Budgetary reform in Washington State

Gerald L. Sorte

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BUDGETARY REFORM IN WASHINGTON STATE

by

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CHAPTER I

INTRODUCTION

The theory and practice of budgeting are the two basic considerations of this study. For theory, numerous books, periodicals and other publications will be studied; for the practical implications of budgeting, the state of Washington, with one of the most refined program budgets, will be the object of examination.

This study will have three primary objectives. First, it will examine the goals, purposes, and failures of budgeting in general. Second, it will attempt to evaluate the program type budget, particularly in the state of Washington. Last, it will evaluate the methods, problems, and organization of the Washington State Central Budget Agency.

Budgeting

Budgets are but briefly in the spotlight of publicity; they are generally considered prosaic documents; their ultimate success rests upon the outcome of appropriation legislation; and, their significance is dependent upon relative considerations. Since the turn of the century, the executive branch has assumed, or been given, increasing responsibility for their formulation and execution. This study will be concerned with budgeting from the executive
point of view; and only passing reference will be made to the legislative branch, which is equally important in the budget process.

Budgeting is a facet of government often alluded to, but seldom examined in depth. In the latter part of the nineteenth century interest in budgeting began to grow. Agitation for better budgetary methods culminated in 1921 with the passage of the Budget and Accounting Act and the establishment of the Bureau of the Budget at the national level. In response to the federal reorganization, the state governments also improved their budgetary practices. After the improvements were adopted, interest in budgeting again waned. A brief flurry of attention was focused on budgeting at the end of the Second World War, and, again, on the heels of the 1949 report of the Hoover Commission. Brief though they were, these two events resulted in the only major innovation in budgeting since 1921--the program budget.

As described by the Washington Central Budget Agency the program budget should accomplish these objectives:

(1) To focus legislative, executive and general public attention on each significant segment of the functions, activities, and services which the state government, as an agent of the people, is directed or authorized to conduct on behalf of the people and at their expense.

(2) To define or delineate the scope, character and content of each such "program" with sufficient clarity to permit sound determination of the necessity for its initiation or continuation.
(3) To portray the organization by which it is operated, to measure the volume of work involved, and to indicate the qualitative and quantitative standards of production under which work is performed.

(4) To present a complete picture of all funds, from whatever source, available or to be made available for operation of the program, the application of such funds by objects of expenditure, and derivable unit costs, and finally, any and all revenues accruing from the program.

The value of the program budget is debatable, but it has shaped a good portion of American budgetary practices at all levels of government. It now appears that the program budget will supplant its predecessor the line-item budget.

Budgeting has never been, nor will it ever be, completely objective. No criteria has ever been established to determine irrevocably the purpose of a budget, or its formation, execution, and implementation. Political, economic, and social considerations all have a part in shaping the budget. Depending on the time and place, one of these considerations will predominate. Budgets cannot be termed economic, political, or social instruments; they are a combination of these considerations. If a budget fails to serve society adequately, it is often because one aspect of consideration has unduly predominated over the other considerations.

Anticipating that cost accounting could be made operable and workload indicators more realistic, program

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budgeting was designed as a more technical and scientific means of analyzing and presenting the budget document. In a sense, it was an attempt to make budgeting more objective and less subjective. Proponents believe that adequate justification should be the primary criteria for determining expenditure needs. It has succeeded in a fashion. Consideration of expenditure needs have come to be evaluated more objectively, but always within the context of the prevailing political, economic, or social consideration. Subjective considerations still play a basic role in the budget process.

State of Washington

The state of Washington undertook a major reorganization of its governmental structure commencing in 1947. By 1959, the line-item budget had been replaced with a program budget, and a Central Budget Agency had been established to administer the process. The most up-to-date methods approved by public administrators and management consultants were applied to Washington's governmental structure. Even with the advanced methods of reorganization problems persist.

For the purposes of this study, the administration of the budgetary process will be considered as vital, if not more so, than the particular type of budgeting. Consequently, the Washington Central Budget Agency will be examined at length to determine its assets and liabilities.

A great amount of emphasis will be placed on the
financial organization prevailing in the state of Washington before and after the institution of the program budget and the Washington Central Budget Agency. Accounting aspects of budgeting will be dealt with only briefly in order to clarify or amplify a point. While the importance of accounting should not be minimized, its relevancy is limited for the purposes of this study.

Finally, the history of budgeting as it evolved in the United States will be reviewed in order to place the entire problem of budgeting into the proper perspective. While the historical examination will be brief and cursory, it should indicate the currents of thought that have molded our budgetary system.

What is a Budget?

Perhaps one of the most perplexing problems in dealing with any form of budgeting is defining the term and indicating what it is supposed to accomplish. The literature abounds with various interpretations and definitions of this rather ambiguous concept—budgeting. In an attempt to resolve this complex problem, two definitions will be submitted which clarify, and in some respects indicate the diversity of opinion surrounding the nebulous concept of budgeting.

Arthur Smithies defines the budgetary concept in this manner:
In one sense the entire budgetary process can be said to have, as a single objective, the attainment of economy and efficiency: the determination of the country's scarce resources, through taxation and other methods, from private to public use and by the allocation of those resources among various government uses. Such a determination covers both the questions what programs should be undertaken and how they should be executed.2

John F. Briggs views the budget as a management tool rather than as an allocation instrument. Briggs defines the budget in the following manner:

Budgeting is the principal tool of financial administration. As a tool, it cannot insure good or responsible financial management, but a well conceived budget system can and should provide the opportunity for efficient and responsible management and, equally important, the opportunity to determine if management is efficient and responsible. A well conceived budget system serves the operating agency, the executive, the legislature, and the general public by providing information and understanding of what has been, is, and is proposed to be done by government; why it has been, is, and will be doing it; and the effect of these activities on the community.3

While Briggs views budgeting primarily within a public administration context, he does not ignore the economic implications inherent in all budgeting. That Briggs and Smithies are in substantial agreement is evident from a further definition put forward by Briggs:


The budget should provide financial information relative to programs in such a manner as to permit the selection of alternatives and thereby give expression to the program of the chief executive as well as the legislature in committing available resources. This selection process should be such as to permit the meaningful expression of preference between programs and with respect to levels of service within programs.\(^4\)

While there is little agreement on the details of budgeting, there is substantial agreement on what a budget should and is designed to accomplish. It is the primary system employed in the allocation of resources among competing programs, and it is the primary planning tool in the accomplishment of public policy. It is sometimes described as the program and planning policy transcribed into financial terms.

The budget is the executive proposals, where an executive budget exists, to the legislature. These proposals may or may not meet with approval by the legislature. It is the formal plan of expenditure presented to the legislature for its criticism, review and revision. The legislature is the final arbiter of the executive's proposals and the culmination of this process results in appropriations to carry out the budget proposals.

The difficulty of generalizing on the term budgeting derives from the fact that each individual views the budget from his personal sphere of concern. An economist, a

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\(^4\)Ibid., p. 10.
political scientist, a public administrator, or a sociologist may each define the budget within the context of his respective concerns and competencies. It is difficult to reach a consensus among pursuits which have disparate ends in mind. It is because of this divergence of ultimate goals that there is seldom a general agreement on budgeting. It may or may not mean the same thing to all of them, but each recognizes the budget as the central document in the accomplishment of goals. It is because of this disagreement in ends and means that the private and public sectors, the executive and the legislature, the historian and the economist, the line agency and the staff agency, the career employee and the politician seldom reach full agreement on the purposes and value of a particular budget.

The budget that is accepted after legislative scrutiny is the final compromised instrument after the executive and the legislature have balanced the economic, political, and social implications. It is merely the expression of government policy for a given period of time.

If the present budgetary process is rightly or wrongly deemed unsatisfactory, then one must alter in some respect the political system of which the budget is but an expression. It makes no sense to speak as if one could make drastic changes in budgeting without also altering the distribution of influence.\(^5\)

For my purposes, the budget will be considered as:

(1) the major policy document of government; (2) the means of allocating scarce resources; (3) and a primary management tool of the executive branch of government.

Historical Trends

The federal government has operated under a budget properly so-called only since 1921—a period embracing about one-fifth of our national history. The budget idea, however, was clearly in the minds of leading political and financial leaders as early as the Revolutionary and formative period.

Budgeting in the United States has had a checkered history. It has at times been exclusively a legislative function; at other times it has been divided between the executive and the legislature. Recently, the executive branch has been given increasing responsibility for budget formulations and executions. If the responsibility for budgeting has been ambiguous and divided, its importance, until the early 1900's, was also minimized.

At the national level, the committee system in Congress and the separation of powers tradition were the two primary forces fragmenting the budgetary system during the nineteenth century. At the state level, things were comparable to the national situation. At the latter part of the nineteenth century, there were some slight increases in powers of the executives in the several states. The fact was, however,

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that these executives continued to be little more than figureheads with reference to financial planning and manage-
ment.

Budgeting reform in the Federal Government began with President Taft's appointment of a Commission on Economy and Efficiency in 1911. The Commission's report, made in 1912, was the first comprehensive study of national budgeting to be made in this country; it has provided the main foundation for subsequent thinking on the subject. 7

Three forces played a powerful role in the formation of the Taft Commission; they were: internal taxation, the reform movements, and the increased demand for government services—with the inherent increase in governmental expenditures. The pressure from these sources provided the stimulus for the appointment of President Taft's Commission on Economy and Efficiency. The Commission made five recommendations; succinctly stated they were that: (1) an executive type budget be instituted; (2) a functional classification for the expenditure side of the budget be adopted; (3) a distinction be made between the program aspects of the budget and the question of economy and efficiency; (4) a process of decentralization be undertaken to insure effective budget execution; and (5) a systematic review of the budget be re-


8 Smithies, op. cit., p. 68.
first steps toward financial reorganization.

State Level

While the national government was moving toward financial reorganization, the state governments were beginning to act on the concept of executive reorganization and the executive budget. While there is some evidence to suggest that the states were acting in response to the federal reorganization, the state governments actually had come under pressure earlier than the federal government. The National Municipal League, formed in 1899, had insisted that the management of municipal affairs be on a budgetary basis with the mayors held responsible for the budgets. Agitation on the municipal level had generated reform at the state level. Beginning with California and Wisconsin in 1911 and Massachusetts in 1912, the states began to reorganize their budgetary systems. In 1917 the state of Illinois undertook the first long range, comprehensive reorganization of fiscal management.

By 1921, when Congress passed the federal Budget and Accounting Act, twenty-two states had initiated legislation or declared in favor of the principle of executive reorganization and the executive budget. The pattern of executive budgeting was now firmly established on the American governmental structure.

1911-1921

The period from 1911 to 1921 was an adjustment period
during which the legislatures yielded, albeit reluctantly, some of their extensive powers and responsibilities to the executive. The process that had begun in 1911 with the Commission on Economy and Efficiency came to a temporary halt in 1921 with the passage of the Budget and Accounting Act. The Budget and Accounting Act formalized the fiscal process and made the executive budget a reality. The executive was still not the master of his house, however, and the balancing process would continue.

The federal tendency to increase executive power was somewhat comparable at the state level where most executives were given increasing responsibility for the formulation and execution of the budget. Yet, in most states, the legislature clung tenaciously to many of their fiscal powers; fragmenting the budgetary process with boards and commissions, overlapping terms of office, and meticulously itemized budgets and appropriations.

The concept and the institution of the executive budget was a beneficial development and a virtual necessity for the adoption of a program budget. In 1921 the chaotic fiscal process was alleviated by granting the executive the responsibility for budget formulation and execution. The major remaining obstacles were the itemized budgets and appropriations. The executive budget insured that the executives would be more than figureheads, but the itemized budgets and appropriations insured that the executives would
not be masters of the financial processes of government. Modern budgetary and fiscal management required one more vital reform: the transition from the line-item to the program type budget.
CHAPTER II

TYPES OF BUDGETING

There are essentially two types of budget presentation with a variation of the second type. The first, and oldest, is the line-item budget with an emphasis on accounting control or a watchdog approach. The second type is program budgeting with an emphasis on management analysis and program functions. The variation of the second type is performance budgeting which places greater emphasis on unit costs than the program budget.

Line-Item

The line-item or segregated approach to budgeting developed in response to the corrupt manipulation of public funds. It is extremely important that a distinction be made between the line-item or segregated budget and the segregated appropriation. The segregated budget is actually a misnomer. The advocates of segregated budgeting were often agitating more for detailed appropriation measures than for segregated budgets. The segregated budget was valuable because it detailed information as to where, what and for whom funds were to be appropriated; but it was not, in itself, the cure for the corrupt manipulation of public funds. The confusion arose because the detailed budget advocates did not distinguish between the appropriation ordinances and the budget
estimates. The term segregated budget became synonymous with both segregated estimates and appropriations. The cure was not so much in segregating the budget as in segregating the appropriation measures. It is true, however, that the appropriations did follow, to a great extent, the itemized budget estimates. For the purposes of this study, the term "segregated budget" will mean both itemized budgets and appropriations—unless otherwise distinguished.

The line-item approach to budgeting places major emphasis on what is purchased. This type of budget lists all classes of all possible cost items, grouped according to major character or type of article of expenditure. This is the type of budget to which a majority of governmental units have been oriented since the early 1900's. This type of budget is sometimes referred to as a segregated budget since all objects of expenditure are segregated in minute detail. Before the advent of refined accounting methods, this type of budget was extremely valuable.

To prevent waste or graft of public funds due to either dishonesty or inefficiency or any other cause, the segregated budget serves a useful purpose. It is only an emergency measure. It stops the gaps. It helps to prevent abuses of every kind while preventing (sic) others.¹

The line-item budget was a valuable tool for its era. Accounting and auditing methods were backward and slow.

Appropriation measures were often of the lump-sum nature, and the accountants and auditors were faced with the necessity of unraveling the items of appropriation. This process was slow, cumbersome and inefficient. To correct this problem the line-item or segregated budget was developed.

It makes the bookkeeping much simpler; it was the obvious thing to do—until a modern system of accounting made possible accurate detailed information from the point of view of the administrator, of the legislature, and of the public in terms not merely of gross sums, but of unit costs. Assuming the honesty of public officials a good accounting system will serve all the purposes that are served by the segregated budget.  

In effect, the segregated budget served three purposes deemed essential until the late 1930’s. First, it maintained basic control in the hands of the legislature because of the detailed plan of expenditure to which the executive was expected to adhere. Second, it facilitated the auditing of accounts. Third, it was a palliative for the excesses of the corrupt party machines. The line-item budget was, of course, merely a reflection of the public’s fear of a strong executive, and a revulsion of the abuses evidenced under the lump-sum method of appropriating and budgeting. As is often the case, in retrospect, line-item budgets and appropriations are often condemned; but when considered in the context of the time, they were extremely valuable controlling features of government. The segregated

2Ibid., p. 104.
budget was the necessary steppingstone in the transition to the program type budget.

It must also be remembered that governmental expenditures, until the depression of the 1930's, were on a relatively small scale, and the urgency for flexibility to facilitate effective administration and economy in government was not of crucial importance. The executive type budget in conjunction with the program budget and general appropriations could well have been too much to ask of a legislature oriented population. The segregated budget was essentially a negative device, and it served this function of control admirably.

But in achieving the negative result it aims at the segregated budget does more. It ties the administrator hand and foot. It makes him an automaton registering petty legislative decisions. He need not do what the legislature says he may do, but if he does anything he must carry out the detailed direction of the legislature.3

The line-item budget because of its concern with cumbersome detail and its tendency to distract the legislators from their main areas of concern came into dispute. As government expenditures began to pyramid and as accounting procedures continued to improve, the need for itemized appropriations also came into question. By the end of the 1930's a shift in emphasis away from detailed budgets and appropriations was clearly in the making. It is, however, too early to sound the death knell for segregated budgets;

3Ibid.
they are still prevalent throughout the land.

**Program Budgeting**

One of the main problems in attempting to clarify the program budget is that "the terms program budget and performance budget have been used interchangeably for the most part; however, most, if not all, budgets so classified are more program than performance."\(^4\) There is a conflicting view which draws a fairly well defined line between program and performance budgets. This view maintains that a performance budget carries the program budget one additional step into unit costs. These advocates see the performance budget as requiring a determination of those functions which can adequately reflect workload measurements and to which a cost accounting technique can be applied.\(^5\) Most authorities, however, do not make this distinction. Mosher and Briggs state that these two terms are essentially synonomous; for the purpose of this study, the terms program and performance budgeting will be considered synonomous.

The adoption and acceptance of the program budget was aided by two crises of our democracy: the depression of the 1930's and the Second World War. During these periods speed

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\(^4\)Briggs, op. cit., p. 7.

and flexibility became of paramount importance as the government rushed to pump money into the economy. Yet, there was a pressing need for economy and the line-item budget and appropriation measures inhibited speed, flexibility, and economy. The depression and the Second World War demonstrated anew the need for an executive with enough power and authority to act with dispatch. Inhibitions against executive power became secondary to solving the problems at hand, namely: the depression and the War. In a parallel development, there was a growing realization that the executive could and should have greater control in order to live by a cardinal rule of public administration: authority should be commensurate with responsibility. The feeling was that with the refinement of accounting methods, the executive was in a position to exercise adequate and decisive control. There had been a gravitation of power to the executive since the early 1900's, and most executives, at all levels of government, had benefited to some degree. Their authority had been increased through such devices as allotment control, adequate staff aides, power to order reserves set aside, power to fix personnel ceilings, and power to impound funds. Not all executives enjoyed all these controls, but most had one or several of these means at their disposal.

With the executive budget idea firmly implanted and with the refined control measures delegated to the executive, much of the justification for detailed budgets and
appropriations was obviated. The 1930's were a turning point in the financial responsibilities of executive and legislative branches of government. The trend from the 1930's to the present day has been toward increasing executive responsibility and power at the expense of the legislative branch.

The broad reasons for these trends in the fiscal center of gravity are four: loss of confidence in legislative bodies as agencies for fiscal management; realization of the desirability for fixing responsibility upon the executive branch for the management of fiscal affairs; rapidly rising governmental expenditures, which emphasized the necessity for fiscal reform; and the studies of research bureaus, which made apparent the waste due to disorganized fiscal management and which offered promising, reasonable alternatives.

With the executive now asserting control over the financial operations of government with the approbation of the general public, the stage was set for the advent of the program budget. The program budget places less emphasis on objects and more emphasis on functions and activities. Program budgeting shifts the emphasis from what is purchased to what is to be done, why, when and how. The program budget places the emphasis on the functions to be performed by a unit of government and the objective sought through a work program.

The exact place and date when the program budget was conceived is impossible to locate. It is likely that it became a reality over time and perhaps as much by accident.

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as by design. The federal government instituted the program budget in 1945 with the passage of the Government Corporations Control Act. The period from 1945 to 1949 witnessed no further significant advances in the establishment of a program budget at the national level. This changed in 1949 when the Commission on Organization of the Executive Branch of Government (Hoover Commission) issued its report. This commission recommended the installation of the program budget at the national level. As a result of the recommendation by the Hoover Commission, the program budget concept began to spread to the states and municipalities. The program budget quickly became an accepted fact in the American scheme of government.

While the program budget works to the advantage of the executive, it does not shift responsibility from the legislature since it retains the power to limit expenditures by appropriations. The program budget is designed to improve legislative examination of budget estimates; it should clearly demonstrate what the executive and the administrative agencies intend to accomplish with the requested funds.\(^7\) To a large extent the program budget aids the legislature in focusing its attention on programs, sub-programs, activities

and accomplishments. The line-item budget detracts from the larger areas of concern and focuses attention on minutiae such as things or objects which the agencies propose to purchase. The line-item budget does not reveal what the value of the objects are to the over-all state programs. John Donaho, management consultant, states that the program budget should answer the following questions:

1. Are the executive's proposals for programs, program emphasis and program levels consistent with sound public policy?

2. Are the executive's immediate and long-range objectives desirable and useful social, economic, and political goals?

3. Did the executive do what he agreed he would do for the previous budget period?

4. How effective was he in discharging his obligation under the performance contract?

5. Do the workload statistics and other measures of activity offered by the executive in support of his proposals adequately justify the expenditure proposed?

