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A Projection of Washington's Financial Needs

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This is a projection of the financial needs of the State of Washington over the next three biennial periods. It is intended to serve the practical need of observing current issues of state appropriations and financing in terms of apparent short-range trends. At the outset, it should be made clear that this effort is highly tentative. At the time of writing, basic data with respect to the trends that influence levels of governmental activity, both locally and statewide, fall far short of a desirable base for an accurate projection. Also, several possibilities for federal action which directly influence state and local outlays remain speculative.[1]

The projection is also experimental. The underlying methodology is neither refined nor highly systematic. No effort has been made to construct a model of interacting forces that would produce one or another pattern of public expenditures in the future. Instead, the assumption is made that the influences dominating trends in the state over the current and past two bienniums will probably continue to be the primary forces at work through the 1969 session of the legislature, committing the state's budgetary policies through the fiscal year 1971. Although the probable margin of error is wide, there may be utility in attempting this projection, since actual experience can then be used to identify the factors overlooked or misjudged. Another such effort at some future time can thus profit from the shortcomings of this one.

The projection takes into account all jurisdictions and programs of

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[1] Materials, useful for the interested citizen, with respect to state and local government in Washington include: WEBSTER, CAMPBELL, SMITH AND STEVENS, WASHINGTON STATE GOVERNMENT, ADMINISTRATIVE ORGANIZATION AND FUNCTIONS, (1962); WASHINGTON STATE RESEARCH COUNCIL, THE RESEARCH COUNCIL'S HANDBOOK (1964-1965 edition): [hereinafter cited as HANDBOOK], WASHINGTON, COMMITTEE ON STATE GOVERNMENT ORGANIZATION; FIRST REPORT (Jan. 1953); WASHINGTON, TAX ADVISORY COUNCIL, FINANCING STATE AND LOCAL GOVERNMENT IN WASHINGTON, A PROGRAM FOR ACTION (1958); WASHINGTON BUDGET, STATE OF WASHINGTON, FOR THE FIRST REPORT (Dec. 1960); WASHINGTON BUDGET, STATE OF WASHINGTON, FOR THE 1961-63 FISCAL BIENNIUM; WASHINGTON CENTRAL BUDGET AGENCY, FINANCIAL REPORT issued monthly. Grateful acknowledgment for special information and advice are due Mr. James Ryan, Chief Budget Analyst, Central Budget Agency, State of Washington; Mr. Scott Milligan, Assistant State Superintendent of Public Instruction; and Dr. Evan A. Iverson, Supervisor, Research and Program Analysis Section, Washington State Department of Institutions.

the state. These programs interact at two extremes. At one, they obviously draw upon the same income base. At the other extreme, they aim at satisfying the interacting human needs found at the consumer level.

This dual interaction is a commentary upon the nature of public financial needs. These "needs" amount to the underwriting of public services that the citizenry wants and expects. In essence, then, financial need is a composite of projections of service volume, quality and costs that the state's public jurisdictions are expected to provide over a selected future time period. This is not a simple equation. The response of the governmental agency to demands for service is conditioned by the means of financing available to it. The self-liquidating project and the activity supported by special or dedicated revenues are quite different from those programs that must compete for shares of scarce general revenue or general borrowing capacity. These variables must be kept in mind.

This is a projection of trends, not a prediction of budget levels for the years ahead. The point is emphasized that there is no attempt here to predict what appropriations will aggregate at some future time. Any such effort would, of course, be foolhardy.

Some other variables influencing state and local spending should be mentioned. Future public policy decisions, federal as well as state, can have significant impact. Federal financial reinforcement of state governments by additional aided programs, by block grants as now under consideration, and by other actions, can influence the service level maintained by the states, and the relative emphasis attached to various programs. The adequacy, or inadequacy, of dedicated revenue yields is another influential variable. So also is the impact of federally-financed health care upon services now state-operated. This projection does not undertake to discount the possible effect of such developments. Instead, the assumption is that a long-term trend, once firmly rooted, is not likely to be reversed, or even diverted for any substantial period of time. While public policy decisions alter to some extent the sources of support used to meet the public's need for government services, the need for services follows its own course of development.

This is, then, a broad projection of discernible trends in the State of Washington. It is necessarily made up of several contributing projections, all based upon a set of operating assumptions.

The five-biennium (ten year) period used as a base begins with the

last complete biennium (1961-63) and extends through the current (1963-65) and next three bienniums (1965-67, 1967-69, and 1969-71). This base is used in part to permit application of ten-year, 1960-70, population and related projections. But more important is the perspective it provides. Requirements may be postponed from biennium to biennium, but they cannot be avoided if there is a continuous, even though gradual, accumulation of service need. Postponement leads only to the critical situation in which postponed needs, together with currently accumulated needs, bulk to disconcerting proportions. Projections over a decade carry a sense of perspective that shorter-range estimates lack.

Operating Assumption. The working assumptions upon which projections are based are these. The first, and most obvious, relates to price levels. It is assumed that general price levels will remain essentially unchanged. But compensation levels for state and local government personnel will probably rise to a level more nearly competitive with the general employment market. At present, compensation in the Washington public service, particularly at the senior technical and professional levels, clearly is not competitive either with private employment or with the services of the major states and metropolitan cities.

It is also assumed that quality will remain at about the present level, with the exception of those services in which a rising level is unmistakably indicated. An example of the rising level of quality is the field of public education. Here, pressures for improved quality are reflected in current budget estimates, and are likely to be intensified. The same pressures are felt more strongly in higher education, where, the recruitment of qualified faculty is becoming highly competitive. Washington will feel the effects of this competition not only in new recruitment, but also in keeping present faculty members. Social welfare services can also be expected to show increasing costs, not because of increased patient-years of care, but because of a steady upgrading of treatment from the predominantly custodial level of a few years ago to a predominantly therapeutic emphasis. Natural resources is another illustration. There are indications that the emphasis upon positive management will continue, with the added development of public recreational facilities. This trend will also be apparent in the administration of state parks.

A factor for higher quality of services has not been built into projections, except where certain agencies have included such provisions in their own proposals. The instances of agency provisions will be noted in the discussion of key state programs.

