



SENATE DEMOCRATS WASHINGTON STATE

SENATOR

Ed Murray

43rd Legislative District



Spring 2009



Please Keep in Touch

PO Box 40443
Olympia, WA 98504-0443
(360) 786-7628
Murray.edward@leg.wa.gov
www.senatedemocrats.wa.gov/
senators/murray

Dear friends and neighbors,

We're already in the thick of the 2009 legislative session, and it's no secret that we face significant challenges in Olympia.

The national and international financial crisis is the greatest of its kind since the Great Depression. Its effects are wreaking havoc on families and state budgets all across the country. And our state budget is no exception.

The current outlook shows at least an \$8.5 billion dollar shortfall between our current operating budget commitments in education, health care, public safety and environmental protection on the one hand, and the current revenues needed to support those commitments on the other.

In other words, just like the many families in our state struggling to stay atop of their growing daily expenses, our state income is lagging 25 percent behind what is needed to pay to fund essential public services.

Because this is an unprecedented challenge in our state's history, I am taking the unusual step of using this newsletter to share my thoughts on the global economic crisis and its implications for our state, and to suggest a positive way forward.

As we all know, with each challenge comes the need to re-examine old ways of doing things, to look at things differently, with fresh eyes, to step up to our mutual responsibility and the opportunity to do things better.

We have met big challenges before, and together, we'll meet them again.

I'm committed to working with my constituents to find solutions that uphold our common values. As I always, I'm interested to hear what you think. Please do not hesitate to write, email or call me with your thoughts and feedback.

Sincerely,

Ed

Senate Committees

Health & Long-Term Care
Rules
Ways & Means

INSIDE



- Economic hurricane
- Short term savings, long term costs
- The public sector does play a role
- Our basic values
- Town Hall Meeting



ECONOMIC HURRICANE

Lawmakers have known for a while that tough economic times were in store for our state. Since the 1980s, the average of annual total state reserves has been \$400 million. For the last three years in a row, we doubled that.

When we left Olympia last March, we left \$850 million in state savings accounts.

In 2007, we adopted a similar strategy when together we created the constitutionally-protected Rainy Day Fund, and left \$724 million in savings.

And before that in 2006, we set \$825 million into three reserve accounts to pay for future pension, health care and education obligations for a total savings of \$935 million.

While we saw stormy waters on the horizon – and prepared as best we could – no one could have predicted that the storm would turn out to be an unprecedented category five economic hurricane.

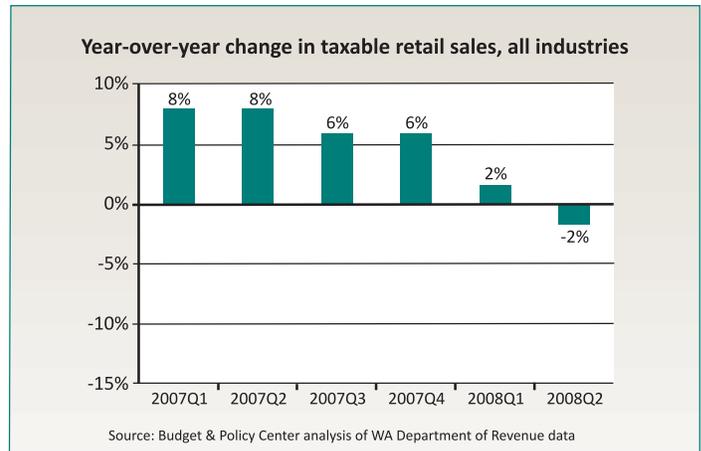
By now, we're all familiar with the headlines about the sub-prime mortgage crisis, and how the unsound lending practices that upended homeowners' finances all across the country. And because banks took exorbitant, wild risks with other people's monies based on shaky assets, and because of the enormous leverage – where they had \$1 worth of assets and they were betting \$30 on that \$1 – this created a crisis in the financial system as well.

