



Overview of Governor Gregoire's Operating Budget

January 10, 2011

Prepared by Senate Ways and Means Staff



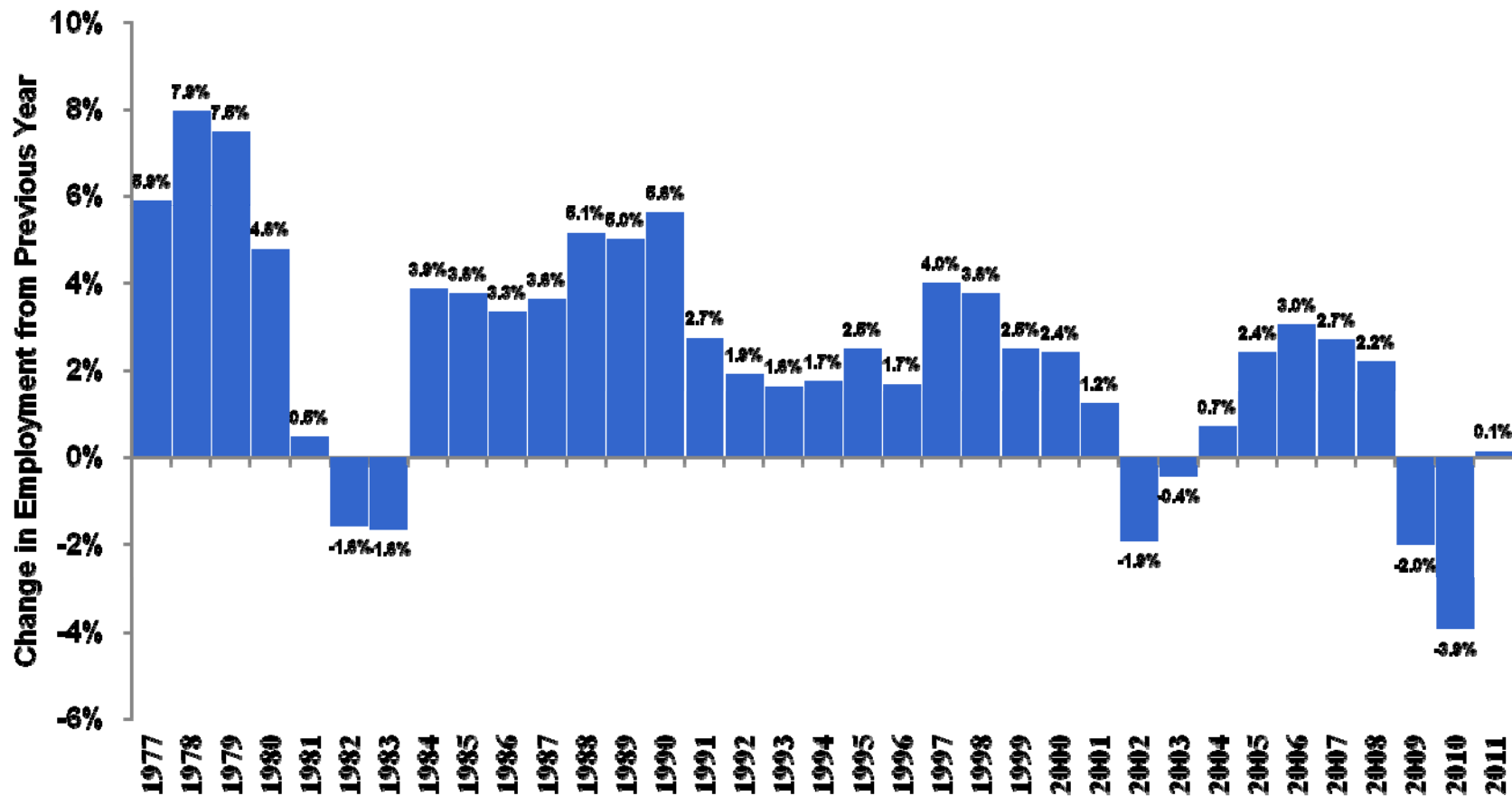
Budget Context

Economists have termed this economic downturn as the “Great Recession” because of its impact and duration

