

# THE 2011-13 OPERATING BUDGET

## A responsible, thoughtful, sustainable solution



**State Rep. Ross Hunter, Chair of House Ways & Means Committee**

[www.housedemocrats.wa.gov/roster/rep-ross-hunter/](http://www.housedemocrats.wa.gov/roster/rep-ross-hunter/)

### 2011: Legislators face a \$5.1 billion budget problem

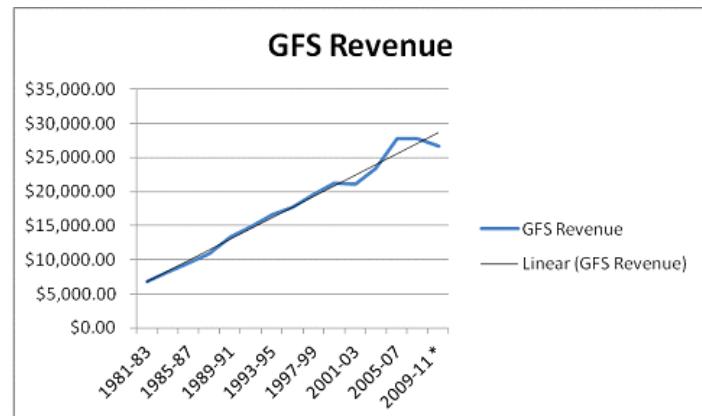
Washington, like nearly every other state in the country, has continued to feel the economic drag resulting from the worst recession since the 1930's. Nationally, 44 states were projecting shortfalls for the coming fiscal year.

Heading into the 2011 session, Washington's legislators faced a \$5.1 billion budget hole for 2011-13 (the difference between projected revenues and projected costs to maintain programs at current levels).

#### ***State revenue shrunk during the recession***

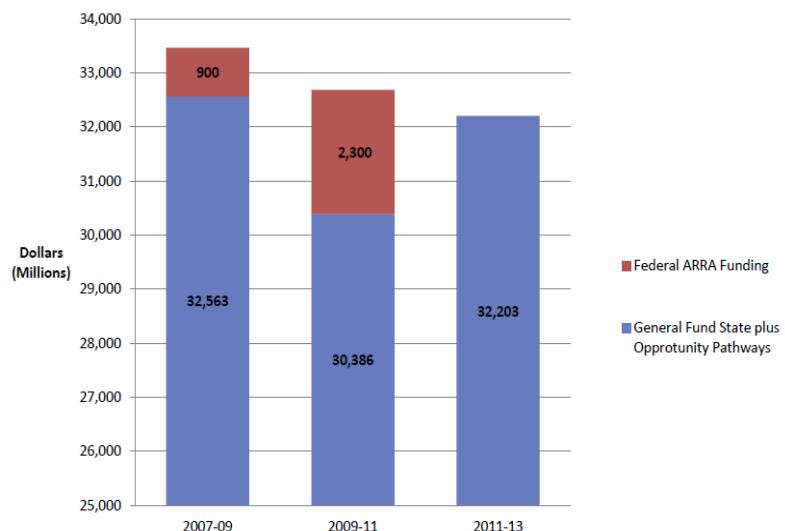
Washington's revenue is very dependent on the sales tax and construction activity. Construction is about 4 percent of the state economy but accounts for 8 percent of our revenue in most years. The real estate crash has devastated that portion of our revenue stream.

This chart shows the 25-year trend line of general fund state revenue (GFS). The variation in the last two biennia has been very extreme, causing major disruptions in the services we provide for citizens.



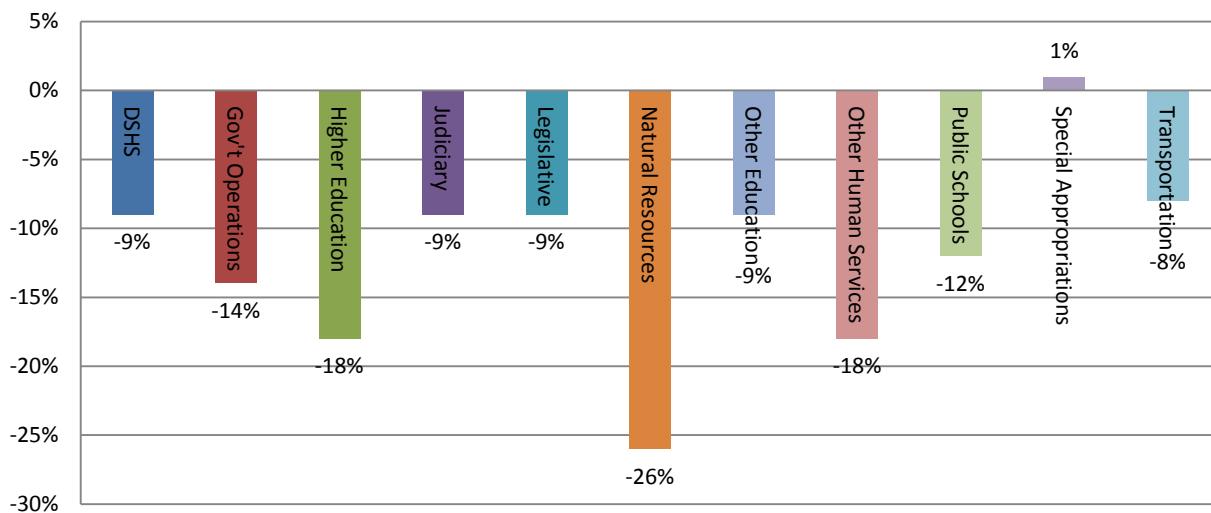
#### ***Revenue is starting to increase, but we're still spending less***

