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BRIEFLY

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AFTER SUPPLEMENTAL NUMBER FOUR, 2009-11 BUDGET STILL NOT BALANCED

Since enactment of the original 2009–11 budget, the state Economic and Revenue Forecast Council has lowered the 2009–11 revenue forecast six times, for a total reduction of nearly \$2.8 billion. The legislature has now passed four 2009–11 supplemental budgets to address the ever-growing shortfall. The most recent was signed by the governor on February 18, 2011. Still, the legislature has yet to completely close the gap.

The spending reductions and fund transfers in ESHB 1086 (as signed by the governor) reduce the Near General Fund–State (NGFS) budget shortfall by \$361.0 million. That leaves about \$162 million remaining to be cut in order to balance the budget (without leaving any reserves). (That shortfall amount is an approximation based on numerous assumptions, including the amount of policy level increases needed.)

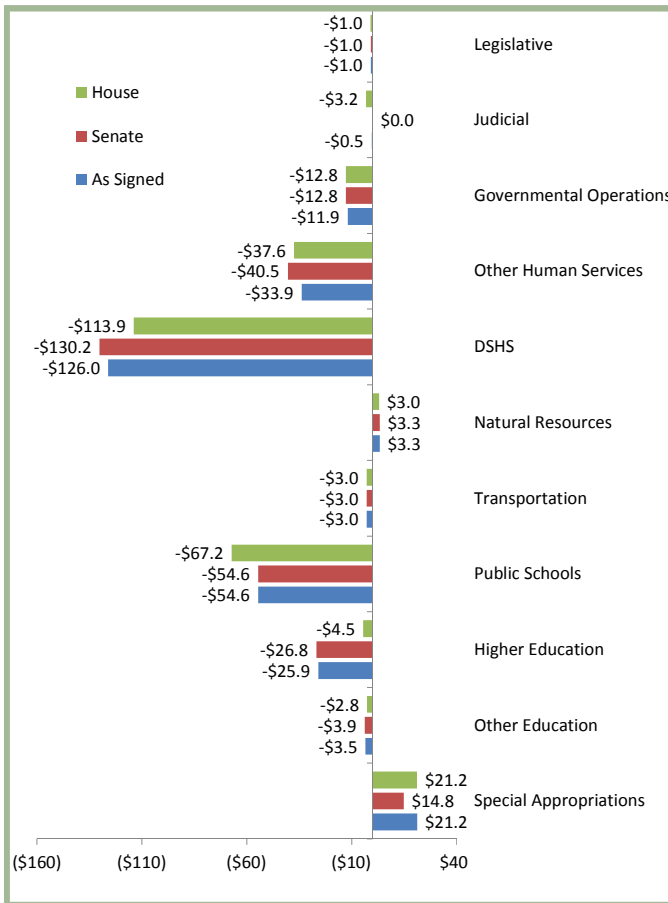
As passed by the legislature, the bill would have reduced the shortfall by \$367.4 million, but the governor vetoed some sections of the conference report (\$6.4 million of spending cuts).

Spending Reductions

The supplemental reduces expenditures by \$235.8 million. Over half of the cuts are made to the Department of Social and Health Services (DSHS), but

The 2011 Supplemental Budget
(Dollars in Thousands)

	Baseline		ESHB 1086, As Signed		Revised 2009-11 Appropriations	
	NGF-S	All Funds	NGF-S	All Funds	NGF-S	All Funds
Legislative	150,833	155,210	(986)	(986)	149,847	154,224
Judicial	224,227	269,288	(500)	(500)	223,727	268,788
Governmental Operations	460,633	3,917,868	(11,887)	(55,956)	448,746	3,861,912
Other Human Services	2,138,804	5,108,651	(33,880)	(42,741)	2,104,924	5,065,910
DSHS	8,686,441	21,134,815	(126,037)	(170,711)	8,560,404	20,964,104
Natural Resources	355,072	1,477,499	3,339	5,957	358,411	1,483,456
Transportation	77,996	194,952	(2,969)	(2,969)	75,027	191,983
Public Schools	13,181,946	15,859,339	(54,588)	2,012	13,127,358	15,861,351
Higher Education	3,043,824	9,402,322	(25,926)	(25,926)	3,017,898	9,376,396
Other Education	125,446	496,323	(3,510)	(2,700)	121,936	493,623
Special Appropriations	2,035,286	2,229,691	21,163	21,163	2,056,449	2,250,854
Total Budget Bill	30,480,508	60,245,958	(235,781)	(273,357)	30,244,727	59,972,601
Appropriations in Other Legislation	160	485	0	0	160	485
Statewide Total	30,480,668	60,246,443	(235,781)	(273,357)	30,244,887	59,973,086