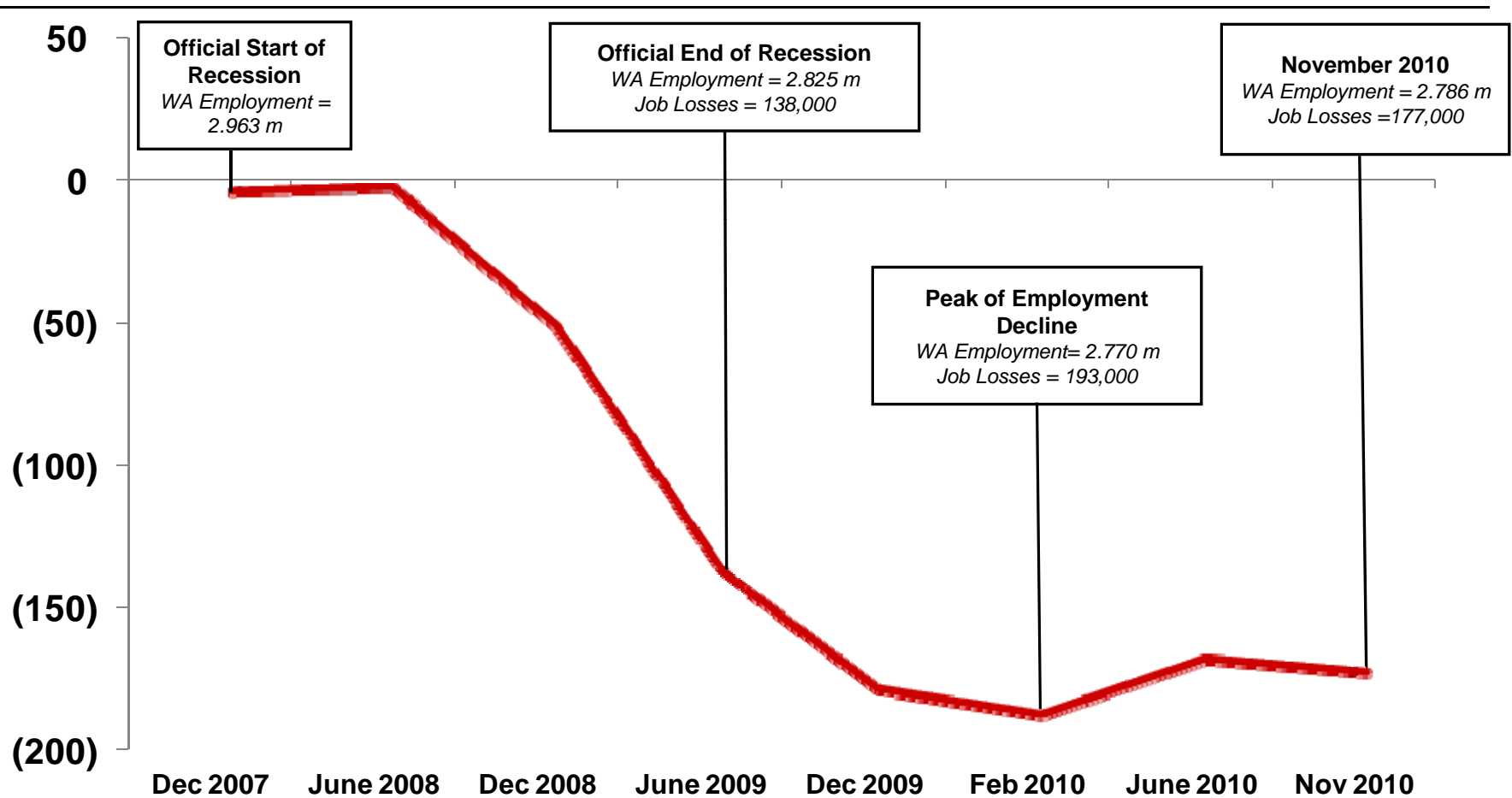
Recession	<u>Peak to Trough % Decline</u>		Recession Duration
	Real GDP	Employment	
	<i>Percent</i>	<i>Percent</i>	<i>Months</i>
1948-49	1.6	5.0	11
1953-54	2.5	3.4	10
1957-58	3.1	4.2	8
1960-61	0.5	2.3	10
1969-70	0.2	1.2	11
1973-75	3.2	1.9	16
1980	2.2	2.3	6
1981-82	2.6	3.1	16
1990-91	1.4	1.4	8
2001	0.7	1.7	8
Average	1.8	2.6	10
2007-09	4.1	6.1	18

Source: Economic and Revenue Forecast Council

Washington experienced two consecutive years of employment decline and is expecting very slow projected growth for the current fiscal year

