)

	Actual			Estimated	
	1955-57	1957-59		1959-61	1960-61
TAXES:					
Sales ²	\$278.37	\$317.31 ³		\$390.31	\$189.52
Business and Occupation.	95.46	111.04 ⁴		126.18	61.70
Compensating	19.85	23.00 ⁵		32.41	15.61
Public Utility ⁶	20.56	25.98		32.66	15.58
Conveyance	1.22	1.29		1.10	.55
Amusement ⁷	3.90	3.44		3.06	1.53
Death and Gift	12.15	19.14		17.48	8.38
Property	14.40	18.04 ⁸		53.51 ⁹	26.51
Tobacco ¹⁰	11.65	12.16 ¹¹		17.40 ¹²	9.50
Insurance Premium.	11.49	13.58		15.66	7.50
Commercial Fishing . . . . .	.67	.77		.83	.36
Pari-mutuals, . . . . .	.90	1.02		1.20	.49
Other	-	-		.05	.02
Total Taxes	\$470.61	\$546.77		\$691.84	\$337.24
NON-TAX:					
Dept. & Agency Receipts	\$ 13.14	\$ 14.06	\$ 13	\$ 13	\$ 13
Licenses, Permits & Fees.	14	14	4.67	2.27	2.40
Charges & Misc. Revenue.	14	14	10.81	5.34	5.47
Liquor Profits	18.47	18.85	19.85	10.00	9.85
Penalties and Interest ¹⁵	1.76	2.09	2.38	1.19	1.19
Univ. of Wash. Tuition ¹⁶	1.03	-	-	-	-
Non-Revenue. . . . .	.12	.25	1.18	.95	.23
Transfers . . . . .	.27	3.25 ¹⁷	-	-	-
Total Non-Tax	\$ 34.78	\$ 38.50	\$ 38.89	\$ 19.75	\$ 19.14
TOTAL STATE	\$505.39	\$585.27	\$730.73	\$356.99	\$373.74
FEDERAL GRANTS	\$ 73.71	\$ 93.44	\$116.58	\$ 58.60	\$ 57.97
GRAND TOTAL	\$579.10	\$678.71	\$847.31	\$415.59	\$431.71

¹ Amounts for 1955-57, 1957-59, and 1959-61 are not necessarily comparable. The changes reflect accounting and organizational changes as well as dollar increases or decreases. Major changes are noted.

² Includes tax on alcoholic beverages.

³ Rate increased and base extended. Rate increased from 3-1/3% to 4% effective April, 1959.

⁴ Rate increased and base extended. New rates effective April, 1959.

⁵ Rate increased and base extended. Rate increased from 3-1/3% to 4% effective April, 1959.

⁶ Includes Public Utility District tax.

⁷ Includes mechanical devices tax and gross revenue tax from athletic events.

⁸ Includes motor vehicle excise tax. Rate increased from 1.5% to 2% effective April, 1959.

⁹ Includes portion of motor vehicle excise tax that formerly went to the state school equalization fund for distribution to counties for school purposes.

¹⁰ Includes general fund share of the cigarette tax.

¹¹ Cigarette tax increased from 5 to 6 cents per pack effective June, 1959.

¹² Tobacco products tax (25% of wholesale) effective July 1, 1959.

¹³ This classification has been eliminated in the new budget and accounting system.

¹⁴ Replaces the former classification "Department and Agency Receipts."

¹⁵ Classified as a tax in the budget and accounting system.

¹⁶ University of Washington tuition is now dedicated to bond retirement and goes directly to the appropriate retirement fund.

¹⁷ Includes \$3,110,753 from the school equalization fund which was transferred when the obligations of this fund, except for bond retirement, were transferred to the general fund.

TABLE III
GENERAL FUND EXPENDITURES
1955-57 Through 1959-61
(Amounts in Millions)

A dash (-) indicates no amount,
or less than \$5,000.

Detail will not necessarily add
to totals, due to rounding.