No allowance is made for significant changes in methods for administering programs. It is true that some changes of far-reaching significance are probable. For example, the method of administering mental health programs may be altered. The availability of federal assistance for the capital costs of developing local mental health centers, together with the general agreement in the professions concerned, that mental illness and retardation can and should be treated so far as possible on an outpatient basis, raise questions about the future form of these programs. The possibility of a new direction in the federal financing and administration of health care for the aged could significantly change the nature of the state-operated programs. But the projections do not include allowance for such possible changes because they cannot be reliably made. The timing of changes and the nature of their impacts upon the state are far too problematical to permit estimates of costs.

Further, it is assumed that the demand for services will be a function of the size of the population served, except in those instances where some other trend can be explicitly identified. This is an arguable assumption, since increasing urbanization of the state is projected, and this can be expected to increase the demand for public services. However, there exists no readily manageable means for estimating the rate or nature of change in service demand. The only fair assumption is that service demand will be geared to the size of the specific group served, and that the incidence of need will remain relatively constant.

Finally, it is assumed that there will be no major reallocation of service responsibility as between the state and its subdivisions. The changes most likely to occur are two. One would be an extension of state responsibility for public school financing; this would not amount to a reallocation of predominant responsibility. The other would be assumption by the state of full responsibility for community colleges. If there are other developments in the proximate future, they are likely to be in the nature of state-aided or financed service authorities, serving local units or a metropolitan area base under contractual arrangements. But developments of the latter type do not appear imminent in the immediate future. Even if they do take place, the methods of financing and management would be proprietary or enterprise in form. Conse-

quently, primary service costs would still be borne by the local units contracting with the service authority. No genuine reallocation would be made. Nor would changes in local units brought about by consolidation or merger affect basic allocations of service responsibility.

The consequences of changes in federal aid policies and methods are entirely imponderable. In all probability some changes will occur, but there are no immediate prospects which would substantially affect state and local fiscal requirements. Federal aid for urban redevelopment and for community facilities is more likely to accelerate changes and new developments than to displace state and local outlays that would have been made in the absence of federal assistance. On the other hand, federal assistance in meeting the costs of the extension of capital plant for the public schools and for higher education would have the effect of transferring these costs from state and local revenue sources to the federal. Even so, the relief would be more likely to be from pressure to extend bonded indebtedness than from capital outlays from current tax income. In view of these considerations, it seems sound judgment to exclude from projections the possibility of changes in service allocations and of extended federal aid.

At this point, attention should be directed briefly to the context of governmental operations to which financial projections apply. The patterns of program responsibilities at the state and local levels, the extent to which various programs are essentially independent and self-sufficient, and the established methods for program underwriting are important. The result, in the case of the state government, is a concentration of pressure upon the general account of the general fund, and upon the requirements of three functional areas. These three, education, public assistance, and institutions, account during the current biennum for about ninety-two per cent of appropriations from the general account of the general fund. During the first fiscal year of the biennium, expenditures for education, public welfare, health and hospitals, and corrections amounted to ninety-four per cent of outlays from the general account.[2] Consequently, trends in these program areas will dominate the future experience of the general fund. Local

[2] Data for expenditures from the General Fund (general account) are from the special tabulation, Washington, Central Budget Agency General Fund Expenditures, 1945-47 through 1961-63 with 1963-65 Appropriations, by Major Divisions (1964) [hereinafter cited as General Fund Expenditure]. Data for the first year of the current biennium are from WASHINGTON, CENTRAL BUDGET AGENCY, FINANCIAL REPORT ALL BUDGETED FUNDS STATEMENT OF OPERATIONS, 1963-65 BIENNIUM, FOR THE PERIOD ENDING JUNE 30, 1964, No. 11 (1964).

government, and particularly the cities, face a rather different set of circumstances, and a pattern of severe restraints rooted in them.

Control Over State Activities. Washington has a multiple executive. Of the nine elected state officials, two are responsible for administration of major state programs. The Superintendent of Public Instruction administers state functions relating to the public school system. The Commissioner of Public Lands heads the Department of Natural Resources.[3] The Governor has no direct budget control over activities supervised by other elective state officials.[4] In addition, the executive branch is further characterized by the use of a number of boards and commissions that are ultimately responsible for their several departments. The Governor has varying, but for the most part limited, access to the operations of these agencies. Also, a number of agencies are financed from dedicated revenue income. Since this income cannot be diverted to other uses, these agencies do not compete for limited general revenue resources. The influence of substantial federal aid is another factor. In some agencies, more than one of these differentiating factors is present. For example, the State Highway Commission is headed by a board of members serving staggered terms, is financed by dedicated revenues, and has a program intimately interrelated with federal aid policy. Thus, the Highway Commission is for all practical purposes independent, and its program operates in essential isolation from the remainder of the state government.[5]

The executive branch of the Washington state government is characterized by a diffusion of authority. As a result the governor has little room for action in the management of the state budget. A fair estimate would be that the governor can exercise influence over less than ten per cent of appropriations from the general account, and very little over those from special accounts and special funds. The reasons for this narrow scope of influence are legal, administrative, and strictly practical. Practical considerations include the unavoidable necessity for covering ongoing, recurring costs of activity, costs that are fixed rather than variable. Controls are effective only where the governor

[3] The measure of importance used in making this determination is the relative amount of appropriations rather than the relative significance of policy influence.

[4] RCW 43.88.110.

[5] The unpublished dissertation, Simmons, *The Washington Plural Executive: An Experiment in Interaction Analysis* (University of Washington, Seattle, Wash. 1962) analyzed the role of the State Highway Department, among other state agencies, in the state government. A revision and abridgement of this dissertation is to be published in a series of articles in the WESTERN POLITICAL QUARTERLY.

has a legal jurisdiction, administrative control, and the costs involved are relatively flexible. This combination is rarely present in Washington.

Funds. The state treasury fund structure has been mentioned. The general fund consists of a general account and a series of special accounts.[6] The general account is the category into which general, non-dedicated revenues are paid, and from which general appropriations are disbursed. The special accounts are categories of dedicated revenue and outlay. The advantage in including both the general and special accounts in the same general fund is that their several working balances can be cumulated into a balance for the fund as a whole. Thus, while the general account showed an overdraft of $16.8 million at the end of the first year of the current biennium, the special accounts showed a total working balance of $35.7 million.[7] The working balances of the special accounts are available to cover overdrafts in the general account. This avoids the fiscal complications of administering a fund in a periodic state of overdraft.