Supplemental Budget Comparison (dollars in millions)

Transportation is cut the most relative to its level of appropriations. Spending on Natural Resources is increased.

Legislative: The Joint Legislative Audit and Review Committee, Joint Legislative Systems Committee and Statute Law Committee receive 6.3 percent across-the-board reductions. The Redistricting Commission’s funding is increased by \$53,000.

Judicial: By not counting May and June 2011 absences toward truancy, fewer truancy petitions will be generated, reducing the workload of the Administrative Office of the Courts. Judicial spending is thus reduced by \$500,000.

Governmental Operations: The bulk of the reductions in this spending area come from the Departments of Commerce and Revenue. In Commerce, numerous programs in business services, community services and housing, innovation and policy priorities and local government and infrastructure are cut. Revenue will eliminate non-revenue generating positions. In total, the conference report reduces governmental operations spending by \$11.9 million.

Other Human Services: Spending is cut by \$33.9 million in total. The Health Care Authority is cut by \$20.3 million. As part of that, the Basic Health Plan (BHP) will restrict enrollment to those who qualify under the Medicaid waiver for BHP, beginning March 1, 2011, for a savings of \$9.9 million. Additionally, \$6 million will be transferred from the Life Sciences Discovery Fund to the Basic Health Stabilization Account (newly created in

the bill) to help maintain enrollment after March 1.

The Department of Health is cut by \$9.3 million. That includes cuts to HIV prevention and client services programs and the maternal and children’s health program, along with administrative cost reductions.

DSHS: DSHS spending is reduced by a total of \$126.0 million. Mental health is cut by \$20.4 million, including reducing non-Medicaid funding to regional support networks by \$12.6 million.

Developmental disabilities spending is cut by \$17.8 million. Personal care hours are reduced, the individual and family service program is suspended effective November 2010, and state funding for employment support to people with developmental disabilities is reduced.

Long-term care is cut by \$32.2 million, which includes \$15.0 million in savings from reducing personal care hours, as well as \$2.4 million from delaying basic training, continuing education, advanced training, peer mentorship and background checks until the 2013-15 biennium.

The Economic Services Administration is cut by \$25.1 million. Within that, funding for the food assistance program, refugee employment services and the naturalization program is reduced. Also, Disability Lifeline grants will be reduced 20.7 percent (\$7.9 million) and \$2.5 million in Telephone Assistance Program funds will be transferred to fund call centers.

Lastly, medical assistance payments are cut by \$15.1 million. Income eligibility for the children’s health program is reduced to 200 percent of the federal poverty level (from 300 percent). By no longer reimbursing clients who are

eligible for both Medicare and Medicaid for Medicare Part D copayments, \$4.4 million will be saved. Also, the state expects that the federal government will allow kidney dialysis and cancer treatment to qualify for Medicaid matching funds effective January 1, 2011. This would reduce state spending by \$4.1 million.

Natural Resources: The Department of Natural Resources actually gets a funding increase under the legislation (\$3.9 million), due to an increase in emergency fire suppression funds. Additionally, the Department of Agriculture is cut by \$439,000, including reductions in food program administration and domestic and international marketing assistance. Altogether, natural resources spending is increased by \$3.3 million.

Transportation: Transportation funding is reduced by \$3.0 million, as a result of vacancy and equipment savings in the Washington State Patrol and Department of Licensing.

Public Schools: Public schools spending is cut by \$54.6 million. To save \$25.4 million, K-4 staffing ratios are reduced. The funding for these staff enhancements above basic education requirements is eliminated for the 2010-11 school year, effective February 1, 2011. The funding is reduced retroactively, for the period of September 1, 2010 through January 31, 2011.