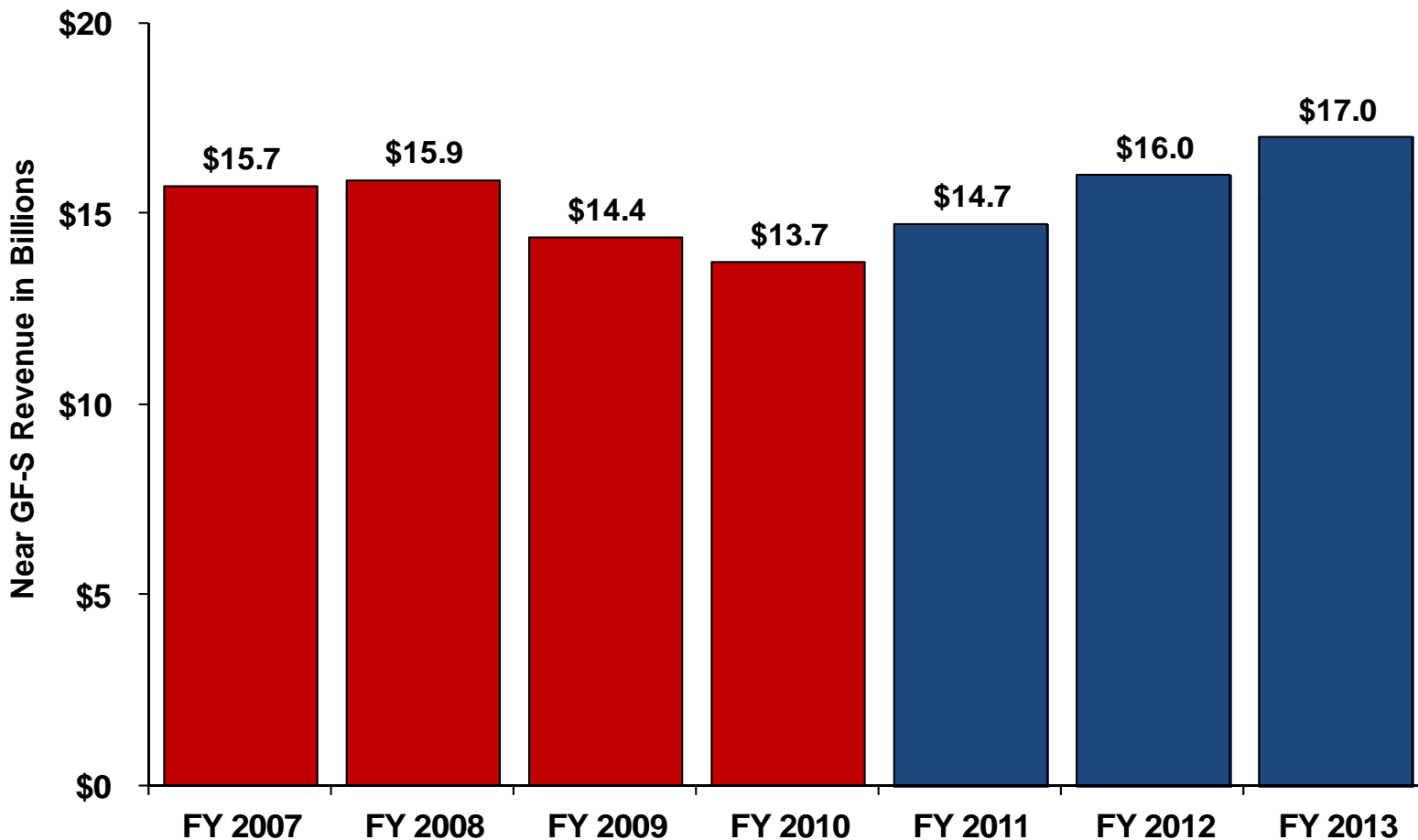


**In the recession, Washington state lost 193,000 jobs
and has only regained about 16,000, so far**



Source: Employment Security Department seasonally adjusted non-farm employment. Totals may differ slightly due to rounding.

As a result of economic conditions, near GF-S revenues have declined in fiscal years 2009 and 2010. While projected to grow by 6-9 percent annually over the next several years, this is off a smaller base