Special funds in the treasury include revenue funds (*e.g.*, motor vehicle, game, and liquor excise), bond issue funds (into which are paid the proceeds of sale of some bond issues), bond retirement and interest funds (income pledged to debt service). Of these, the most important from the fiscal standpoint is the motor vehicle fund.[8]

A third general category of funds are the local funds. These are not held in the treasury, but are for the most part appropriated. They are held and administered by the operating agencies.

The total of disbursement activity for these funds for the first year of the current biennium (1963-65) was:[9] (In millions)

General Fund				
General account	$478.3			
Special accounts	46.1	$524.4		
Special Funds				
Motor Vehicle	158.1			
Other	98.2	256.3		
Total Treasury Funds			$780.7	
Local funds			60.1	
Total budget funds				$840.8

[6] WASHINGTON STATE TREASURER, MONTHLY FINANCIAL REPORT shows the fund structure of the treasury in its *Statement of Fund Receipts, Disbursements and Transfers* for the month.

[7] See CENTRAL BUDGET AGENCY, Statement I.

[8] *Id.* Statement III. [9] Developed from *Id.* Statements I and III.

LOCAL GOVERNMENT

It is relevant here to sketch the characteristics of local government in the State of Washington. As of March 1, 1963, there were 1,684 local taxing jurisdictions in the state.[10] These are in addition to the thirty-nine counties. The role and functions of the counties are familiar, as are those of the cities and towns. They can be termed general purpose jurisdictions within the scope of their statutory authority. The remaining jurisdictions are special purpose, i.e., they exist to provide a single service within a service area. These special purpose districts are financed in varying ways. The school districts operate on an allocation of property tax levies, together with distributions of state appropriations and incidental local revenues. Other districts may have access to a proportion of the unallocated minor millage available outside of cities and towns. Still others may be supported by service fees and similar enterprise income.

However, it is the general purpose jurisdictions that are significant for an analysis of probable expenditure trends. In the case of counties, the primary support for current expense, or generally funded activities, is the millage authorized from within the forty mill maximum property tax. The authorized millage for county general expense (eight to eleven mills) is separately allocated from the road district authorization (seven to ten mills), but the total levied cannot exceed eighteen mills.[11] For all practical purposes the counties operate under a revenue ceiling. The effect of this ceiling may be eased only moderately by the use of such levies as admissions taxes and the like. A realistic view is that outlays for services will be limited to the yield of the authorized millage, supplemented by miscellaneous income. Thus, the legal and practical capacity of counties to respond to increased service demands is tightly restricted. Where service needs develop outside of cities and towns, the tendency is to resort to the use of special districts. Such districts may use some of the "floating" millage, if any is available, but are more likely to rely upon service charges if the desired service can be financed in this fashion. Where service needs exceed the limited capactiy of the counties, and cannot be met on a service fee or other

[10] For a most useful explanation of local taxing jurisdictions, see HANDBOOK, 603-4. County government is outlined, at 525-37, and city government, at 538-67. See generally WASHINGTON, TAX ADVISORY COUNCIL, REPORT OF THE LOCAL GOVERNMENT FINANCE SUBCOMMITTEE (May 1958).

[11] The operation of millage allocations under the forty mill limit prescribed by WASH. CONST. art. VII § 2 Amend. 17 is explained in HANDBOOK 576-79.

enterprise basis, pressure mounts for the state government to underwrite the activity.

Cities and towns also rely upon the property tax. The authorized maximum is fifteen mills, which may in some instances rise to sixteen mills. About forty per cent of all city and town revenue is derived from this millage. The remainder is raised by business and occupation, admission, and miscellaneous taxes.[12] As a practical matter, gross receipts and other business taxes are limited by the necessity for maintaining a competitive relationship between businesses located within, and those located outside, local corporate boundaries. The consequence is that cities and towns also operate under what is in effect a revenue ceiling. It is not surprising that, so far as possible, services that can be funded and operated on a utility or other enterprise basis are moved out of the general fund category and financed on this special basis. Unless there should be a basic change in the administration of the property tax, it is reasonable to assume that the cities will continue to operate as best they can under their limited millage, utilizing such local business taxes as are deemed practically possible, and using service fee financing wherever applicable. Pressures for distribution of state collected revenues to the cities and towns will doubtless intensify.[13]

Thus the projection indicates that in the years immediately ahead cities and towns are likely to respond to increased service needs through enterprise-type financing, rather than by general funding. The extent is impossible to project on the basis of available information. Needs that cannot be met in this fashion will build pressure for increased distributions of state-collected revenues. Note, however, that such needs will be reflected in the first instance as increases in state expenditures for aid to local jurisdictions.

PROJECTED FINANCIAL NEEDS

Population Growth. Attention now turns to the human context and developments in the society that can be expected to influence expenditure levels in the years ahead. Emphasis here is upon the broad scope of such developments. Special or disparate trends that will influence individual program costs are noted later.

The growth of total state population first claims attention.[14] In the

[12] See the tabulation for the fifty largest cities in the state, *id.* at 560-61.

[13] For background see TAX ADVISORY COUNCIL, *op. cit. supra* note 10, at 43-44 for recommendations regarding the retail sales tax. See also GOVERNOR'S EXPENDITURE ADVISORY COUNCIL, FIRST REPORT, *op. cit., supra* note 1, at 60-61.

[14] BUREAU OF THE CENSUS, U.S. DEPT. OF COMMERCE, STATISTICAL ABSTRACT OF

1950-60 decade, the growth rate was about twenty per cent, from 2,379,000 to 2,853,000. The estimate is that in 1965 the Washington population will reach 3,100,000, with the total moving on to 3,326,000 by 1970.[15] For this decade, then, the estimated rate of increase declines to 16.6 per cent. For the 1960-1963 period, the rate of increase was about 2.1 per cent, against a national average of 1.5. Concurrently, the California rate was 3.5 per cent, with Oregon at 1 per cent and Idaho at 2 per cent.[16] Thus the State of Washington would seem to be increasing in population at a rate a little higher than the national average, higher than the other Pacific Northwest states, but lower than the explosive growth of California. However, the Washington growth rate is expected to slow as 1970 approaches.