6. How efficiently is the organization run?  

By determining the answers to these questions the legislature is properly controlling the executive branch of government. There is no need for the legislature to know how many pencils and how much paper is purchased each year. Its main area of concern should be why these purchases are to be made, not what is being purchased.

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While the program budget is of inestimable value to the legislature, it is equally important to the executive and the public. It has been considered a major rectifier of the failures of the line-item budget. This assumes that there is an accompanying change in the type of appropriation ordinances from detailed to general.

The proponents of the program type budget cite several reasons to indicate its value to the public weal. Some of their favorites are: it facilitates planning in the short and long run; it provides for more effective control by the executive and legislature; it improves decision making at all the executive levels; it decentralizes decision making, placing the authority in closer proximity to responsibility; and, it improves public responsibility and stimulates public concern by providing clearer information. 9

These are all clearly advantageous to a government and its citizens. The framework and theory are fine, but often the framework and theory are not enough. The program budget does not automatically solve the problems of government. Indeed, it is possible to have a program budget and still have a line-item orientation, especially in the legislative branch. If the legislature refuses to abandon its

detailed appropriation measures, the program budget is of limited value. The executive, also, may be impervious to the value of the program budget. If the program budget requires one thing, it is a change in thinking from means to ends.

The changes which we have come to associate with performance budgeting, such as simplification and reductions of appropriations, revision of classifications, and others important as they are, are only a part of the concept. Underlying them is a notion which represents a quite radical departure from previous practice and previous ways of thinking. It is simply that when we budget and authorize funds we are providing for things to be done rather than things to be bought. Moneys are furnished for activities and functions rather than for purchases and payments.... In a sense, this amounts to substituting ends for means as the focal points of financial planning and control.10

This is, without a doubt, one of the most difficult problems associated with a program budget. The public, the career employees, and the politicians must all be redirected along an entirely new type of inquiry. The entire program approach, for all its fine attributes, is of limited value unless it is considered in a new context of thought. If the primary concern is going to be with pencils rather than patients, the entire process has been wasted. The line-item approach lingers on. This is not an easy problem to solve when one considers that most levels of government have

revolved and functioned around a line-item approach to the budget process. The program budget requires more faith in the executive and the operating agencies; it also requires a more abstract approach to the general field of budgeting, abstract in the sense that one is buying services rather than objects. Yet, in the final analysis the program budget is far superior for management and administrative purposes. The advanced system of reporting inherent in a program budget improves control over governmental policies, programs, and expenditures. The emphasis is shifted to accountability and achievement rather than to detailed adherence to restrictive appropriations. With a thorough understanding of what programs are to be carried on and what will be accomplished with $X$ number of dollars, the executive and the legislature can determine the amount of financial burden the people will be asked to bear. With an emphasis on the why and not the what of purchasing, an understanding of government is facilitated, and the citizens can be more assured they are being asked to pay for rational reasons rather than random objects.

For Legislative Review

The line-item budget has to a large extent become obsolete. Many of the major reasons for its creation have been eliminated. For example, patronage and its abuses have been greatly reduced through the merit system, thereby
rendering unnecessary the individual listing of employees and their salaries. Accounting and auditing methods have virtually eliminated the possibility of fraudulent spending. As a result, most of the justification for line-item detail has been eliminated, and the need for these cumbersome documents obviated.

One of the major problems associated with the line-item budget is that the immense detail of the budget document does not lend itself to understanding. Legislators are prone to concentrate on small agencies or particular objects that can readily be understood. Those agencies expending the most money are usually the most difficult to understand, and they were largely ignored. The program budget has alleviated this problem to a large extent, and restored the emphasis to the agencies spending the bulk of public funds. The legislature can still reduce expenditures, but it has left the agency administrators the responsibility for determining where the cut can be absorbed with the least amount of damage.11

The state of Maryland, soon after the adoption of the program budget, discovered several advantages; the two most important being:

11Arlene Theuer Shadoan, Preparation, Review, and Execution of the State Operating Budget (Lexington: Bureau of Business Research, University of Kentucky, 1963), p. 19.
1. The members of the General Assembly regained confidence in their ability to comprehend the scope of state operations and to control expenditures.

2. Legislators are now acutely aware of the tremendous variety of services rendered by the state, most of them undertaken pursuant to legislative action; thus legislators are more cognizant of the need for careful examination and evaluation of substantive legislation presented to them.12

The program budget concentrates on what is done, what is planned and what are the consequences and the costs of carrying out individual programs. As a result, the program budget is much more serviceable and meaningful to the public and to the legislature. The program budget does not inherently lend itself to this beneficial situation, but the necessary tools for effective decision making are present.

For Budget Office Review

It is very difficult to stereotype a budget office in a program budget state. In a program budget state, the operating agencies are usually given authority for perfunctory transfers of funds; thus the budget office is relieved of many clerical duties. The budget examiners are free to spend more of their time on program review and management improvement. The vast bulk of the budget office's time should be spent in planning, coordinating and management work. Not all budget offices or budget examiners, even in a

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program budget state, are enlightened in their approach. Program accomplishments are often a secondary concern; the primary objective remaining financial control. While financial control cannot be ignored, it should not dominate the other objectives of a budget office. \(^{13}\) "Money may be spent within the letter of the law, but it still may be flagrantly wasted if aims are not achieved."\(^{14}\)

Another advantage of the program budget is that it contains adequate standards of performance. Without these standards a program budget's value is strictly limited, for the basis of assessing programs is lacking. A comparison of the budget in the state of Washington before and after the advent of the program budget well indicated the vast emphasis placed on performance data. The necessity for improved accounting and reporting make the use of performance standards relatively easy to obtain. Better evaluation is one of the primary reasons for establishing a program budget and implicit in the evaluation function is the need for adequate performance standards. These performance measures together with decentralized control have made the budget office a much more valuable instrument for budget review and management purposes.

\(^{13}\)Shadoan, *op. cit.*, pp. 17-18.

\(^{14}\)Ibid., p. 18.
For Agency Administration

One of the most advantageous changes that accompanied the adoption of the program budget was the delegation of responsibility to the operating levels of government. The line-item budget had a tendency to concentrate power and administration in the budget office; the agency administration was removed from responsibility for the preparation and execution of programs. Power devolved upon the budget office because of the intense concern with adhering to legislative intent. The budget office demanded that the operating agencies adhere to the enormous itemized detail of the budget or the appropriations. This process denied the administrator the necessary tools to carry out effective administration of their own operations. The program budget, with its decentralization of decision making, made the administration directly responsible for program costs. This fact alone militates against an agency head attempting to expand his own operations without adequate justification. Placing fiscal authority and responsibility on the agency head has also encouraged the administrators to think in terms of program goals and their cost. Before the advent of the program budget, the agencies frequently relied more on historical expenditure patterns than on projected program accomplishments.\(^\text{15}\)

\(^{15}\text{Shadoan, op. cit., pp. 15-16.}\)
While these are laudable achievements, the most important advantage of the program budget is that it allows greater flexibility at the operating levels. The change in appropriations from objects to programs allows unforeseen circumstances to be handled promptly and efficiently without the formality of budget agency approval. The budget agency still retains basic control through the allotment process, while the operating agencies are given greater flexibility in fund transfers to facilitate operations. In this manner, the operating agencies can better coordinate their own operations. Should an unanticipated situation compel revision of goals and objectives, the operating agency can accomplish the revision with a minimum of difficulty with the increased flexibility of the program budget. Agencies previously were prone to ignore problem areas and unanticipated situations rather than battle and justify every action to a budget office. With management better able to manage, the long desired economy and efficiency should be greatly facilitated.

Problems of Program Budgeting

While program budgeting has its values, it also has its problems. The two most pernicious and the two most universal in character are program identification and ponderosity. Most of the other problems associated with program budgeting can be solved or alleviated by changes in policy
or procedure, but ponderosity and program identification are inherent in the program budget process. The state of Washington is particularly concerned with these problems. The budget agency has continually endeavored to mitigate the effect of improper identification and continuing ponderosity in the budget request documents.

Program Identification

What are programs? How does one identify a program? Two of the most relevant questions have gone, to a large extent, unanswered in spite of the large quantity of literature dealing with program budgeting. When the problem of program identification has been dealt with, it has been superficial and cursory. The Washington Central Budget Agency has proven no exception. The difficulty of properly identifying programs is a persistent obstacle to budgetary refinements. The Washington Central Budget Agency defines programs in the following manner: "Programs are a group of activities which, by reason of their unique character, cohesive workload, and financial significance can be treated as entities for budgetary management and organizational purposes and reporting."\(^{16}\)

Not only is this definition too ambiguous, it is too

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limited to be of much help. The weakness of definition militates against any real improvement in budgetary technique. To illustrate the confusion that arises from ill-defined programs, take one example in the state of Washington. Washington State has an ubiquitous program which is labeled the Administration program. This program consists of the agency supervisor or director, his assistant supervisors, financial personnel, clerks and stenographers. Obviously any agency that carries on any activity must have some sort of administration; consequently, with one or two exceptions, all the Washington State operating agencies have an Administration program. Proponents of this program argue that there are three activities which together constitute the Administration program: record management, financial management and supervisory management.

The detractors argue that there is no such thing as an administration program \textit{per se}. To this group administration is nothing more than a service rendered to the actual programs of an agency. These people argue that the costs of this pseudo-program should be pro-rated out to the actual programs in direct relation to the administrative costs of administering the separate programs. Costs of administration, in other words, are chargeable to the programs that utilize the administrative services. This group further argues that convenience is the only justification for the existence of a separate administration program.
Actually very few agencies are solely in the business merely to administer; administrative services are most often the result of other agency activities. Administration is a vital part of an agency, but it is not the primary reason for the existence of an agency. Administration is most often a service to the other programs or activities of an agency. The ramifications of improper program identification are many and varied, but they are all pernicious to proper and effective management. For example, the administration of an agency may administer three programs, X, Y, and Z; now let us further assume that the administrator and staff divide their time among these programs in the following manner: X - 85%, Y - 5%, and Z - 10%. All other things being equal, assume that the agency administration should divide its time equally among these programs. Using this assumption, one could easily see that program X is requiring an inordinate amount of the administration's time. This fact will never be revealed if a separate administration program exists to absorb all the costs of administration. If the costs of administration were properly charged out to the separate programs—in this case X, Y, and Z—the fact would be readily visible to management and a cause or a remedy sought. Management can only make the proper decisions if they have the necessary facts and the correct information available. If programs are improperly identified, management will receive a distorted picture and management will have to act
on incorrect data.

The administration program is only one example of where there are arguments and doubts concerning program identification in the state of Washington. All program budget states have problems in this area, and Washington State appears to be more the rule than the exception. The problem of program identification seems to hinge on a whole range of definitions concerning services, activities and functions. As if everyone could automatically perceive the answer, program definition has been largely ignored. There are basically two questions which need answering: Can the program budget really be an advantageous instrument for purposes of reporting and management if a program is never identified or identified incorrectly? Is it really an improvement of the line-item budget?

Whether or not administration, as in the above example, is a legitimate program is of secondary importance. The relevant point is whether or not programs so identified are really programs in fact. The program budget is really advantageous only if the information it imparts is meaningful and accurate, and it can be meaningful and accurate only if the programs are properly labeled and identified. If the program budget is to reach its full fruition, programs must be properly identified. It would seem that some criteria for identifying and measuring programs is mandatory. In lieu of a meaningful criteria, consistency seems to be the
most important criteria. Even if programs are improperly identified, consistency will allow a comparison, albeit a distorted one.

No attempt has been made, in the course of this examination, to solve this extremely complex problem; but it is important to recognize it and, in this manner, maintain a perspective in dealing with the program budget. A truly meaningful and useful definition of a program will be difficult. It seems, however, that program budgets will be of limited value until programs are properly identified and costs properly charged.

Ponderosity

Another problem is that of ponderosity. Ponderosity is one of the most difficult continuing problems in the management of any system of effective performance budgeting. Program administrators and operating people develop a certain amount of annoyance about the burden of maintaining records. This was not wholly unexpected, but the extent of the problems encountered with line agency personnel was greater than expected. The Washington budget office has encountered this problem on numerous occasions, and spends a considerable portion of its time convincing the operating agencies of the necessity for accurate reports. From personal experience, I

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can testify this is no easy matter. The typical comments were: "Why do you need that, it doesn't go into the budget;" or, "I thought we weren't supposed to have to do this under this new setup." With forms that were destined to be incorporated into the budget document, there was little difficulty; but with justification forms, object breakdowns, activity breakdowns, there was a considerable reluctance to undertake extensive or meaningful research. It has come as a surprise to many that the program budget does not supersede but supplements the line-item type budget. In Washington State, it is often found necessary to approach superiors in the operating departments in order to obtain cooperation from their financial personnel. This was no mere formality as often the superiors had to be convinced of the necessity for a particular aspect of financial reporting.

"There is some evidence that the lower echelons do not want to forward the information desired by the budget office because it may adversely affect their particular power interests."18 There is a growing realization that the program budget is a much more revealing form of budgeting; and, as a result, the operating agencies are quick to comprehend the potential consequences of forwarding all of the required information. This is a particularly pernicious attitude since the value of the program budget is dependent

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18 Ibid., p. 67.
on proper and accurate information. This problem was brought vividly to light in the state of Washington during the 1963-1965 budget formation period. The Central Budget Agency requested that the Department of Institutions compute and forward the total meals served at each individual institution for the 1961-1963 biennium. The Department of Institutions employed the simple expedient of taking three meals per day times the average number of patients per day times the number of days in the year. These figures were deemed entirely unrealistic by the budget office since it was certain, beyond question, that everyone did not eat every meal every day. There were weekends when patients had furloughs, often on weekends visitors came and the patients ate out, etc. Yet, despite these indisputable facts, the Central Budget Agency was unable to obtain what it regarded as a realistic number of meals served. All attempts met with the social comment: Whether they (the residents) are there or not, we have to anticipate they will be. This, of course, opened up broad policy questions as to waste, policy on leaves, food cost projections, and others. The relevant point to this: the information which the Department of Institutions was undoubtedly able to obtain never was transmitted to the Central Budget Agency.

The ponderosity of the program budget in conjunction with its more revealing nature seems to exasperate and alienate the operating agency personnel. This is a problem
budgetary officials must concern themselves with if the program budget is to serve its intended objectives. To solve this problem, the budgetary authorities must recognize that the agency annoyance, reflected in personnel attitudes, is not completely unjustified. There is a considerable amount of doubt concerning the need for this immense detail after the adoption of the program budget. The demand for meticulous detail may be an indication that the line-item orientation lingers on.

Summary

The program budget has not met the expectations of some people, but it may have been that they expected too much from it. On the balance, the program budget has proven to be a valuable evaluation device for all levels of government. If the program budget fails in its intended purpose, it may not be the theory that is amiss but the application of the theory. The tool is no better than the people who use it. If the program budget fails, it is largely because the people who use it do not understand it, or do not use it to its full advantage. There are no easy substitutes for the proper management of governmental affairs, and particularly financial affairs. The program budget is no substitute for good public administration.

The great advantage of program budgeting is that it can be a very useful evaluation tool. It can materially aid
in planning, management and understanding. In each of these areas, the line-item budget had its limitations—no matter how capable the administrators. The line-item budget inhibited, and in some cases prevented, sound fiscal management. The program budget has worked no miracles. Sound public administration is still a necessity, but at least the necessary tool is present in the program budget. No mere technique, no procedure, no amount of good administrators can assure good government. It is a combination of these elements. The program budget provides the process and the machinery; but in the final analysis, it is the human element that must make the system work.

The key to the whole budgetary system is communication. If the administrators and the legislators are to make the most advantageous decisions, they must be equipped with adequate information. The more complex the organization, the more necessary becomes the element of communication. The program budget because of its inherent improvements in accounting procedure, reporting, classification, etc., greatly facilitates the channeling of meaningful information. To the degree this type of information is conveyed from the operating to the central level, it will provide a basis for intelligent and responsible evaluation in the decision-making process. In this respect, it is an aid to democratic government since the executive, the legislators, and the public are better informed of what results are to be realized from
the expenditures made.

On the whole, performance budgeting, including its essential supporting structure, is proving to be a valuable tool for effective budget decision making at all levels of large complex organizations. Moreover, when properly developed and understood, it can serve important management needs beyond those related directly to the budget process. However, it is only a tool—it is not a panacea. Whether it is manageable or unwieldy depends largely on the skill of the tool maker. How effectively it is applied depends on the skill, imagination, energy and strength of purpose of the user.19

19Ibid., p. 78.
CHAPTER III

CENTRAL BUDGET AGENCY: HISTORY, ORGANIZATION AND ROLE

History

It is virtually impossible to pinpoint the exact date when a Central Budget Agency and a program budget were envisioned in the state of Washington. There is some evidence to indicate that it was considered as far back as 1928. However, the Washington Central Budget Agency, for historical purposes, maintains that the beginning was in 1947. There are three significant events leading to the creation of a Central Budget Agency and a program budget. They are the establishment of the Washington Legislative Council, the creation of the Shefelman Committees, and the establishment of the Hodde Committee.

The thirteenth session of the Washington Legislature in 1947 established a Legislative Council and empowered it to conduct sweeping investigations of state government aimed at improving the administrative structure of government in Washington. The most significant report issued by the Legislative Council, in terms of the creation of the Central Budget Agency, was entitled "Steps in State Government Organization, Report No. 6," hereafter referred to as Report Number 6. This report was prepared for a committee of the Legislative Council by the Institute of Public Affairs of the University of Washington.
In reviewing the status of internal management as it was practiced at the time, the committee decided to limit itself to those functional areas which could be classified as staff services, in contrast to those which would be classified as line departments. Within this area no major advancements had been made since World War II days with the exception of placing the office of budget in the Governor's office in 1947.¹

The trend that was apparent in Report Number 6 was the desire to strengthen the executive office by equipping the office with the staff and managerial tools necessary for efficient and effective administrative control. The Committee of the Legislative Council was obviously aware of the fact that the Washington Governor was without the necessary tools of authority to match his responsibilities. This resulted in a recommendation that the state of Washington create a department of administration designed to house all the staff arms of the Governor and coordinate administrative functions.

It would be charged with the functions of budgeting, purchasing, accounting, pre-auditing, disbursing, reporting, analysis of departmental procedures, recommendations to simplify and accelerate all business operations, responsibility for the exchange of facilities between departments and other functions which effect

the efficiency of departmental operations. The recommendation for the creation of a department of general administration gained wide support and was heartily endorsed by the then Director of the Budget.

This realignment of activities would be more than just a reorganization per se. Activities would be transferred from both line and staff agencies; new functions concerned with coordination of planning would be created; and many of these functions and activities would be strengthened and supplemented. From the program budget standpoint, this was an extremely beneficial reorganization proposal. A program budget could be instituted without the establishment of a department of general administration; however, if such coordination were lacking, it would require much stronger staff control from the executive office. At the very least, a department of general administration simplifies and facilitates the entire governmental operation.

No action was taken on the establishment of a department of general administration, however, and the matter remained in abeyance until 1951 when Governor Langlie appointed a Committee on State Government Organization. This committee, composed of professional people, academicians, and legislative council members, came to be known as the Shefelman

Committee after its chairman, Harold Shefelman. Harold Shefelman brought a wealth of experience to the committee. He had long been active in public affairs having been chairman of the State Citizens Committee on Welfare Problems in 1949 and 1950; a member of the Seattle City Planning Commission; a lecturer at the Washington School of Law; and a member of the State Board of Education. At the time of his appointment, he was a lawyer and corporation executive of the Portland Cement Company.

The committee, after holding extensive hearings, issued two reports, one in 1953 and the other in 1955. The first report embodied the essential recommendations of the Legislative Council Report Number 6, but it was issued too late to receive consideration by the 1953 Legislature. The first report by the Shefelman Committee contained one highly significant recommendation as concerns program budgeting:

Performance budgeting is a desirable and attainable objective and should be achieved through the development of cost accounting.