	1957-59 Actual	1959-61 Budget
Elective Officials	\$ 4.47	\$332.30
Governor . . . . .	.24	.29
Lieutenant Governor . . . . .	.03	.03
Secretary of State . . . . .	.88	.63
State Treasurer . . . . .	.32	.34
State Auditor . . . . .	.81	.68
Attorney General . . . . .	.57	.68
Superintendent of Public Instruction . . . . .	.93	328.86 ²
Insurance Commissioner . . . . .	.71	.80
Expenses	-	-
Legislative and Judicial	\$ 3.41	\$ 3.25
Legislature	1.40	.92
Administrator for Courts . . . . .	.06	.06
Supreme Court . . . . .	.60	.68
State Law Library . . . . .	.11	.14
Permanent Statute Law Committee . . . . .	.24	.21
Judicial Council	-	.01
Uniform Law Committee	-	-
Boards and Committees	\$ 7.59	\$ 10.01
Superior Court Judges . . . . .	.81	.89
Judges Retirement . . . . .	.19	.33
State Board of Accountancy . . . . .	.06	.07
State Aeronautics Commission . . . . .	.07	.10
State Athletic Commission . . . . .	.02	.02
State Census Board . . . . .	.01	.01
State Board of Education . . . . .	.52	.64
State Finance Committee . . . . .	.03	.03
Interstate Compact Commission . . . . .	.02	.02
State Library Commission . . . . .	.68	.92
State Board of Pharmacy . . . . .	.09	.11
Pollution Control Commission . . . . .	.34	.44
Board of Prison Terms and Paroles . . . . .	.85	1.23
Soil Conservation Committee . . . . .	.04	-
Tax Advisory Council . . . . .	.03	-
Veterans Rehabilitation Council . . . . .	.45	.46
State Board for Vocational Education	4.25	5.61
State Board Against Discrimination . . . . .	.08	.09
State Safety Council . . . . .	.04	-
Western Interstate Commission for Higher Education . . . . .	.03	.02
State Capitol Committee	-	.01
Personnel Board	-	.20
Board of Natural Resources	-	.02
State Council for Children and Youth	-	-
Washington-Oregon Boundary Commission . . . . .	.01	-
State Power Commission	-	-
World Fair Commission . . . . .	.18	-
	.01	-

	1955-57 <u>Actual</u>	1957-59 <u>Actual</u>	1959-61 <u>Budget</u>
Administrative Code and Appointive Departments	\$ 33.89	\$ 36.33	\$ 63.06
Adjutant General — Military Department	1.61	1.41	1.70
Department of Agriculture	1.74	1.81	2.02
Director of Budget (Central Budget Agency) . . . . .	.37	.45	.55
Civil Defense . . . . .	.34	.28	1.08
Department of Commerce and Economic Development . . . . .	.02	1.18	2.41
Department of Conservation	3.92	1.44	1.75
Employment Security Department . . . . .	.04	.05	15.46 ³
Department of Fisheries	4.99	5.34	6.42
Department of General Administration	2.20	2.37	2.56
Department of Health	6.86	4.30	5.63
Department of Institutions	(See Institutions)		
Department of Labor and Industries	4.90	7.21	7.71
Department of Licenses . . . . .	.59	.57	.71
Dep't of Nat'l Resources & Comm'r of Public Lands	1.37	5.11	7.60
Department of Public Assistance	(See Public Assistance)		
State Tax Commission	4.12	4.81	5.45
State Printing Office09	-	-
Washington State Patrol72	-	-

State Institutions

	\$ 45.10	\$ 57.66	\$ 75.39
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Public Assistance

	\$201.60	\$232.23	\$234.60
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Higher Education

	\$ 54.69	\$ 70.56	\$ 84.65
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Miscellaneous

	\$ 13.28	\$ 17.32	\$ 13.53
State Capitol Historical Association03	.04	.05
Council of State Governments . . . . .	.01	.01	.02
Criminal Cost Bills (Auditor) . . . . .	.03	.03	.03
Eastern Washington State Historical Society . . . . .	.05	.04	.07
Educational Support	5.70	11.02	4
Federal Flood Control	-	.03	.02
Firemen's Relief and Pension . . . . .	.52	.61	.68
Local Improvement Assessments (Auditor) . . . . .	.06	.09	.08
Claims for Previous Biennium (Auditor) . . . . .	.05	.06	.10
Judgments	-	-	-
Reliefs . . . . .	.19	.06	-
T. B. Hospitals (Aid to Counties)	6.35	5.10	4.03
Surveys and Installations	-	.15	.28
Taylor Grazing Act (Federal) . . . . .	.01	.01	.01
Washington State Historical Society . . . . .	.08	.09	.11
In Lieu Tax PUD to Counties	-	-	2.66
Presidential Electors	-	-	-
Contingencies and Emergencies	-	-	4.25
Salary Adjustments July 1, 1960	-	-	1.15
Interest on Warrants . . . . .	.18	-	-
	\$192.45	\$264.03	\$ 16.86

