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BRIEFLY

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GOVERNOR GREGOIRE'S 2011-13 BUDGET PROPOSAL

On December 15, Gov. Chris Gregoire presented her state budget for the 2011-13 biennium. She proposes spending \$32.1 billion from the general fund-state account (GF-S) in the upcoming biennium. Although general fund-state (GF-S) revenue is again growing (the current forecast is that 2011-13 revenue will exceed 2009-11 by 15.9 percent), budget writers face a grim task. During the current biennium, the state has spent considerably more than it has taken in in tax revenue. This additional spending has been funded with billions of one-time dollars: federal stimulus funds and reserves drawn from many different state accounts. Now the one-time funds are gone.

Table 1 presents a balance sheet for the general fund-state account. The left column in the table shows at a high level the "problem" budget writers face for 2011-13. The right column outlines Gov. Gregoire's proposed solution.

Table 1: 2011-13 Balance Sheet
General Fund-State
(Dollars in Millions)

	Maintenance Level	Governor's Proposal
Resources		
Beginning Fund Balance*	97	97
November 2010 Revenue Forecast	32,605	32,605
Mandated Transfer to Rainy Day Fund	(290)	(290)
Mandated Transfer to Ed. Construction Acct.	(204)	(204)
Use Of Rainy Day Fund		290
Suspend Transfer to Ed. Construction Acct.		204
Other Fund Transfers		185
Budget-Driven Revenue and Legislation	(15)	130
Total Resources (Including Beginning Balance)	32,193	33,017
Expenditures		
Maintenance Level Spending	35,859	
Governor's Proposed Budget		32,124
Reserves		
General Fund - State	(3,666)	893
Rainy Day Fund	-	-

*Reflects Governor's December 17 Supplemental Budget Proposal

The Problem

If the legislature passes Gov. Gregoire's proposed supplemental 2009-11 budget, It is projected that the GF-S will begin the 2011-13 biennium with a \$97 million balance. The November revenue forecast for 2011-13 revenue is \$32,605 million. The state constitution requires that \$290 million of this revenue be transferred to the rainy day fund (the budget stabilization account). Legislation enacted last Spring (E2SSB 6409) requires that \$204 million be transferred to the education construction account. Legislation enacted in the December 11 special session (SB 6892, which temporarily waives penalties and interest for late payment of certain taxes) is expected to reduce 2011-13 revenues by \$15 million. (These funds will be collected during the current biennium, instead.) Baseline total resources for the biennium are thus \$32,181 million.

Projected maintenance level expenditures for 2011-13 (the estimated cost of providing currently authorized services) are \$35,869 million,

The calculated value of 2011-13 maintenance level GF-S spending exceeds 2009-11 appropriations (\$ 30.5 billion) by \$5.4 billion (17.7 percent). Of this, \$2.3 billion is required to replace one-time federal stimulus funding. Other

major contributors to the maintenance level increase include: medical assistance caseload and per capita expense growth (\$439 million); long-term care caseload growth (\$152 million); K-12 enrollment growth, assessments and other cost increases; restoration of the Initiative 728 student achievement program per-pupil allocations (\$860 million); Initiative 732 teacher pay increases (\$301 million); and pension costs (\$582 million).

Maintenance level expenditures exceed baseline total resources by \$3,678 million. Gov. Gregoire believes that a prudent projected ending balance would be around \$900 million, and so she talks about a \$4.6 billion budget problem.

Gov. Gregoire's Solution

The governor proposes to transfer back to the GS-S the funds transferred to the rainy day fund (to do this will require three-fifths majorities in both legislative houses) and to suspend the statutory transfer to the Education Construction Account. Other fund transfers add \$185 million. The largest items here are \$85 million from extending liquor price markup and \$45 million from retaining in the GF-S reversions that otherwise would go to the education construction account.

Table 2: Difference between Governor's Proposal and the Baseline

	Amount	Percent
Legislative	(1,702)	-1.1%
Judicial	327	0.1%
Governmental Operations	(44,757)	-9.5%
Human Services	(1,441,714)	-10.4%
Natural Resources and Recreation	(84,926)	-20.4%
Transportation	(2,691)	-3.2%
Public Schools	(1,785,073)	-11.5%
Higher Education	(174,460)	-6.1%
Other Education	(23,511)	-24.0%
All Other Expenditures and Appropriations	(176,251)	-8.0%
Total	(3,734,758)	-10.4%

The GF-S would gain \$146 million in cigarette revenues redirected from the education legacy trust account.