A performance or program budget is one which analyzes financial costs of government on the basis of major functions, activities, or projects within an agency, showing clearly the relation between functions to be performed and their costs instead of simply showing objects of expenditure. Cost accounting is the accounting means by which such budgeting is made possible. Cost accounts should be supplementary to financial accounts. Both are essential.... With sound cost data informed decisions can be made by the executive in daily operations and by the legislature in its consideration of appropriations.3

Since this report was too late to receive consideration, the Shefelman Committee continued its deliberations until the 1955 session of the legislature. In 1955, Governor Langlie summed up its progress as follows:

This committee has in the last one and a half years reviewed its earlier proposals [1953 report], amended some in the light of further study, and will submit to you three bills. They propose to combine some of the fiscal housekeeping functions of state government into a department of administration. These recommendations for sorely needed and long overdue improvements in our governmental machinery are in keeping with sound principles of public management advocated by national authorities in the field and should receive your careful consideration at this session.4

The Legislative Council concurred in the recommendation of the Shefelman Committee and drafted legislation to establish a department of administration and transfer various functions from other state agencies to the newly proposed department. As a result, Senate Bill 105 was introduced and stated in part:

An act relating to State Government: providing for a comprehensive system of financial management for the state government and for administration of laws pertaining to state properties and funds and the budgeting, accounting, auditing, and other financial procedures relating thereto; establishing the office of administration and the director thereof and fixing his powers and duties; abolishing the office of budget director and transferring the powers and duties thereof and certain powers and duties of other state officers and

4Arthur B. Langlie, Governor, Budget Message, Document to the 34th Legislature, Olympia, January 12, 1955, p. 3.
departments to the director of administration; and amending sections....

The proposed law gained overwhelming acceptance in the upper house, but died in committee in the lower house. The primary reason for this failure was the provisions of Senate Bill 105 transferring the pre- and post-audit functions to the Department of General Administration. A less repugnant bill was then introduced: Senate Bill 489, while establishing the Department of General Administration was silent on matters pertaining to fiscal management. Senate Bill 489 passed both houses with little opposition. The Department of General Administration was now a reality, but still without a fiscal management arm.

The Legislative Council sensing the weakness of the present department without a financial management function, again recommended legislation to the thirty-fifth session of the Washington Legislature in 1957. The Legislative Council proposal, closely paralleling the 1953 Shefelman report, would have transferred the pre-audit accounting function to the Department of General Administration from


the auditor and included the budget director within the
department.

Governor Albert Rosellini, in his 1957 inaugural
address, urged the legislature to resolve this problem and
strengthen the deficient Department of General Administra-
tion. Yet, in spite of the pleas by the Governor and the
Legislative Council, no action was taken during the 1957
Legislative session. The legislature was not, however, com-
pletely impervious to the problem and appropriated $175,000
to the Governor to establish a uniform system of accounting
and a program type budget.

At the close of the Legislative session, the
Governor appointed an Advisory Committee on Budget and
Accounting Project. This group is commonly referred
to as the Hodde Committee. It was comprised of legis-
lative members and representatives of business and
academic professions. The deliberations of this com-
mitee were centered around the hiring of management
consultants to make a survey of the state's fiscal
agencies and then to conduct the adoption of such
findings that the committee shall approve. The com-
mitee interviewed many consultant firms and chose
that of John A. Donaho and Associates from Baltimore,
Maryland. This firm was retained for a fee of
$132,000.7

The legislature appeared uncertain as to the ability
of the Governor's Advisory Committee to attain the stated
goals and to arrive at the correct answers.8

This apparent doubt was reflected by the fact that

7Bricker, op. cit., p. 8.
8Ibid.
the legislature authorized the Legislative Budget Committee to choose a firm of certified public accountants to conduct a survey of the state's financial picture. The Legislative Budget Committee chose the firm of Ernst and Ernst, and they submitted two reports in June, 1957. Ernst and Ernst found a great deal of unnecessary duplication, a lack of trust in subordinates, and the need for realistic data being made available to department heads. Ernst and Ernst speculated on the possible monetary savings if their recommendations were enacted into law.

While Ernst and Ernst were surveying the state, John Donaho and Associates began their survey of the fiscal problems of the state. This firm devised a system of internal management controls and submitted their recommendations to the Hodde Committee for approval. As such recommendations were approved, the firm began installation. These recommendations were incorporated into the budget document for the 1959-1961 biennium which was presented to the thirty-sixth Legislative session. This was the first major step in the establishment of a program type budget in Washington State. The budget that was presented contained the major features of the program type budget. There remained only a series of refining features until the state of Washington had a program budget in the final form.

Governor Rosellini, in his budget message to the thirty-sixth session of the Legislature, January 12, 1959,
summed up the progress that had been made in the past decade with the following statement.

After a decade of debate and discussion, the last session of the legislature voted, at my suggestion, to do something about our archaic budgeting and accounting structure, the principal products of which have been frustration and lack of information. This was welcome action in this time of fiscal stress.... We have made heartening progress, of which the new budget document is visual evidence. We have strengthened and will continue to strengthen the Central Budget Agency as an integral part of the Governor's office. Our account structure has been greatly improved and simplified and our revenues have been classified for the first time. We have taken the first steps toward continued development of an orderly long range capital improvement program....

Inherent in my budget proposals is the assumption that having initiated budget reform, you will approve what has been done. The adoption of simplified appropriations will give to the executive branch both responsibility and authority to manage funds; and the adoption of legislation will provide for more fiscal control.... We need to fix clear responsibility for budgeting and accounting, to provide for the development of comprehensive and accurate financial reporting, and to establish a modern basis of budgeting.9

Introduced was House Bill 373 which contained the provisions of a budget and accounting system that, in a practical sense, had been put into effect with the presentation of the Governor's budget. In a committee memorandum, the legislature explained their position by saying:

It is important to note that the proposed legislation is largely a recodification and clarification of existing laws which, because of their vague and contradictory nature, have had their effect of obscuring

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9Albert D. Rosellini, Governor, Budget Message, Document to the 36th Legislature, Olympia, January 12, 1959, p. 11.
vital questions in the state's fiscal picture.\textsuperscript{10}

House Bill 373 was referred to the Committee on Ways and Means on February 3. The subcommittee reported back March 6 with the recommendation that substitute House Bill 373 "do pass."\textsuperscript{11} Substitute House Bill 373 was: "An Act relating to the state's budget and accounting system prescribing duties and powers of certain officers and agencies in relation thereto; transferring certain powers and duties..."\textsuperscript{12}

The substitute bill differed from the original principally with two additional provisions and a clear definition of the duties of elected officials. On March 7, the House passed the bill with 74 in favor, 23 opposed, and 2 absent. The Senate passed the bill, with amendments, on March 10 with 30 in favor, 17 opposed, and 2 absent. The House concurred in the Senate amendments and passed the bill, as amended, with 55 in favor, 33 opposed, and 11 absent. The bill was approved and signed by the Governor on March 24.

The state of Washington was now well on the way to having a program budget in its final form. Although, for political reasons, the budget operation was separated from

\textsuperscript{10}Bricker, \textit{op. cit.}, p. 9.

\textsuperscript{11}Ibid., p. 11

\textsuperscript{12}State of Washington, Substitute \textit{House Bill 373}, 36th Legislative Session, March 7, 1959.
the Department of General Administration, it represented a vast improvement over the old line-item type budget presentation. The Governor now had a measure of authority to match his responsibility.

After a decade the climax had been reached, but like every good plot, there is an anti-climax. The State Auditor, Cliff Yelle, brought suit against the State Budget Director, Warren Bishop, and the State Treasurer, Tom Martin, contesting the constitutionality of Chapter 328 of the laws of 1959. The law was upheld by the Superior Court of the state of Washington for Thurston County. The Auditor then appealed to the Supreme Court of the state of Washington. . . .

The primary element centers around the right of the legislature to alter the duties of an elected official from what the constitution prescribes.13

The Budget and Accounting Act was upheld by the Washington State Supreme Court in a majority opinion 5 to 3. The issue had now been clearly resolved and the last major obstacle to the establishment of a program budget removed.

Organization

There are various methods of organizing the budget operation into the scheme of government. The particular form of organization is of the essence. The Governor's strength is in direct proportion to his control over the budget agency since the budget is the major policy and planning document of government. There are budget agencies responsible to boards and commissions; budget agencies housed

13Bricker, op. cit., p. 12.
in a department of administration; budget agencies placed directly in the executive's office; and the extreme type of dual budget preparation as exemplified in Texas. In Texas, both the legislature and the executive have responsibility for the preparation and submission of a budget. Two budgets are submitted to the legislature, one by the executive and one by the Legislative Budget Board. The type with which this study will be primarily concerned is the budget agency in the executive office, as is the case in the state of Washington. There are essentially three reasons for this type of organization.

First, the over-riding reason usually cited for this type of arrangement and the direct appointment of the budget director by the chief executive is that the budget function is the primary, and by far the most important, management tool of the executive.

It is so important in his formulation and execution of fiscal and program policy that it should be as close to the executive as possible. The preparation of the executive budget and the execution of the executive programs are so intimately related to the Governor's platform that the Governor should have his own appointee without the intervening level represented by a director of administration...thus the Governor's policies are sure to be carried out.14

The second major argument is that the placing of the budget agency in the executive office places the power and

the prestige of the Governor directly behind the budget agency's decisions. This type of organization, it is argued, facilitates communication because it eliminates the need to go through an additional layer of administrative hierarchy.

The third reason usually cited for this type of organization is that it is not necessary to house the budget agency with other staff agencies to obtain coordination. This argument assumes that one obtains the two advantages of proximity and prestige that accrues to the budget agency located in the executive's office. The proponents of the budget agency in the executive office would argue that even if some coordination is sacrificed, the other two factors more than alleviate this shortcoming.

The chief competing type of organization is the Department of Administration approach. In this approach, an attempt is made to gather the housekeeping functions of government into one department under a single chief appointed by the executive. This was the type of organization originally conceived in the state of Washington, but eventually sacrificed to political expediency. The Department of Administration in the state of Washington presently includes the functions of: architecture and engineering, records management, regulation of banking, property management, and purchasing. The Director is appointed by the Governor and serves at his pleasure. Washington separated its budget function in order to obtain a true executive budget and the
passage of the Budget and Accounting Act. It was felt that an attempt to combine the budget function with the Department of General Administration might lead to the defeat of the entire financial reorganization in the state of Washington.

Several advantages of administratively associating budget with other staff agencies in a department of administration are cited by proponents of this type of organization. Perhaps the most important argument advanced is that they should be brought together not only because of their common classification as staff services but also because of their interdependence in the separate fulfillment of their functions. For example, an accounting system that complements the budget system is valuable in the preparation and execution of a budget system; where the accounting system is not complementary, either a separate reporting system for budget purposes must be devised or accounting reports adjusted, both solutions requiring additional work on the part of the agency and of the budget staff. To cite another example, where purchasing and budgeting functions are combined in one department, the purchasing section can alert the budgeting section if unseemly purchase requests are made, thereby relieving the budget section of detailed review of purchase requisitions.\textsuperscript{15}

While this is the most cogent argument for the Department of General Administration approach, it is by no means the only one. Another argument is that this type of approach lends itself to continuity in the management of governmental affairs. The second level of management is the career level, and this level is somewhat removed from political partisanship. The proponents of such an approach argue that it leads to improved techniques and staff professionalism. The argument is not completely valid, however. Placing the budget

\textsuperscript{15}Ibid., pp. 9-10.
office in the executive office does not remove the possibility of improved techniques and a professionalism in management, nor does it automatically mean that there will be a loss of continuity from the second level of management.

The state of Washington, where the budget agency is in the executive office, proves quite the opposite. Here the employees in the Central Budget Agency are career employees who are supposedly free from political partisanship. They are at least assured as much tenure in their present position as they would be in a department of administration. These people are all merit system employees with the exception of the budget director. This second argument may have some validity when contrasted to other types of organization; but it certainly has little, if any, merit when contrasted with the budget agency in the executive office. The most relevant question is: Are they merit system or political employees? Where a merit system is operable, it would seem this argument loses its validity. Political employees are always in danger of losing their jobs, and the particular type of organization does not alter the fact.

The significant point is that it makes a minimum of difference which of the two basic organizational approaches are employed as long as either the general administration or the budget agency in the executive office is the primary method of organization. One must bear in mind, however, that no state has all of the staff services of budgeting, motor
pools, property management, accounting, personnel management, architectural and engineering services, purchasing, and revenue collection combined in one department. Several combinations of these functions exist making the Department of Administration reasonably complete.16

**Internal Organization**

There are two basic divisions within the Washington Central Budget Agency: the budget examination and the accounting divisions. Both are organized on a functional basis. The budget division is organized along these functional lines: Education, one examiner; Natural Resources, two examiners; Institutions, three examiners; Capital Projects, two examiners; Revenue, one examiner; Elective Officials and Non-Revisable Agencies, two examiners; all are under a chief examiner who is responsible to the budget director. While all areas have some agencies that are not directly related to their functional areas, this is the general grouping of functions. This is the most common type of staff organization employed in the several states, and it is particularly prevalent in states having a program type budget.

There is a definite hierarchial structure within each functional area. In the larger functional areas, those with two or more examiners, there is a division of work assignments

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16Ibid., p. 11.
between the subordinate examiners who are, in turn, responsible to the principal examiner in their functional area. The principal examiners are then responsible to the chief budget examiner.

There are, of course, advantages and disadvantages to each type of organization, functional and nonfunctional. The nonfunctional advocates maintain that a shifting assignment basis prevents the individual examiners from becoming too "agency oriented or an apologist for a particular agency."\(^{17}\) The Kentucky budget office follows a shifting assignment basis and a nonfunctional organization. The prevalent attitude in Kentucky is that a budget examiner should be able to relate given programs to the entire state program plans. The broad understanding of state government is regarded as essential and assignments are therefore on a nonfunctional shifting basis. Kentucky feels that this is beneficial in the formation of a general broad approach to budgeting.

As mentioned before, the most common type of organization is the functional grouping. Some of the arguments in favor of the functional grouping are that an examiner must become intimately acquainted with his area to do a good job of budget review, and that an agency is entitled to continuity in approach and in the person of the budget examiner. While

\(^{17}\)Ibid., p. 35
there is some danger of agency orientation from continuing analyst assignments, it is the responsibility of the supervisors to correct this attitude, or take it into account when evaluating the analyst's recommendations. Some budget officers maintain that the danger of agency orientation or "agency men" is minimal if the Governor's policies and program preferences are clearly enunciated. These budget officers believe that the benefits of the functional grouping far outweigh the danger of agency orientation. 18

Functional grouping is the type of philosophy generally adhered to by the Washington Central Budget Agency. The examiners are assigned to a functional area and they remain in that area unless some problem develops which demands correction. There is inevitably some shifting of assignments, but this is held to a minimum, and the individual examiners enjoy a high degree of tenure within their functional areas.

The Central Budget Agency follows a policy of hiring generalists of a varied educational background to fill the positions of examiners. This is a result of the belief that a generalist is more adaptable and more suited to the job of budget examination. It also is easier for individuals with a broad educational background to develop an analytical approach to the problems of budgeting. Such a policy is eminently beneficial since there is little argument as

18Ibid., p. 36.
concerns the value of a generalist as opposed to a specialist in the budget examination function.

The Accounting Division of the Central Budget Agency is also organized along functional lines. The accountants serve primarily as a support element for the budget examiners as concerns budget formulation and review. During the execution phase of the budget cycle, their job takes on added significance. The primary job of the accountants is to aid in the establishment of accounts and in the maintaining of a uniform accounting system throughout the state.

The organization of the state government often dictates the organization employed in the budget agency in a particular state. This is, to a great extent, true in the state of Washington where comparable state agencies are grouped in a fairly logical and consistent pattern under departments.

The type of organization the budget agency adheres to should not be minimized—it is vitally important. It could well affect the entire relationship between the staff agencies and the line agencies. It may go deeper and aid or hinder the entire operation of the executive branch of government. If the budget agency fails to carry out the program of the Governor effectively, or if it is unduly hindered in this pursuit by the operating agencies, it carries some potent overtones for representative government. The Governor should be free to carry out the mandate of the voters and
the legislature and, since the budget document is the single most important document in his program, he should be able to form and execute the budget, with its incumbent decisions, with a minimum of obstruction. This is one of the primary goals of the program budget. If properly administered, the program budget should work to the advantage of all parties concerned, and be an effective aid to the Governor in his administration of state affairs. If the budget office is not correctly organized and the line agencies become recalcitrant, the entire operation of the state's financial affairs can be seriously and detrimentally impaired.

Role of the Budget Office

The problem in defining the term "role" is a very difficult one. There are many definitions of this term, and it would be meaningless to proceed without clarifying this rather ambiguous term. In this section the role of the budget office is used in the sense of the concept of the budget process—"What is it that the budget office is trying to accomplish, how, and for whom?" The answer to this question assumes a vital significance for it goes to the very heart of the budget process. The attitude and the actions of the budget agency, to a large extent, determine the value of the program budget.

19Ibid., p. 21.
There are two general conceptions of the budget office in the scheme of government. This does not imply there are only two, or that the two may not overlap in many respects, but it does imply that a budget office will emphasize one of the two. The two conceptions of budgeting are the "watchdog" concept, generally associated with the line-item budget, and the management concept, generally associated with the program budget. Again, it must be emphasized that the conception of budgeting and the practice of budgeting are not always consistent. It is very possible that a state with a program budget may well employ the "watchdog" concept of budgeting and vice versa. However, if the situation is ideal (admittedly this is seldom the case but, for the purposes of clarification, the two will be considered in terms of ideals) the "watchdog" concept and the line-item budget are associated as are the management concept and the program budget.

Those budget agencies employing the "watchdog" concept generally are concerned with checking expenditures to ascertain whether or not the agencies are adhering to legislative intent. Behind this orientation is the assumption that a strict adherence to the appropriation measures both fulfills the legislative mandate as well as the agency purpose. The staff in offices of this type are generally of a specialized educational background, often accountants, who merely check the type of expenditure. This is most often
the case in a state employing the line-item type of budget. It is also prevalent in states newly adopting the program type budget. The "watchdog" or accountant type attitude seems to linger on even after the change to the program type budget has been accomplished. The pattern of change, inherent in a program approach to budgeting, does not seem to permeate through to the budget agencies immediately on conversion. This, of course, carries with it pernicious consequences for the entire budgeting operation. It seems to be a major obstacle in the effective operation of the program type budget. Apparently it is too much of a change to require the budget examiners to be analytical rather than mechanical. Few believe that the "watchdog" orientation has a major validity in the program approach to budgeting. To carry forward the "watchdog" concept into the program budget context is the surest method of defeating the entire purpose of a program budget. Yet, in spite of the warnings of management consultants and in the face of overwhelming evidence that the "watchdog" orientation is not valid in a program budget context, some states continue to combine the "watchdog" concept with the program budget.

The states employing the management view have an entirely different orientation. In these states the budget office has less concern with dollar-and-cents control of agency activities and more concern with agency objectives. The primary function of the budget agency holding this concept
is assisting the agencies to define and determine their goals and the best method of achieving these goals. In conjunction, the budget agency must assist the Governor and the legislature in evaluating agency requests, performance, and progress. The ultimate end, of course, is to obtain the most value for the money expended.  

The management concept and the program budget are entirely compatible, but this does not imply that the "watchdog" and the management concepts can be completely divorced. The two go together; it is a question of which will take precedence.

The Central Budget Agency has taken cognizance of the value of the program budget, and, as a consequence, is oriented toward the management concept. The Budget Agency with the establishment of the program budget decentralized its management functions. In this context, the lower echelons are charged with making the decisions subject to the review of the Central Budget Agency. The Central Budget Agency describes its new role as follows:

Power is not enough. Regardless of the organizational patterns, and regardless of statutory authority possessed by Central Budget Agency, cooperation between staff and line agencies is essential.

Central Budget Agency has two primary responsibilities—program review and management improvement.  

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20 Shadoan, Organization, Role and Staffing..., pp. 22-23.

