

THE 2011–13 BUDGET AND THE UPCOMING REVENUE FORECAST

BRIEFLY

The 2011–13 budget made policy reductions of \$4 billion. Because maintenance levels increased spending by \$5 billion, there is a net appropriations increase over 2009–11. The upcoming revenue forecast could necessitate further cuts.

Although the final 2011–13 budget included significant reserves, they have already been wiped out due to a dismal June revenue forecast.

In May, the legislature passed a budget for the 2011–13 biennium and a final 2009–11 supplemental. The governor signed the legislation in June, vetoing some provisions. For 2011–13, the legislature initially faced a budget shortfall of \$5.1 billion, as described in our brief on the House-proposed budget (“House Democrats’ Budget Plan is a Good Starting Point”). After the governor’s vetoes, 2011–13 Near General Fund–State plus Opportunity Pathways (NGFS+) appropriations total \$32.200 billion. The total includes \$4.053 billion in policy reductions. Maintenance levels increased spending by \$5.170 billion, however, for a net appropriations increase of \$1.117 billion.

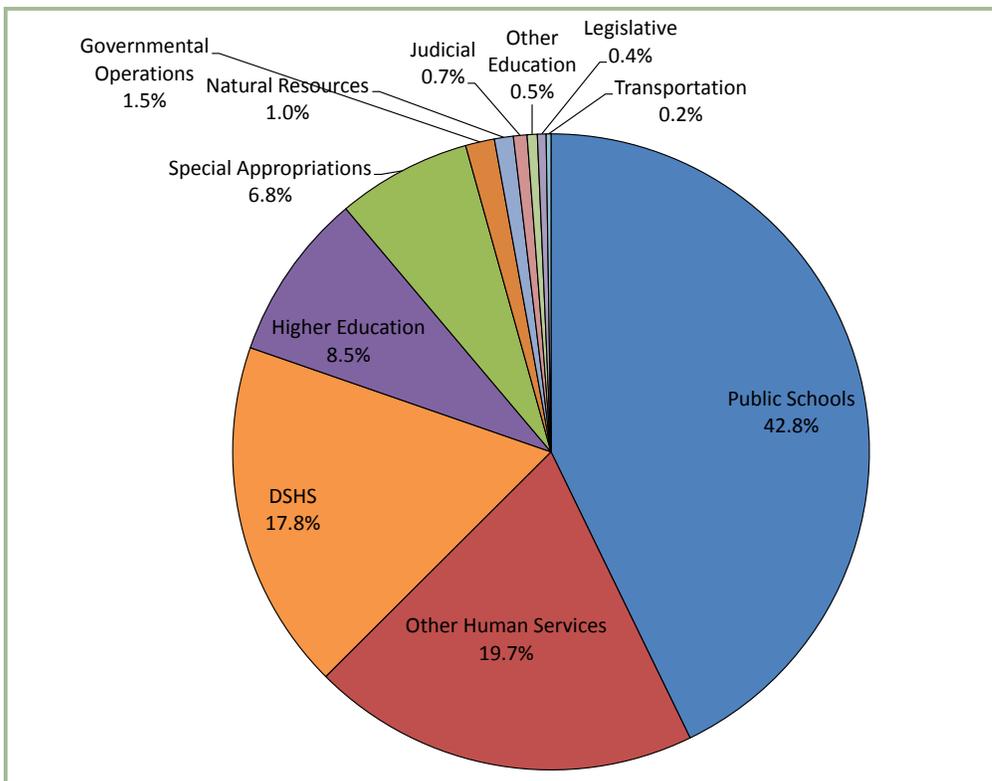
At the time of enactment, the legislature and most observers touted the “sustainable” nature of the budget. In many respects that

was an accurate assessment—especially as compared to previous budgets that made heavy use of one-time funds. However, that budget picture has been overtaken by events.

