

# Overview

## A BALANCED BUDGET SOLUTION

As Washington slowly emerges from the worst economic crisis since the Great Depression, state revenue collections are beginning to grow. But the economy remains challenged and we still face significant risks from the lingering Eurozone debt crisis to the “fiscal cliff” standoff in Congress.

According to the state’s latest projections, revenue collections are not expected to return to 2008 levels until 2014. And, on a real per capita basis, General Fund-State revenue collections are projected to remain essentially flat over the next four years. Meanwhile, high demand for many state services continues.

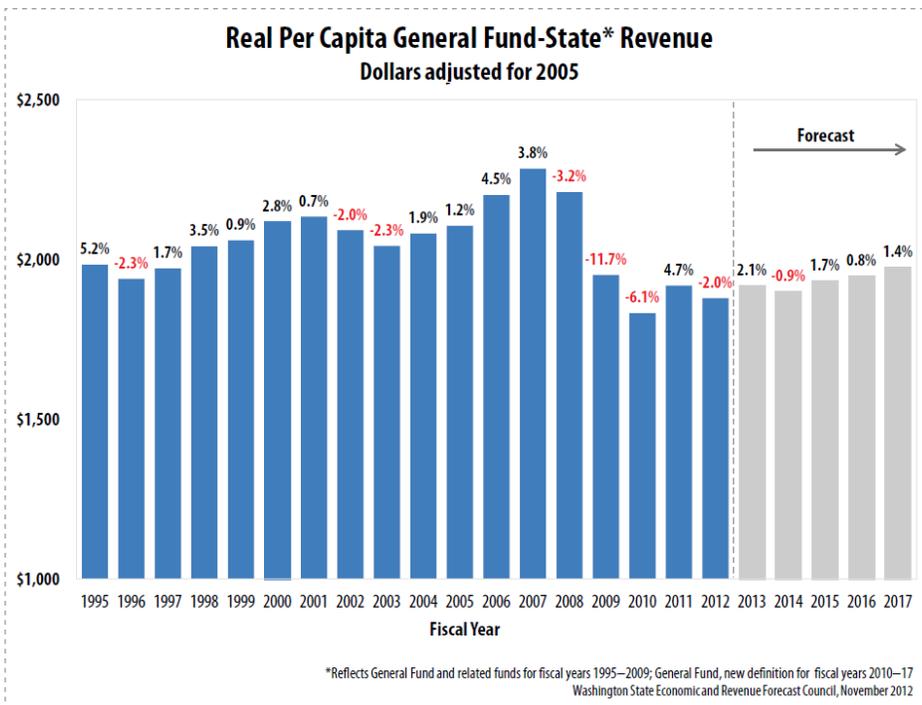
biennium will outstretch expected revenues by more than \$900 million. That figure does not take into account several large obligations nor that the state will need to spend as much as \$1 billion on basic education in the next biennium to begin complying with the state Supreme Court’s McCleary decision.

As is required by law, Governor Gregoire prepared a budget that relies only on existing revenue. But such a budget would require cutting deeper into higher education, sharply reducing levy equalization support to local school districts and eliminating basic services such as the State Food Assistance Program. After reviewing those options, the Governor is convinced a no-new-revenue budget would have unacceptable consequences for people

across the state. What’s more, it would likely hinder the state’s economic recovery.

Instead, Governor Gregoire is proposing a balanced solution to the shortfall — one that will preserve essential services, help rebuild a healthy budget reserve and keep the state moving toward recovery. Built through the Priorities of Government budget process, her plan includes significant new spending reductions and savings through reforms. But it also relies on modest revenue solutions.

In addition to proposing her 2013–15 budget, the Governor is also putting forward a plan to begin addressing the McCleary decision. It relies on a mix of new revenue and extension of two taxes set to expire next year to support more than \$1 billion in sustainable basic education investments over the next two years. (See the Education section for more detail.)



What this means is that — even after four consecutive years of budget cutting and government reform — state revenue growth is still not expected to keep pace with the costs of state services. In fact, the Washington State Economic and Revenue Forecast Council recently projected that the total costs of all current obligations for the 2013–15

## SPENDING REDUCTIONS AND REFORM SAVINGS

Governor Gregoire’s budget saves \$360 million by again suspending teacher cost-of-living pay raises required under Initiative 732 and banks another \$14 million by delaying implementation of the state’s paid family leave law. Her plan makes tens of millions of dollars in additional cuts to dozens of state programs — ranging from the Economic Development Commission to grants for local watershed planning. The Governor also proposes to trim funding for local government programs by about \$57 million.