21 The quoted material is taken from instructions circulated to all examiners; it is undated, unpublished, untitled
Since program review is one of the basic responsibilities of the Central Budget Agency, its attitude is well defined and clarified. In the program review phase the budget office is concerned with knitting together the various operations of state government. In this process, it must consider such questions as: what is the value of this program as compared with another program; at what level should a particular program be conducted; what are the benefits of this program compared with another program; and, what are the available revenues to conduct this program. The budget agency partially explains program review in the following manner:

Program review becomes both a process of reconciliation and of centralization. Budget examiners cannot be expected to possess the insight of program administrators with respect to requirements and missions. Similarly, the administrators cannot be expected to provide the overview. This makes the budget examiner's role that of the generalist, not that of the specialist. Questions should be raised with the examiner not because he has more information than the man asking the question, but rather because he has information of a different type than the questioner. The examiner knows how a given expansion of program, shift in program emphasis, or shift in proposed means of accomplishing a program would be viewed by the Budget Director or the Governor, if called to their attention.


22Ibid., p. 2.

23Ibid.
The second basic responsibility of the Central Budget Agency is management improvement. In this endeavor, the budget office is concerned with such questions as: is it possible to carry on a program of the same type at less cost; can improved work methods contribute to an effective program; and, what benefits will be derived from a realignment of responsibilities.24

In the management improvement process, the budget examiners are urged to press departments to conduct the same program at less cost, and assume this will yield more efficiency in operations. This type of drive is viewed as a substitute for market pressures in the private segment of the economy. The budget agency cautions examiners not to use undue pressures to effect change. This is a reasonable attitude since the examiners are not responsible for the success or failure of the various programs. The budget examiners are also instructed to be prepared to sacrifice short-run expenditures for long-run economies. The process of management improvement brings this issue frequently into focus. The examiners must be cognizant of the fact that short-run economies may well result in long-run expenditures. The budget agency terms this, "saving money by spending money."

While program review and management improvement are

\(^{24}\text{Ibid.}\)
viewed as separate aspects of the budget process, they are, in fact, inextricably interwoven.

Aside from the special studies of management improvement, it is not possible to separate review from management improvement in the work of a budget examiner. Decisions about the level and extent to which programs are conducted are involved with decisions about the efficiency of programs. If a program can be conducted with greater economy in the use of resources, it may be possible to expand its level of operation and increase the number of things done or the number of persons served. Conversely, budget examiners may know that a given program is costly, but the importance of the program may necessitate its expansion.25

The above discussion should suggest the enlightened attitude of the Washington Central Budget Agency. There are many problems involved in the management concept of budgeting. It is far more difficult to deal with the nebulous facets of management analysis and program review than with a conglomeration of figures showing expenditure patterns.

Summary

It should be apparent that very few activities of state government escape the pervading declaration of program review and management improvement. It should be obvious to the most unconcerned that these responsibilities are sufficient to cover nearly all circumstances. It is because of this sweeping mandate that the Governor's policy decisions are of such vital significance to the Central Budget Agency.

25Ibid., p. 3.
In the years since the creation of the Central Budget Agency, the Governor has demonstrated little desire to define or limit the role of the budget office in any appreciable manner. This is, perhaps, the wisest course, especially in the formative period of the budget office.

The primary problem, and one that concerns the Central Budget Agency, is making the system work effectively without superimposing the judgment of the budget office over the line agencies. This is a difficult problem, and it should not be underestimated. The power of suggestion is often no power at all. The mandate carries with it responsibilities to the Governor and to the operating agencies. For the Central Budget Agency to effectively serve the Governor, the legislature, and the operating agencies year after year, it must demonstrate some inhibitions in the use of its power. This is not always possible. The Washington budget office was compelled to make the operating agencies show an increase in maintenance for the 1963-1965 biennium. This was not accomplished without incident and without injuring future relations. Any agency charged with the responsibilities of the Washington budget office must reconcile its responsibilities to the Governor and to the operating agencies. This is a delicate line. The Central Budget Agency must be firm, but not dictatorial; it must be sympathetic, but not apologetic; it can be benign, but it cannot be weak.

Perhaps, if one had to state the formula for success
of a budget office he would have to say that it must balance the value of management improvement and program review against the value of future relations. A rule of thumb might almost be that the more management improvement the worse will be the relations with the operating agencies. The success or failure of the budget agency and, consequently, the program budget rests on the answer to this balance. It is impossible to have management improvement without the interposition of some value judgments by the budget office. The need for management improvement represents a value judgment in itself. The fact that the agency to be improved did not undertake a certain program of improvement without the stimuli of the budget office is some indication that there may be a divergence of opinion as to its value or need.

The operating agency must be convinced by the force of overwhelming logic, or by the diplomatic overtures of the budget office as to the value of change. If certain values must be imposed by the budget agency, it must be done only as a last resort. The consequences of sacrificing future relations are pernicious, indeed. The budget office must at all times refrain from tampering in the trivial operations of the operating agencies. No budget office or operating agency can operate effectively in an atmosphere of distrust, dislike, suspicion and resistance. The budget examiner must be more human relations expert and diplomat than financial expert. Essential to his work, as to most human endeavor, is a sense
of perspective and compromise. The Central Budget Agency must use the power it possesses sparingly, for any other alternative places the budget office in the position of managing a considerable portion of the affairs of government. This, of course, defeats the entire purpose of the program budget. The Central Budget Agency is cognizant of its responsibilities and of the problems confronting it, and the philosophy expressed by the budget office is closely adhered to in daily operations.
CHAPTER IV

FINANCIAL REORGANIZATION IN WASHINGTON STATE

The changes that have taken place in the state of Washington as a result of the passage of the 1959 Budget and Accounting Act are legion. This chapter will be primarily concerned with indicating the reporting and financial management conditions before and after the passage of the 1959 act. Since this study is primarily concerned with changes in executive management, only passing reference will be made to the legislative branch.

The most significant changes that came out of the passage of the Budget and Accounting Act was the adoption of the program budget process. The budget that prevailed prior to the program budget provided only total figures or costs of items of operation. It encompassed a maze of minute detail with little justification for expenditures and with no indication of what was to be accomplished with the appropriated funds. The program budget changed the emphasis to accomplishment. This is of overwhelming importance, but another important aspect sometimes overlooked is that the program budget can be more easily understood and it presents a more intelligible picture to the taxpayers. The Seattle Times newspaper, in an editorial February 1, 1959, stated it in this manner:
If you, as a Washington taxpayer, are confused about the state budget, you have no reason to apologize for that confusion. The blame primarily rests with the crazy quilt budget and accounting system that has gradually developed in Washington over the past decades. The day is long overdue when all the taps should be under firm, centralized control.

The previous line-item presentation of budgeting was not easy to understand. The program budget is much easier; and, perhaps, more importantly, it provides more meaningful information. The program budget's most significant contributions are: it speeds budget estimation and review; it makes possible more timely estimates and projections; it focuses attention on program costs and needs; it shows the causes of high cost operation; and, it increases cost consciousness at various levels of government.¹ These reasons are important, but they are not definitive. There are many other advantages inherent in a program budget process. Many benefits of the program budget are ancillary and intangible. The advantages vary from situation to situation and state to state. Each state is unique in some aspects of financial or political organization. For this reason, it is difficult to generalize on the benefits of the program budget. One should not preclude generalizations, however, and the above listed benefits are inherent, to some degree, in a program budget process.

Prior to Budgetary Reform

Prior to the establishment of a program budget in Washington, the budgets that were forwarded to the budget agency had little significant information in terms of costs, activities, or programs. There was a considerable segment of thought which maintained that the system yielded neither a responsible budget, nor any genuine accountability.

One of the most troublesome problems before the Budget and Accounting Act was the three-month allotment period. It was an extremely cumbersome process due to the vast amount of objects to be recorded in the short period. The agencies in turn demonstrated little desire to budget or prepare a financial work plan to coincide with their policy objectives. The Governor was charged with complete responsibility for approval or disapproval of the allotment requests. As a result, the agencies abdicated their responsibility to the Governor, Budget Director and Auditor.\(^2\) The pre-audit system worked much the same way. The pre-audit became a mechanical check to balance allotments against the appropriations, and as long as they coincided the allotments were approved. The agencies exercised little control over this process, and it became an accounting check for accuracy.\(^3\) The agencies had little opportunity and less desire to conduct

\(^2\)Bricker, *op. cit.*, p. 20.
\(^3\)Donaho, *op. cit.*, p. 7.
the management of their own affairs. There was no real freedom of decision left to them, and the system became highly centralized. Management became misplaced and removed from the operating agencies where it properly belonged.

The budget agency, before 1959, exercised little logic in reviewing the agency budget proposals. In the name of "economy" all the budgets were slashed a certain fixed percent. Accommodatingly, the operating agencies inflated their requests in order to cushion the across the board cuts. A system of this type does not lend itself to coherent planning or expenditure patterns.

The General Fund was in a similar state of confusion and disarray. The General Fund consisted of thirty-three separate funds, and depending on how the funds were viewed, the condition of the General Fund was determined. This resulted in the curious situation of four different and conflicting statements being issued by the Tax Commissioner, Budget Director, State Auditor and State Treasurer concerning the status of the General Fund. No Governor was sure of the financial condition of the state on any given day, compounding the difficulty of managing the financial affairs of government. It was nearly impossible for a governor to determine what form his fiscal actions should take.

The financial reporting system was wholly inadequate,

\[4\text{Bricker, op. cit., p. 22.}\]
incomplete, and inaccurate. Appropriated fund expenditure reports were not issued until a month after the period covered in the report. Nonappropriated funds were excluded from the reports entirely. The status of the nonappropriated funds was not known until the end of the biennium. Agency reports were never current or accurate. Financial reports reflected expenditures of cash outlays affecting the agency's appropriation, but not obligations against the appropriation. Frequently, these obligations were in excess of the cash outlays for the reported period. Thus, the appropriation status was distorted and always in doubt. Nor was there any specific reporting period; reports were made at the agencies' discretion—if at all.

Fiscal procedures were based on strained interpretations of outmoded laws. These laws, in several cases, had been passed and amended as the immediate need had arisen. No comprehensive plan had been applied in their creation or application.\(^5\) Consistency was sacrificed for expediency. For example, John Donaho in a speech detailing the conditions of the state of Washington, before the program budget, said:

The state's accounting procedures do not permit distribution of expenditures between appropriated funds. The Department of Agriculture—to cite one agency—accordingly must select one of its 26 appropriations or one of its 17 funds as the one which funds will be drawn to pay a vendor's bill regardless of the fact that the vendor's bill may be for goods or services.

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\(^5\)Donaho, op. cit., p. 6.
benefitting a number of appropriations or funds—and despite the gross distortion in expenditure accounting which the practice entails. 6

After Reorganization

The above description of Washington State's financial structure by no means exhausts the problems that confronted the state of Washington prior to the passage of the Budget and Accounting Act. It should be evident that the consequences of this type of financial chaos were the loss of flexibility and the diffusion of responsibility. Before any meaningful budget could be presented, many of these problems demanded correction. The first major step and one of the most significant, was the reduction of the number of expenditure accounts. Washington had previously employed 56 primary and 300 secondary accounts. These expenditure accounts were coded and reduced to the following twelve:

A. Expenditures
   01. Salaries and Wages
   02. Contract Personal Services
   03. Other Contractual Services
   04. Travel
   05. Supplies and Materials
   06. Equipment
   07. Retirement and Pensions

6Ibid.
08. Contributions - Grants - Subsidies

B. Capital Outlay

10. Land
11. Buildings
12. Improvements other than Buildings

C. Debt Redemption

09. Debt Redemption

The simplification of expenditure accounts did not eliminate the necessity for the operating agencies to maintain their own sub-object accounting procedures. For example, equipment might have several sub-object types of equipment which the agencies were still required to maintain for their own records. The state, however, required reports on the above twelve items, only. This is an important step for purposes of presentation clarity and budget simplification. It is also important in terms of time and money involved in accounting and reporting.

For the first time the capital and operating budgets were combined on one comprehensive budget. The separation of these two types of expenditures obscures the impact of capital expenses upon the operating expenditures. The answer, of course, is to include the capital section within the operating budget. This form of budgeting takes cognizance of the fact that capital facilities are a continuing need, and that capital facilities are, to a large extent, determined
by the program objectives of the operating agencies.

The state also reorganized and reduced the number of appropriations from over 400 to less than 200. The revenue chart was simplified and made more comprehensive. These innovations allowed a more realistic appraisal of revenue classification and a more realistic comparison of receipts and expenditures. Many of these beneficial changes were patterned along the lines proposed by the National Committee on Governmental Accounting and the U.S. Census Bureau. It was anticipated that this pattern would facilitate the obtaining and furnishing of comparative data with other states.

A comprehensive accounting manual was designed which codified the state's accounting procedures and methods. Responsibility for accounting and timely estimates was placed with the spending agency. Reports were required on a specific time basis—usually a monthly basis. All activities whether financed from appropriated or nonappropriated funds were included in the agency reports. Major emphasis was shifted from objects to program accounting procedures. The agencies were given a measure of responsibility, and stimulated to develop their own accounting procedures. Reversed was the long-time tendency toward centralizing the management functions with the budget agency.

8Donaho, op. cit., p. 10.
Agency reporting was tied in with workload data to allow the Central Budget Agency an opportunity to systematically evaluate and analyze program expenditure data. Across the board "economy slashes" were no longer the rule. Methods of accounting and reporting of agency expenditures were revised to reflect actual encumbrances, accruals and costs.

More effective methods of machine utilization were employed. The recording-posting-disbursing reporting cycle was more fully automated. Many of these tedious functions were transferred to punch card machine operations.9

The accounting division of the Central Budget Agency was given the responsibility for insuring that the operating agencies are complying with the standards established in the Washington Budget and Accounting Manual. They must conduct periodic checks to supervise agency accounts and reporting procedure. The accounting division is also responsible for insuring the accountability and auditability of agency financial affairs.

Whereas the spending agencies would have the primary responsibility for accounting and reporting in detail, accountants in the Governor's Central Budget Agency would have as their primary responsibility review, follow up, control and summary, informative reporting (to the Governor and other key officials) as to the state's overall receipts and expenditure rate and the condition of various funds; the adequacy of agency accounting and

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9Ibid.
reporting systems; continued surveillance over statewide accounting practices; and continuing revision, as needed, of State Accounting Regulations.\textsuperscript{10}

Although this statement preceded the financial reorganization of Washington State, it is an accurate statement of what actually took place.

The Budget and Accounting Act of 1959 made other advantageous changes. The responsibilities of the Treasurer, Auditor, and Budget Director were clarified and fixed. The accounting authority, previously diffused between the Budget Director and the Auditor, was centralized in the Governor's office. Fiscal standards are now maintained on a current basis; before, they had not been revised for over thirty years. A set of machine standards, aimed at fuller utilization and continued automation, were established, and the Central Budget Agency was given control. When the Budget and Accounting Act was passed, there were over 9000 forms registered in the budget office. The Central Budget Agency has reduced and simplified the number of forms, and is now charged with maintaining control over their proliferation.

These changes were eminently advantageous to Washington, and they were absolutely essential to a meaningful program budget. The ideal, of course, always differs from the actual, and Washington State was no exception. The Central Budget Agency, while possessing much authority, has

\textsuperscript{10}\textit{Ibid.}, p. 11.
not been able to cope effectively with all the archaic problems it inherited. It is a slow and arduous process, but the essential steps have been taken.

The nexus of the entire operation is the Central Budget Agency. The training and staffing of the budget office is essential. How profitable the program budget is to a state depends, to a great extent, on the staffing of the budget agency. Before 1959, the budget office had been staffed primarily with clerical assistants. This was not inconsistent, at the time, with the objectives of the operation. The budget agency, with the inception of the program budget, was greatly expanded in size and the standards of performance improved. If no other changes had taken place, this single fact would have added greatly to the proper functioning of the fiscal affairs of Washington State. No operation is any better than the men who administer the operation.

The Budget Process

The budget process begins about April 1 of every even numbered year. At this point, the Governor and the Budget Director are in a position to make a reasonably accurate prediction of expected revenue for the coming biennium. The problems of revenue estimation were greatly alleviated with the improved accounting techniques and the comprehensive revenue chart. After estimating revenue for the ensuing
biennium and projecting current expenses, a reasonable determination of the necessary fiscal policy for the coming biennium can be made. A statement of fiscal policy must be attached to the budget instructions issued to all agencies. The budget instructions must also contain guides for estimating revenue, price forecasts, policy for food, fuel, and other key commodities.

In accordance with this policy, the budget instructions for the 1963-1965 biennium contained the necessary guideline. The Governor's statement accompanying the budget instructions made clear reference to the fact that no expansion or improvements in programs would be allowed, unless considered mandatory and completely justified. The general policy statement also stated that the budget presented to the legislature would be a "hold the line" type, and that the budget requests determined by the Governor and his staff would be the only request defended by the agencies under his control. Subsequent instructions were issued to all agency heads, again, reiterating the fact that no agency head would defend any but the Governor's estimates. This is in direct contrast to the previous situation where the agencies were seldom apprised of executive policy, and never inhibited in defense of their own estimates. Although phrased in broad terminology, the Governor's policy statement is nevertheless a valuable and useful tool for the operating agencies.

The budget instructions issued to the agencies early
in April contain detailed directions on how the budgets are to be presented, together with guidelines on how to project vacancy rates, inventory acquisitions, revenue and price level. These instructions also list the dates when workshops will be held to explain the instructions. Each agency is given a specific date as to when their operating requests must be forwarded to the Central Budget Agency. Following these opening statements, the second part of the budget instructions contain detailed directions on how to complete the budget request forms.

It is a foregone conclusion that the citizen taxpayer will read words and study attractive charts before he will wade through statistics and columns of numbers. There has been and continues to be an increasing emphasis on the budget presentation. When this is done properly and made understandable to the citizens, an enlightened interest in government is displayed. Proponents have long cited this as one of the paramount values of the program budget. The forms used for the 1963-1965 biennium budget requests were forms B-1, B-2, B-4, B-5, B-5-1, B-6, B-7, and form B-9. These forms constitute the budget requests received by the Central Budget Agency. In order to show the comprehensiveness of the budgets, it is necessary to briefly examine each form.

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Form B-1 should include an organizational chart together with the Authority-Scope-Objective statement. The statement should answer the question, "What is the agency in business to accomplish?" This form should also include a statement as to the general trend of the agency's activities and where major emphasis will be placed in the ensuing biennium. In addition to the B-1 beginning the budget presentation, a form B-1 precedes each program carried on by the agency. When used before a program, it is called the program and performance statement. In this case, it should answer the question, "What performance can I, as a citizen, expect from this program if I provide the dollars requested?"

Form B-2 is titled the Fund Summary Form, one for capital and one for operating expenditures. This form details from where the appropriations came such as federal, state, unanticipated receipts and any other sources; it also lists the amount of money received and expended from each source.

Form B-4 is the Agency Budget Summary Form. Included on this summary sheet are the expenditures by program for the last year of the past biennium, the two years of the

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13 Ibid.
current biennium, and the projected expenditures for the two years of the ensuing biennium. This form also includes a summary by object for the nine objects of expenditure for the same number of years.

Form B-5 is the Operating Program Budget Form. A form B-5 precedes each program carried on by the agency. For example, the Operating Program Form summarizes the expenditures in the General Administration Program for the following nine objects: salaries and wages, contract personal services, other contractual services, travel, supplies and materials, equipment, retirement and pensions, contributions-grants-subsidies, and debt redemption. The two past years, the current year, and the two future years are detailed on this form.

Form B-5-1 is the Expenditure Level Within Program/Agency Form. The Central Budget Agency explains the purpose of the B-5-1 in the following manner:

The several forms in the budget request should present a complete picture of the agency's needs and proposals, with adequate detail of program input by object of expenditure and output in workload units. It is the purpose of this form to recast that request in a format emphasizing level of expenditure, to enable both agency head and the Governor to evaluate the request in terms of existing levels and departures from those levels, both increases and decreases.14

While this was potentially a valuable form, it failed in its intended purpose. The budget instructions were

14Ibid., p. 17.
partially to blame, since they did not effectively explain the B-5-1. Consequently, very few agencies submitted it in the proper manner, and the Central Budget Agency was compelled to disregard it for practical purposes. The B-5-1 was a first attempt to determine the amount of funds an agency required to maintain current level and to improve the level of service. Even in maintaining current level operations, an agency must have additional funds due to price increases, salary increases, and repair and maintenance increases. The budget agency was attempting to determine this figure; and then, if the program was to be improved, how much additional money would be required.