Transfers

	\$ 17.61	\$ 20.45	\$ 16.86
Total Appropriation Transfers	\$ 17.61	\$ 20.45	\$ 16.86
Sanitarians License Account	-	-	-
Probation Service Account	-	-	.03

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	1955-57 <u>Actual</u>	1957-59 <u>Actual</u>	1959-61 <u>Budget</u>
State Teachers Retirement Fund	8.25	8.80	10.92
State Teachers Retirement Pension Reserve Fund	6.70	11.41	5.92
Capitol Building Construction Account	-	.04	-
Contingency Forest Fire Suppression	-	.20	-
U. S. Vocational Education Account	1.16	-	-
Flood Control	1.50	-	-
Total Non-Appropriation Transfers	\$174.84	\$243.58	\$ -
Current School Fund	166.54	232.14	4
Institutional Building Bond Redemption	2.48	2.52	5
Public School Building Bond Redemption 1949	5.01	5.04	5
Volunteer Firemen's Relief and Pension . . . . .	.11	.07	5
State Building Construction Bond Redemption . . . . .	.70	2.27	5
Weather Modification Board Revolving Account	-	-	-
Institutional Building Bond Redemption 1957	-	1.54	5
Interest on Temporary Loans	-	-	-

Total General Fund Expenditures

\$550.35	\$693.62	\$833.65
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¹ Amounts for 1955-57, 1957-59 and 1959-61 are not necessarily comparable. Changes reflect accounting and organization changes as well as dollar increases or decreases. Major changes are noted.

² Includes amounts previously transferred to the current school fund and expenditures previously made from the school equalization fund except for bond purposes.

³ Federal money for administration primarily. Previously received and disbursed by the department directly from a local bank account without going through the State Treasury.

⁴ Included under Superintendent of Public Instruction.

⁵ Money required for bond redemption and service is now paid directly to the appropriate fund and no longer passes through the general fund.

TABLE IV
GENERAL FUND EXPENDITURES
By Function
1955-57 Through 1959-61
(Amounts in Millions)

A dash (-) indicates no amount,
or less than \$5,000.

Detail will not necessarily add
to totals, due to rounding.

	1955-57 Actual	1957-59 Actual	1959-61 Budget
Revenue Distributed to Political Subdivisions	\$ 2.17	\$.72	\$ 3.37
Fire Insurance Premium Tax . . . . .	.52	.61	.68
Public Utility District Excise Tax	-	-	2.66
Federal Flood Control	1.53	.03	.02
Federal Grazing Fees . . . . .	.01	.01	.01
Volunteer Firemen Retirement and Pension Fund . . . . .	.11	.07	-
Debt Service	\$ 8.37	\$ 11.37	\$ - 2
Interest on Loans on Warrants . . . . .	.18	-	-
Institutional Building Bond Redemption	2.48	2.52	-
Public School Building Bond (1949)	5.01	5.04	-
State Building Construction . . . . .	.70	2.27	-
Institutional Building Bond Redemption (1957)	-	1.54	-
General Government	\$ 13.41	\$ 15.96	\$ 21.62
State Legislature	1.31	1.40	.92
Permanent Statute Law Committee . . . . .	.21	.24	.21
Supreme Court . . . . .	.53	.60	.68
Law Library . . . . .	.09	.11	.14
Superior Court Judges . . . . .	.67	.81	.89
Administrator for the Courts	-	.06	.06
Judicial Council	-	-	.01
Judges' Retirement . . . . .	.13	.19	.33
Office of the Governor . . . . .	.22	.24	.29
Special Appropriation to the Governor . . . . .	.01	.16	5.69 3
Lieutenant Governor . . . . .	.03	.03	.03
Secretary of State . . . . .	.59	.88	.63
State Treasurer . . . . .	.27	.32	.34
State Auditor . . . . .	.82	.97	.88
Attorney General . . . . .	.55	.57	.68
Central Budget Agency . . . . .	.37	.45	.55
Personnel Board	-	-	.20
Capitol Committee . . . . .	.02	-	.01
Census Board	-	.01	.01
Board Against Discrimination . . . . .	.05	.08	.09
Finance Committee . . . . .	.03	.03	.03
Tax Commission	4.12	4.81	5.45
Uniform Law Commission	-	-	-
General Administration	1.81	2.00	2.14
Department of Institutions	1.49	1.99	1.36
Presidential Electors	-	-	-
State Printing Office . . . . .	.09	-	-
Tax Advisory Council	-	.03	-
State Capitol Building Construction Account	-	.04	-
Public Safety and Regulation	\$ 9.81	\$ 11.17	\$ 13.27
Department of General Administration . . . . .	.37	.37	.42
Department of Institutions . . . . .	.20	.4	.10