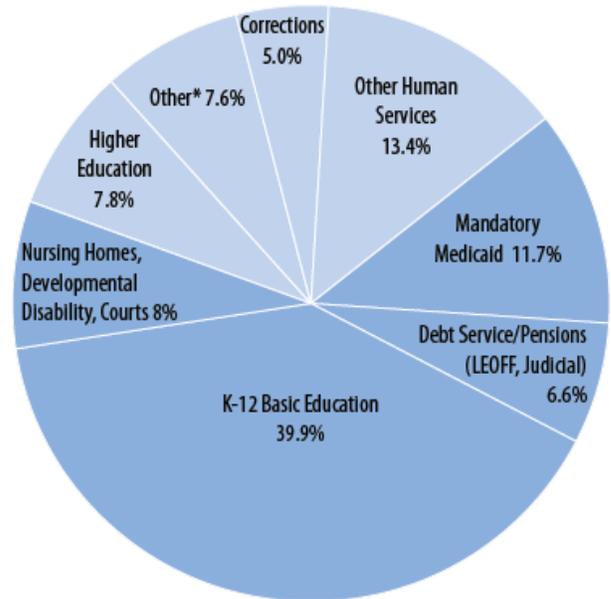
After prioritizing state needs and services through the Priorities of Government process, the Governor also identified non-General Fund sources that can be tapped on a one-time or ongoing basis to forestall about \$53 million in cuts to programs or services.

The Governor’s budget also captures savings resulting from recent reforms instituted at both the state and federal level. These savings are in addition to savings generated by the Governor’s Lean management initiative, which is gaining momentum across state government.

In 2011, the Legislature approved the Governor’s proposal to create the Department of Enterprise Services, which merged all or parts of five agencies that deliver support services to state government. After just one year of operation, the Governor’s proposed 2013–15 budget for the new agency assumes more than \$20 million in savings resulting from the consolidation of “back office” functions such as human resources, accounting, purchasing, contracting and facilities management.

Similarly, Washington stands to save nearly \$140 million under the federal Patient Protection and

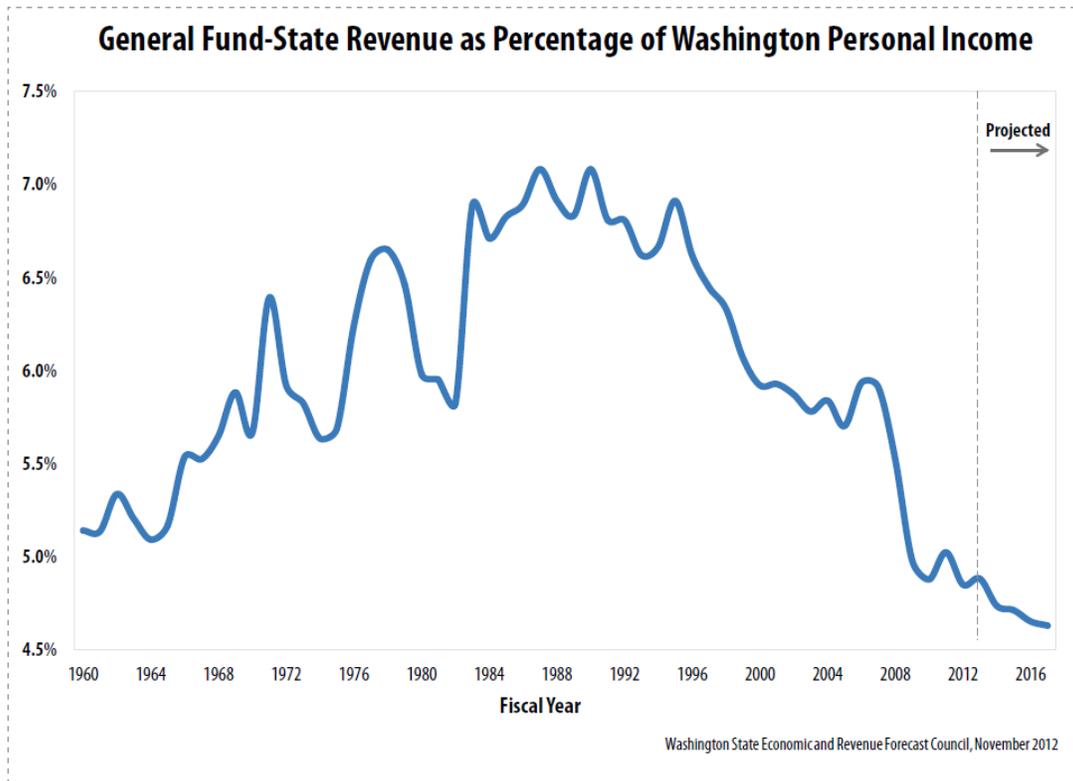
Two-Thirds of the \$33.3 Billion GFS 2013–15 Maintenance Level Budget is Tied to Constitutional and Federal Requirements