Together these actions increase total resources by \$824 million to \$33,005 million.

The governor's proposed spending amount, \$32,124 million, is \$3,735 less than maintenance level. Table 1 shows the dollar amount and percentage differences between the governor's proposal and maintenance level for ten broad spending categories. In absolute terms, the largest differences are in public schools (\$1.8 billion) and human services (\$1.4 billion), while in percentage terms the largest differences are in other education (24.0 percent), and natural resources and recreation (20.4 percent).

The GF-S ending balance is \$881 million, while the rainy day fund balance is \$0.

By the governor's reckoning, 60 percent of maintenance level spending (\$21 billion of \$35 billion) is protected by either the state constitution, or legal or contractual obligations, or federal requirements. These constraints largely shape the spending proposal

Highlights

K-12 Education. The governor's proposal suspends the Initiative 728 student achievement program, which funds smaller class sizes and extended learning time for students, and professional development for teachers, for a savings of \$860.2 million. The proposal also extends the existing elimination of funding to reduce K-12 class sizes, saving \$216.0 million, and suspends the planned increase in all-day kindergarten, saving \$57.0 million.

The governor achieves significant savings in teacher compensation by suspending current and catch-up Initiative 732 cost of living increases (\$253.3 million), step increases for years of service and educational credits (\$56.4 million) and bonuses for National Board certification (\$99.5 million). Funding for school employee health care is frozen at the current \$768 per employee per month

The proposal reduces levy equalization payments by an average of 6.3 percent, saving \$39.5 million.

Higher Education. GF-S funding for higher education would be cut \$174 million from maintenance level. In addition, higher education will lose \$347.4 million from the education legacy trust account. The budget assumes that the institutions would recoup \$330.0 million by raising tuition. The higher education coordinating board (HECB) budget, however, would be increased over maintenance level by 58 percent. This is partly due to a \$91.6 million increase in

funding for the state need grant to which would offset higher tuition for need grant recipients. Additionally, the governor proposes shifting cigarette tax revenue from the education legacy trust account to the GF-S, which would increase the HECB GF-S budget by \$110.4 million. The governor would also create a new baccalaureate incentive program (at \$5 million), from which the HECB would give funds to institutions based on the extent to which they are able to reduce the number of credits earned by students over and above those needed for graduation.

Lastly, institutions are currently funded based on student enrollment; the governor would instead base funding on the number of degrees granted.

Other Education. In the department of early learning, the early childhood education and assistance program will eliminate 1,324 preschool slots for three-year-olds and add 662 slots for four-year-olds, saving \$9.0 million; the career and wage program, which offers wage supplements to employees of selected child care centers, is eliminated, saving \$3.0 million. The governor proposes to eliminate the state arts commission, saving \$2.9 million, and to close the State History Museum and the Northwest Museum of Arts and Culture, saving \$5.1 million.

Human Services. The governor proposes to transfer the Medicaid purchasing administration from DSHS to the health care authority (HCA). This transfer would cut DSHS maintenance level spending by 49.6 percent. The transfer has been in the works since earlier this year. The idea is to consolidate all state health care purchasing within one agency. This is both an effort to streamline state spending on health care and a preparation for the implementation of national health care reform. Medical Assistance would move to HCA by July 1, 2011.

Within human services, major programs to be eliminated include: subsidized coverage under the basic health plan (saving \$230.2 million); the disability lifeline grant for the temporarily unemployable (saving \$180.1 million); the disability lifeline medical program (saving \$147.2 million); the children’s health program, which serves 27,000 undocumented children (\$59.0 million);

Table 3: Budget Comparison:
Current Biennium,
2011-13 Maintenance Level, and
2011-13 Recommended Level
(Dollars in Thousands)