> (Continued)

	1955-57 <u>Actual</u>	1957-59 <u>Actual</u>	1959-61 <u>Budget</u>
Insurance Commissioner . . . . .	.56	.71	.80
Accountancy Board . . . . .	.06	.06	.07
Aeronautics Commission . . . . .	.07	.07	.10
Athletic Commission . . . . .	.01	.02	.02
Pharmacy Board . . . . .	.10	.09	.11
Pollution Control Commission . . . . .	.26	.34	.44
Civil Defense . . . . .	.34	.28	1.08
Department of Labor and Industries	4.90	7.21	7.71
Department of Licenses . . . . .	.59	.56	.71
Military Department	1.61	1.41	1.70
State Safety Council . . . . .	.02	.04	-
Washington State Patrol . . . . .	.72	-	-
Correction	\$ 11.67	\$ 14.49	\$ 21.59
Department of Institutions	10.92	13.64	20.35
Board of Prison Terms and Paroles . . . . .	.75	.85	1.23
Public Welfare	\$204.59	\$235.27	\$237.87
Department of Institutions	2.41	2.59	2.80
Veterans Rehabilitation Council . . . . .	.49	.45	.46
Department of Public Assistance	201.60	232.23	234.60
Education	\$246.39	\$342.50	\$440.13
Department of Institutions	1.62	1.99	2.36
Western Interstate Commission for Higher Education	-	.03	.02

State Board of Education . . . . .	.37	.52	.64
Superintendent of Public Instruction	172.96	244.09	328.86
State Board for Vocational Education	1.21	4.25	5.61
Teachers Retirement	14.95	20.21	16.84
University of Washington	28.01	36.82	45.30
Washington State University	18.17	24.01	27.37
Eastern Washington College of Education	2.03	2.88	3.69
Central Washington College of Education	2.18	3.14	3.81
Western Washington College of Education	2.30	3.72	4.48
State Library . . . . .	.33	.68	.92
Washington State Historical Society . . . . .	.08	.09	.11
Eastern Washington Historical Society . . . . .	.05	.04	.07
State Capitol Historical Association . . . . .	.03	.04	.05
Higher Education — Capital Outlay (Total)	2.10	-	-
Health and Hospitals	\$ 41.61	\$ 46.86	\$ 58.08
Department of Institutions	28.40	37.46	47.92
Mental Health Research and Institutions	-	-	.49
Department of Health	13.21	9.40	9.67

Natural Resources and Recreation	\$ 10.51	\$ 13.32	\$ 20.22
Columbia River Interstate Compact Commission . . . . .	.02	.01	.02
Department of Commerce and Economic Development . . . . .	.02	1.18	2.41
Department of Conservation	3.92	1.44	1.75
Department of Fisheries	4.99	5.34	8.42
Board of Natural Resources	-	-	.02
Department of Natural Resources	1.37	5.11	7.59
World Fair Commission . . . . .	.01	-	-
State Power Commission . . . . .	.18	-	-

(Continued) >

> (Continued)	1955-57 <u>Actual</u>	1957-59 <u>Actual</u>	1959-61 <u>Budget</u>
Soil Conservation Committee	-	.04	-
Forest Fire Suppression Account	-	.20	-
Agriculture	\$ 1.74	\$ 1.81	\$ 2.02
Department of Agriculture	1.74	1.81	2.02
Employment Security	\$.04	\$.05	\$ 15.46
Department of Employment Security . . . . .	.04	.05	15.46
Miscellaneous	\$.20	\$.06	\$.03
Establish Accounts	-	-	.03
State Council for Children and Youth	-	-	-
Washington-Oregon Boundary Commission . . . . .	.01	-	-
Judgments	-	-	-
Reliefs . . . . .	.19	.06	-
Total General Fund Expenditures -- All Functions	<u>\$550.35</u>	<u>\$693.62</u>	<u>\$833.65</u>

¹ Amounts for 1955-57, 1957-59, and 1959-61 are not necessarily comparable. Changes reflect accounting and organization changes as well as dollar increases or decreases. Major changes are noted.