Density of population is a useful indicator of demand for governmental services. The rate of growth of density is a clue to the degree to which intensified governmental efforts are likely to accumulate. In 1960, Washington's density of population stood at 42.8 per square mile, compared with a national average of 50.5. At that time Oregon was reported at 18.4 per square mile and Idaho at 8.1 while California's density was 100.4. For comparison, it may be worth noting that Minnesota in 1960 had 42.7 persons a square mile and Iowa 49.2. These states are cited because Minnesota's 1960 population was 3,414,000 and Iowa's 2,758,000. In a way they bracket Washington with a population of 2,853,000.[17]

Another dimension of change is the rate of urban growth. During the 1950-1960 decade, Washington closely paralleled the national trend. In 1950 the United States was about 64 per cent urban and Washington 63.2. In 1960 these figures were 69.9 per cent for the nation and 68.1 for the state. While this growth was taking place, farm population in Washington was declining from 274,000 in 1950 to 163,000 in 1960.[18]

Tendencies in metropolitan areas are also important. In the 216 standard metropolitan areas of the United States, the growth rate, 1950-1960, was 26.5 per cent as compared with an over-all rate of 18.5 per cent. But the central cities grew only 11 per cent, while their re-

THE UNITED STATES, 1964 (1964) issued annually is the best general reference source for general statistics, see table 9, at 12 and table 8, at 11.

[15] WASHINGTON STATE CENSUS BOARD, ENROLLMENT FORECASTS: 1963 to 1970, 2 (1962).

[16] *Id.* at 12.

[17] *Id.* at 13.

[18] *Id.* at 16.

lated suburban areas increased 47.4 per cent. With the national rates as a base, the trends in the four metropolitan areas within or partially within Washington may be noted. The Seattle-Everett area increased 31.1 per cent, Spokane 25.6 per cent, and Tacoma and the Portland-Vancouver area both increased 16.6 per cent.[19]

The indications from these reported rates is that Washington's total population is increasing at a persistent but not dramatic rate. More significant is the tendency toward urban growth, occurring primarily within the metropolitan areas, and not necessarily within presently incorporated places. Farm population has dropped sharply.

The age distribution of Washington's population in 1960 was very close to that of the nation as a whole. The median age for Washington was 29.6 years while the nation's was 29.5. The age group, 24 years and under (those served by educational programs) was 44.7 per cent of the population for Washington and 44.5 per cent for the United States. The 24 to 65 age groups, which can be considered the income-producing age span, was 45.5 per cent of population for Washington and 46.2 per cent for the United States. Finally, those over 65 were 9.8 per cent for Washington and 9.3 for the nation.[20]

This rather average picture for the state does not exclude dramatic increases in public school enrollment, a trend which will be explained in connection with expenditures for education. What is noteworthy here is that Washington, and the nation generally, has been growing at a much faster rate in the school age and post-retirement groups primarily served by state and local government, than in the income-producing age groups. While the rate of increase of the retired group may be slowing down, that of the school age population seems likely to stay ahead of the income producers for several years to come.

All this has a direct bearing upon projections of public expenditures. This uneven growth rate among age groups can and does produce a situation in which service needs are increasing at a more rapid rate than revenue yields as reflected by payments of relatively constant percentages of income by the income-producing age groups. Thus tax rates and the proportions of personal income devoted to state and local services must increase to maintain an even level of service, unless of course, average income rises sufficiently to offset increases in service costs. In Washington, it appears that the rate of increase in per capita

[19] *Id.* at 13-15.
[20] Developed from *Id.* at 23.

personal income has remained relatively close to the national average over a period of years.[21]

The foregoing comments are background for the projection of expenditure requirements. The context of governmental operations and the methods of funding major programs lead to the working assumption that trends in public education (including higher education) and in social welfare (including public assistance, institutional care, and corrections) will set the pace for generally funded programs. The growth of local requirements will probably result in increased pressure for state outlays, either direct or as state aid, rather than in significantly increased local expenditures from locally-generated general revenues. Consequently attention centers upon the state government.

Public Education. Public education claims first attention, and especially its state support from general revenues. While this support is only part of total cost, it is the most sensitive part, because educational needs compete for it with other programs financed from the same revenue resources. In this area of state support, three major educational program areas are involved: the public schools and related activities for which the State Superintendent of Public Instruction is responsible at the state level; higher education, consisting of the two universities and three state colleges; and all other activities, including vocational education, the State Library, and the historical societies.

Basic to the future requirements of the public schools and of higher education is projected enrollment. An appended consolidated tabulation of expected trends and rates of change shows general tendencies by five-year periods.[22] Several characteristics are noteworthy. The decade 1950-60 saw dramatic increases in grades one through twelve enrollment. The primary grades (one through eight) increased fifty-seven per cent. Secondary education (grades nine through twelve) grew seventy per cent, reflecting the high rate of increase in the primary grades in the years prior to 1950. During the 1960-70 decade, increases in the primary grades taper off to a relatively moderate rate, with a cumulative increase of only twelve per cent for the ten years. For the secondary level, the rate is thirty per cent for the first five years and only eight and one-half per cent for the second. Thus the crest of enrollment increase in high school is expected to be reached before 1965, followed by a more moderate rate. For the public schools

[21] *Id.* at 329. Also see HANDBOOK 17.
[22] See appendix, *Public Education Enrollment*, p. 999.

as a whole, grades one through twelve the expectation is that the rapid increase in enrollment will have spent itself by 1965. Thereafter the rise is moderate and gradual, six and one-half per cent for the period 1965-70.

Community colleges are expected by the Office of the State Superintendent of Public Instruction to show rapid growth.[23] Projections of enrollment for these institutions are on a somewhat different base, and are not wholly comparable with those for the primary and secondary grades. Total enrollment is predicted to increase by seventy-five per cent 1962 through 1965 and forty-four per cent 1965 to 1970. In all probability this rate will tend to stabilize close to the rate for the public schools in the years following 1970.