Even with modest budget growth in 2011-13, we'll still spend less than in the last two years. That's because federal ARRA funding helped reduce many of the cuts we would have had to make last biennium, but state funding isn't enough to replace ARRA funding in 2011-13.



## The 2011-13 Operating Budget – The Basics

This year, the overall state budget was reduced 11 percent from maintenance level, the cost of continuing services at current policy levels. This chart shows the budget reductions across state government.



### \$4.5 billion reductions including:

- \$1.2 billion for I-728 and I-732, the classroom size and teacher pay initiatives
- \$535 million for higher education institutions (offset partly with increased tuition revenue)
- \$344 million from changing future pension benefits for certain state retirees
- \$215 million from elimination of K-4 class size enhancement
- \$179 million in K-12 employee salary and \$177 million from 3-percent reduction in state employee salaries
- \$129 million from changes to Basic Health Plan
- \$116 million in reduced Disability Lifeline cash grants (continuation of ESHB 1086 reduction) Note that remaining funding for the cash grant program is transformed into a housing program
- \$97 million for reduced personal care hours for long term care and developmentally disabled clients
- \$61 million from changes to the K-12 National Board Bonus program

### \$424 million in additional funding, some of which are related to achieving greater savings, including:

- \$115 million repayment of K-12 apportionment delay in 2011 Supplemental Budget
- \$124 million for higher ed State Need Grant
- \$28 million for increased debt service
- \$82 million in K-12 related items (mostly related to new funding formula)
- \$11 million repayment to State Efficiency and Reorganization Account (SERA)

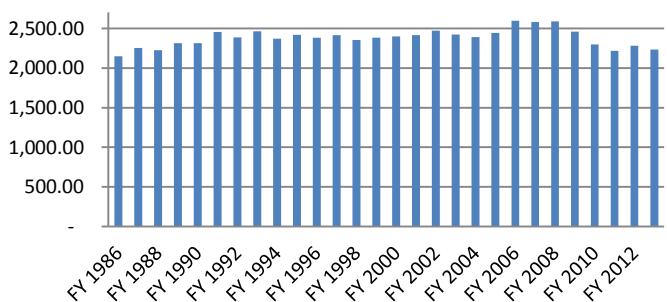
### \$459 million in fund transfers

### 54 bills considered “necessary to implement the budget.”

This was an unusually large number, due entirely to the structural and policy-level changes needed to achieve deep savings. For example, the budget assumes a new Department of Enterprise Services, a consolidation of services such as printing and personnel currently provided by five different agencies. That consolidation requires legislation.

State spending per person is  
at the lowest rate since 1987

(Adjusted for inflation)



## The 2011-13 Operating Budget – The Approach

As chair of the House budget-writing committee, it was important to me that we make **responsible, thoughtful, and sustainable decisions**. I also tried to make it consistent with my values and the reason I ran for this job in the first place. I care about children – their education, their health, and their future – and I tried to protect those as much as possible given the situation.

### **Responsible**

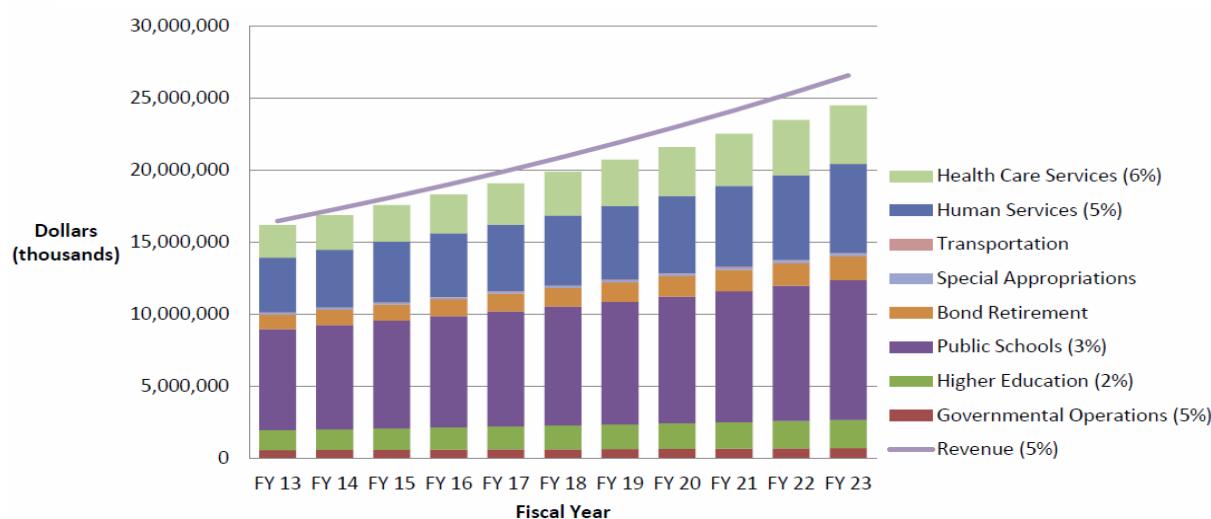
We spend less this biennium than we bring in with taxes. Any budget this large will include things that people differ over, but we tried very hard to be straight-up and simple about how we do the accounting.