² Expenditures for debt service no longer pass through the general fund to the appropriate retirement fund. Instead, income due the bond retirement funds is shown as a direct receipt and expenditures are made directly from them.

³ This includes \$4,250,000 for emergency purposes and \$1,150,000 for salary adjustment. Actual expenditures for these purposes will be charged to the appropriate function and agency when made. Prior years' expenditures from similar appropriation are charged to the appropriate function and agency.

⁴ Included in Department of Institutions — General Government.

⁵ Included in Department of Institutions — Health and Hospitals.

⁶ Federal money for administration primarily. Previously received and disbursed by the department directly from a local bank account without going through the State Treasury.

PART FOUR

Detailed — Comments and Comparisons on Accounting

REVENUE

Minimum standards of accounting for revenue require:

- 1) Segregation of revenue by source, and
- 2) Classification which permits understanding and which makes evaluation of revenue as easy and simple as possible.

If the reporting system is not adequate, the desired information is not readily accessible. To obtain it sometimes means going to books of original entry.

Prior to the institution of the state's new budget and accounting system, general fund receipts were reported from basically 16 major sources. Tax and non-tax revenue (such as insurance premiums tax and insurance licenses) were intermingled. It classified as miscellaneous revenue an amount in excess of \$10 million in the 1957-59 biennium. This kind of seemingly indiscriminate classification of revenue made it difficult to understand general fund revenue sources. Even more difficult was evaluation of those sources.

The Research Council, in an effort to overcome at least some of the limitations of this classification system (and using unpublished material), classified general fund revenues as between tax and non-tax sources and federal grants.¹ Within each of these three classifications, sources were detailed in a manner similar to that currently being used in the budget and accounting system.

¹ Washington State Research Council, An Analysis: Washington State's General Fund, Olympia: February, 1958: An Analysis: Washington State's General Fund for the First Year of 1957-59 Biennium, Olympia: September, 1958: Memorandum No. 3 (Subject: Condition of the State's General Fund at the Close of the 1957-59 Biennium) Olympia: February 9, 1959.

As a result of the new system, the revenues for not only the general fund, but for all funds will be reported in more detail. The new reporting will permit better understanding and better evaluation of the state's revenue structure.

Under the new system revenues are classified under 7 major sources, as follows:

Taxes: There are 15 different types of taxes from which the state receives revenue. Within these 15 types are approximately 40 individual and specific taxes levied. Under the new system taxes will no longer be comingled with non-tax revenue. More detailed information will be available concerning any one of the individual taxes levied by the state.

Licenses, permits and fees: There are now 73 different types of licenses, permits and fees levied by the state. Within these types are about 260 individual licenses, permits and fees.

Federal grants-in-aid are received by the state for 8 major purposes, representing approximately 60 different programs.

Charges and miscellaneous revenue are grouped into 5 basic types and include 120 individual sources of revenue.

Liquor store revenue is derived solely from operation of the state liquor stores.

Insurance trust revenue is received from 5 programs, representing contributions by employees and employers, earnings and investments, fees, dues and penalties.

Non-revenue receipts are derived from 9 major sources, the most important of which are proceeds of bond sales and the sale of investments.

The new budgeting and accounting procedure classifies this multitude of money sources with significance and logic.

Changes in accounting as well as in classification have been made. These are reconciled with the system used by the Research Council in its previous reporting on the general fund in Table II. The table also identifies areas where the Council's reporting will continue to differ with that of the state.

The Research Council classifies penalties and interest as a non-tax receipt; the state's reporting classifies them as taxes.

Previous Research Council reports on the general fund considered licenses, permits and fees and charges and miscellaneous revenue as department and agency receipts. They are segregated under the new system.

COMPARABILITY

Comparability of revenues from general fund sources for the periods shown in Table II is affected by several major factors. These are as follows:

Taxes

The sales tax rate was increased from 3-1/3 per cent to 4 per cent effective April, 1959.

The business and occupation tax rates were increased effective April, 1959.

The property tax now includes the motor vehicle excise tax, the rate of which was increased from 1.5 per cent to 2 per cent as of April, 1959. Prior to the current (1959-61) biennium part of the motor vehicle excise tax was deposited in a separate fund — the state school equalization fund; this revenue, a property tax, will be paid into, and the corresponding obligations will be met out of, the general fund.