Today, it's well-understood that this has had a chilling effect on the flow of credit to consumers and businesses, and that this credit squeeze – which hampers businesses' ability to meet payroll or make inventories – has crippled state economies across the nation.

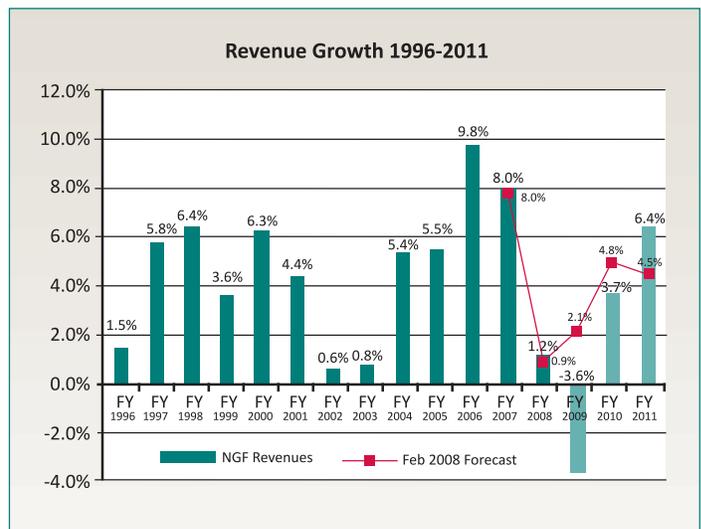
At least 46 states are facing operating budget shortfalls, including Washington. The combined shortfalls for the states over the next two-year cycle is estimated at over \$350 billion.

Even though Forbes ranked Washington the third-best state to do business in the nation, and the Pew Research Center for the States named Washington the best-managed state in the nation in 2008, the economic downturn and credit crisis has significantly impacted our state economy and state government.

In Washington, where there is no personal or corporate income tax, retail sales make up over half of state revenue in the operating budget. As you can see, our sales tax collections have plummeted during the economic crisis:



This has contributed to the negative growth of overall revenues in the operating budget (NGF):



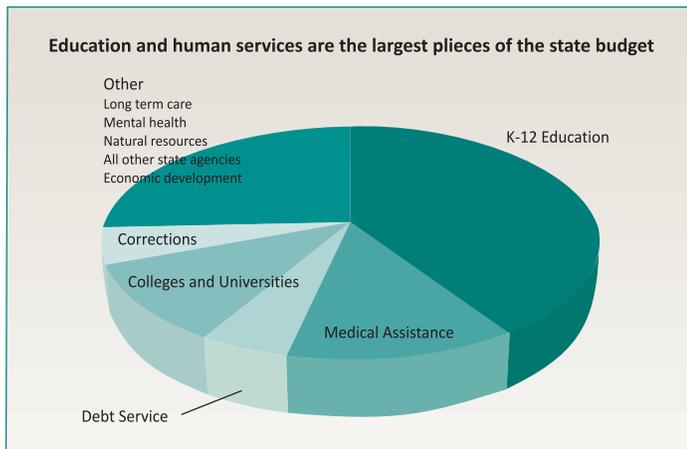
And this, in turn, has created a \$8.5 billion gap between money coming in and money going out.

Washington's current shortfall is the largest in modern state history, both in terms of total dollars (\$8.3 billion) and in percentage of the overall budget (25 percent).

But this alone doesn't begin to illustrate the magnitude of the problem.

Cut our way out?

As you can see, a majority of our state's \$36.9 billion two-year budget for ongoing operations is spent in education and human services:



To close the budget shortfall entirely through cuts, budget-writers couldn't simply adopt a 25 percent across-the-board cut because of the following restrictions:

- Basic K-12 education funding is protected by the state constitution
- Medical assistance – i.e. Medicaid – is protected by the federal government
- Debt service and corrections are expenditures that the state either cannot default or has to make for the safety of the population

Backing these mandatory funds out of the equation leaves about 40 percent of the budget left – which is where cuts must come from to close the shortfall.