In special education, safety net award determinations will be based on actual spending and made in August, instead of the current practice of basing them on projections. Effectively, this means that \$24.8 million will be spent in FY2012 instead of FY2011.

Higher Education: Higher education funding is reduced by \$25.9 million, mainly due to a reduction to the Higher Education Coordinating Board of \$25.4 million. Specifically, the state need grant will receive less state funding; the loss will be made up by requiring institutions to use local funds for this purpose.

Other Education: Spending in other education will be reduced by \$3.5 million, including a \$1.9 million reduction to the Department of Early Learning.

Special Appropriations: This includes \$19 million appropriated to the Opportunity Pathways account and \$1.5 million to the Education Legacy Trust account. As signed by the governor, special appropriations are increased by a total of \$21.2 million.

Governor's Vetoes

The governor vetoed five items in the legislation. She vetoed language that would have prohibited spending on the new State Data Center and stopped paying more to DSHS employees who currently receive extra compensation for the ability to speak multiple languages (which would have reduced spending by \$250,000). She also vetoed plans to reduce communications and public relations staff in state agencies (which would have reduced spending by \$1 million) and to reduce management staffing and find other savings in DSHS (which would have reduced spending by \$1.7 million). Additionally, the governor vetoed a provision that would have levied a three percent salary reduction on non-unionized state employees (state troopers, elected officials, and employees of the state printer, the marine division of the department of transportation and the state institutions of higher education would have been exempt). Had it been allowed to stand, the provision would have reduced spending by \$3.4 million. In all, the governor vetoed \$6.4 million worth of cuts.

Fund Transfers

In addition to the expenditure reductions, the supplemental made fund transfers to the general fund from other accounts, totaling \$125.2 million.

Discussion

March will bring a new revenue forecast and a new caseload forecast. Combined, these forecasts will paint a clearer picture of how close the legislature actually is to balancing the 2009–11 budget. As enacted, the supplemental does not address maintenance level and caseload changes. Consequently, should caseloads increase, deeper cuts will be required.

Since the 2009–11 budget was originally enacted, expenditures have been reduced by a total of \$1.1 billion. The hardest-hit budget areas have been other education (cut by 26 percent), transportation (cut by 12 percent), and other human services (cut by 8 percent). The budget areas that represent the bulk of the cuts are DSHS (35 percent), higher education (21 percent), other human services (17 percent), and public schools (16 percent).

It is unlikely there will be any relief in the March forecasts.

2009–11 Expenditure Reductions,
NGFS
(Dollars in Thousands)

	<u>2009-11 Original</u>	<u>2010 Early Action</u>	<u>2010 Supplemental</u>	<u>2011 Early Action</u>	<u>2011 Supplemental</u>	<u>2009-11 Revised</u>
Legislative	156,095	0	(2,195)	(3,067)	(986)	149,847
Judicial	229,184	0	(691)	(4,266)	(500)	223,727
Governmental Operations	478,741	(5,597)	(8,609)	(3,902)	(11,887)	448,746
Other Human Services	2,295,199	(10,123)	(70,124)	(76,148)	(33,880)	2,104,924
DSHS	8,955,615	(22,358)	(172,164)	(74,652)	(126,037)	8,560,404
Natural Resources	379,918	(3,928)	(3,883)	(17,035)	3,339	358,411
Transportation	85,214	(2,009)	(5,209)	0	(2,969)	75,027
Public Schools	13,311,962	(1,500)	131,840	(260,356)	(54,588)	13,127,358
Higher Education	3,262,624	0	(167,712)	(51,088)	(25,926)	3,017,898
Other Education	165,778	0	(40,332)	0	(3,510)	121,936
Special Appropriations	2,068,266	0	(32,980)	0	21,163	2,056,449
Total Budget Bill	31,388,596	(45,515)	(372,059)	(490,514)	(235,781)	30,244,727
Appropriations in Other Legislation		160	(160)	160	0	160
Statewide Total	31,388,596	(45,355)	(372,219)	(490,354)	(235,781)	30,244,887