	2009-11 Biennium		2011-13 Biennium			
	Budgeted*		Maintenance Level		Governor's Proposal	
	GF-State	All Funds	GF-State	All Funds	GF-State	All Funds
Legislative	153,900	161,386	155,503	161,221	153,801	159,459
Judicial	228,493	273,554	247,344	276,173	247,671	287,354
Governmental Operations	464,535	3,876,505	472,722	3,657,329	427,965	3,610,766
Human Services	10,975,320	26,446,835	13,801,287	28,442,477	12,359,573	26,214,828
Natural Resources and Recreation	372,107	1,497,586	416,641	1,528,197	331,715	1,530,132
Transportation	77,996	8,046,153	84,593	2,630,914	81,902	8,129,398
Public Schools	13,290,685	15,909,596	15,530,768	17,814,395	13,745,695	16,125,654
Higher Education	2,741,461	9,454,368	2,851,850	11,367,951	2,677,390	11,261,505
Other Education	125,446	496,323	97,808	496,686	74,297	466,985
All Other Expenditures and Appropriations	2,035,286	3,051,731	2,200,265	3,481,065	2,024,014	3,150,590
Total	30,465,229	69,214,037	35,858,781	69,856,408	32,124,023	70,936,671

* As enacted Spring 2010

and the state food assistance program (\$45.6 million).

Reducing in-home Medicaid personal care hours will save \$97.5 million. Suspending mandatory training for home-care workers will save \$29.1 million. Reducing and restructuring payments to federally qualified health centers will save \$85.1 million.

The governor’s proposal would also reduce optional Medicaid services. Non-disabled, non-elderly, non-pregnant adults would receive only emergency dental care, saving \$26.2 million. Medical and support services to pregnant women at risk of poor birth outcomes would be reduced, saving \$21.9 million.

NGFS vs. GF-S

Our Policy Briefs on the state budget generally discuss state spending in terms of the near general fund–state (NGFS), a synthetic “account” that rolls up the general fund–state (the state’s primary budget account) with other smaller accounts from which the state funds general government programs. Legislative fiscal committee staffs base their budget presentations on the NGFS because they believe that the NGFS better reflects the entire budget situation. We likewise believe that the NGFS provides the better basis for understanding state spending.

The governor’s staff, however, continues to base its budget documents on the GF-S. Consequently, this brief looks at Gov. Gregoire’s 2011–13 proposal in terms of the GF-S.

On July 1, 2009, six accounts that had been part of the NGFS (the health services account, the student achievement account, the public safety and education account and its equal justice sub-account, the violence reduction and drug enforcement account, and the water quality account) were consolidated into the GF-S. The NGFS and GF-S now differ only by the inclusion of the education legacy trust account (ELTA) in the NGFS. Under Gov. Gregoire’s proposal, 2011–13 spending from the ELTA would total \$250.6 million, all of which would be spent on public schools.

Natural Resources and Recreation. Operating support from GF-S for the parks and recreation commission is decreased by \$67.1 million; however \$20 million of this reduction would be offset by one-time transition funding. The commission hopes to generate an additional \$38.0 million from new fees and charges to park users. Fees for water rights applications, hunting and fishing licenses, hydraulic project approvals and silviculture burning permits will supplant \$15.2 million in GF-S support for related activities.

Agency Consolidations. The governor’s proposal would consolidate numerous state agencies and boards. Washington currently has 11 agencies with natural resource responsibilities. These would be consolidated into five: the department of conservation and recreation, the department of ecology, the department of agriculture, the Puget Sound partnership and the department of natural resources.

Additionally, the department of general administration, office of financial management, department of personnel, state printer and some of the department of information services would become two agencies: the department of enterprise services and the office of financial management. Five civil rights-related agencies would be merged into one office of civil rights. Thirty-six boards and commissions would be eliminated. All in all, these consolidations would save \$29.6 million in 2011-13.

State Employee Compensation. The governor would eliminate automatic benefit increases for members of now-closed public pension plans. For new hires in the newer pension plans, the governor would stop incentivizing early retirements. She also proposes to disallow retirees from returning to work and drawing both a pension and a salary. Finally, higher education retirement plans would be aligned with other state employee plans, and the state’s contribution would be capped at six percent. These pension changes would save \$400 million in the 2011-13 biennium.

Gov. Gregoire came to an agreement with state employee unions to cut salary payments to many employees by three percent, saving \$176 million in 2011-13. Employees would get lower paychecks due to required unpaid leave; consequently, the pay cut would not be permanent. This agreement is in conjunction with an increase in the employee portion of health care premiums from 12 percent to 15 percent—far shy of the 26 percent the governor had originally suggested.

Discussion

Under state law, the governor is required each year to present to the legislature a proposed budget by December 21. In many years, this allows the governor to play Santa Claus. For the last two years, however, Gov. Gregoire has been forced to play the Grinch.

The legislature will soon take its turn at crafting a solution to the 2011–13 budget problem. Our guess is that their solution will look much like the governor’s.