In other words, budget-writers would need to cut \$8.5 billion not from \$37 billion, but from \$18.5 billion.

Among the many public misconceptions about the budget is that budget-writers are simply going find some secret, wasteful, unsupported public programs of a large enough magnitude to balance the budget without very serious cuts to essential services.

In fact, eliminating our entire state's correctional system, our entire higher education system, all care for our seniors, and all care for those with developmental disabilities would almost bridge the shortfall.

No one wants the state to ignore the vulnerable and get out of the public safety and higher education businesses altogether. But the cuts have to come from somewhere.

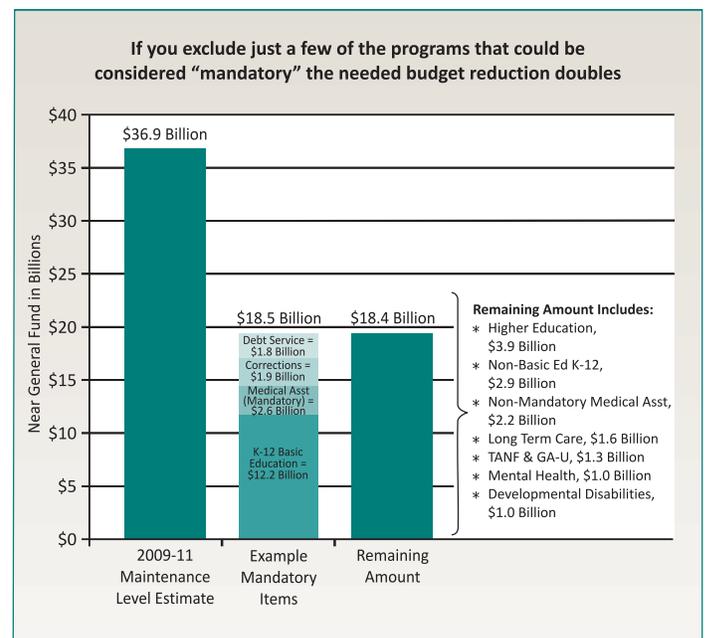
The initial, all-cuts budget proposed in December makes significant cuts to human services and health care, with the burden falling not on the high-flying financiers whose risky schemes took down our economy, but, completely disproportionately, on those at the bottom of the economic ladder.

Examples of the initial budget proposal's cuts include:

- Reducing health coverage for up to 40,000 low-income people
- Eliminating housing, medical care and drug and alcohol treatment for 27,500 low-income individuals with physical and mental disabilities
- Eliminating adult day health care for 1,900 disabled and elderly people
- Eliminating the universal vaccine program
- Slashing community mental health treatment

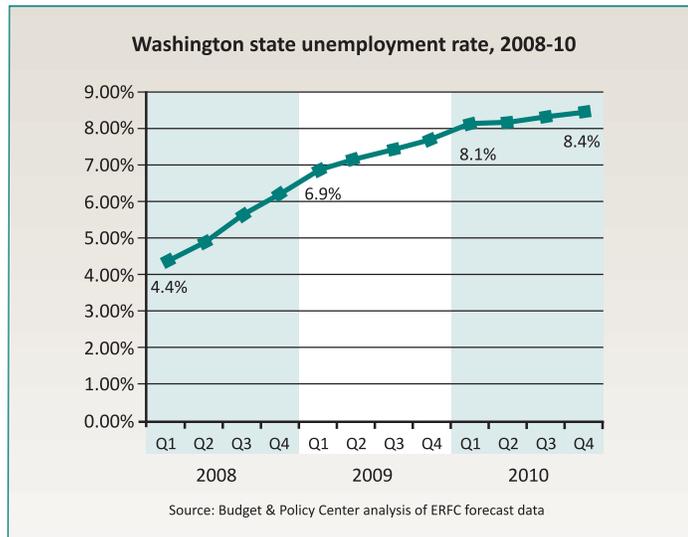
The Legislature is still examining this initial all-cuts proposal, which is based on the premise that increasing revenue in an economic downturn hampers our economic revival.