Higher education projections reflect a delayed impact of the public school increases in earlier years.[24] While enrollment in the five state institutions increased by about thirty-two per cent in the 1950-60 decade, it is expected to rise by seventy-seven per cent in the 1960-70 period, with the major increase coming before 1965. As 1970 approaches, the rate of increase declines and indications are that after 1970 the increases will be at a relatively moderate rate.

Altogether, enrollment projections indicate that increased public school costs attributable solely to increases in gross enrollment will be relatively modest during the next three bienniums as compared with previous fiscal periods. Of course, it does not follow that enrollment is and will be the only source of pressure for increased public school outlays. An upward trend is likely in salary levels for both the faculty and maintenance personnel. As noted earlier, concern for the quality of the public school system will intensify. This will doubtless involve curricular developments, particularly in the sciences, special attention to exceptional students, possibly changed emphasis in vocational education, *etc.* The direction and force of these pressures are impossible to project in terms of expenditure levels. Nonetheless, their effect cannot be dismissed.

Estimated expenditure requirements of the Superintendent of Public Instruction for the 1965-67 biennium place the amount required to pay for increased enrollment at fifty million dollars.[25] For program improvement the estimate is a little less than seventy-five million dollars, resulting in a total increase for these items at just under $125 million.

[23] *Ibid.* [24] *Ibid.*

[25] WASHINGTON, SUPERINTENDENT OF PUBLIC INSTRUCTION, PRELIMINARY BUDGET REQUESTS FOR PUBLIC EDUCATION PROGRAMS, 1965-67 BIENNIUM 6 (Sept. 1964).

This is an increase in program cost thus far of about eighteen per cent. But another dimension is added by the proposal that excess levies voted by school districts, and producing about seventy million dollars in the present biennium, be replaced in the next by an increased state appropriation. An estimated net increase of $51.5 million is involved.[26] If such a proposal is adopted and excess levy revenue is replaced by state appropriation, the over-all increase would amount to $176.3 million. This would result in a twenty-five per cent increase in the state appropriation for the public schools.

Two additional educational items must be noticed. The state contribution to the teachers' retirement fund will rise over the twenty-seven million dollars of the present biennium to at least thirty million dollars.[27] The State Superintendent estimates also that construction needs will exceed by twenty-seven million dollars the proceeds of the fifty-nine million dollar bond issue approved by the 1964 general election. This amount will be requested from current funds.[28] Thus some thirty million dollars in addition to the amounts explained earlier will be requested for the support of educational programs. Of these added monies, the requirements of the retirement fund can be regarded as a fixed charge, practically a mandatory item. Thus, if all requests for the public schools are provided for, the total increase could reach nearly $205 million.

Altogether, it is difficult to estimate an increase of less than seventy-five million dollars; fifty million dollars for enrollment increases; twenty-five million dollars for increased retirement fund requirements, modest program improvements and capital requirements, particularly for junior colleges. The total could easily be considerably higher, moving up to as much as $200 million. But this larger amount can be regarded as unlikely.

If it can be assumed that construction requirements in the 1967-69 and 1969-71 bienniums are covered from sources other than current funds, it would appear that a minimum rate of appropriation increase is likely to be about seventy-five million dollars a biennium. This

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[26] *Ibid.*

[27] A tabulation: WASHINGTON, CENTRAL BUDGET AGENCY COMPARATIVE GENERAL FUND EXPENDITURES FOR BIENNIAL PERIODS, 1945-47 TO 1961-63 WITH APPROPRIATIONS, 1963-65 shows this trend in the contribution to the teachers retirement fund from the general fund, in millions of dollars:

1953-55	1955-57	1957-59	1959-61	1961-63	1963-65
$11.5	$15	$20.2	$16.4	$24.4	$27.2

[28] Tabulation: WASHINGTON, STATE BOARD OF EDUCATION, SURVEY OF SCHOOL BUILDING CONSTRUCTION NEEDS, 1963-67 BIENNIUM (1964).

compares with an increase of about forty-one million dollars in the current biennium over the 1961-62 period. The difference in this projection takes account of community college growth and replacement to some extent of the use of local special levies.

Higher education costs will reflect increased enrollments in the next three bienniums. For the 1965-67 period, the University of Washington is requesting in increased state support about twenty-four million dollars for current operations and $22.3 million to supplement University funds for capital purposes.[29] The total of $46.3 million compares with an increase in appropriations of only seventeen million dollars for all five institutions of higher education in the current over the preceding biennium. For purposes of rough approximation, the University's estimate of needs can be taken as about half of those for the five institutions together. This comes to a rounded total of ninety million dollars. Legislative response is sheer conjecture. Some requests made to the 1965 legislature undoubtedly will be postponed. It seems not unlikely, however, that increases amounting to at least forty million dollars for the five institutions will be difficult to avoid. Substantially the same rate can be projected through 1969-71.

Other educational activities, previously identified, are now amounting to a little less than eight million dollars.[30] This total will probably rise to take account of stronger emphasis upon vocational education. In amounts, however, these increases will have only a minor effect upon the total cost of educational programs.

For purposes of a rough projection, educational costs can be estimated as follows: (In millions)

	1961-63 Actual	1963-65 Appropriations	1965-67 Estimated range	1967-69 Estimated range	1969-71 Estimated range
Public Schools	$429	$470	$545-570	$610-645	$670-725
Higher Education	104	121	161-175	200-225	235-260
All Other	8	7.8	8-9	8.5-10	10-11.5
Total	541	598.8	714-754	818.5-880	915-996.5

The amounts of state appropriations could be influenced by several factors. For example, if substantial federal assistance should become

[29] Statement of President Odegaard, University of Washington, 1965-67 Operating Budget Request, Summary of the Operating Budget Proposal for 1965-67, Nov. 5, 1964.

[30] From the tabulation General Fund Expenditures. The trend of "other" educational items, in millions of dollars has been

1955-57	1957-59	1959-61	1961-63	1963-65
$3.7	$5.3	$7	$8	$7.8

available for construction requirements in higher education, such funds would reduce state financing requirements. Also, as seems unlikely, if the local property tax were to yield increased returns, local support might reduce the need for increased state financing of the public schools. If federal block grants now under discussion were made available and the amount applied to educational needs primarily, the net cost of increased requirements to the state would be reduced.[31] But the total amount of appropriations would not be affected because such grants in all likelihood would be treated as a general fund revenue and included within appropriated totals.