\*Other includes balance of K-12, Legislative agencies, Governmental Operations, Natural Resources, Transportation, Other Education, Other Appropriations

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Affordable Care Act — even as the state expands Medicaid coverage to an estimated 255,000 newly eligible adults. The savings are due primarily to the fact that, under the new law, the federal government will now pay the bulk of health care costs for people previously covered by programs funded entirely by the state. The federal reforms come on top of years of progress here in Washington, where the Governor used evidence-based medicine and chronic care management to ensure better results at lower cost. Meanwhile, the state has reined in health care inflation in its Medicaid program. From 2008 to 2015, the average year-to-year Medicaid inflation in Washington is projected at -1.13 percent, well below the projected national average of 3.66 percent.



## REASONABLE REVENUE SOLUTIONS

The General Fund is Washington’s primary source of funding for the state operating budget. Over the past 25 years, however, General Fund revenue collections have not kept pace with the growth of the state’s economy. As the chart above shows, General Fund revenue collections in the late 1980s equaled about 7 percent of total personal income statewide. Today, General Fund revenue equals less than 5 percent of total personal income — lower than it was in the 1960s.

In 2010, the most recent year for which data is available, Washington ranked 36<sup>th</sup> among all states in terms of per capita total state and local tax collections in relation to personal income.

Governor Gregoire’s proposed 2013–15 base operating budget does not include any new taxes. Instead, the Governor is proposing an assortment of modest revenue solutions.

For example, the Governor is proposing to repeal a use tax exemption that the state currently provides

for fuel produced and used internally by extractors and manufacturers. Washington is one of only two states that provide an extracted-fuel tax exemption, which in this state primarily benefits refineries. Repealing the exemption will generate \$63 million in additional state revenue and \$23 million in additional local revenue during 2013–15.

The Governor’s budget also extends the Hospital Safety Net Assessment, an inpatient fee that was created in 2010 to leverage increased Medicaid matching funds. Extending the assessment will generate \$276 million in 2013–15.

Governor Gregoire’s budget continues to identify areas where it makes sense for the people who benefit from state services to share in their cost through new or increased user fees. The budget also makes about \$172 million in one-time transfers to the General Fund from a variety of accounts, including the Public Works Trust Fund, the Life Science Discovery Fund, the Local Toxics Control Account and the State Treasurer’s Service Account.

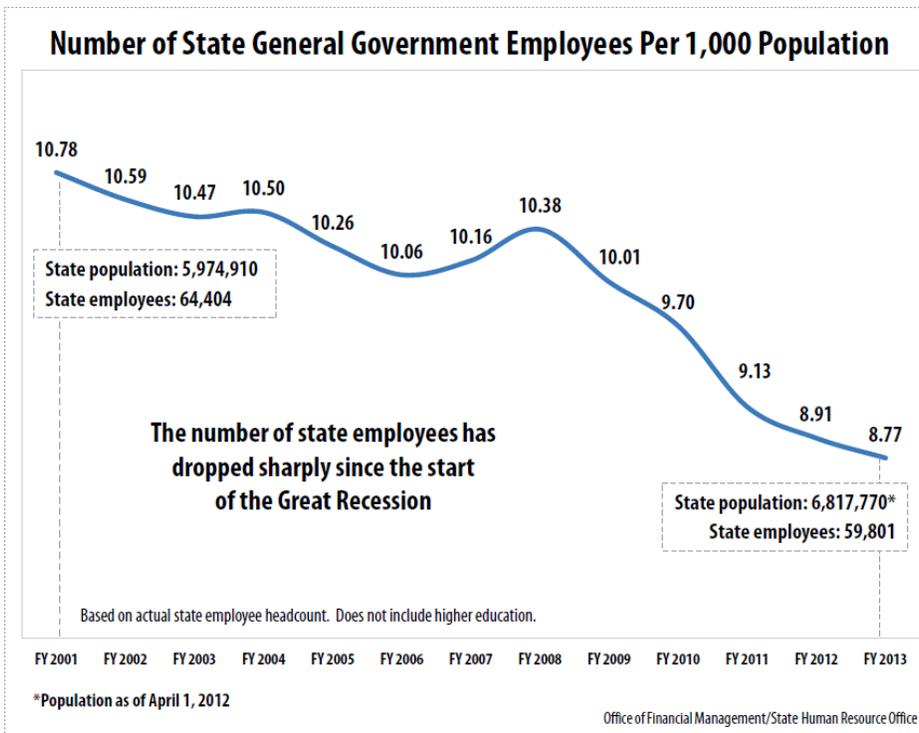
## TARGETED INVESTMENTS

In general, the Governor’s budget holds the line on spending for state agencies. But the Governor is proposing new spending in a handful of areas instrumental to building a better, safer future for Washingtonians. For example, her budget calls for \$50 million to add enrollment slots to our early childhood education system and \$20 million to expand STEM (science, technology, engineering and math) opportunities in our public colleges and universities. The Governor’s budget also includes \$8 million to improve prison safety.