I disagree with this premise.



Short term savings, long term costs

The costs of our current economic situation are already great. In Washington, in little over a year, we've gone from record low unemployment to record numbers of people applying for unemployment benefits.



With costs as significant as this having already been incurred, writing the next two-year budget should seek to stop the bleeding and avoid decisions today that translate into even greater costs tomorrow.

State government spends money chiefly in the delivery of services, not in the purchasing of goods. In the main, cuts to government result in cuts to services, and the jobs of the people who deliver those services. The impact to the economy of the loss of 1,000 state jobs is the same as the loss of 1,000 Boeing jobs, and contributes to the same downward spiral that is already being felt from widespread layoffs in the private sector.

Economists typically agree that each dollar of federal spending during a recession boosts the national economy by about a dollar-and-a-half. While there is no agreed-upon figure for state spending, economics professor Dick Startz of the University of Washington estimates that, using a similar multiplier, every \$1 billion reduction in annual state government spending during the recession will cost Washington about 15,000 public and private sector jobs.

Economically speaking, clearly **the most effective stimulus is to refrain from cutting existing jobs and accelerating the economic decline.** But future jobs losses aren't the only costs we should be concerned about when writing this budget.

For example, keeping health care funding intact today is essential to avoiding much larger costs in emergency room visits tomorrow. The average cost of a visit to the doctor's office is between \$100 and \$150, depending on your age. The average trip to the emergency rooms runs upwards of \$800.

If we cut the state's Basic Health Plan by 40 percent – as has been proposed – 40,000 individuals in our communities would

no longer have a viable option for receiving needed medical care. That's a crowd large enough to sell out Safeco Field.

It's a mistake to think that the accounting savings realized from cutting this program will translate into actual savings.

After all, it's not as if these 40,000 of our neighbors will suddenly no longer get sick or need medical attention.

Many will simply wait until their situation becomes an emergency to get the care they need from hospitals – maximizing the toll taken on their health and the costs to our overall system.

Similarly, keeping mental health funding sound today is critical to avoid the costly effects of not providing mental health treatment to those who need it – such as greater crime, more victims, more children on welfare, and more adults in our jails and prisons tomorrow.

And it cannot be forgotten that the state budget is not just a financial document – it's also a moral document. We have to take into account the real human costs to these types of cuts.

Given the depth and impact of the proposed cuts to human services, it's worth asking if Nobel Prize winning economist Paul Krugman is correct when he says "shredding the social safety net at a moment when many more Americans need help isn't just cruel. It adds to the sense of insecurity that is one important factor driving the economy down."

A budget writer who views the current economic situation as analogous to a hurricane – in other words, a massive force beyond our control that inflicts destruction on our normal quality of life – would see no sense in cutting government at precisely the moment when we need a coordinated response to help us recover from the crisis.

The public sector does play a role

The public increasingly sees the public sector as having a role to play in our common economic recovery. Barack Obama's ambitious plan for federal stimulus was one of the many reasons he was successful in his campaign for the presidency.

We would be mistaken to think, however, that because Obama is now president and has passed his stimulus plan through Congress, our economic challenges have been met.

The federal stimulus package, while very helpful to us here in Washington, is not a bailout bill. Federal funds for the states are very narrowly categorized by program, and come with a number of strings attached. It will optimistically help us address about one quarter of our budget shortfall at the state level.

While our current situation is the result of national forces beyond our control, we can take hold of our own destiny. By thinking not just about where we are today, but where we want to be two, four, six years from now, we can make choices here at home to help drive our economy forward.

In the middle of the Great Depression, President Roosevelt declared, "This country needs bold, persistent experimentation. It is common sense to take a method and try it: If it fails, admit it frankly and try another. But above all, try something."

In the middle of the current crisis, President Obama declared, "What is required of us now is a new era of responsibility – a recognition, on the part of every American, that we have duties to ourselves, our nation and the world, duties that we do not grudgingly accept but rather seize gladly, firm in the knowledge that there is nothing so satisfying to the spirit, so defining of our character than giving our all to a difficult task."