Department of Institutions. A second major set of state programs is administered by the State Department of Institutions.[32] They fall into several major classifications. The programs of mental hospitals and mental retardation can be considered as functionally interrelated. At the other extreme are juvenile rehabilitation, which is concerned with juvenile offenders, and adult corrections. At somewhat intermediate points are the schools for the handicapped, *i.e.* schools for the blind and the deaf and the veterans' homes. Departmental administration completes the operating pattern of the agency.

During the past twenty years these activities have shown very significant development. The emphasis of care, wherever possible, has shifted from a primarily custodial to an increasingly treatment-centered approach. It is fair to say that the quality of services has been raised significantly. Along with this change, facilities have been improved and expanded. Then, of course, state population growth has had an impact. The financial implications of this background are seen in the appropriation trend. In the 1945-47 biennium expenditures for these activities amount to only $14.3 million. In the next fiscal period outlays rose more than ten million dollars but remained under thirty million dollars until the 1955-57 biennium. Then major increases were supplied to bring the expenditures level to over forty-five million dollars. Another major step occurred with the 1959-61 period with an increase to over seventy-four million dollars. Since then the upward trend has con-

[31] This is the so-called Heller proposal that Federal revenues designated as surplus to Federal needs be distributed to the states for use by them without restriction as to purpose. Presumably some formula of relative need would be used.

[32] Valuable studies of the various programs of the State Department of Institutions are the RESEARCH REVIEWS prepared by the Section of Research and Program Analysis, Division of Administrative Operations. The fifteenth of this series, dealing with Washington State Mental Hospitals, was issued in Oct., 1964. These publications are relied upon for data regarding characteristics and trends in the department's activities.

tinued. For the current biennium the appropriation is $84.3 million.[33]

The projection of future trends encounters the usual set of interacting variables. Major changes are coming about in some of the programs. Nation-wide mental health, *i.e.* the treatment of mental illness, may be in the process of basic alteration from an institution-centered program to one that utilizes community-centered approaches with a strong emphasis upon the use of beds in general hospitals and of outpatient therapy. Federal assistance is now available for the development of community mental-health facilities.[34] The nation-wide trend in the field of corrections indicates a stronger emphasis upon rehabilitation and supervision in a parole status, rather than relying upon penal confinement. Juvenile delinquency and rehabilitation are obvious public concerns. These are only examples but they are sufficient to characterize the kinds of change that seem to be underway.

Other uncertainties cloud projections of work-level. While the size of the population group primarily served and its growth trend are influential, length of stay, recidivism rates, and similar factors are also important variables. In some programs, notably mental retardation, work load has been limited by the housing capacities of available installations. Altogether, these variables preclude any confident forecast. They force analysis back to the base of probable patient or inmate years at some estimated cost per year. Such is the nature of these projections. They are offered here not as the end result of analysis but as a starting point for considering possible future developments.

The mental hospital program is the largest, in expenditure terms of the department's activities. Patient-load, reduced to patient years of care, has been showing a downward trend although the total of admissions has increased. The cause of this downward trend is therapy oriented care aimed at as short a period of in-hospital treatment as possible. Average daily resident population of state hospitals declined over the period 1955 to 1964 by over thirty-nine per cent, from about 7,500 patients to 4,534. This trend is expected to continue but probably at a decreasing rate. The projection of the department for 1967 is 4,311.[35] At the same time, however, the cost per patient day increases

[33] The expenditure and appropriation data for the Department of Institutions are from the special tabulation: General Fund Expenditures.

[34] This Federal aid program is explained in the pamphlet, PUBLIC HEALTH SERVICE, U.S. DEPT. OF HEALTH, EDUCATION AND WELFARE, THE COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, CONCEPT AND CHALLENGE (1964).

[35] WASHINGTON, DEPARTMENT OF INSTITUTIONS, *Washington State Mental Hospitals,* RESEARCH REV. No. XV, 4-9 (Oct. 1964).

as the quality of care improves, improvement that leads to shorter patient stays in the hospital. Cost studies at Western State Hospital in 1963 showed an average daily patient cost of about eight dollars with a range of cost for different treatment service of from five to eighteen dollars.[36] It is reasonable to expect that average cost per patient day will rise as treatment becomes more intensive. Much will depend upon the availability of financial support for a broader approach to therapy. A review of the daily costs for various types of care suggests that over the next three fiscal periods the patient day cost will rise to somewhere between ten and fifteen dollars per day. But the change would be gradual because of needs for staffing, *etc.* For the purposes of this estimate, the average daily population is assumed to be equal to patient years. Department projections are used through 1967; thereafter a relatively stable load of 4,300 patient years is assumed. Costs per patient year are assumed to rise gradually as the quality of care is improved. The result is shown below:[37]

Mental Hospitals: Projection of Patient Years and Costs

	1961-63	1963-64	1965-67	1967-69	1969-71
	Actual	Appropriations	←———	projected	———→
Patient years	5300	4670	4325	4300	4300
Program cost in millions	$29	$29.6	$31.4 probable	$31.4 to 37.6 $33	$31.4 to 37.6 $35

Mental retardation ranks second in expenditures among the departmental programs. In this case, projections are based upon department experience and projections through 1967 with the trend extended, taking some account of limited facilities through 1971. Average daily population is assumed to equal patient years. Average daily costs are assumed to rise gradually at a modest rate. The result is shown below:[38]

Mental Retardation: Projection of Patient Years and Costs

	1961-63	1963-65	1965-67	1967-69	1969-71
	Actual	Appropriations	←———	projected	———→
Patient years	3845	3977	4366	4450	4500
Program cost in millions	$17.72	$20.17	$22.4	$24	$25.5

[36] *Id.* at 52-58.

[37] Data are adapted from *id.* The total program cost differs slightly from data in General Fund Expenditure.