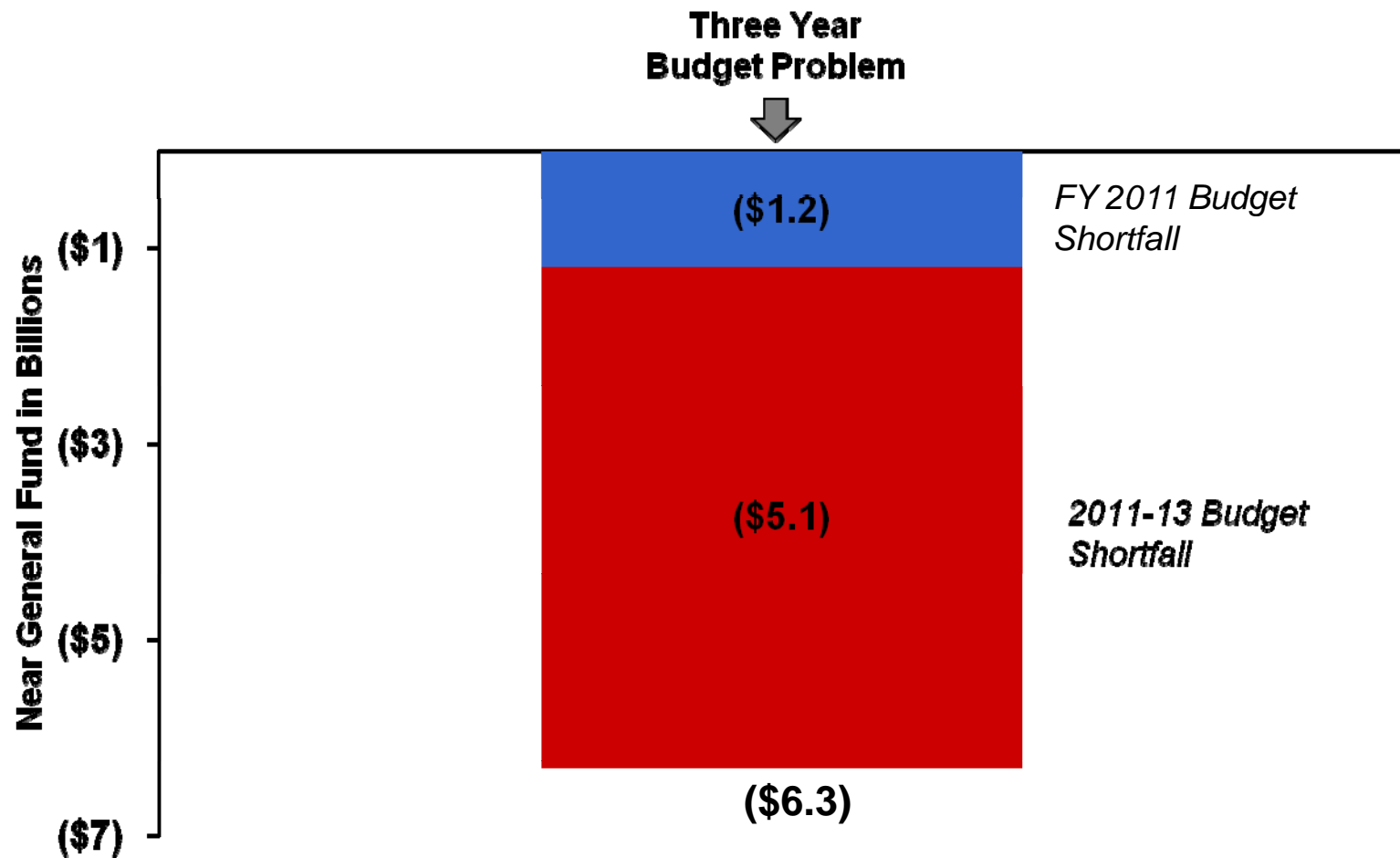


* FY 2010 – FY 2013 based on the November 2010 revenue forecast .

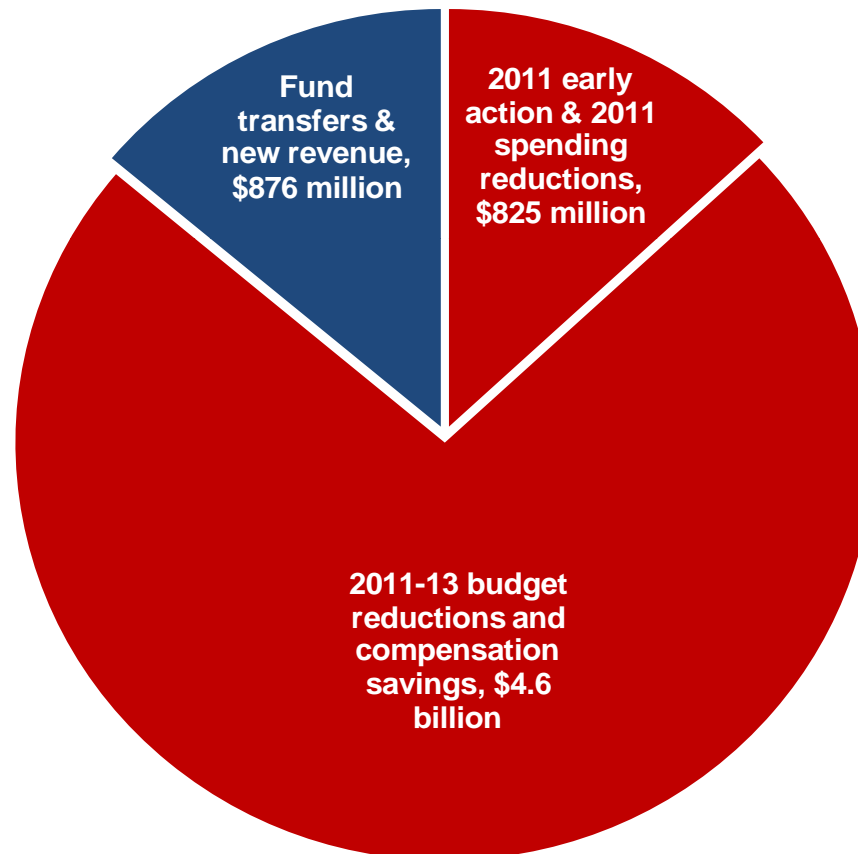


The New Budget Problem

Due to the weak recovery, caseload increases, and other spending demands, the Legislature is facing an additional budget shortfall of over \$6 billion