Although the final budget included significant reserves (NGFS+: \$111 million for 2009–11 and \$741 million for 2011–13), those reserves have already been wiped out due to a dismal June revenue forecast. According to the Economic and Revenue Forecast Council, after the June forecast, the 2009–11 General Fund–State (GFS) ending balance was *negative* \$84 million, and the 2011–13 ending balance is estimated to be \$163 million. (Similar numbers on a NGFS+ basis are not yet available.)

We expect the upcoming September revenue forecast to blow an even bigger hole in the 2011–13 budget, likely precipitating a special session. In this brief, we review the state’s fiscal situation.

Chart 1: 2011–13 NGFS+, by budget area



2011–13 Highlights

Public Schools account for the largest percentage of 2011–13 NGFS+ appropriations, followed by Other Human Services and DSHS. General apportionment (part of the Public Schools budget area) is the largest single program in the budget (32.5 percent), followed by the Health Care Authority (13.8 percent, part of Other Human Services). Bond retirement and interest account for 6.1 percent of the budget—and the third highest program appropriations (\$1.967 billion).

Governmental Operations: Policy changes increased the Department of Commerce NGFS+ budget by \$45.8 million. That includes an increase in essential needs and housing support (\$64.1 million) in light of the elimination of Disability Lifeline, the elimination of tourism development (-\$3.8 million), and

the transfer of the Washington Technology Center to the new Innovate WA (-\$3.8 million).

The Department of Personnel is eliminated—its policymaking functions are moved to the Office of Financial Management (OFM) and its human resource functions that serve agencies are moved to the new Department of Enterprise Services (DES). The Public Printer and the Department of General Administration are also transferred to DES. The Department of Information Services’ IT policy oversight functions are transferred to

ing the transition to 2014” when they and others will be covered by federal health care reform. “It does this by employing a broad range of benefit- and cost-management strategies to reduce costs without reducing the number of persons covered.”

DSHS: The budget delays mandatory training for long-term care workers until 2013–15. The Disability Lifeline program will be eliminated October 31, 2011, saving \$79.5 million. In its place, ESHB 2082 establishes an essential needs and housing support program within the Department of Commerce. As mentioned, the medical assistance program is moved to the HCA, cutting \$4.397 billion from the DSHS budget.

Public Schools: \$165.1 million is saved by eliminating the K-4 class size reduction for school years 2011–12 and 2012–13. Also, as part of the 2011 supplemental, the June 2011 apportionment payments to schools were delayed by one business day, shifting the payments into the 2011–13 biennium. To cover those payments, \$128 million is added to the budget.

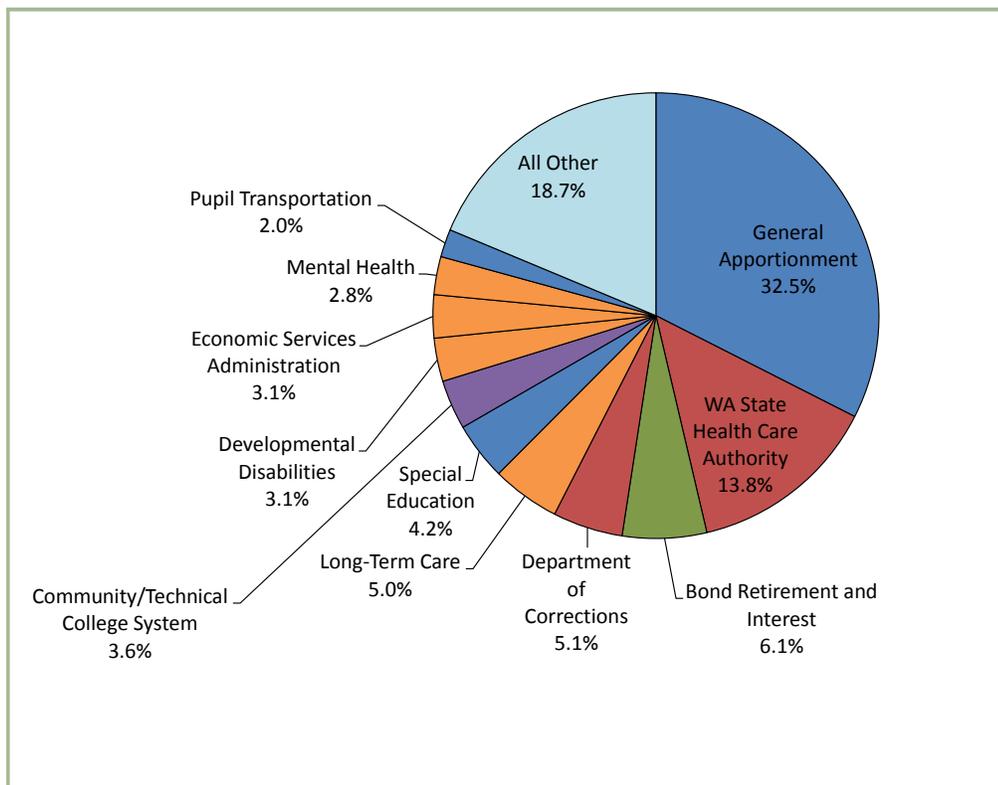
Initiative 728, which was originally approved by voters in 2000 to reduce class sizes, is suspended for the biennium.