Form B-6 was used to detail salaries and wages and it was so labeled. All agencies listed their employees and their salaries on the B-6. The agencies were instructed to project all authorized and filled positions at the June, 1962 level. Only the smallest agencies in the past had been able to keep their authorized positions staffed 100 percent of the time; consequently, there was a high vacancy rate. The budget office believed that few, if any, additions in staff would be required if the agencies increased their emphasis on recruitment. It was also felt that with the high prevailing vacancy rate merit pay increases could be granted without additional funds since the appropriations assumed 100 percent staffing. In this manner, funds not expended for salaries could be used for merit increases.
Thus, positions for the fiscal years 1963, 1964 and 1965 were projected at the June, 1962 rate, and any increases in positions or salaries had to be fully justified. This form is particularly important since salaries and wages constitute the largest expenditure item within each program and, consequently, within each agency.

B-7 is the Workload and Expenditure Detail Form. It is used to present workload and expenditure details for each of the five years presented in the budget format. One of these forms precedes each program conducted by an agency.

"The typical agency budget would use a separate sheet for: workload indicators and unit costs; expenditures by activity within program; and, expenditures by object and sub-object excluding salaries and wages."  

The Agency Revenue form B-9 was designed to attain a comprehensive listing of historical and anticipated revenue. All estimated revenue data from all sources, credited or to be credited to all state and local budgeted funds are included on the B-9.  

The rather detailed explanation of these forms supposes that the evaluation and the presentation of the budget document is the single most important service performed by

\[\text{\footnotesize\textsuperscript{15}}\text{Ibid.}, \text{p. } 23.\]

\[\text{\footnotesize\textsuperscript{16}}\text{For examples of the above mentioned forms see Appendix.}\]
the Central Budget Agency. These forms should demonstrate the comprehensive review features employed by the Washington budget office. Not all of these are incorporated into the finished budget document, but for evaluation purposes the great detail is a necessity.

During the period when the budget requests are in the process of formulation, subsequent to the budget instructions, the budget agency gives active assistance to the personnel of the operating agencies. Methods of presentation, interpretation, and information are the most common types of assistance the agencies desire. At this period, the examiners travel to the field to give the agency heads the opportunity to present their case to the individual examiners.

On or about September 1 of every even numbered year the budget requests normally will have been sent to the Central Budget Agency for analysis by the examiners. The budget examiners check these requests for format, conformance to policy objectives, justifications of estimates, program soundness, workload indicators, and editorial corrections. Questions to be asked at the capital and operating hearings are compiled during this review.

After the review by the Central Budget Agency, the stage is set for the hearings. The budget hearings are usually begun about the middle of September. A hearing schedule is issued and each agency is given an opportunity to be heard and questioned. The Budget Director serves as
chairman of these hearings, but the principal responsibility for questioning rests with the individual examiners. Every opportunity is given all parties for a free exchange of views.

The value of these hearings is questionable, however. In most cases, the examiners have been apprised by field trips or textual material of the agency needs. The hearings are neither long enough nor comprehensive enough to allow a valuable exchange of views or information. They may be of some value as concern large outlays of funds or emphasis of a particular program, but in general these meetings are a cursory summary of what everyone knows. The most important reason for carrying on the hearings is an intangible one. Allowing the directors of departments and their staff the opportunity to impress their point of view upon someone with stature seems to pacify them. At this stage, they have gone to the highest authority with their case, and the safety valve function is in operation. There is an element of status maintenance involved in this process; it would be unthinkable for many directors or agency heads to accept what they consider the arbitrary judgments of budget examiners. Judgments from the Budget Director or Governor will be accepted, often without complaint, but if the examiner makes the decision— they balk.

After the hearings are over, the budget office returns to the drawing boards. The Governor, at this point, has
appraised the fiscal situation of the state and determined at what financial level he will conduct state government. The Governor's decisions are transmitted to the budget office, which in turn builds them into the agency budgets. Informing the departments of what the Governor will request for their agencies varies with the size of the department and the personality of the department heads.

The operating budget requests are then returned to the operating agencies for reprogramming in line with the Governor's fiscal objectives. The budget office may specify at what level certain programs or activities must be conducted, but generally a great deal of discretion is left to the departments. This, of course, depends on the degree of latitude anticipated in the appropriation measures. The budgets after reprogramming are then returned to the budget office. Once again, they are examined for compliance with executive policy. Again, the Central Budget Agency may raise questions concerning the amount of funds allocated to programs or activities, but generally such problems have been settled and a consensus reached.

The budgets are now formalized and the revised figures checked for accuracy. If no major mistakes are discovered or if no changes are deemed necessary, the budgets are sent to the printer for printing. The next step is the presentation of the budget to the legislature. After the budget is presented to the legislature, the budget agency's primary
duty is defending the estimates of the Governor. Reviewing and altering the Governor's estimates, if necessary, is a legitimate legislative duty. Once the appropriations are made by the legislature, the stage is set for the allotment process.

Allotment Process

After the legislature has arrived at the appropriations for the agencies, the allotments must be determined for the operating agencies. The Governor at this stage has had one opportunity to eliminate measures that do not coincide with his overall program, through the item veto. Allotments are the second method the Governor may use. He may, with some exceptions, withhold appropriated funds for programs that do not meet with his approval. Included in the Legislative Budget Bills for the 1959-1961 and 1961-1963 was the following provision:

...the Governor may: (1) Allot all or any portion of the funds herein appropriated...to the various agencies by such periods as he shall determine.... Provided, however, that the aggregate of allotments for any agency shall not exceed the total of applicable appropriations and local funds available to the agency concerned....

The Governor and the Budget Director determine an executive

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17Bricker, op. cit., p. 27.

18State of Washington, Engrossed Senate Bill 1, 37th Legislature, Extraordinary Session, Olympia, March, 1961, pp. 43-44.
policy that is consistent with legislative intent, and prepare the allotment instructions. These instructions are sent to all the operating agencies. In conformance with the allotment instructions, the agencies are required to fill out the allotment forms by individual program for the two years of the ensuing biennium. These allotment forms are then returned to the Central Budget Agency. Here the allotment forms are reviewed for conformance with revenue estimates, legislative intent, workload data, and the budget examiner's estimate of expenditure needs.

The allotment periods may vary from monthly to yearly. During the 1959-1961 biennium the allotment schedule varied depending on the agency. For the 1961-1963 biennium, the allotment periods were monthly or bi-yearly with very few exceptions, because of the pressing need to bring revenue and expenditures into balance. It is anticipated that in normal circumstances, the allotment periods will be on a yearly basis. Any deviation from the agency's allotment schedule must be approved by the budget agency. Some flexibility is allowed in transferring funds within programs, but an amendment to the allotment schedule must be initiated, by the operating agency, to transfer funds between programs. Amendments to the allotment schedule must be approved by the budget office. In actual practice, these amendments become more of an informative device than a controlling feature. Very few are denied.
Summary

The Central Budget Agency, with its refined reporting and accounting procedures, is able to make reasonably accurate judgments on the value of expenditure patterns. The vast use of such indicators as average daily population, man years, average man year cost, students per man year, annual per capita cost, daily per capita cost, laundry cost per pound, and cost per meal served have given the budget office the necessary tools to launch worthwhile evaluations of agency requests. Workload and cost data are not enough, however. The competence of the individual examiners is essential. Washington State requires budget examiners to have at least a B.A. degree with a year of graduate work. Most of the examiners have M.A. degrees in public administration or some allied field. Those who lack advanced degrees are people of proven competence, who have proved themselves in other areas of state government. No system of selection is infallible, but the educational level is widely endorsed as a good indicator of competence. In conjunction with capable examiners and accurate workload data, a budget office must have a modern reporting system that reports current and significant information. Each month the budget office receives a variety of reports, comprehensive enough to assure accurate and actual control. Some of the items reported by month are: the status of appropriations including cash expenditures, accruals and
encumbrances; man years per month by agency; expenditures for salaries and wages per month; students, inmates, members, and patients; expenditures by program and object and many more. If a budget office can be judged on the merits of these three elements--budget examiners, workload data, and accurate reports--the state of Washington would rate a good score on each count.
CHAPTER V

LEGAL AND ADMINISTRATIVE PROBLEMS

Not all the problems of fiscal management or government have been solved in the state of Washington. No system however cleverly devised can be created to anticipate and correct all the problems past, present, and future. Change often produces a new set of problems itself. Washington State has not escaped this basic paradox. The problems are not of the same magnitude, or of the same nature, but they are potentially serious obstacles in the future path of the state of Washington and, more particularly, the Central Budget Agency. Seven basic problems overshadow all others; these are: (1) the areas beyond effective control; (2) the dual role of the budget director; (3) ineffective communications; (4) legislative relationship; (5) weaknesses in management analysis and systems planning; (6) budget agency personnel attitudes; and (7) the lack of a research section within the budget office. The attempt of this chapter will be to list, analyze and place in perspective the nature of these problems in terms of the Central Budget Agency's avowed role.

Problem Areas

First, the areas beyond effective control are the most pernicious of the budget office's problems. The Governor
may not reduce the allotments for elective officials or institutions of higher education once the appropriations are made by the legislature. These two excluded areas spend approximately 57 per cent of the General Fund expenditures. It is a serious problem because economy orders and actions fall inequitably on all other agencies spending 43 per cent of all expenditures from the General Fund. Agencies such as the Departments of Natural Resources, Institutions, General Administration, Fisheries and others must bear the entire burden of economy measures subsequent to the appropriations.

The dual position of the Budget Director presents a potentially difficult situation. The Budget Director presently serves in two capacities: Budget Director and Executive Assistant to the Governor. In the formative period of the budget office this may be beneficial, but it poses some questions for the future. Operating agencies hesitate to appeal budget agency decisions because of the Budget Director's dual role. To whom does one appeal? The Governor's Executive Assistant is also the Budget Director. Since the normal appeal process is closed, other methods of circumventing the budget office are used.

Third, communication is an ever present difficulty. In its simplest form, it is merely that the operating agencies cannot understand the orders and directives from the budget office. In its most complicating nature, it
leads to confusion, inaction and stalemate at the operating levels of government. Similarly, inaction and confusion is experienced by the budget office in attempting to understand the operating agencies.

The problem of legislative relationship is also potentially serious. The relationship of the Central Budget Agency to the Legislative Budget Committee is a rather nebulous thing, but it is safe to say that theory and practice are separate entities. The Legislative Budget Committee is empowered to act in the name of the legislature between sessions, and it is this agency with which the Central Budget Agency has the most legislative contact. The relationship encompasses the whole spectrum of formal and informal associations. Presently it is ill-defined and poorly coordinated—in some instances by intent.

Weaknesses presently exist in management analysis and systems planning within the budget office. This is one of the gaps in the budget agency's internal structure. What work is accomplished in this area is done on a sporadic and piecemeal basis, which sometimes contributes very little to overall management improvement. In this context, the management analysts should determine what should be done and the systems analysts how it should be done. Both of these functions can be very technical, and they deserve more emphasis than the budget agency presently devotes to them.

Budget agency personnel attitudes are always an
important consideration. Washington may have more or less problems in this regard, but any analysis of a budget office must consider personnel attitudes. It is difficult to gauge attitudes, but attitudes affect judgments and judgments affect agencies. So personnel attitudes must be considered as potentially troublesome, regardless of whether or not they are problems of the moment.

Last, the lack of a research section is an important weakness in the internal structuring of the Central Budget Agency. Research is implicit in a management oriented budget agency. At the present time, research is done by the individual budget examiners in their respective functional areas. For example, the institutions examiners do the institutional research for their functional area, and this is equally true for the other functional areas. Significantly, while this might seem beneficial, it is not—the time element prevents long-range, detailed and meaningful research.

While the above listed problems may seem significant, comparatively speaking they are relatively minor. Certainly they should not be ignored, but they are not of the magnitude or the complexity existing before the Budget and Accounting Act and the program budget.

Problem Analysis

Areas Beyond Effective Control

On February 13, 1962, Governor Albert Rosellini found
it necessary to reduce the expenditure level of all General
Fund agencies under his direct control. Revenue expecta-
tions had failed to materialize and the General Fund was in
a deficit condition. As a result, the Governor issued his
Executive Order Number 1 (hereafter referred to as EX-01).
EX-01 was designed to reduce expenditures to the lowest
level possible without jeopardizing services. The formula
agreed upon for the remainder of the biennium was four times
the expenditures for the first six months. Complicating the
situation was a provision of the Budget and Accounting Act
which reads in part:

Except for agencies headed by elective officials
and for institutions for higher education, as provided
in this section, the approved allotments may be revised
during the course of the fiscal period in accordance
with the regulations issued pursuant to this chapter.
If, at any time during the fiscal period, the Governor
shall ascertain that available revenues for the appli-
cable period will be less than allotments concerned so
as to prevent the making of expenditures in excess of
available revenue. To the same end, and with the ex-
tceptions stated in this section for allotments involv-
ing agencies headed by elective officials and for
institutions of higher education the Governor is
authorized to withhold and assign to, and remove from
a reserve status any portion of an agency appropria-
tion which, in the Governor's discretion, is not
needed for the allotment. No expenditure shall be
made from any portion of an appropriation which has
been assigned to reserve status except as provided
in this section.¹

In accordance with the above provision, the Governor
could not revise the allotments of agencies of higher

¹Washington, Revised Code (1959), c. 43.88.110.
education or agencies headed by elective officials (hereafter referred to as the uncontrolled agencies). These same agencies spend 57 per cent of the monies from the General Fund. However enviable this may be for the uncontrolled agencies, it has serious political and economic implications for the state of Washington. The agencies that must bear the burden of economy orders spend only 43 per cent of the monies from the General Fund (hereafter referred to as the controlled agencies). All agencies—with the exception of those operating completely on dedicated funds, and the uncontrolled agencies—are subject to allotment revision. The larger the anticipated deficit, the larger the demand for economy, the greater the burden on the controlled agencies. This is neither equitable nor realistic. It denies that the Governor has any legitimate function as concerns 57 per cent of the General Fund expenditures. Excluding the uncontrolled agencies from allotment revision also denies that the Governor has the ability or the desire to deal equitably with certain areas of expenditure. Removing higher education and elective agencies presupposes that the value of the controlled agencies is subordinate to that of the uncontrolled agencies. The legislature is placed in the position of establishing a fixed and inflexible preconceived value judgment as to the relative merits of higher education vis-a-vis mental health for example.

What incentive is there for the controlled agencies
to budget and economize when they are constantly under the threat of an order similar to EX-01? The logical thing for these agencies to do is to spend and encumber a maximum of funds in the shortest possible time, and thereby mitigate the effect of an economy order. Controlled agencies followed this precise course in their 1963-1965 budget requests, maximizing their expenditures for the first year of the ensuing biennium. An additional burden is placed on allotment control by the Central Budget Agency, opening other areas of contention since the budget office must superimpose its judgment to modify budget and allotment requests. This is exactly what the budget office wishes to prevent.

There is no possible incentive, consequently, for the controlled agencies to submit realistic budgets. Budgets are inflated in anticipation of an EX-01 order. If it does not materialize, so much the better. Again, the Central Budget Agency is placed in a point of contention for it must trim these requests to a realistic level. If we accept the premise that the usefulness of a budget office depends on its ability to work with the operating agencies, this type of operation is self-defeating.

The exclusion of 57 per cent of the General Fund expenditures also inhibits flexibility within governmental operations. Available funds must be recovered from the controlled agencies constituting only 43 per cent of General Fund expenditures. No matter how justified their expenditures
may be, the necessary funds must be recovered from these agencies. Economies of this nature must of necessity be based on expediency rather than logic. The more severe the economies of today, the greater will be the expenditures of tomorrow. Indeed, this may be too charitable, for it assumes that not spending money represents an economy—which is by no means true. It may well be that long-range expenditures will reflect an abnormal percentage increase due to the sustained loss of economies to scale. Long-term losses may not be evident because of the intangible qualities associated with medical, rehabilitative, and correctional facilities. If the economic burden were spread over all expenditures from the General Fund, the severity of immediate retrenchment would be less noticeable. Services, programs and activities would be more stable; the cost of restoring the previous level of operations would be less; and the distortion of economies to scale reduced. The concentration upon the controlled agencies increases the magnitude of future economic and social troubles.

Retrenchment always places an unwarranted emphasis on revenue producing activities, but it further distorts the picture because only the revenue activities of the controlled agencies are considered, in this case. Attention is focused on the revenue producing activities of the controlled agencies representing only 43 per cent of the General Fund expenditures. Revenues generated from less than half of
state's activities assume an inflated emphasis; consequently, dollar-and-cents activities assume an inflated importance in contrast to services and performance. Again, if all General Fund expenditures were given the same treatment, the overall distortion would be greatly alleviated.

The basic purpose of this policy is to improve the condition of the General Fund. Consequently, revenue producing programs must be given priority to the extent justified by their income. I will demand a thorough explanation of any decrease in revenue, and will give full consideration to any request for increased funds necessary to produce revenue.2

Another consideration is that removing 57 per cent of all expenditures from executive control may inhibit executive action to economize. Assuming and recognizing political realities, we expect the Governor's actions to reflect the political power and support of the controlled agencies. If they can muster little public support, one would expect the Governor to act rapidly to keep expenditures and revenue in balance. If the controlled agencies exhibit a great deal of public support, the executive may decide to run a deficit rather than offend the interested parties. One might argue that, if the controlled agencies had any measurable support, they would not have been subject to the Governor's stringent control in the first instance. This argument, however, overlooks the fact that the temperament of a particular

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2Letter from Albert D. Rosellini, Governor of Washington State, to all state agencies, March 1, 1962. [emphasis mine]
The legislature may not represent the temperament of the present body politic.

Last, and possibly most important, exclusion may defeat the purpose for which it was designed. The legislature, the Governor, and the interest groups may not be disposed to support high levels of appropriations for the uncontrolled agencies, sensing that once the appropriation is made, no control is possible. It may result in a diminished level of appropriations to the uncontrolled agencies. This is not put forward as fact, but only as a point of conjecture.

The whole process hinges, of course, on the amount of money that must be recovered. It is possible to effect economies under any circumstances; it merely involves a matter of defining goals. But what applies to the controlled agencies applies equally to the uncontrolled agencies. From a public administration standpoint, this problem could be resolved by placing all agencies under the direct control of the executive, and allow the voters to determine the wisdom of his actions.

**Dual Role of the Budget Director**

The present Budget Director is also the Governor's Executive Assistant. If the Budget Director were solely this, the hegemony exercised by the Central Budget Agency over the operating agencies would be greatly reduced.
line agencies are not impervious to the significance of the dual role. They fully comprehend the futility of appealing a decision from the budget agency.

For instance, this writer is convinced that, in a recent encounter with a director of one of the state agencies, this director accepted the recommendations proposed on organizational changes solely because he did not care to battle again, or at this time, with the Executive Administrative Assistant/Budget Director.  

The operating agencies, as a consequence, circumvent the normal appeal process by turning to the public for support when they disagree with the Central Budget Agency. No other means of attracting the Governor's attention is available to them since the avenues of normal appeal are restricted. Turning to the public for support is not an innocuous method. On occasion it has been a very successful method. For example, shortly after the Governor issued his executive order instructing the agencies under his control to revert a certain portion of appropriations to reserve status, Ranier School for the Retarded issued a release stating that they were exhausting their inventories and only with great difficulty could get through the remainder of the biennium. Although no immediate success was evidenced from this action, the Ranier School for the Retarded was one of the few agencies receiving a substantial increase in the Governor's proposed budget for 1963-1965 biennium.