The Governor's budget solution includes \$5.4 billion in spending reduction and compensation savings and \$876 million in various fund transfers and some additional revenue (e.g. waiver of penalty and interest, revenue auditors, liquor price increases)



Governor's Three Year Budget Solution = \$6.3 Billion

* The depiction of the budget problem and solution do not include the one day delay (from FY 2011 to FY 2012) in making \$253 million in K-12 apportionment payments.

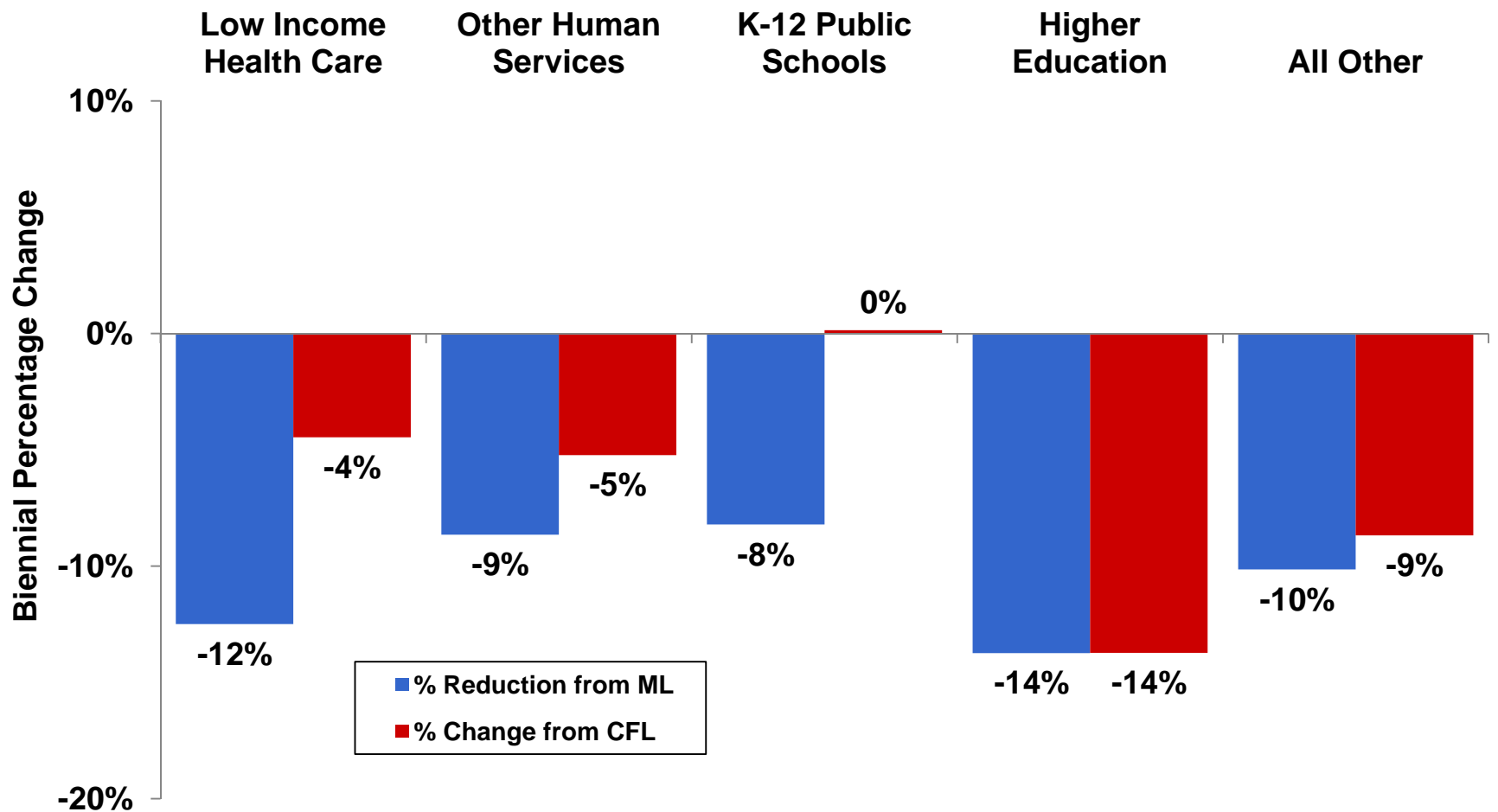


Governor's Budget Proposal

Examples of Reductions Included in 2011-13 Budget Solution

- *\$1.1 billion in reductions to state and K-12 employee compensation, including: (1) cancelling Initiative 732 salary increases; (2) reducing salaries for most state employees by 3 percent; (3) eliminating “step” increases and National Board certification bonuses for K-12 teachers; and (4) eliminating automatic pension COLAs for certain retirees and other pension changes.*
- *\$1.2 billion in reductions to K-12 system, including suspending Initiative 728 per student distributions and eliminating the K-4 class size enhancement.*
- *Over \$680 million in health care reductions, including eliminating state only funded health care coverage to: (1) 69,000 people on the Basic Health Plan; (2) 22,000 clients receiving Disability Lifeline or ADATSA services; and (3) 27,000 undocumented kids on the Children's Health Program.*
- *\$425 million in reductions to higher education institutions which are partially offset by allowing tuition increases of 9 to 11 percent per year.*
- *Similar reductions in all other areas of state government.*

The percentage reduction varies by functional area and depends upon whether you compare to carryforward or maintenance level



* Reflects 2011-13 net near general fund policy change after accounting for reductions and increases, but excludes impacts of compensation-related adjustments, some major fund shifts, debt service and special appropriations. For higher education, the actual impacts would be partially offset by tuition increases.



