

2010 Supplemental Budget

Update

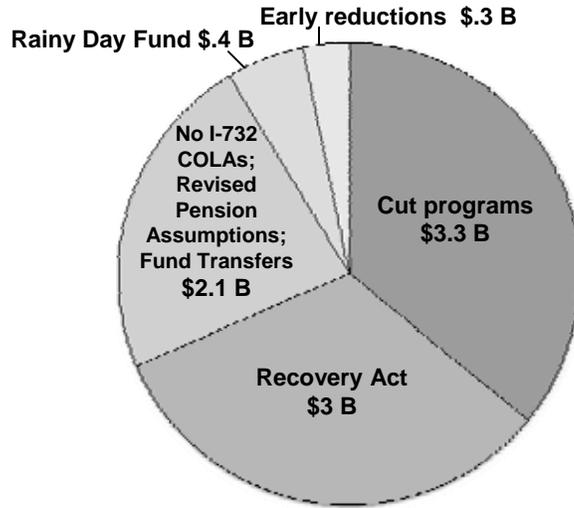
February 25, 2010

Context for the 2010 Supplemental Budget

- Over past 18 months, Washington has seen a significant drop in General Fund-State (GFS) revenue.
- Last session, the Legislature closed a \$9 billion GFS shortfall through:
 - cuts to programs and services
 - use of Recovery Act funds
 - fund transfers, including Rainy Day Fund
- As GFS revenue projections continued to decline in the forecasts (June, September and November), it was clear that further budget adjustments would be necessary.
- Reduction options are limited by constitutional and federal spending mandates.

Solving \$9 Billion Gap Last Year

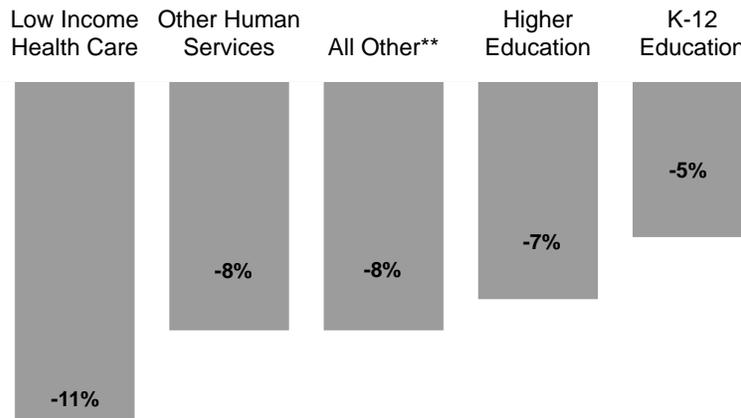
2009 Legislative Actions to Balance the Original 2009-11 Budget



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Original 2009-11 Budget: All Areas of Budget Cut

Percent Reduction*



* Includes adjustments for additional tuition and Recovery Act money that offset reductions. Excludes compensation and special appropriations.

** Includes general government (including legislative and judicial agencies); natural resources; transportation; other education agencies.

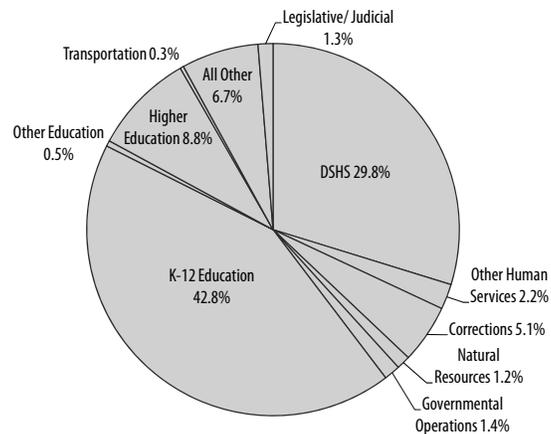
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Enacted 2009-11 Budgets

- Operating Budget \$59 billion
- Transportation Budget \$7.6 billion
- Capital Budget \$5.4 billion

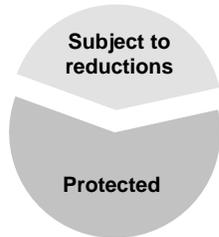
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Where the State Spends General Fund 2009-11 Biennium: \$30.8 billion



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About 71 percent of the GFS budget relates to constitutionally protected programs like basic education, debt service and pensions.



This includes state mandates for Maintenance of Effort under the (federal) American Recovery and Reinvestment Act. (Education and Health Care)

Programs “subject to reduction” include unprotected segments of K-12 and Higher Education; Natural Resources; certain Health, Social Services and Corrections activities.

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Other States in Same Predicament (Data as of Late 2009)

48 States Face Budget Shortfalls



- 48 states have addressed or still face shortfalls for FY2010.
- 49 states had total tax revenue fall during 2nd quarter; 36 report double-digit declines.
- 25+ states face new shortfalls after balancing budgets just months ago.