The Governor is making her largest investment yet toward cleaning up and protecting Puget Sound through targeted operating, capital and transportation budget investments. Her budgets include \$501 million (\$25.1 million operating, \$469.7 million capital, \$6.2 million transportation) for projects to improve water quality and salmon habitat, restore shellfish beds and address the impacts of ocean acidification.

Over the past two years, the state has begun to transition the State Parks system off the General Fund through user-pay programs such as the Discover Pass, with the goal of eliminating General Fund support in the 2013–15 biennium. Despite concerted efforts by the State Parks Commission, revenues have fallen short of initial projections, and we face a critical shortfall in the coming biennium.

The Governor believes park users alone should not be responsible for supporting the entire parks system when it benefits all citizens. She proposes using \$19 million from the General Fund to cover the shortfall while calling on park managers to increase efforts to raise additional revenue. Her budget includes \$7 million to compensate for free and reduced Discover Passes and camping fees that are provided to seniors, foster families and disabled veterans. It also includes \$12 million to cover essential park operations; ensure responsible stewardship of natural, historical and cultural resources; protect public safety on state park land; and pay for administrative activities to support park operations.



## STATE EMPLOYEE COMPENSATION

Over the past four years, perhaps no group of public employees has sacrificed more than our state workers to address budget shortfalls. They have been placed on furlough, taken pay cuts and agreed to pay a greater share of their pension and health care costs.

On top of these actions, they have taken the brunt of budget cuts and agency consolidations through layoffs, job changes and heavier workloads. Even though demand for services continues to grow, today there

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are fewer general government employees on the payroll than there were 15 years ago. Over that same period, the state's population has increased by more than 1 million, our state medical assistance caseload has grown by more than 400,000 and our inmate population has grown by nearly 5,000.

State employees have not received a general wage increase since 2008. In 2010, general government employees agreed to a two-year, 3 percent pay cut to help the state address its budget shortfall, and the state reduced higher education funding a comparable amount. In its negotiations for 2013–15, the state agreed to restore the 3 percent pay cuts, and the Governor is including \$171 million to cover the cost (for general government and higher education employees) in her budget.

The budget also includes \$38.6 million for a new salary step that was negotiated in 2008 and 2010, but delayed both years.

The state's current budget included reductions for public schools that were intended to be enforced as pay cuts (1.9 percent for teachers, 3 percent for classified and administrative staff). The Governor's budget includes \$166 million to restore those cuts.

## **AN UNFUNDED MANDATE**

The state was unable to reach agreement on a new contract for 35,000 state-funded home care individual providers, so the issue went to arbitration. The arbitrator awarded a general wage increase of 5 percent each year and 25 percent at the top step, along with increased funding for health care. The cost of implementing the award in the 2013–15 budget is estimated at \$124.8 million from the General Fund (nearly \$250 million total funds). Additionally, under RCW 74.39A.310, any increase in wages and benefits from the terms

of a contract or arbitration award for *individual* providers is incorporated into the vendor rate for *agency* providers for wage and benefit increases for agency provider workers. The cost of implementing this law for the biennium is estimated to be \$29.7 million.

In 2010, the Washington Supreme Court held that the Governor could not be required under the home care worker collecting bargaining statute, RCW 74.39A.300, to seek funding in her budget for wage and benefit increases awarded in arbitration. The court held that the Governor's duty under RCW 74.39A.300 to request funding was not ministerial, concluding instead that proposing state spending in an environment of competing fiscal demands and limited resources involves the Governor's exercise of discretion.

In 2011, the law relating to RCW 74.39A.300 was changed by initiative. RCW 74.39A.800 was enacted and provides that the Governor's duties under RCW 74.39A.300 "constitute ministerial, mandatory, nondiscretionary duties." This law change applies only to funding requests under RCW 74.39A.300, and the request for funding for this arbitration award is submitted with the Governor's understanding she does not have discretion in this matter.

In light of the state's projected \$900 million shortfall and other obligations, the Governor believes the state cannot afford to implement the arbitration award at the expense of other programs. Therefore, she is proposing to fund the home care worker raises through a new tax on carbonated beverages; repealing the sales tax exemption on candy and gum; and suspending 74.39A.310 for the biennium to avoid the cost of incorporating the terms of the arbitration award into the vendor rate for home care agency providers.