[38] WASHINGTON, DEPARTMENT OF INSTITUTIONS, *Mental Retardation in Washington*, Research Review No. XIII, 3-5, 22-23 (Aug. 1964).

Juvenile rehabilitation cost trends will be influenced by the opening 1967-69 biennium. Prior to that time, it is assumed that present institutions will operate close to capacity, around 890 students. Costs per student year are estimated to increase gradually. The result is as follows:[39]

Juvenile Rehabilitation: Projection of Program Costs in millions

	1962-63	1963-65	1965-67	1967-69	1969-71
	Actual	Appropriations	←———	projected	———→
Institutional care	$9.8	$11.65			
Prevention, control, and parole	1.4	1.65			
Total	11.2	13.3	14.5	16	16.5

Adult correction work load can be expected to increase to some extent with a gradually increasing young adult population and with enlarged institutional capacity. Costs per inmate will probably show an upward trend although no dramatic change seems in prospect. Departmental projections through 1967 are used and the trend projected. It should be noted that the department expects the committal rate to edge upwards. The resulting projection follows:[40]

Adult corrections: Projection of Inmate Years and Program Costs

	1961-63	1963-65	1965-67	1967-69	1969-71
	Actual	Appropriations	←———	projected	———→
Inmate years	2425	2325	3050	3365	3500
Program costs in millions	$10.8	$12.6	$13.7	$15.7	$16

Two minor programs require brief comment. The schools for the handicapped have been running at about $2.7 million for the last two bienniums. For present purposes their costs are projected at $2.75 a biennium. Veterans' homes have been costing just under $3 million a biennium. They are projected at an even $3 million. Headquarters costs are estimated at from 3 to 3.2 per cent of the total of program costs.[41]

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[39] Bond issue of $4,600,000 approved at the 1964 general election. See 1963 Wash. Laws, Ex. Sess. ch. 27.

For program data see WASHINGTON, DEPARTMENT OF INSTITUTIONS, *Washington State Juvenile Rehabilitation Institutions,* RESEARCH REV. No. VII, 6-7, 34-35 (Dec. 1962).

[40] WASHINGTON, DEPARTMENT OF INSTITUTIONS, *Washington State Adult Correctional Institutions,* RESEARCH REV. No. XIV, 2-8, 70-75 (Sept. 1964).

[41] Cost trends for the schools for the handicapped and the veterans' homes are from the Central Budget Agency, General Fund Expenditures, tabulation, *op. cit.* note 2, *supra.*

A consolidated projection for the State Department of Institutions follows:[42]

State Department of Institutions: Consolidated Projection of Requirements in millions of dollars

	1961-63 Actual	1963-65 Appropriation	1965-67 ←projected→	1967-69	1969-71
Headquarters	$2.28	$2.69	$2.8	$3.1	$3.15
Adult corrections	10.78	12.57	13.7	15.7	16
Juvenile rehabilitation	11.15	13.27	14.5	16	16.5
Veterans homes	2.97	2.92	3	3	3
Schools for the handicapped	2.71	2.68	2.75	2.75	2.75
Mental Hospitals	29.5	29.99	31.4	33	35
Mental Retardation	17.72	20.17	22.4	24	25.5
Total	77.11	84.27	90.55	97.55	101.9

Public Assistance. Public assistance is the third of the major state programs. This involves old age assistance, aid to the blind, aid to families with dependent children, aid to the permanently and totally disabled, child welfare services, medical care, general assistance, and several minor activities. All except general assistance are federally aided. Of total costs, federal aid amounted to about forty-five per cent in 1961-63 and is estimated to be nearly fifty per cent in 1963-65.[43]

The state appropriation shows the total of federal aid and amounts from state sources. Payments of federal aid to the state are treated as a special revenue. Therefore expenditure and appropriation data do not readily indicate net costs to the state treasury. The proportion of total costs carried by federal aid have increased over the past several bienniums and although total program costs have shown a tendency to rise, the net cost to the state has declined.[44]

	1955-57	1957-59	1959-61	1961-63	1963-65
		(millions of dollars)			
State	137.76	150.44	144.6	127.43	126.56
Federal	70.26	81.88	84.7	102.73	125.02
Total	208.02	232.32	229.3	230.16	251.58

[42] This consolidated statement assembles data from the previous tabulations for individual programs. There is, however, an unexplained difference between the department's $29.6 million cost of mental hospitals for the current biennium and a $29.99 appropriation shown in General Fund Expenditures. This difference probably reflects projected actual cost as compared with funds appropriated.

[43] A very useful explanation of the pubilc assistance program is in HANDBOOK, 381.

[44] From General Fund Expenditures.

A projection of probable future expenditures is primarily concerned with net costs to the state. It seems safe to assume in the light of past experience that the proportion of total cost now borne by the state will not increase. On the contrary, it seems more likely that future federal action will reduce the amount of state responsibility. This is most likely to occur as a consequence of a different treatment of medical care for persons over sixty-five years of age, through the enactment of some variety of Medicare.[45] Such action seems likely to convert this category of assistance into some form of social insurance. How rapidly a change in the state financial obligation might accrue is unknown.

With respect to other categories of care, a set of working assumptions seems possible. Most categories are unlikely to increase in case load. These are old age assistance, aid for the blind, and aid for the permanently and totally disabled.[46] Aid for families with dependent children is affected by a combination of social problems and economic conditions. General assistance is directly related to unemployment. But when all factors are considered it seems unlikely that public assistance costs will increase or that the state share of cost will rise. Instead the chances are that state costs will decline with the probable adoption of a national Medicare program. But the timing and degree are wholly imponderable. A conservative estimate is that public assistance costs will stabilize at about $260 million a biennium for the forseeable future with half of this total a state funding responsibility.

Highways. A few words should be added with respect to highways. As has been mentioned, state highways are financed from the motor vehicle fund. The proceeds from this constitutionally dedicated fund cannot be applied to any use other than highway and highway-related purposes. Consequently, highway financing becomes a separate and self-contained matter.[47] Furthermore, highway financing does not interact with the financing of the general fund. Also, the highway program has its own federal aid arrangements, the most important of which is federal underwriting of the interstate highway system. Thus the highway system and its separate budget stands by itself. For this reason highway projections will not be analyzed in detail.