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Latest GFS Revenue Forecast Indicates Continued Challenges

According to the State Economic and Revenue Forecast Council (February 2010):

- Revenues are not expected to turn up until FY 11.
- We expect to see continued weakness in some employment sectors, consumer spending, and credit availability.
- Less revenue is expected in 2009-11 than collected in 2007-09

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Governor's Budget Strategies

- Save and work smarter by reforming government.
- Identify all unavoidable spending adjustments.
- Take immediate actions to save money.
- Identify fund balances that might be employed toward highest priority services.
- Prioritize the rest of services to identify program/spending reductions.

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“Book 1” and “Book 2”

- By law (RCW 43.88), the Governor must submit a budget version that is based on currently authorized revenues. (Book 1)
- Any expenditures predicated on revenues that require statutory change must be displayed separately (Book 2).
- Since any fee or other revenue increase requiring statutory authority would qualify a budget as “Book 2”, this alternative version is fairly common.
- For this supplemental, the Governor issued Book 1 in December and Book 2 in February.

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Governor’s Proposed 2010 Operating Supplemental December GFS Budget Solution (**Book 1**)

Dollars in Millions

Additional Resources (w/o new taxes or federal stimulus funds)	
Other Fund Transfers to the General Fund	(421)
Use of Rainy Day Fund (all)	(229)
Use of PEBB Reserves	(52)
Lower Ending GFS Balance	(202)
Expenditure Reductions	(1,670)
	(\$2.6 billion)

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Governor's Proposed 2010 Supplemental February Budget Update (Book 2)

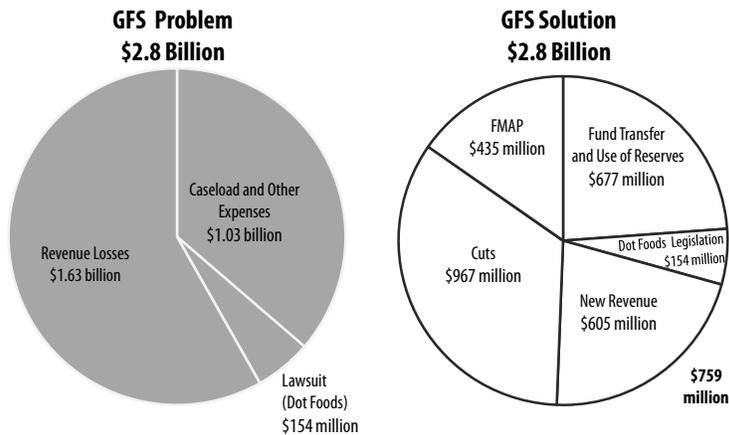
- Restores \$769 million of the GFS reductions that were part of the December budget; retaining cuts of almost \$1 billion.
- Maintains programs that are vital to the safety net and to the state's economic future.
- Assumes new federal and state revenues.
- Employs some new fees, primarily in non-GFS programs.

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A BALANCED APPROACH FOR HARD TIMES

GOVERNOR'S PROPOSED BOOK 2 BUDGET

FEBRUARY 2010



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Book 2 GFS Expenditure Reductions

Dollars in Millions

K-12 Education	(221)
Higher Education	(231)
Other Education Agencies	(3)
DSHS/Corrections/Other Human Services	(440)
Natural Resources	(27)
General Government	(39)
Transportation	(5)
TOTAL	\$ 967 million

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Legislative Budget Actions (so far) in the 2010 Legislative Session

- **Early Savings Bill (ESHB 2921)**
Saves \$45.4 million NGFS (\$54.5m Total Funds) from administrative and program reductions; most are already assumed in the Governor's budget recommendation. Includes a freeze on hiring, certain personal service contracts and out-of-state travel. Signed by Governor 2/9/10.
- **Continuation of Salary Freeze (SSB 6382) and Suspension of monetary performance based awards and incentives (SHB 2998).** Signed by Governor 2/15/10.

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Legislative Budget Actions in the 2010 Legislative Session (continued)

Budget Bills in Process

- Senate Supplemental Operating Budget (PSSB 6444)
- Senate Supplemental Transportation Budget (PSSB 6381)
- Senate Supplemental Capital Budget (PSSB xxxx)

- House Supplemental Operating Budget (PSHB 2824)
- House Supplemental Transportation Budget (PSHB 2838)
- House Supplemental Capital Budget (PSHB 2836)

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Comparative GFS “Solutions” to a \$2.8 billion GFS Problem (as of 2/24)

	Governor (Book 2)	Senate W&M Chair	House W&M Chair
Program Cuts	\$967 million	\$838 million	\$653 million
Transfers/Use of Reserves	\$677 million	\$498 million	\$547 million
New State Revenue	\$759 million	\$918 million	\$857* million
Federal Funds	\$522 million	\$583 million	\$641 million
*may change when tax package is announced			

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Issues as the Operating Budgets Get Finalized

- New Taxes/No New Taxes
- Mix of cuts and revenues to balance budget
- Programmatic nature of the reductions
- Facility closures and other government reform measures
- Availability of new federal funds
- 2011-13 impact of expenditures and revenues

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Resources

- Governor's December Budget proposal
<http://www.ofm.wa.gov/budget10/default.asp>
- Governor's Feb. letter describing cut restorations of \$768 million and proposed revenue increases:
http://www.governor.wa.gov/priorities/budget/package_20100217.pdf
- Legislative Budgets: <http://fiscal.wa.gov/Budgets.aspx>

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