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3Bricker, op. cit., p. 42.
Appeals to the public can only complicate the management and administration of governmental affairs. They lead to chaos, confusion and disruption of the normal administrative process. Reactions to these appeals may also be detrimental for they may lead to quick and politically motivated decisions to solve the immediate problem with little regard to long-range goals and plans.

It is very difficult to assess whether or not the dual role assumed by the Budget Director is beneficial or detrimental to the management of government. On the balance, it is, perhaps, beneficial, but the potentially serious problems cannot be minimized.

Communications

Another serious problem of the Central Budget Agency vis-a-vis the line agencies is the communication problem. In its most serious nature, it leads to virtual inertia at both the staff and line levels of management. Difficulty in communications is not a problem distinct to the state of Washington. It is evidenced in nearly every endeavor of government or business. Accountants and budget examiners speak a different language as do administrators and employees, staff agencies and line agencies ad infinitum. This is a direct reflection of the orientation of the participants. Ineffective communication is a problem of great magnitude since it leads to waste, inefficiency and inactivity.
The Central Budget Agency may never eliminate the communications problem, but it can minimize its impact. The first step is to rewrite much of the Budget and Accounting Manual which is ambiguous and written in an unduly complicated vernacular. Second, the layman's point of view should be considered when directives are issued to the operating agencies. The last step, and the most important, is subjective in nature. The Central Budget Agency must be continually cognizant of its orientation and the orientation of agencies with which it deals. Possibly this would involve an entirely new attitude toward dealing with the operating agencies. It is a patently obvious fact, however, that the operations of government will be impeded as long as the language spoken and written is unintelligible.

Operating agencies are equally oblivious of the problem. They speak and write in terms of their own orientation which the budget examiners cannot comprehend. Common terminology is often used in different contexts of thought and, unless a common definition is agreed upon, the basis of understanding is limited. The problem is compounded because neither the budget office nor the operating agency may recognize that they are using the same terms in their particular context of training. It is a problem, however, which could be alleviated with a minimum of effort.
Problem of Legislative Relationship

The primary means of contact between the Central Budget Agency and the legislature between sessions is the Legislative Budget Committee. The Legislative Budget Committee is empowered by law to act in a fiscal and auditing nature in the name of the legislature. What powers and privileges this conveys is and will continue to be a point of contention. The Central Budget Agency and the Legislative Budget Committee are not completely incompatible, but by law the two agencies have overlapping and conflicting responsibilities. The overlapping causes conflict, and friction is the frequent result. Provided in the Budget and Accounting Act is the following provision:

Copies of all such estimates, budget presentation and other required information shall also be submitted to the Legislative Budget Committee. The Governor shall also invite the Legislative Budget Committee to designate one or more persons to be present at all hearings provided in R.C.W. 43.88.100. The designee of the Legislative Budget Committee may also ask such questions during the hearings and require such information as they deem necessary.4

During the hearings for the 1963-1965 biennium, a representative of the Legislative Budget Committee was present at the capital hearings held in August. It may be significant to note that no decisions were made during these hearings; only proposed capital outlay was discussed. The

operational hearings were held informally between the director and his staff, personnel from the individual agencies, and the examiners from the Central Budget Agency, assigned to that agency. Some of these hearings involved the Budget Director, but at no time, with the exception of the educational hearings, was the Governor present. The law, as interpreted by the budget agency, means that if the Governor is not present, no representative from the Legislative Budget Committee need be present. There was no doubt that the exclusion of the Legislative Budget Committee from the operational hearings was by design.

Another example of the friction evidenced between these two bodies was seen during the latter stages of the budget process. The Legislative Committee desired to obtain information concerning the total amount of money to be requested for the operating agencies. The amount was never released by the budget office, however. The Legislative Budget Committee has taken exception to these practices, but the Central Budget Agency, with the approbation of the Budget Director, has remained adamantly committed to its course.

The budget office and the Legislative Budget Committee have found areas of agreement, however. The chasm is not so wide that it cannot be breached. In some areas related to the Department of Institutions, the Legislative Budget Committee and the Central Budget Agency cooperate rather closely to contain the Department of Institutions, long
considered a problem area in the state of Washington.

Where the law is specific, the budget office cooperates within the confines of the law. Machine runs dealing with expenditures, transfers of funds, accruals, encumbrances, and allotment status by month are forwarded to the Legislative Budget Committee. They are kept informed in an ambiguous manner of the Central Budget Agency's general approach to the line department's budget requests. The budget office may indicate, as they did this biennium, that in the area of institutions the approach would be to allow current level with adjustments, for program changes and increasing or decreasing workload. The Legislative Budget Committee, having been informed of general policy, requested that the formula used to derive current level be forwarded. The budget office complied and forwarded its determination of current level together with the formula used and considered a valid indicator. No indication was given as to what adjustments were being made for contingencies, nor was there any indication of what divisions within departments would be improved or what divisions would be retrenched.

This relationship is perhaps understandable from the Governor's point of view. All legislators have access to the information gathered and compiled by the Legislative Budget Committee, including members of the opposition. An information leak could well have pernicious consequences on the Governor's legislative program. It is well known that
the operating agencies have their champions and proponents in the legislature, and they can muster interest group support with little difficulty. If information was released too early, the legislators and the agencies would have time to collect their forces and do battle to the detriment of the Governor's program.

While there has been very little opposition to the Central Budget Agency in the legislature, this uncertain and ambiguous relationship could lead to future trouble. The head of the Legislative Budget Committee has been a member of the party in power, with one exception, since the inception of the budget agency. If a belligerent member of the opposition party should become chairman, the problem could become one of the first magnitude. The possibilities for conflict are certainly present under the existing situation and, indeed, there is some conflict at the present time. It would be beneficial to launch a court test to determine the responsibilities of the two agencies, or amend the Budget and Accounting Act to clarify the existing situation. Until this is done a feeling of suspicion will continue to manifest itself.

Management Analysis and System Planning Problem

The budget examiners can often find glaring failures in the organization structures of the line departments, but it is quite another matter to discover what to do to correct
the problem, and how to accomplish the desired corrections. At this point, management and systems analysts ought to take over. Management and systems analysis assumes a paramount importance when one considers that one of the primary functions of the Central Budget Agency is management improvement. Currently management analysis is done by the operating agency with the supervision of the budget office.

Management improvement by the operating agencies is not completely satisfactory. The operating agencies are prone to follow their own particular scheme of organization. They are not likely to undertake reorganization that appears detrimental to their own interests. Usually the line departments have neither the resources nor the desire to make significant innovations in their organizational structure. Budget office examiners aid in reorganization plans, but often it demands too much of their time, or it is beyond their competence. All these factors inhibit the budget office from undertaking major reorganization studies. Nor is there any long-range management or systems analysis taking place or any type of master plan under development.

This is a glaring inadequacy in the Central Budget Agency. The problem must be corrected for planning and management improvement go to the very heart of efficient and economical government. While the budget office does not ignore the problem of management and systems analysis, it has not done enough, soon enough. The budget office is
cognizant of the difficulty, however, and plans are being formulated to correct this deficiency.

**Personnel Attitudes**

There is a persistent danger in a budget office relying heavily on workload indicators that the agency personnel may adopt too negative a position. The method of evaluation and the reliance on cost accounting and workload indicators often obscures the fact that government deals with subjective values and intangible services. There is a danger that budget personnel may rely too heavily on objective data to gauge subjective services. Cost figures and workload data are extremely useful tools in evaluating programs, but they do not substitute for common sense and sound extensive evaluations.

In one way there is no point in denying the budget function is preponderantly negative. It is on the whole rather strongly against program and expenditure expansion. This approach is desirable because the programmatic agencies and most of the potent pressure groups are so expansive that there will be little danger that the undeniable values they represent will be overlooked or smothered by budgeteers.\(^5\)

While this statement is true, the danger posed by overzealous budgeteers cannot be overlooked. All agencies are able to muster some pressure group support, but pressure is a relative thing. What is the relative pressure group

support of one agency as compared to another? This is a vital question. Some agencies are relatively weak, while others have potent and powerful support. If budgeting becomes strictly negative or overly negative, the relatively weak agency will suffer unduly. Negative budget examination adds to the problems of an agency with relatively little pressure group support. Budget examination is negative by its nature, but it need not be and should not be overly so. The above quotation assumes that an agency can muster enough support to overcome the personal biases of a budget examiner. Given a common situation where funds are limited and political motivation is evident, can an agency surmount the decisions of a budget examiner? It is at least doubtful, so long as the decisions are rendered in favor of the stronger political agency. Decisions by the budget examiners motivate actions by the executive. If a budget examiner is negatively disposed, the picture he presents will be distorted, and the decisions rendered will be activated by an improper display of the actual facts. And if the facts are distorted in favor of a more politically powerful agency, it is extremely unlikely that the final decision will be in favor of the weaker agency.

Budgeting is essentially negative, and properly so; but it should not become overly negative and disposed to favor one agency at the expense of another, unless supported by the data at hand.
The human element is always variable and never completely rational. Yet, if workload indicators and cost factors are the primary elements of consideration, there is a danger that the process will become too scientific. There are no hard and fixed units of production in the rehabilitative areas. Their contribution to society is frequently long range, intangible, and difficult to understand. More important, perhaps, is the individual who directly benefits rather than the public as a whole. Rehabilitation as a value to society is often ignored. There is a certain amount of reluctance on the part of the public to spend to benefit an individual. In this context, a strictly negative attitude on the part of the budget examiners will not or should not suffice. Their negativism must be tempered by a sense of values other than monetary. The matter, in the final essence, becomes one of degree; balancing the objective cost figures against the subjective human values.

Lack of a Research Section

The lack of a research section is considered last because it is one of the most important weaknesses of the Central Budget Agency and because it is, perhaps, the most easily solved. The research function is implicit in a management oriented budget office. In the Central Budget Agency, research is presently done by the budget examiners in each individual functional area. For example, the
examiners in the functional area of institutions do all the research concerning the Department of Institutions. This is not entirely detrimental because it serves as a means of enlightening the examiners about their agencies and their particular problem areas. Each problem is handled on a specific assignment basis as the need arises. Presently no long-range research plan exists.

While it might be argued that each examiner should do his own research in order to acquaint himself with all aspects of his functional assignment, it does not always prove beneficial. The primary problem in this type of arrangement is that the press of time prevents thorough research. The budget examination and formulation period begins in April of even numbered years and continues until the adjournment of the legislature in March of the following year—a period of eleven months. For eleven months of every biennium long-range or detailed research must cease in order to handle the pressing problems of the budget cycle. This is the period when problems are discovered (the budget review phase), and the need for research is most critical and least available. At precisely the stage when problem areas are most apparent, the press of budget formulation and review prevents comprehensive studies. Any problems requiring research in depth must be postponed or held in abeyance until the budget has been formulated and the legislature adjourned.
All research is not precluded, but what is undertaken is generally hasty and superficial. The alternative has been to defer research requiring a great amount of time until the legislature has adjourned. Projects must be programmed in the slack period between the adjournment of the legislature and the beginning of the next budget cycle. This is not satisfactory for several reasons: (1) needed research must be delayed; (2) there is no means of determining how much research can be done during the slack period; (3) there are other interfering factors such as review of agency reports, management studies, review of allotment amendment requests, and personnel control to mention a few; and (4) a certain amount of continuity is sacrificed due to the shifting assignments among examiners.

The problem presented here could be greatly alleviated with the addition of a research section or staff. Those aspects which have budgetary implications could be largely left to the budget examiners; general research could be done by a section established for that purpose. There is another compromise. The research and revenue estimating functions could be combined. This is often done for two primary reasons. First, it differentiates between the budget examination staff and those that do not have budget examination as a primary duty. Second, research often involves statistical and financial analysis and a combination of the two
is inherent in the projection of revenue and expenditure patterns.\(^6\)

In Washington it could be easily accomplished since the revenue section consists of only one person. Although the combining of functions is not essential, it appears to be beneficial. The significant point is that the Central Budget Agency desperately needs a separate research section. It would not only make a difference in the type, but also in the amount of research that could be done. There are presently protracted periods when little, if any, beneficial research is done. Another consideration is that the budget examiners could spend more time concentrating on examining, which would add depth to the type and form of budget examination presently conducted. A research section is a necessary addition to an otherwise fairly well balanced budget office. Budget examiners would not be relieved from the need to do research, but it would expand the nature and type of research.

**Summary**

The legal problems posed by removing 57 per cent of the General Fund monies from the Governor's control, and the ambiguous relationship with the Legislative Budget Committee are serious obstacles to effective and intelligent expenditure control. Presently, the Central Budget Agency is precluded

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\(^6\)Shadoan, *Organization, Role and Staffing...,* p. 45.
from acting decisively in many areas of state government because of these legal obstacles. Yet, the Central Budget Agency can do very little of its own initiative to solve these problems. These are problems that cannot be corrected without legislative or judicial action.

Ineffective communications, the dual role of the Budget Director, weak management analysis and systems planning, negative personnel attitudes, and the lack of a research section are problems that could be corrected through administrative action. Ineffective communications, negative personnel attitudes, and the lack of a research section are presently serious obstacles to budgetary refinements and reasonably objective budget analysis. The dual role of the Budget Director and a weak management analysis and systems planning section are not presently serious problems. In fact, the dual role of the Budget Director may be beneficial during the formative period of the Central Budget Agency. The Central Budget Agency is also cognizant of the limitation imposed on it by the lack of an effective management analysis and systems planning section and a solution is being sought.

These problems must be solved or alleviated if the Washington Central Budget Agency is to refine its budgetary system and truly carry out its mandate of management improvement and program review. It will undoubtedly be impossible to completely eliminate these problems, particularly
the negative personnel attitudes and ineffective communications, but the budget office must constantly attempt to minimize these.

While not all the problems of the Washington Central Budget Agency have been covered, enough have been cited to indicate that even under relatively ideal conditions difficulties persist. The Washington budget office is not oblivious to these troublesome areas, and steps are currently being taken to correct some of the difficulties.

This examination is not meant to be derogatory, in any sense, to the Washington Central Budget Agency. Quite the contrary, the paucity of problems is remarkable for an agency with many responsibilities and operating in a very sensitive area. While there are problems, the distinct advantages that the Central Budget Agency enjoys are considerable. It has the nucleus of a good budget office; it has the authority to render its decisions operational; and it has a reasonably competent staff to carry out its responsibilities. Most important of all, the Central Budget Agency recognizes the importance of management improvement and cooperation in making the program budget operate effectively.
CHAPTER VI

CONCLUSION

Interest Groups and the Budget

The most important challenge confronting all of us in this state is...how we shall raise...and how we shall spend...the money required to perform those tasks which our citizens expect of their government. To understand the nature of this challenge demands the attention not only of myself as governor, or of the legislators, but of the entire state. I ask tonight the attention of the forward passers who seek to move down the field toward a needed community score, sometimes without enough thought to the burley tacklers of excessive debt. I ask the attention of the skeptic who automatically, but often dangerously, equalizes government with waste, and with functions and services of benefit to anybody but himself. I call also upon the one track advocate, who pounds at the doors of state government in behalf of his particular interests but ignores or even scorns other needs; and finally all those Washingtonians who wish simply to learn all the facts so they may determine for themselves the wisdom of past procedures and proposed solutions.¹

There is a great deal of value in these words for they reveal the competing forces that are vitally interested in the nature and role of government--and to whom the budget is of primary concern.

To those who view government expenditures as vital and beneficial, such expenditures are often considered good even if not economical. It may be that they view government expenditures as a social force for the good of the general

public, or it may be their interests are more narrow and selfish. In any case, their pressures are brought to bear to extend and expand government services, often without regard to the ultimate consequences. To these people the budget is of interest from an expenditure point of view. They are concerned that their interests do not suffer from retrenchment or reduction of expenditures.

There are those who view any and all types of government expenditures as evil. To these people all government expenditures are wasteful and inefficient. They play on the familiar slogan "economy and efficiency," at any cost. Merely refraining from expenditures represents economy at its best to these advocates. Yet, paradoxically this group wants economy, but with a retaining of program, or they are fanatical in their zeal to have economy at the expense of program. The latter segment while proclaiming "economy and efficiency" is often equally fanatical in circumscribing the operations of government designed to accomplish both purposes. Their interest in the budget is essentially as negative as their philosophy. The budget is always an evil document, at best, for it represents public expenditures---therefore waste.

Those who ignore budgeting ignore the "guts" of government. There is no other single policy document that has such a singular impact on the processes of government. No policy directive or administrative approach can overwhelm
or diminish the fact that the budget is the final arbiter of what, how, and when things will be done. The budget determines the answers to these questions and many more. The forms can be changed, the methods revised, and the execution delayed; but ultimately whatever is done, will be done within the dollar-and-cents values of the budget. The budget is not an end; it is only the means to an end— an end sometimes invisible. Those who wish to change the emphasis of government, for good or evil, have learned this lesson all too well. The general public's cognizance of this fact has lagged far behind that of the lobbyists, the interest groups, and the politicians.

If one wishes to affect the processes of government, he must affect the expenditures of government as a logical first step. To the general public the budget is a prosaic document, which is only of passing concern. The program budget, with all its laudable features, has not significantly altered the citizen's concern with budgeting. It is still a minor facet of his interest in government. He may deplore the condition of the General Fund not realizing that its deplorable state is a direct result of the expenditures incorporated in the budget. Forces are constantly at work to alter the budget decisions. Budgets must be formulated and reviewed in this context. It is the interplay of these forces that complicate, confuse and constitute the budget process.
Proper budgeting is vitally important, but it is not a panacea. Governmental problems are not completely solved in a budget office or a budget document. There are far too many variables involved. It must be recognized that the budget represents the final compromised instrument among competing forces; and as such, it vitally affects the decision-making process and the existing power structure. These forces do not view the decisions of the budget lightly. A budget will not completely pacify all the competing elements of society, but it is a reasonable solution to their interaction.

Advantages of Reform

The state of Washington instituted the program budget in the hope of gaining five primary advantages over the line-item presentation; they were: (1) a more rational method of decision making; (2) economy and efficiency; (3) improved management and planning; (4) restructure the decision-making process; and (5) make budgeting easier to understand. In each case Washington State has succeeded in a fashion, but not without making compromises with the practical necessities. Theory has been the guiding force, but it has not been followed dogmatically. The interaction of the theoretical framework and the practical realities has compelled an empirical evaluation of the above listed advantages.
A Rational Approach

In describing the values of a program type budget, a term widely used is the word "rational." Rational is an ambiguous term surrounded with a myriad of definitions. Perhaps this is because rational actions and behavior are subject to so many variables that consistency is lacking; hence there is no criteria by which actions can be measured and judged. To a great extent, rationality depends on the value system to which one adheres. In the budget process these values are defined and determined by the legislature, executive or some other policy-making body. In this manner, policy establishes the value system and defines the end to be achieved. Rational behavior can then be determined by evaluating the means employed to reach a given end. The means constitute the criteria upon which we can judge whether or not actions are rational.

No one is completely rational. Complete rationality depends on a complete knowledge and description of the consequences of a series of particular actions. All of these consequences would then be compared to determine the most rational approach. This is, of course, an impossibility. Only under the most rigidly controlled circumstances can complete rationality be approached. Day to day circumstances are seldom, if ever, rigidly controlled or predictable.²

With complete rationality eliminated, for practical purposes, one may speak of relative rationality. The program budget should lend itself to a relatively rational approach because it generates more knowledge (cost data, workload statistics, improved reporting) than its predecessor. Knowledge is the necessary criterion for choosing alternative courses of action. The more knowledge at hand the more rational should be the decisions rendered. Knowledge accomplishes two primary objectives of rational decision making; "it limits the number of alternatives, and it limits the range of consequences."\(^3\) "Roughly speaking, rationality is concerned with the selection of preferred behavior alternatives in terms of some system of values whereby the consequences of behavior can be evaluated."\(^4\) Additional information is inherent in a program budget. Additional information should, in turn, contribute to more precise knowledge. With additional knowledge, one should be able to evaluate the consequences of behavior more precisely. In this context, one can say that the program budget does contribute to relative rationality since it represents an additional contribution to knowledge. The more valuable the information at hand, the more rational should be the ultimate decisions.