The cigarette tax increased from 5 to 6 cents per pack effective June, 1959. In addition, the newly-levied tobacco products tax (25 per cent of wholesale prices) which was to be effective as of July 1, 1959, is included in the estimated figures for the 1959-61 biennium. Since the Legislature adjourned, this tax has been con-

tested and has been held to be unconstitutional by a Superior Court. An appeal decision is pending in the Supreme Court.

Non-Taxes

Department and agency receipts classification is no longer applicable under the new system and the sources formerly classified in this manner are now divided between licenses, permits and fees and charges and miscellaneous revenue.

Penalties and interest are now classified in the state's budget and accounting system as a tax. The Council considers this to be a non-tax source and has so classified it.

The amount previously received from the University of Washington for the general fund representing tuition has been dedicated for bond retirement and is no longer reflected in the general fund.

Federal Grants

Beginning with the 1959-61 biennium, the grant from the federal government for employment security administration will be received by the general fund, rather than a special fund as in the past. This represents approximately \$15 million a biennium.

EXPENDITURES

Before the Central Budget Agency started to install Washington's new budget and accounting system, our general fund expenditures (representing over 80 spending agencies or departments) were classified by the individual department or agency doing the spending. This information was summarized (see Table I) by type or class of agency

This classification obscured the purposes for which the state was spending money. For example:

Department of Public Assistance spending for welfare was one of the state's principal items of expenditure,

but was not identified as such in the summary — where it was merely classified as an administrative code and appointive office. When this spending was identified in detail as expenditures for the Department of Public Assistance, it did not represent the total general fund spending for welfare purposes.

Expenditures for state institutions excluded the cost of general administration, which was included under administrative code departments.

Expenditures for state debt service were included in transfers.

The new system classifies expenditures on a functional basis (Table I) which is then detailed by agency, program, object of expenditure, fund and appropriation.

The records of expenditures by object classification is maintained by the spending agency, while records of expenditures for other classifications are maintained by the Central Budget Agency. For example:

Function: - - - - Education

Agency: - - - - University of Washington

Program: - - - - Plant Operation and Maintenance

Object: - - - - Salaries and Wages
Contract personal services
Other contractual services
Travel
Supplies and materials
Equipment
Retirement and pensions
Contributions, grants, subsidies
Debt redemption
Land
Buildings
Improvements other than building

Fund: - - - - - General fund

Appropriation: - - - Regular University

All the above references are coded by number for tabulating purposes. The appropriation code provides a quick reference to legislative authorization.

This system, even in summary, (Table I), makes possible a better understanding of the services that the state is performing or endeavoring to perform.

Tables III and IV reconcile the new system with the old, and they reflect the changes between the former and present systems. Major items of change are:

Revenue distributed to political subdivisions

The public utility district excise tax had been formerly placed in a suspense fund. By law, 4 per cent of this goes to the general fund; the other 96 per cent is distributed to political subdivisions (counties). This is now a transaction handled entirely through the general fund. The distribution of 96 per cent of revenue from this source is now a general fund expenditure (Table IV).

Debt Service

Under the new system debt service requirements are treated as a reduction of revenue rather than as an expenditure, and consequently, they do not inflate either receipts or expenditures as was formerly the case.

Under the former system, amounts required to service the state debt were transferred from the general fund to the appropriate debt servicing fund and were shown as expenditures (transfers). These general fund transfer-expenditures were also recorded as income and expenditures of the debt servicing funds. As a result, the arbitrary totalling of expenditures from all funds tended to produce an inflated expenditure level.

General Government

The special appropriation to the Governor of about \$6 million for the current biennium will, when and if used, be charged as an expenditure to the individual departments to which these funds are

allocated. As a result of this practice, which is entirely proper, the level of this special appropriation for 1959-61 is not to be considered comparable to that shown for 1955-57 or 1957-59 in the tables.

Education

The amount shown for the current biennium for the Superintendent of Public Instruction includes about \$27 million of motor vehicle excise tax revenue earmarked for distribution to counties for public school aid. This was formerly placed in the separate "state school equalization fund."

Employment Security

The Department of Employment Security will spend an estimated \$15 million in the 1959-61 biennium in excess of what it spent in the two previous biennia from the general fund. This is a result of a change whereby the federal grant for the administration of the employment security program will now come into the general fund rather than a special fund and the expenditures of this department will now be recorded in the general fund.

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