Conclusion. It was explained above that the programs financed from

[45] The Medicare recommendation to Congress was contained in President Johnson's *Special Message to Congress on Health* (Feb. 10, 1964), 110 CONG. REC. 2710 H.R. Doc. No. 224.

[46] Case-load trends, 1946-1963, are shown in HANDBOOK, 414.

[47] *Id.* at 486-505. See WASH. CONST., art. II, § 40, AMEND. 18.

the general account of the general fund are the ones most sensitive to the yield of the general revenue system. The most difficult and troublesome questions of public policy cluster around appropriation levels and trends for these activities. Hence they claim major attention. Also it has been pointed out that public education, public assistance, and the social welfare activities carried on through the Department of Institutions account for about ninety-two per cent of the general account appropriations. With a review of apparent trends in these programs completed, it is now possible to attempt a consolidated projection of the financial requirements for the account as a whole. In doing so, activities falling in the "all other" category are projected as rising at about the rate of the past three fiscal periods, although there are several influences at work that could modify this trend. Even so, the net effect would not be great enough to influence the total condition of the general account by more than a few percentage points. The consolidated projection follows:[48]

General Fund (General Account): Consolidated projection of requirements in millions ofdollars

	1961-63 Actual	1963-65 Appropriation	1965-67	1967-69 Projected	1969-71
Education					
Public Schools	$428.8	$469.8	$545	$610	$670
Higher Education	103.9	120.9	161	200	235
Other	8	8	8	8.5	10
Total	540.7	598.7	714	818.5	915
Department of Institutions	77.1	84.3	90.5	97.5	101.9
Public Assistance	230.2	251.6	260	260	260
All other	73.4	77.4	84	90	95
Fund Total	921.4	1,011.8	1,148.5	1,266	1,371.9

(Lower range projections for public education are used in this tabulation)

The general trend of these projections, using low range public education estimates, shows these percentage rates of increase:

	1961-63 Actual	1963-65 Appropriations	1965-67 ←	1967-69 Projected	1969-71 →
Rate of increase over preceding biennium	15.4%	9.8%	13.5%	10.2%	8.4%

[48] Data for the 1961-63 actual expenditures and for 1963-65 appropriations are from General Fund Expenditure.

The relatively high rate of increase in 1965-67 reflects a combination of educational needs and requirements postponed from the 1961-63 biennium. Thereafter, the reduced rate of population growth reflects a diminishing rate of increase. These projections are probably on the conservative side. For the ten-year period the average annual rate of increase is less than six per cent, although the rate for the decade as a whole is over seventy per cent. An average annual rate of around ten per cent may turn out to be more realistic as the desire for higher quality in public services generally makes itself felt. The national trend of state general expenditures shows increases for the fiscal year 1961, seven per cent; for 1962, 7.4 per cent; and for 1963, ten per cent.[49] If past experience is any guide, Washington will run slightly in excess of the national average. In fiscal 1963, California is reported as having a ten per cent increase and Oregon 9.2 per cent. In that year, which was the second of the 1961-63 biennium the Washington increase was reported as 12.7 per cent.[50]

In making this projection a number of possibilities have been omitted. A notable one is state aid for municpalities. Another is substantial participation in the development of federally-aided community mental health centers. If new developments such as these should be initiated, the costs involved would be added to the projected totals.

Finally, it should be reiterated that this is no more than an experimental projection. They are not forecasts of any sort. The utility of an effort such as this lies in the use of a projection as a base for observing actual developments, and for considering the fiscal merits of policy choices that might push total outlays below or above the projected levels.

But under present circumstances this or any similar projection is likely to be of very limited utility. Basic data with respect to the trends that influence the nature and level of service need are far from satisfactory. So also is information regarding the nature, the volume and the quality of program activity. The state tends to extemperize from bien-

[49] See BUREAU OF THE CENSUS, U.S. DEPT. OF COMMERCE, COMPENDIUM OF STATE GOVERNMENT FINANCES (issued annually). Data for 1962 is in Table 36, at 54; for 1963 Table 35, at 46.

[50] These percentage trends are difficult to compare with General Fund (general account) data because of differences in the classification of items. The Bureau of the Census total general expenditure includes activities financed from dedicated revenues. It excludes only liquor store expenditures and insurance trust expenditures. Because practices with respect to dedicated fund financing differ from state to state, the Bureau of the Census method of classification is the only possible basis for interstate comparisons.

nium to biennium seeking ways to finance the most pressing demands for financing with as little disturbance of the *status quo* as possible. The basis for broader policy judgments is thin and shaky. What is needed is a concerted effort at anticipating the longer range probabilities in the development of the state and at formulating a forthright but flexible strategy for the design and redesign of governmental programs so as to reinforce healthy growth. This is the function of planning, the intelligent exercise of disciplined foresight, the use of the essential time dimension in the exercise of policy judgments. A continued failure to build a sense of long term trends into the patterns of state and local action can prove a very expensive oversight.

APPENDIX

Public Education Enrollments
1950 - 1970

	1950	1960	1965	1970
Grades 1-8	275,000	432,650	459,300	484,000
Grades 9-12	93,420	159,029	206,400	224,000
Grades 1-12	369,000	592,000	665,700	708,000
		(1962)		
Community Colleges		15,000	26,200	37,700
Higher Education (4 year institutions)	24,300	32,200	48,250	57,000
Percent change	1950-1960	1960-1965	1965-1970	1960-1970
Grades 1-8	57	6.2	5.4	12.0
Grades 9-12	70	30	8.5	41.0
Grades 1-12	60	12.5	6.5	19.6
		(1962-65)		
Community Colleges		75	44	
Higher Education (4 year institutions)	32	50	18.2	77

Enrollment data for public schools and higher education from WASHINGTON STATE CENSUS BOARD, *Memorandum Report of May 18, 1964.* Higher education forecasts are Series 1, Medium. Public school enrollment is as of October 1. Higher education is fall term.

Community College forecasts are from the tabulation, COMMUNITY COLLEGE ENROLLMENT PROJECTIONS TO 1970 BASED ON EXPECTED NUMBER OF HIGH SCHOOL GRADUATES (Sup't. Public Instruction, Olympia, 1964).