Higher Education: The Higher Education Coordinating Board is eliminated; financial aid funds shift to the new Office of Student Financial Assistance, while non-financial aid funds go to the new Council for Higher Education.

The 4 percent reduction to appropriations to the public four-year institutions that was originally made in the 2011 supplemental is continued in the 2011–13 biennium. The institutions will be allowed to increase tuition to make up for the loss of state funds. For the 2011–12 school year, UW increased resident undergraduate tuition by 20 percent (above the budget’s funding expectation); WSU and WWU, by 16 percent; CWU, by 14 percent; and EWU, by 11 percent. Lastly, an additional percentage reduction is made to each institution, after accounting for the tuition increases.

Compensation: The budget makes a number of reductions to state and K-12 employee compensation. These include eliminating automatic future cost-of-living adjustments (COLAs) for participants in the Public Employees’ Retirement System Plan 1 and

Chart 2: Top NGFS+ spending programs (colors correspond to budget areas in Chart 1)



OFM, and administrative functions are moved to DES. IT delivery will transfer to the new Consolidated Technology Services agency.

Other Human Services: The medical assistance program, formerly part of DSHS, is moved to the Health Care Authority. This action increases the HCA budget by \$4.395 billion. The budget continues to freeze enrollment in the Basic Health Plan for the full biennium, reducing spending by \$129.6 million.

Overall, according to the Senate Ways and Means Committee (SW&M), “the budget recognizes that 2011–13 is a critical transition period for Washington’s publicly funded health care system.” As such, “the budget seeks to maintain publicly funded coverage for as many eligible persons as possible dur-

Table 1: The budget's tuition and funding expectations for higher education (percentages)

	Tuition Increase Assumed	Additional Funding Reduction
UW	16	6
WSU	16	5
WWU	16	2
EWU	11	4
CWU	14	4
TESC	14	5
CTCS	12	5

Teachers' Retirement System Plan 1, suspending Initiative 732 (teacher COLA) for the biennium with no catch-up, reducing allocations to school districts reflecting a 3 percent reduction in administrator salaries and a 1.9 percent reduction in instructor salaries for the next two school years, and reducing state employee salaries by 3 percent for the 2011–13 biennium. In all, compensation policy changes reduce spending by \$1.070 billion, \$789 million of which is within Public Schools.

Discussion

Anticipating additional revenue losses, the governor has asked state agencies to include GFS spending reduction options totaling 5 percent and 10 percent in their 2012 supplemental budget requests. Exceptions are made for basic education, statewide pensions and debt service. Such a 10 percent cut would reduce GFS spending by \$1.676 billion.

The legislature made significant program cuts during the 2011 session. Prioritization will be even more difficult should an additional spending cut be required following the September revenue forecast.

References

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