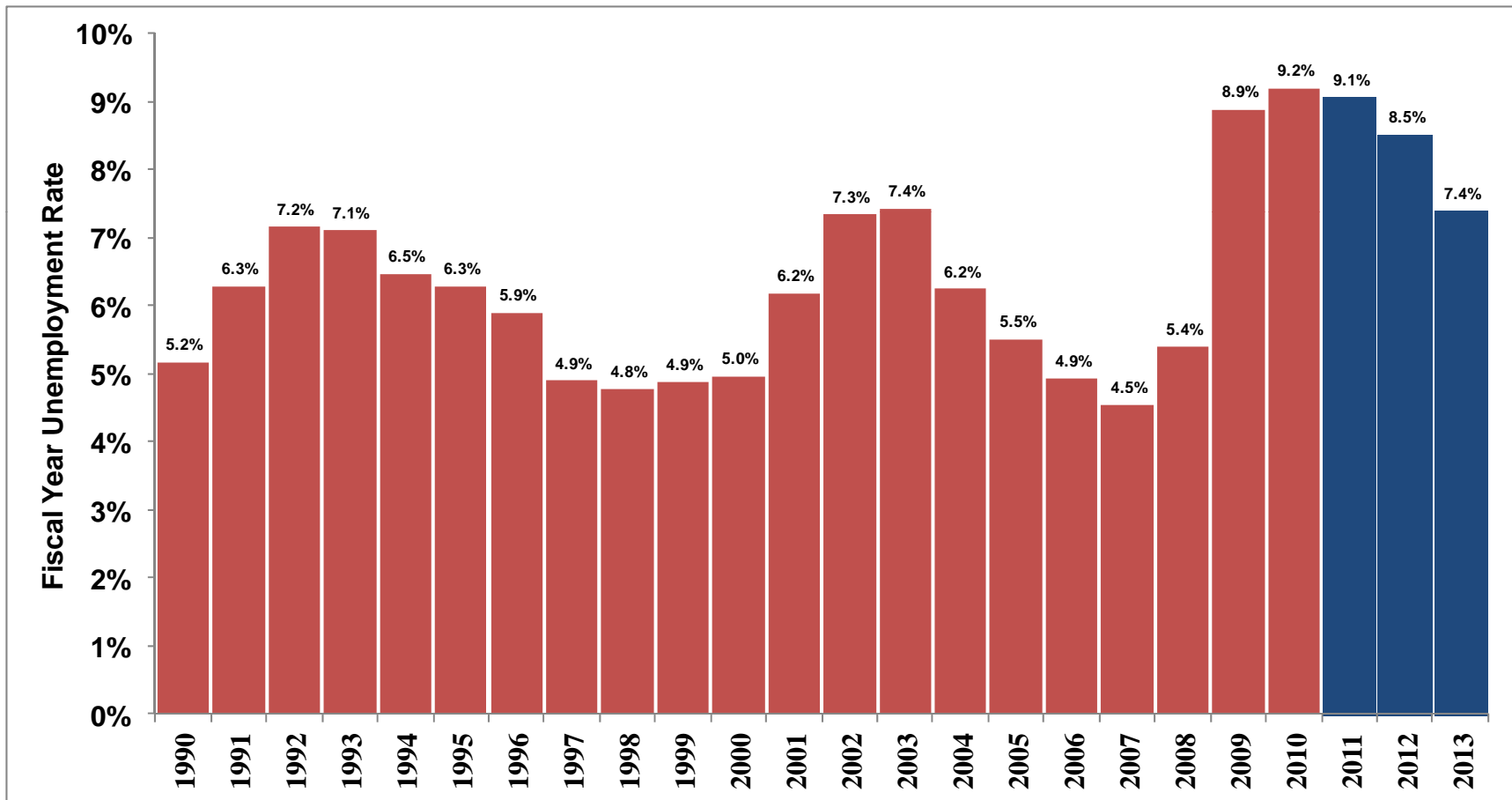
Appendix



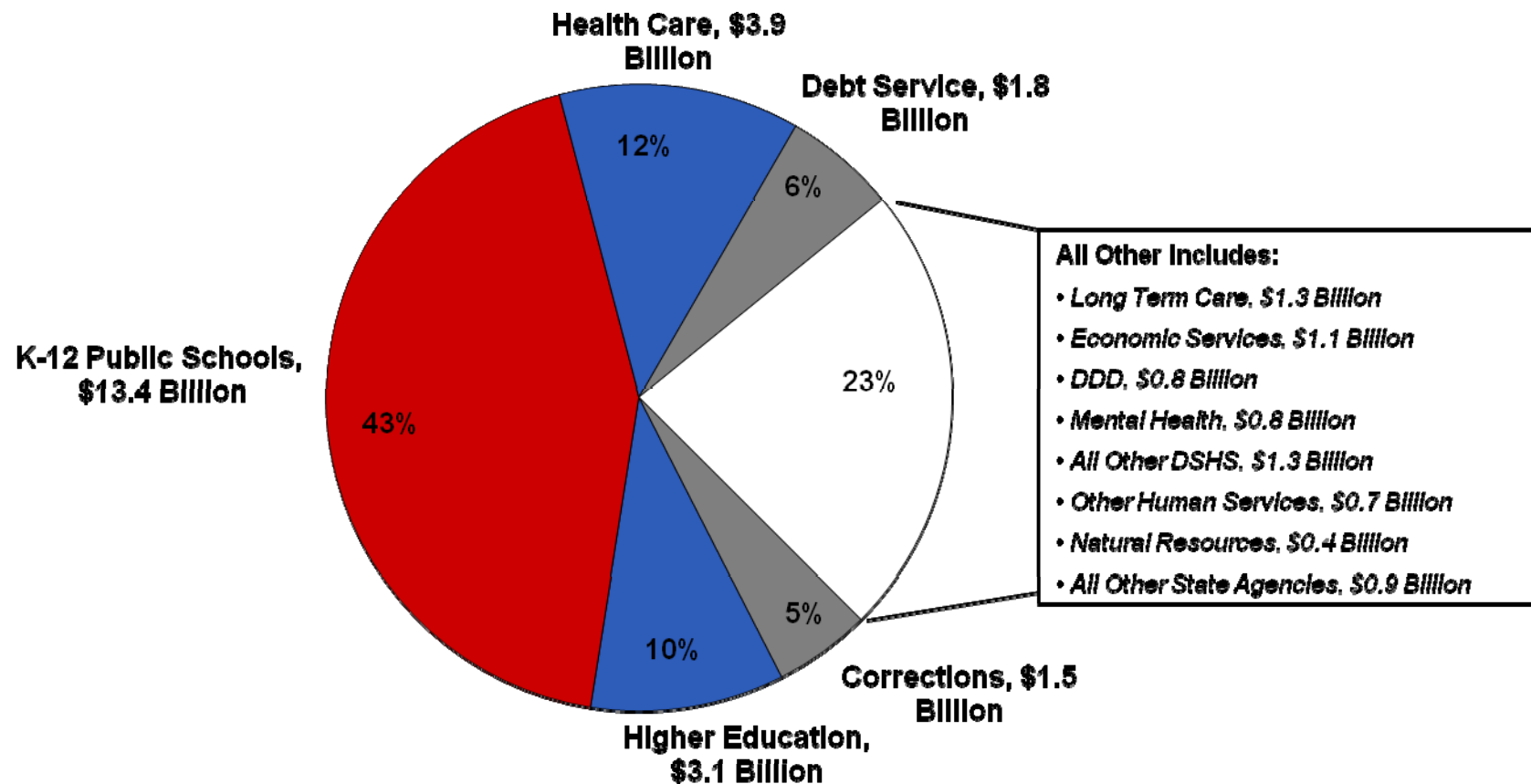
Glossary of Budget Terms

- ❑ **Carry Forward Level:** A projected expenditure level mechanically calculated by adding current appropriations to the bow wave impact of items assumed in existing appropriations (costs or savings). For example, accounting for the biennial cost of a new program that was funded beginning in the second year of the biennium is a common bow wave item. Another is blocking out one-time items.
- ❑ **Maintenance Level:** A projection expenditure level representing the estimated cost of providing currently authorized services in the ensuing biennium. It is calculated by using the carry forward level and making adjustments for the forecasted changes in the entitlement caseload/enrollment and other mandatory expenses. This number establishes a theoretical base from which policy changes are made to create a new budget.
- ❑ **Policy Level:** The authorized spending level for the next biennium is calculated by taking the maintenance level and making a series of discrete decisions that increase or decrease the budget of an agency. Examples include: creating a new program; eliminating a current program; increasing or decreasing vendor or employee payment rates; expanding or contracting program eligibility; expanding or contracting the value of services provided by a program; and increasing or decreasing the administrative costs of a program.