FDR's call for bold experimentation and Obama's call for a new era of responsibility can intersect and be made manifest here in Washington this legislative session.

A crisis like this is a test of our basic values.

We can't let tough times become an excuse for sacrificing the things that matter most to our families – access to health care, protections for those who can't take care of themselves, and education for our children. We can't let a crisis like this put the health and safety of our citizens at risk.

But we can't cut our way out of this crisis. And frankly, we can't tax our way out either. We likely will need a combination of both.

But we'll have to do it together.

Our basic values

Lawmakers have no choice but to make significant cuts to state services. And we will – the choices we end up making will be among the hardest we'll ever make in our lives.

We will innovate to find new ways to deliver the services that make our communities attractive places to live, work and raise a family.

But the scale of the problem makes it impossible to close this budget gap by just relying on cuts and new ways of doing things. Here you can see how our budget deficit has increased by a third since the initial all-cuts budget was proposed in December, and how we've lost nearly \$5 billion in projected revenue since the Legislature adjourned in 2008.

While it's unthinkable that we'd eliminate our entire state's correctional system, our entire higher education system, all care for our seniors, and all care for those with developmental disabilities, lawmakers will cut as far deep as we can without devastating the core functions of government.

After that, it would be irresponsible to not look at options to raise new revenue to keep essential state services intact.

continued on next panel

Budget myth # 1: The Governor and the Legislature are to blame for Washington's budget shortfall

Budget reality: The Governor and the Legislature have doubled the state average of total annual reserves in each of the last three years. 46 states currently face budget shortfalls, totaling \$350 billion over the next two years.

Budget myth #2: Washington's budget shortfall is the result of overspending

Budget reality: State spending as a share of personal income has been declining for over a decade.

Budget myth #3: State spending in 2005 is the appropriate level for state spending today.

Budget reality: With an increase in population, inflation, service costs – and despite disappearing federal dollars – Washington has made record investments in education, health care, public safety and the environment over with past four years. But no one believes our kids are too educated, our families are too healthy, our communities are too safe, or our air and water are too clean.

Budget myth #4: We can simply cut waste and inefficiency in government and do more with less.

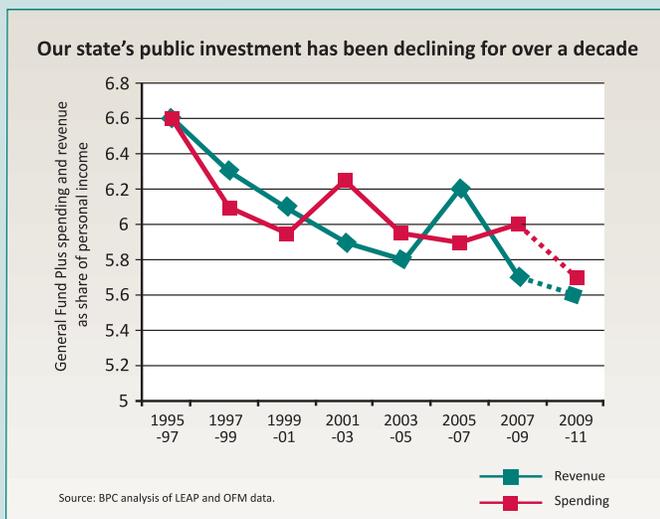
Budget reality: Washington ranks as the best-managed state in the nation, according to the Pew Center on the States in 2008. In 2003-05, the last time we used a cuts-only approach to address a serious shortfall, the state cut health care for 20,000 people, eliminated dental care for low-income adults, and froze funding for better teachers and smaller classrooms. We face similar choices now. A cuts-only budget means we do less with less.

Budget myth #5: Cutting human services creates costs savings.

Budget reality: Cutting needed human services – such as health care and mental health treatment – doesn't eliminate the need. In most cases, it exacerbates the need, and increases the costs – both financial and human – down the road.