\(^3\)Ibid.

\(^4\)Ibid., p. 75.
Economy and Efficiency

There was a feeling at one time that the program budget would automatically lead to lower cost operations in government—an assumption fairly well dispelled at present. The program budget has, in fact, increased governmental expenditures in some instances. The increased cost stems primarily from the need for improved methods of reporting which, in turn, increases accounting costs. For example, the state of Washington found it necessary to upgrade and increase staff at the operating levels in order for the Central Budget Agency and operating management to obtain the necessary current reports, essential to financial management. It was also found necessary to install costly data processing equipment. One could argue that these are short-run costs and they will effect long-run economies; or that expenditures at one level will be reflected in savings at another level, but they are costs. Savings of this type are intangible and seldom reflected on financial reports.

It was further anticipated that the program budget would aid in identifying waste which would then be eliminated; this too has proven false in practice. While the program budget is extremely valuable in identifying waste, it does not eliminate the problem. Identification has proven to be only part of the problem. The Washington State Central Budget Agency has been able to uncover waste in food costs, laundry costs, and maintenance costs; but in spite of this,
it has been unable to effect any measurable savings. Political considerations and tradition have confronted the budget office's attempts to cope with these problems. Frederick Mosher illustrates this problem in his study of the Department of Army's performance budgeting methods. He recounts the fact that in spite of known waste in electric consumption, the Department was unable to solve the problem. A vast educational program designed to reorient personnel on the use of electricity would have been required. This would have been an expensive and enduring program because of the high rate of turnover in Army personnel. This may not be the rule, but the wholesale elimination of waste anticipated from the program budget has not materialized.

Economy and efficiency are, however, relative terms. They are relative to the purpose, time, and place in which an organization is operating. There have been economies, and efficiency has been improved where program budgets and good budget offices are in operation. But these economies and efficiencies are largely intangible and not of great immediate magnitude. This is true in the state of Washington. Improved budget offices and procedures have made contributions to the efficient and economical operation of government. Indeed, there is ample evidence to suggest that much of government is efficient, but the shibboleths of

5Mosher, op. cit., p. 236.
"economy and efficiency" are too valuable to disregard or ignore. How does one measure economy and efficiency? Each individual measures these terms according to his biases and beliefs.

One may safely state, however, that economies of great depth or efficiencies of great magnitude have not been realized merely because a good budget office and a program budget are in operation. Significant economies can only be achieved through changes in programs not in the execution of programs. In the final analysis, it depends on how one measures economy and efficiency. No definition of these terms has yet gained universal acceptance.

Performance budgeting has not and cannot of itself reduce government expenditures, as many of its advocates once believed. Nor will it provide a guarantee that government funds will be spent wisely and effectively, as many of its supporters hope. No mere technique can ever provide such assurances. The most advanced and imaginary budget technique developed or yet to be developed will provide an inadequate substitute for responsible public administration. 6

Improves Management and Planning

The primary objective of management is to attain more effective administration in carrying out programs. With the 1959 reorganization of Washington State's financial processes, the Central Budget Agency was able to obtain, for the first time, reliable unit cost data and workload measures in order

6Roberts, op. cit., p. 2.
to project experience and measure accomplishment. Parts of 
a program can now be related to the entire program or 
activity, and the various work volumes and costs of the 
interrelated parts can be predicted with reasonable accuracy 
for nearly all levels of program activity. The ramifications 
of increasing or decreasing a program or activity can be 
anticipated with reasonable certainty, and the areas where 
costs will be increased can be ascertained. A relatively 
generalized program can then be transformed into a relatively 
accurate series of costs and requirements.7

With reports now required on a monthly basis and 
including nonappropriated as well as appropriated funds and 
cash outlays as well as obligations against the appropria-
tion, the Washington State reporting system has been greatly 
improved. Program budgeting, with this improved reporting 
system, has proven to be a beneficial method of continually 
checking agency operations. When an intermediate or long-
range objective is unduly delayed or becoming too costly, 
the problem is immediately apparent and a remedy can be 
sought. Problems are generally caught in the early stages 
before they become major obstacles.

7George A. Shipman et al., A syllabus of remarks 
dealing with performance budgeting and agency management 
given at a series of workshops in public management during 
1961 at Olympia, Washington. Central Budget Agency, Olympia, 
Washington, p. 46. Hereafter cited as Shipman et al.
More refined and accurate reporting and monitoring of agency management has not been wholly advantageous, however. There is a tendency on the part of the budget office to become "watchdog" oriented in the process. Accounting or dollar-and-cents control, once again, begins to edge its way back to predominance. This is in complete conflict with the theory of program budgeting and the role of the budget office in a program budget state. The tendency in Washington State appears to be more and more toward a "watchdog" approach to budgeting and management improvement suffers in the process.

Washington State's program budget has, however, provided the framework whereby program goals can now be transcribed into specific operating objectives with definite targets and standards. The amount of available resources can then be directed into the program effort with a reasonably accurate determination of anticipated results. Every level of the organization can evaluate its performance as an operating unit in terms of its total effort to the ultimate end.  

Restructures Decision Making

The program budget shifts the emphasis from what is purchased to why purchases are being made. The previous

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8Shipman et al., op. cit., p. 47.
line-item budget presentation distracted attention from policy questions to questions of trivia. The program budget's format alone militates against item consideration. The item listing is replaced by program and performance statements and by a vast reduction in the number of objects. The line-item presentation lent itself to considerations of minute and insignificant matters. Indeed, objects such as travel, pencils, paper and ink were the primary objects of concern; there was no other way to exercise control. Appropriated funds were used to purchase these items. What their contribution was to the overall agencies' objectives was never known. By removing the vast majority of these items, the program budget forced the policy makers to think in terms of policy. More time is now devoted to major policy questions such as: At what level should programs be conducted? Where should emphasis be placed? What is the trend?

Pressure to focus attention on policy matter is felt at all levels of government. The budget office talks in terms of policy; the administrators think in terms of policy; and the executive demands justification in terms of policy. The legislators must channel their thoughts along policy lines or forfeit control of governmental expenditures. Not all situations are this ideal, but the framework for the program budget facilitates thinking and acting in terms of broad policy. As long as the line-item budget existed to
itemize all the objects of expenditure, there was no stimulus to change the mode of thought from what to why. Administrators and legislators are discovering that the more refined and accurate workload statistics, unit costs, and reporting records, together with more up-to-date financial planning, more than suffice for the line-item listing of expenditures. The legislators are beginning to realize that thinking in terms of items is needless and inadequate, and that channeling their thoughts and efforts along policy lines not only facilitates planning but management as well.

Yet many legislators and the Central Budget Agency still require that the budget requests incorporate the immense item listing in addition to the program detail. Although the item detail is removed before the budget document is printed, many legislators are less concerned with the budget document than with the individual budget requests which incorporate the item detail. In many instances, decisions are still made on the basis of the budget items rather than the budget programs.

A problem has arisen in this restructuring process, however. The problem of uninhibited discussion and criticism has lately been considered in the program budget states. There is a school of thought that believes program budgeting inhibits participation by the legislators and the administrators. This is partly because the program budget—with its emphasis on refined accounting, reporting, and
workload indicators—has closed many of the traditional areas of dispute. The process has become scientific to the point where procedure rather than policy is the main point of contention. This school argues that policy is being considered only in abstract terms or the broadest manner possible. This is somewhat as expected, but the degree to which it is true was not. The program budget was not meant to replace controls by the legislators or defense by the administrators.

As a consequence, the only avenues of debate left are broad policy, just as performance budgeting theorists intended. But the unanticipated consequence is that legislators seem to have found an alternative not to participate in the debate at all. Politically it must be realized the decision not to participate is very sensible...budget policy lines carry a high degree of consensus, representing a series of painstaking accommodations among the interests of large and complex organizations. Anyone who ventures on to this treacherous ground does so at considerable risk. The effect, then, of the performance budget has been to kill off some of the old irrationalities and, most particularly, "across the board slashes." It has not, however, forced the legislators to pick up a new mantle as budget policy statesmen.

This opens up some major questions concerning the problems of program budgeting and democratic control. The primary benefit of program budgeting is to give the principals concerned a more rational and coherent picture of the financial affairs of government to aid them in the decision-making process. Focusing on broad policy questions is

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9Eghtedari and Sherwood, op. cit., p. 67.
desirable, but the program budget should not substitute or supplant legitimate criticism and debate. It should serve as a supplementary device in the decision-making process.

The program budget does result in significant re-structuring of the decision-making process by compelling policy makers to restrict themselves to policy decisions. But there are a number of risks. Legislators have more difficulty in monitoring management. If management is not strong and effective, there is less reason for legislative confidence in administrative proposals.  

Easier to Understand

There is very little argument as to whether or not a program budget is easier to understand than a line-item budget. Nearly all concede that the program budget is much easier to read and understand. The emphasis on programs rather than on countless objects is in itself a beneficial innovation. Program budgets, by their very nature, must place more reliance on textual material, programs, activities, and workload data. In the state of Washington graphic means are used to illustrate receipt and expenditure patterns by categories and functions. The objects that remain are related to agency programs and their value to the overall plan is explained. All these considerations are advantageous to

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the understanding of the budget by the executive, the legislature, and the public. Washington State has attempted to focus attention on all aspects of financial management. One of the great difficulties of their previous line-item budget was that so many aspects were missing or omitted. It was very difficult to relate the financial condition and plan in this manner. In Washington State, one no longer has to unravel all the items of expenditure and relate them to a given objective to understand the financial plan.

Summary

The vast reorganization inherent in the adoption and implementation of the program budget has led to many beneficial changes in Washington State. In addition to the above advantages many ancillary advantages have also been attained. Financial management and budgeting are far from ideal, however. There are weaknesses and voids that will require future correction.

Budgeting has become more rational within the context in which it operates, primarily because more relevant knowledge is available to the decision makers. Economy and efficiency have become more realizable goals; although economy and efficiency are not implicit features of the program budget. While the program budget has aided materially in locating and identifying waste and inefficiency, identification has proven to be only part of the problem.
Management and planning have been improved, but there is a lingering danger that refined and accurate reporting may lead to a return of the accounting or "watchdog" control at the expense of management improvement. The program budget has restructured the decision-making process but, again, not without risks. And, finally, the state of Washington has benefited from an easier, more understandable presentation of the budget which is made possible by the emphasis on programs and a significant reduction in the number of items of expenditure.

"It is not to be concluded that a fixed and invariable set of principles can be formulated to serve as an inflexible guide or automatic technique by which all budgetary questions can be determined."\(^{11}\) Nebulous concepts, subjective values, ambiguous guidelines, and human nature make the entire budgetary process uncertain. The program budget is no more than a frame of reference and a method for action; its success or failure is dependent on the people who use the tool. The budget can be a significant check and assurance if the people wish it to be. It can also be a meaningless conglomeration of figures.

As a nation we must see that the budget is not merely a problem of finance, it is not merely a problem of arithmetic, it is not merely a problem of

accounting, though it has important financial and accounting aspects. We must see that the budget problem is primarily a politico-social problem going to the very essence of social well being.\textsuperscript{12}

\textsuperscript{12}Fitzpatrick, \textit{op. cit.}, p. 292.
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Books


Monographs


Articles and Periodicals


Unpublished Material


Miscellaneous

APPENDIX A

Budgeting Forms
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### State of Washington — Biennial Budget Estimates

**General Justification Material**
### Fund Summary

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<tr>
<td>31. Total, Non-Appropriated Funds</td>
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TOTAL — ALL FUNDS
### State of Washington — Biennial Budget Estimates

**AGENCY BUDGET SUMMARY**

**Agency Code**: 160  
**Title**: Department of ABC

<table>
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<tr>
<th>Codes</th>
<th>ITEM</th>
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**Summary by Program**

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**Summary by Object**

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<td>Annual Total</td>
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### State of Washington — Biennial Budget Estimates

#### Agency Revenues

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#### Fund and Source Titles

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<td>1959-60</td>
<td>Annual Total</td>
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<td>222,343,652</td>
<td>250,496,400</td>
<td>263,394,409</td>
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<td>1959-60</td>
<td>Biennial Total</td>
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<td>472,840,052</td>
<td>510,796,760</td>
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### STATE OF WASHINGTON — BIENNIAL BUDGET ESTIMATES

#### OPERATING PROGRAM BUDGET

**AGENCY** | **Code** | **Title**  
--- | --- | ---  
| 160 | Department of DEF  

**PROGRAM** | **01** | General Administration  

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<td>Man Years</td>
<td>30.8</td>
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<td>Average Man-Year Cost</td>
<td>3,915</td>
<td>4,119</td>
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#### EXPENDITURE DETAIL

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<td>03</td>
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<td>Debt Redemption</td>
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#### Annual Total

| Fiscal Year 1959-1960 | 130,985 | 135,191 | 139,184 | 133,306 | 135,483 |
| Biennium Total | 260,460 | 274,375 | 268,789 |

**Change from Preceding Biennium:**

- Amount: 14,614 | 13,915 |
- Percent: 5.9% | 5.3% | 2.0%

#### SOURCE OF FUNDS

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*From State Funds in 1963-1965*
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**STATE OF WASHINGTON — BIENNIAL BUDGET ESTIMATES**

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<tr>
<th>AGENCY</th>
<th>Code</th>
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<tr>
<td>495</td>
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<td>Department of MNO</td>
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<tr>
<th>PROGRAM</th>
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<td>03</td>
<td>Animal Industry</td>
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<tr>
<td>5. 02-01 Blood Samples at Stockyards by Private Vets @ 25¢ per</td>
<td>9,525</td>
<td>9,750</td>
<td>10,000</td>
<td>10,250</td>
<td>10,500</td>
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<td>6. See Workload Indicators on Page 23</td>
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<tr>
<td>7. 02-02 &quot;As Collected&quot; health inspections of Plants by private Vets</td>
<td>70,895</td>
<td>72,950</td>
<td>74,000</td>
<td>75,000</td>
<td>77,500</td>
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<td>8. See Workload Indicators on Page 23</td>
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<tr>
<td>9. 02-03 Meat Inspection</td>
<td>123,215</td>
<td>126,495</td>
<td>128,500</td>
<td>155,000</td>
<td>155,000</td>
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<td>10. Increase General Fund Support from 25% to 30%</td>
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<tr>
<td>11. Total Object 02</td>
<td>203,635</td>
<td>209,195</td>
<td>212,500</td>
<td>240,250</td>
<td>243,000</td>
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**Object 03 Other Contractual Services**

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<td>5. 03-01 Telephone and Telegraph</td>
<td>2,405</td>
<td>2,475</td>
<td>2,400</td>
<td>2,400</td>
<td>2,400</td>
</tr>
<tr>
<td>6. 03-02 Utilities</td>
<td>6,812</td>
<td>6,740</td>
<td>7,010</td>
<td>7,000</td>
<td>7,000</td>
</tr>
<tr>
<td>7. 03-03 Rent - New Quarters to be occupied effective as of August 1, 1963</td>
<td>5,410</td>
<td>5,459</td>
<td>5,416</td>
<td>5,950</td>
<td>6,000</td>
</tr>
<tr>
<td>8. 03-05 State Printing</td>
<td>9,730</td>
<td>10,105</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>9. 03-06 Industrial Insurance</td>
<td>660</td>
<td>695</td>
<td>700</td>
<td>700</td>
<td>700</td>
</tr>
<tr>
<td>10. 03-07 All Other</td>
<td>6,812</td>
<td>6,848</td>
<td>6,600</td>
<td>6,600</td>
<td>6,600</td>
</tr>
<tr>
<td>11. Total Object 03</td>
<td>31,829</td>
<td>32,322</td>
<td>32,126</td>
<td>32,650</td>
<td>32,700</td>
</tr>
</tbody>
</table>
### Class of Position Title | Salary Range or Annual Rate | CURRENT BIENNIAL | ENDING BIENNIAL | CBA USE ONLY
--- | --- | --- | --- | ---
**1. Statistics Activity**
2. State Judiciary Statistics Bd. Members (3) | $25/day | Man Years | Amount | Man Years | Amount | Man Years | Amount | Man Years | Amount
3. State Judiciary Statistics Register | $10,000 | 1.0 | 9,125 | 1.0 | 10,000 | 1.0 | 10,000 | 1.0 | 10,000
4. Statistical Analyst II | 27 | .9 | 6,472 | 1.0 | 7,212 | 1.0 | 7,212 | 1.0 | 7,212
5. Statistical Analyst I | 34 | 3.4 | 21,140 | 4.0 | 25,296 | 4.0 | 25,296 | 4.0 | 25,296
6. Statistician II | 22 | 4.1 | 22,521 | 5.0 | 29,808 | 5.0 | 29,808 | 5.0 | 29,808
7. Statistician I | 29 | 2.5 | 11,691 | 3.0 | 14,652 | 3.0 | 14,652 | 3.0 | 14,652
8. Clerk Stenographer III | 25 | 1.0 | 4,610 | 1.0 | 4,680 | 1.0 | 4,680 | 1.0 | 4,680
9. Clerk Typist II | 21 | 1.6 | 5,649 | 2.0 | 7,212 | 2.0 | 7,212 | 2.0 | 7,212
10. Research Analyst II | 27 | .9 | 6,472 | 1.0 | 7,212 | 1.0 | 7,212 | 1.0 | 7,212
11. Clerk Stenographer II | 23 | 1.0 | 5,649 | 2.0 | 7,212 | 2.0 | 7,212 | 2.0 | 7,212
12. Statistical Analyst II | 37 | 1.0 | 7,341 | 1.0 | 7,524 | 1.0 | 7,704 | 1.0 | 7,924

**14. Reporting Activity**
15. Information Specialist | 33 | .4 | 2,210 | 1.0 | 5,544 | 1.0 | 5,544 | 1.0 | 5,544
16. Tabulating Supervisor I | 30 | 1.0 | 5,712 | 1.0 | 5,796 | 1.0 | 5,796 | 1.0 | 5,796
17. Tabulating Equipment Operator | 26 | 1.0 | 4,323 | 1.0 | 4,476 | 1.0 | 4,476 | 1.0 | 4,476
18. Key Punch Operator II | 23 | 1.1 | 3,763 | 1.1 | 4,330 | 1.2 | 4,725 | 1.2 | 4,725
19. Clerk Typist III | 23 | .5 | 1,796 | .7 | 2,652 | 1.0 | 3,780 | 1.0 | 3,780
20. Overtime for Activity (Straight Time) | .1 | 421 | .1 | 450 | .1 | 500 | .1 | 500

**29. a. Total** | 19.7 | 109,679 | 23.0 | 130,568 | 24.4 | 135,753 | 25.4 | 139,365
30. b. Allowance Factor | .864 | .874 | xxxx | xxxx | xxxx | xxxx | xxxx | xxxx
31. c. Net base (line a times line b.) | xxxx | xxxx | 19.9 | 114,116 | 21.1 | 118,648 | 21.9 | 121,805
32. d. Addition to Decrease Vacancy Rate | xxxx | xxxx | xxxx | xxxx | xxxx | xxxx | xxxx | xxxx
33. e. Addition for Increments | xxxx | xxxx | xxxx | xxxx | xxxx | xxxx | xxxx | xxxx
34. f. Salary Increases | xxxx | xxxx | xxxx | xxxx | xxxx | xxxx | xxxx | xxxx
35. g. Adjusted Net Expenditures | xxxx | xxxx | xxxx | xxxx | xxxx | xxxx | xxxx | xxxx
APPENDIX B

Budget and Accounting System
Chapter 43.88
BUDGET AND ACCOUNTING SYSTEM

43.88.010 Purpose. It is the purpose of this chapter to establish an effective budget and accounting system for all activities of the state government; to prescribe the powers and duties of the governor as these relate to securing such fiscal controls as will promote effective budget administration; and to prescribe the responsibilities of agencies of the executive branch of the state government (1959 c 328 § 1.)