For example, we fund our pension accounts at 100% of the level recommended by the state actuary. A significant amount of pension liability has been pushed forward in prior years to instead fund other programs. Though we are far ahead of most states, we still have a large amount of funds that need to be made up, so despite the tough budget situation, we took the responsible step of beginning that process now.

### **Thoughtful**

It's easy to balance a budget with short-term cuts that cost us more down the road. Though we couldn't avoid such cuts entirely, we made a significant effort to avoid that. We prioritized funding for early learning for at-risk kids because we have lots of empirical data that investments here save us money in the long run. We expanded funding for family planning because, again, it actually saves us more money than it costs.

**While revenue grows just under 5 percent per year, the cost of many services grows more quickly. Over time, without action, those programs take over a larger proportion of the budget while the proportion for some programs, such as higher education, begins to shrink.**



## Examples of Major Policy Decisions and Reforms

### **Higher education**

Our colleges and universities all receive substantial cuts, much of that to be back-filled with tuition increases. We increased the State Need Grant to help our lowest-income students continue to pay their tuition, but the reality is that in the past two years, we've completely changed the dynamic of how higher education is funded in this state. Just three years ago, the state subsidized more than half a student's cost to attend school. In 2007, the total cost for an in-state undergrad at the UW was \$15,622, with the state paying 65% of that.

Now, for the first time, it's flipped. That same UW undergrad is now paying 52% of the \$17,152 tab. This has especially worrisome implications for middle-class families who might not qualify for many aid programs but don't have the means of covering rising tuition costs.

We have to make this work somehow. Our kids need a college degree to be competitive and successful. Our state's biggest employers – companies like Boeing, Microsoft, Amazon – need smart employees and won't stay here if we can't provide them.

### **Disability Lifeline**

Currently, the Disability Lifeline program helps approximately 40,000 people who are unable to work due to disabilities. This year, the program as it currently functions was terminated. Two new programs took its place to better meet the needs of clients. One – the Aged, Blind and Disabled Assistance Program -- for people who are likely to qualify for federal disability payments, and another – Essential Needs and Housing Support – to provide housing support and access to basic personal hygiene items to persons who are incapacitated from work but who don't qualify for federal disability payments.

### **Unemployment Insurance**

At the request of the business community, the Legislature will conform to federal guidelines regarding employer charges and paid benefits. In addition, the employer tax rates are reduced, essentially reducing the UI trust fund to a sustainable and responsible level.

### **Agency Consolidations**

Several consolidations will happen as a result of this budget, including:

- *Medical Purchasing Administration:* The DSHS Medical Assistance Administration becomes part of the Health Care Authority.
- *Department of Enterprise Services:* The Department of General Administration, the Department of Information Services, the Department of Personnel, part of the Office of Financial Management, and the Public Printer are merged into the new Department of Enterprise Services.
- *The Indeterminate Sentence Review* is merged into the Department of Corrections and the *Sentencing Guidelines Commission* is divided as follows: the research and data functions are transferred to the Caseload Forecast Council and the policy functions and Sex Offender Policy Board are transferred to the Office of Financial Management.

### **Pension Reforms**

As mentioned earlier, we are – for the first time in a long time – fully funding the actuarially-recommended pension contributions. Our current plans are among the better-funded of state pension systems, but the original California-style plans that stopped accepting new entrants in 1977 were never funded adequately by either the state or the employees, putting us at risk of having to pay for pension benefits from the general fund should the pension fund ever fall short. Fully-funding it is an important step to ensuring this won't happen.

We also ended the automatic inflator put in place by the Legislature in 1995 (18 years after anyone had been allowed to sign up for the plan). Because we are somewhat concerned about retirees who stopped working with very low salaries a long time ago, we did raise the minimum benefit from \$1100 a month to \$1500 a month.