Budget myth #6: The federal stimulus plan will bail out our state budget.

Budget reality: The federal stimulus funds will optimistically help with about a quarter of Washington's budget shortfall.



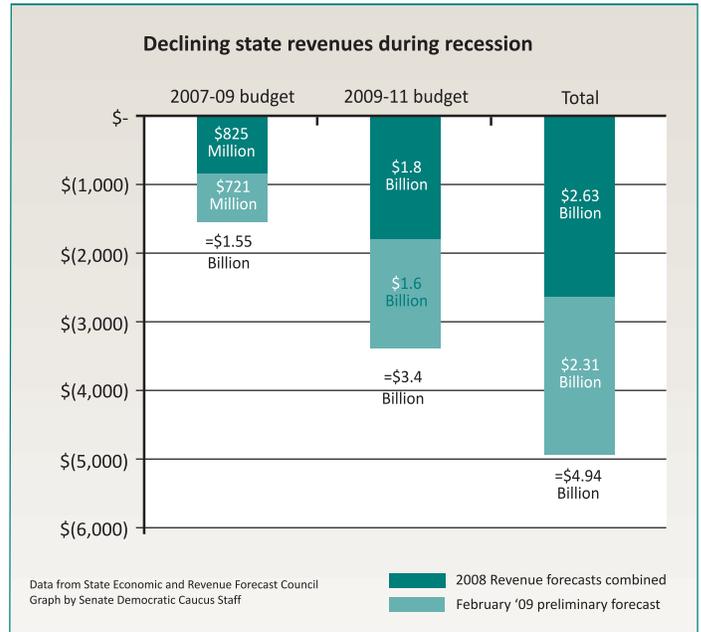
continued from previous panel

Because of 2007's I-960, any new revenue proposal from the Legislature requires either a two-third vote, or a vote of the people. Since a two-thirds vote is unlikely, any revenue increase offered by the Legislature would have to go the public in order to be approved.

Here's how it could work: the Legislature would pass a budget that makes the cuts of the initial all-cuts budget plus 60 percent, because the economy has worsened since it was proposed.

Because the cuts will be so devastating, the Legislature would experiment by **giving the voters the option** to buy back some of those cuts.

If the majority of the public believes it's worse to raise new revenue than to close the shortfall on cuts alone, then they will have the option to make that choice. If the majority of the public believes that it's worse to close the shortfall on cuts alone than raise new revenue, then they will have the option to make that choice.

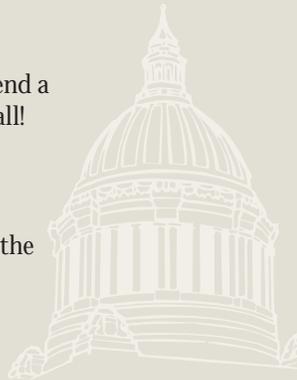


Town Hall Meeting

Sen. Ed Murray invites you to attend a
43rd Legislative District Town Hall!

Sunday, March 29, 2009
2:00 p.m. – 3:30 p.m.

Hamilton International School at the
Lincoln High Auditorium
4400 Interlake Ave. N
Seattle, WA 98105



Lawmakers will put together a budget that tries our level best to preserve Washington's core values, and we'll have a dialogue with the public about what those core values are. In the end, the public will decide the issue of Washington's core values, not the Legislature.

It's a bold proposition, but **nothing will be decided without the voters**, and nothing will be shoved down their throats.

The question that remains to be seen: If state lawmakers can construct a boldly experimental ballot measure and send it to the public, will the public embrace the new era of responsibility and approve it?

Stay tuned.

Senator Ed Murray
PO Box 40443
Olympia, WA 98504-0443

Town Hall Meeting
Sunday, March 29, 2009
2:00 p.m. – 3:30 p.m.

Hamilton International School
at the Lincoln High Auditorium
4400 Interlake Ave. N
Seattle, WA 98105



PRSR STD
U.S. Postage Paid
WA State Dept
of Printing 98501