43.88.020 Definitions. (1) "Budget" shall mean a proposed plan of expenditures for a given period or purpose and the proposed means for financing these expenditures;

(2) "Budget document" shall mean a formal, written statement offered by the governor to the legislature, as provided in RCW 43.88.030.

(3) "Budget director" shall mean the official appointed by the governor to serve at the governor's pleasure and to whom the governor may delegate necessary authority to carry out the governor's duties as provided in this chapter. The budget director shall be head of the central budget agency, which shall be in the office of the governor.

(4) "Agency" shall mean and include every state office, officer, each institution, whether educational, correctional or other, and every department, division, board and commission, except as otherwise provided in this chapter.

(5) "Public funds", for purposes of this chapter, shall mean all moneys, including cash, checks, bills, notes, drafts, stocks and bonds, whether held in trust or for operating purposes and collected or disbursed under law, whether or not such funds are otherwise subject to legislative appropriation.

(6) "Regulations" shall mean the policies, standards and requirements, stated in writing, designed to carry out the purposes of this chapter, as issued by the governor or his designated agent, and which shall have the force and effect of law. (1959 c 328 § 2.)

43.88.030 Content of the budget document. The budget document shall consist of the following parts:

Part 1 shall contain the governor's budget message which shall be explanatory of the budget and shall contain an outline of the proposed financial policies of the state for the ensuing fiscal period and shall describe in connection therewith the important features of the budget. The message shall set forth the reasons for salient changes from the previous fiscal period in expenditure and revenue items and shall explain any major changes in financial policy. Attached to the budget message shall be such supporting schedules, exhibits and other explanatory material in respect to both current operations and capital improvements as the governor shall deem to be useful to the legislature.

Part 1 shall also contain:

As to revenues:

(1) Anticipated revenues classified by fund and source;

(2) Comparisons between revenues actually received during the immediately past fiscal period, those received or anticipated for the current period, and those anticipated for the ensuing period;

(3) Cash surplus, by fund, to the extent provided by RCW 43.88.040;

(4) Such additional information dealing with revenues as the governor shall deem pertinent and useful to the legislature.

As to expenditures:

(1) Tabulations showing expenditures classified by fund, function, activity and object;
(2) Cash deficit, by fund, to the extent provided by RCW 43.88.050.
(3) Such additional information dealing with expenditures as the governor shall
deem pertinent and useful to the legislature;
Part II shall embrace the detailed estimates of all anticipated revenues
applicable to proposed operating expenditures. Part II shall also include all
proposed operating expenditures. The total of anticipated revenues shall equal the
total of proposed applicable expenditures: PROVIDED, That this requirement shall
not prevent the liquidation of any deficit existing on the effective date of this
chapter. This part shall further include:
(1) Interest, amortization and redemption charges on the state debt;
(2) Payments of all reliefs, judgments and claims;
(3) Other statutory expenditures;
(4) Expenditures incident to the operation for each agency in such form as the
governor shall determine;
(5) Revenues derived from agency operations;
(6) Expenditures and revenues shall be given in comparative form showing those
incurred or received for the immediately past fiscal period and those anticipated
for the current and next ensuing periods;
(7) Such other information as the governor shall deem useful to the legislature
in gaining an understanding of revenues and expenditures.
Part III shall consist of:
(1) Expenditures incident to current or pending capital projects and to
proposed new capital projects, relating the respective amounts proposed to be
raised therefor by appropriations in the budget and the respective amounts
proposed to be raised therefor by the issuance of bonds during the fiscal period;
(2) A capital program consisting of proposed capital projects for at least the
two fiscal periods succeeding the next fiscal period. The capital program shall
include for each proposed project a statement of the reason or purpose for the
project along with an estimate of its cost;
(3) Such other information bearing upon capital projects as the governor shall
deem to be useful to the legislature. (1959 c 328 § 3.)

43.88.040 Cash surplus. Surplus available for appropriation shall be limited
to cash surplus, defined for purposes of this chapter as any money, assets or
other resources available for expenditure over and above any liabilities which
are expected to be incurred by the close of the current fiscal period. If the
aggregate of estimated revenues for the next ensuing fiscal period, together with
the surplus, if any, for the current fiscal period exceeds the applicable
appropriations proposed by the governor for the next ensuing fiscal period, the
governor shall include in Part I of the budget document his recommendations for
the use of said excess of anticipated revenues, and said surplus, over applicable
appropriations for the reduction of indebtedness, for the reduction of taxation or
for other purposes as in his discretion shall serve the best interests of the
state. (1959 c 328 § 4.)

43.88.050 Cash deficit. Cash deficit of the current fiscal period is defined
for purposes of this chapter as the amount by which the aggregate of expenditures
charged to a fund will exceed the aggregate of receipts credited to such fund in
the current fiscal period, less the extent to which such deficit may have been
provided for from available reserve funds.
If, for any applicable fund, the estimated revenues for the next ensuing period
plus cash surplus shall be less than the aggregate of appropriations proposed by
the governor for the next ensuing fiscal period the governor shall include in
Part I of the budget document his proposals as to the manner in which the antici­
pated deficit shall be met, whether by an increase in the indebtedness of the state,
by the imposition of new taxes, by increases in tax rates or an extension thereof, or in any like manner. The governor may provide for orderly liquidation of the currently existing deficit over a period of one or more fiscal periods, if, in his discretion, such manner of liquidation would best serve the public interest. (1959 c 328 § 5.)

43.88.060 Legislative review of budget document and budget bill. Within five calendar days after the convening of the legislature the governor shall submit the budget document unless such time is extended by the legislature. The governor shall also submit a budget bill which for purposes of this chapter is defined to mean the appropriations proposed by the governor as set forth in the budget document. Such representatives of agencies as have been designated by the governor for this purpose shall, when requested, by either house of the legislature, appear to be heard with respect to the budget document and the budget bill and to supply such additional information as may be required. (1959 c 328 § 6.)

43.88.070 Appropriations. Appropriations shall be deemed maximum authorizations to incur expenditures but the governor shall exercise all due supervision and control to ensure that expenditure rates are such that program objectives are realized within these maximums. (1959 c 328 § 7.)

43.88.080 Adoption of budget. Adoption of the appropriation, or budget, bill by the legislature shall constitute adoption of the budget and the making of appropriations therefor. The budget shall be finally adopted not later than thirty calendar days prior to the beginning of the fiscal period. (1959 c 328 § 8.)

43.88.090 Development of budget. For purposes of developing his budget proposals to the legislature, the governor shall have the power, and it shall be his duty, to require from proper agency officials such detailed estimates and other information in such form and at such times as he shall direct. The estimates for the legislature and the judiciary shall be transmitted to the governor and shall be included in the budget. Estimates for the legislature and for the supreme court shall be included in the budget without revision. In the year of the gubernatorial election, the governor shall invite the governor-elect or his designee to attend all hearings provided in RCW 43.88.110; and the governor shall furnish the governor-elect or his designee with such information as will enable him to gain an understanding of the state's budget requirements. The governor-elect or his designee may ask such questions during the hearings and require such information as he deems necessary and may make recommendations in connection with any item of the budget which, with the governor-elect's reasons therefor, shall be presented to the legislature in writing with the budget document. Copies of all such estimates and other required information shall also be submitted to the legislative budget committee. The governor shall also invite the legislative budget committee to designate one or more persons to be present at all hearings provided in RCW 43.88.100. The designees of the legislative budget committee may also ask such questions during the hearings and require such information as they deem necessary. (1959 c 328 § 9.)

43.88.100 Executive hearings. The governor may provide for hearings on all agency requests for expenditures to enable him to make determinations as to the need, value or usefulness of activities or programs requested by agencies. The governor may require the attendance of proper agency officials at his hearings and it shall be their duty to disclose such information as may be required to enable the governor to arrive at his final determination. (1959 c 328 § 10.)
43.88.110 Expenditure programs—Allotments—Reserves. Subdivisions (1) and (2) of this section set forth the expenditure programs and the allotment and reserve procedures to be followed by the executive branch.

(1) Before the beginning of the fiscal period, all agencies shall submit to the governor a statement of proposed agency expenditures at such times and in such form as may be required by him. The statement of proposed expenditures shall show, among other things, the requested allotments of appropriations for the ensuing fiscal period for the agency concerned for such periods as may be determined by the budget director for the entire fiscal period. The governor shall review the requested allotments in the light of the agency's plan of work and, with the advice of the budget director, he may revise or alter agency allotments: PROVIDED, That revision of allotments shall not be made for the following: agencies headed by elective officials; University of Washington; Washington State College; Central Washington College of Education; Eastern Washington College of Education; and Western Washington College of Education. The aggregate of the allotments for any agency shall not exceed the total of appropriations available to the agency concerned for the fiscal period.

(2) Except for agencies headed by elective officials and for institutions for higher education, as provided in this section, the approved allotments may be revised during the course of the fiscal period in accordance with the regulations issued pursuant to this chapter. If at any time during the fiscal period the governor shall ascertain that available revenues for the applicable period will be less than the respective appropriations, he shall revise the allotments concerned so as to prevent the making of expenditures in excess of available revenues. To the same end, and with the exception stated in this section for allotments involving agencies headed by elective officials and for institutions for higher education the governor is authorized to withhold and to assign to, and to remove from, a reserve status any portion of an agency appropriation which in the governor's discretion is not needed for the allotment. No expenditures shall be made from any portion of an appropriation which has been assigned to a reserve status except as provided in this section.

(3) It is expressly provided that all agencies shall be required to maintain accounting records and to report thereon in the manner prescribed in this chapter and under the regulations issued pursuant to this chapter. (1959 c 328 § 11.)

43.88.120 Revenue estimates. Before the beginning of any fiscal period, any agency engaged in the collection of revenues shall submit to the governor statements of revenue estimates at such times and in such form as may be required by him. (1959 c 328 § 12.)

43.88.130 When contracts and expenditures prohibited. No agency shall expend or contract to expend any money or incur any liability in excess of the amounts appropriated for that purpose: PROVIDED, That nothing in this section shall prevent the making of contracts or the spending of money for capital improvements, nor the making of contracts of lease or for service for a period exceeding the fiscal period in which such contract is made, when such contract is permitted by law. Any contract made in violation of this section shall be null and void. (1959 c 328 § 13.)

43.88.140 Lapsing of appropriations. All appropriations shall lapse at the end of the fiscal period to the extent that they have not been expended or lawfully obligated. Any remaining unexpended and unobligated balance of appropriations shall revert to the fund from which the appropriation was made. (1959 c 328 § 14.)
43.88.150 Priority of expenditures--Appropriated and nonappropriated funds.
For those agencies which make expenditures from both appropriated and nonappropriated funds, the governor is authorized to direct such agencies to charge their expenditures in such ratio, as between appropriated and nonappropriated funds, as will conserve appropriated funds. (1959 c 328 § 15.)

43.88.160 Fiscal management--Powers and duties of officers and agencies. This section sets forth the major fiscal duties and responsibilities of officers and agencies of the executive branch. The regulations issued by the governor pursuant to this chapter shall provide for a comprehensive, orderly basis for fiscal management and control, including efficient accounting and reporting therefor, for the executive branch of the state government and may include, in addition, such requirements as will generally promote more efficient public management in the state.

(1) Governor; budget director. The governor, through his budget director, shall devise and supervise a modern and complete accounting system for each agency to the end that all revenues, expenditures, receipts, disbursements, resources and obligations of the state shall be properly and systematically accounted for. The accounting system shall include the development of accurate, timely records and reports of all financial affairs of the state. The system shall also provide for comprehensive central accounts in the central budget agency. The budget director may require such financial, statistical and other reports as he deems necessary from all agencies covering any period.

In addition, the budget director, as agent of the governor, shall:
(a) Make surveys and analyses of agencies with the object of determining better methods and increased effectiveness in the use of manpower and materials; and he shall authorize expenditures for employee training to the end that the state may benefit from training facilities made available to state employees;
(b) Report to the governor with regard to duplication of effort or lack of coordination among agencies;
(c) Review any pay and classification plans, and changes thereunder, developed by any agency for their fiscal impact: PROVIDED, That none of the provisions of this subsection shall affect merit systems of personnel management now existing or hereafter established by statute relating to the fixing of qualification requirements for recruitment, appointment, or promotion of employees of any agency. He shall advise and confer with agencies including the legislative budget committee and the legislative council regarding the fiscal impact of such plans and may amend or alter said plans, except that for the following agencies no amendment or alteration of said plans may be made without the approval of the agency concerned: Agencies headed by elective officials; University of Washington; Washington State College; Central Washington College of Education; Eastern Washington College of Education; and Western Washington College of Education;
(d) Fix the number and classes of positions or authorized man years of employment for each agency and during the fiscal period amend the determinations previously fixed by him, except that he shall not be empowered to fix said number or said classes for the following: Agencies headed by elective officials; University of Washington; Washington State College; Central Washington College of Education; Eastern Washington College of Education; and Western Washington College of Education;
(e) Promulgate regulations to effectuate provisions contained in subsections (a) through (d) hereof.

(2) The treasurer shall:
(a) Receive, keep and disburse all public funds of the state not expressly required by law to be received, kept and disbursed by some other persons: PROVIDED, That this subsection shall not apply to those public funds of the institutions of higher learning which are not subject to appropriation;
(b) Disburse public funds under his supervision or custody by warrant or check;
(c) Keep a correct and current account of all moneys received and disbursed by
him, classified by fund or account;
(d) Perform such other duties as may be required by law or by regulations
issued pursuant to this law.

It shall be unlawful for the treasurer to issue any warrant or check for public
funds in the treasury except upon forms duly prescribed by the budget director.
Said forms shall provide for authentication and certification by the agency head
or his designee that the services have been rendered or the materials have been
furnished and the treasurer shall not be liable under his surety bond for erroneous
or improper payments so made. The responsibility for recovery of erroneous or
improper payments made under this section shall lie with the agency head or his
designee in accordance with regulations issued pursuant to this chapter.

(3) The state auditor shall:
(a) Report to the legislature the results of current post audits that have been
made of the financial transactions of each agency; to this end he may, in his
discretion, examine the books and accounts of any agency, official or employee
charged with the receipt, custody or safekeeping of public funds.
(b) Give information to the legislature, whenever required, upon any subject
relating to the financial affairs of the state.
(c) Make his official report on or before the thirty-first of December which
precedes the meeting of the legislature. The report shall be for the last
complete fiscal period and shall include at least the following:
(i) Determinations as to whether agencies, in making expenditures, complied
with the will of the legislature; and
(ii) Such plans as he deems expedient for the support of the state's credit,
for lessening expenditures, for promoting frugality and economy in agency affairs
and generally for an improved level of fiscal management.
(d) Be empowered to take exception to specific expenditures that have been
incurred by any agency or to take exception to other practices related in any way
to the agency's financial transactions and to cause such exceptions to be made a
matter of public record, including disclosure to the agency concerned and to the
budget director. It shall be the duty of the budget director to cause corrective
action to be taken promptly, such action to include, as appropriate, the with­
holding of funds as provided in RCW 43.88.110.
(e) Shall promptly report any irregularities to the attorney general.

(4) The legislative budget committee may:
(a) Make post audits of such of the financial transactions as it may determine
of any agency and to this end may in its discretion examine the books and accounts
of any agency, official, or employee charged with the receipt, custody, or safe­
keeping of public funds.
(b) Give information to the legislature and legislative council whenever re­
quired upon any subject relating to the financial affairs of the state.
(c) Make its official report on or before the thirty-first of December which
precedes the meeting of the legislature. The report shall be for the last complete
fiscal period and shall include at least the following:
(i) Determinations as to the extent to which agencies in making expenditures
have complied with the will of the legislature and in this connection, make take
exception to specific expenditures or financial practices of any agencies; and
(ii) Such plans as it deems expedient for the support of the state's credit,
for lessening expenditures, for promoting frugality and economy in agency affairs
and generally for an improved level of fiscal management; and
(iii) A report on the efficiency and accuracy of the post audit operations of
the state government. (1959 c 328 § 16.)
43.88.170 Refunds of erroneous or excessive payments. Whenever any law which provides for the collection of fees or other payment by an agency does not authorize the refund of erroneous or excessive payments thereof, refunds may be made or authorized by the agency which collected the fees or payments of all such amounts received by the agency in consequence of error, either of fact or of law. The regulations issued by the governor pursuant to this chapter shall prescribe the procedure to be employed in making refunds. (1959 c 328 § 17.)

43.88.180 Where appropriations not required. Appropriations shall not be required for refunds, as provided in RCW 43.88.170, nor in the case of payments to be made from trust funds specifically created by law to discharge awards, claims, annuities and other liabilities of the state. A trust fund is defined for purposes of this chapter as a fund consisting of resources received and held by an agency as trustee, to be expended or invested in accordance with the provisions of the trust. Said funds shall include, but shall not be limited to, the accident fund, medical aid fund, retirement system fund, Washington state patrol retirement fund and unemployment trust fund. Nor shall appropriations be required in the case of public service enterprises defined for the purposes of this section as proprietary functions conducted by an agency of the state. It shall not be necessary for an appropriation to be made to permit payment of obligations by revolving funds, as provided in RCW 43.88.190. (1959 c 328 § 18.)

43.88.190 Revolving funds. Revolving funds shall not be created by law except to finance the operations of service units, or units set up to supply goods and services to other units or agencies. Such service units where created shall be self-supporting operations featuring continuous turnover of working capital. The regulations issued by the governor pursuant to this chapter shall prescribe the procedures to be employed by agencies in accounting and reporting for revolving funds and may provide for the keeping of such funds in the custody of the treasurer. (1959 c 328 § 19.)

43.88.200 Public records. All agency records reflecting financial transactions, such records being defined for purposes of this chapter to mean books of account, financial statements, and supporting records including expense vouchers and other evidences of obligation, shall be deemed to be public records and shall be available for public inspection in the agency concerned during official working hours. (1959 c 328 § 20.)

43.88.210 Transfer of certain powers and duties. It is the intent of this chapter to assign to the governor's office authority for developing and maintaining budgeting, accounting, reporting and other systems necessary for effective expenditure and revenue control among agencies.

To this end:
(1) All powers and duties and functions of the state auditor relating to the disbursement of public funds by warrant or check are hereby transferred to the state treasurer as the governor may direct but no later than ninety days after the start of the next fiscal biennium, and the state auditor shall deliver to the state treasurer all books, records, accounts, equipment, or other property relating to such function. In all cases where any question shall arise as to the proper custody of any such books, records, accounts, equipment or property, or pending business, the governor shall determine the question;
(2) In all cases where reports, notices, certifications, vouchers, disbursements and similar statements are now required to be given to any agency the duties and responsibilities of which are being assigned or reassigned by this chapter, the same shall be given to the agency or agencies in the manner provided for in
43.88.220 Federal law controls in case of conflict—Rules. If any part of this chapter shall be found to be in conflict with federal requirements which are a prescribed condition to the allocation of federal funds to the state, such conflicting part of this chapter is hereby declared to be inoperative solely to the extent of such conflict and with respect to the agencies directly affected, and such finding or determination shall not affect the operation of the remainder of this chapter in its application to the agencies concerned. The rules and regulations under this chapter shall meet federal requirements which are a necessary condition to the receipt of federal funds by the state. (1959 c 328 § 22.)

43.88.230 Legislative agencies and committees deemed part of legislative branch. For the purposes of this chapter, the legislative council, the statute law committee, the legislative budget committee, and all legislative interim committees shall be deemed a part of the legislative branch of state government. (1959 c 328 § 23.)

43.88.240 Exemption of certain fruit, dairy, agricultural commissions. This chapter shall not apply to the Washington state apple advertising commission, the Washington state fruit commission, the Washington state dairy products commission, or any agricultural commodity commission created under the provisions of chapter 15.66: PROVIDED, That all such commissions shall submit estimates and such other necessary information as may be required for the development of the budget and shall also be subject to audit by the appropriate state auditing agency or officer. (1959 c 328 § 24.)

43.88.900 Severability. If any provision of this chapter, or its application to any person or circumstance is held invalid, the remainder of the chapter, or the application of the provision to other persons or circumstances is not affected. (1959 c 328 § 26.)
APPENDIX C

Organization Structure