During the recession, the unemployment rate in Washington climbed to over 9 percent and is not expected to return to pre-recession levels for several years

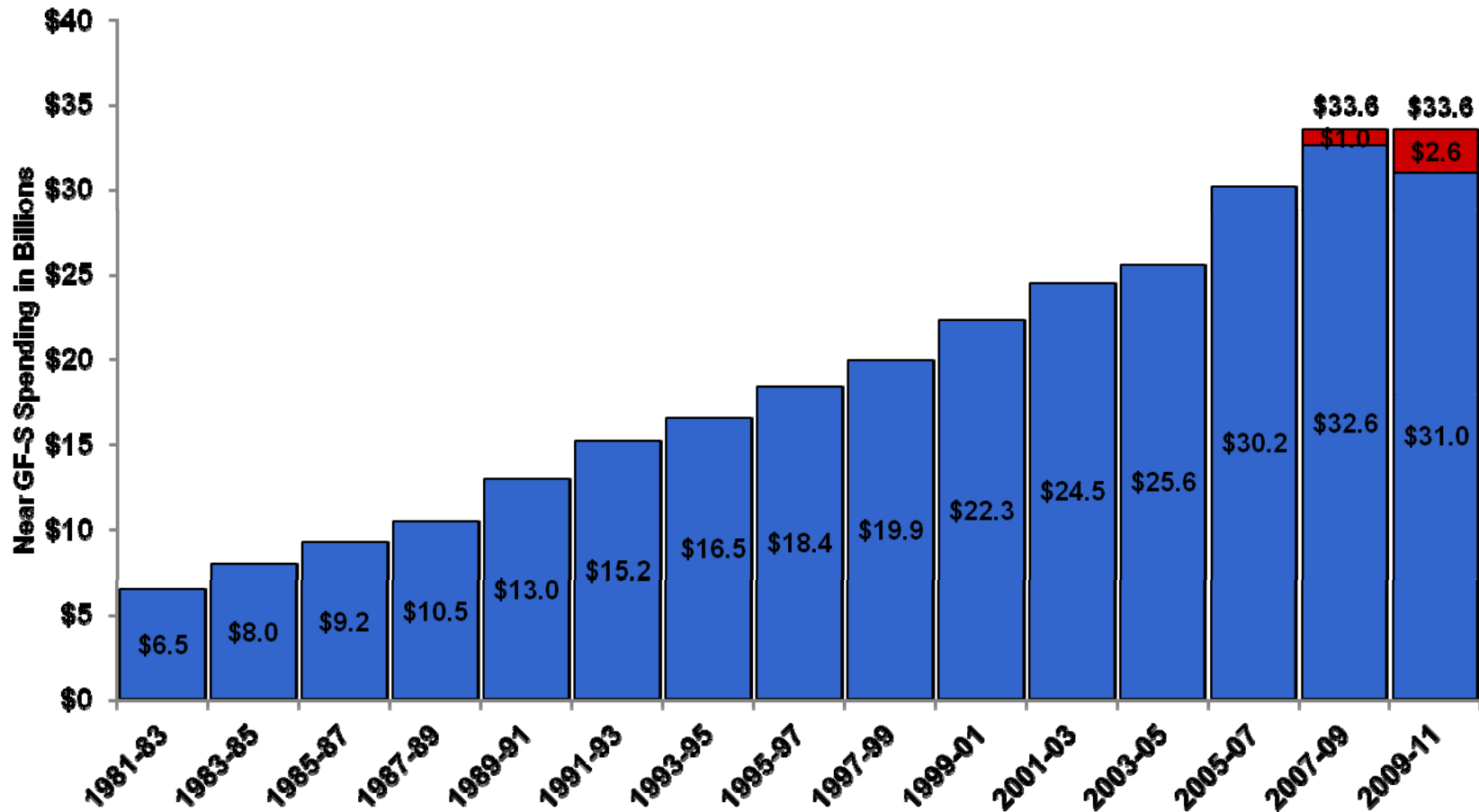


Over three-fourths of the near general fund operating budget is spent in five areas



Total 2009-11 Near GF-S Budget = \$31.0 Billion

Based on the enacted budget and even after adjusting for increased federal stimulus, the rate of growth in near GF-S spending is at its lowest levels in at least 30 years



* Based on the 2010 enacted budget. After additional reductions are made in the 2011 supplemental budget, the growth rate is likely to be less.