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IN AND OUT: SECOND 2010 SPECIAL SESSION LASTS ONE DAY

BRIEFLY

During the recently concluded one-day special session, legislators reduced the \$1.1 billion 2009–11 budget shortfall by \$588 million. Governor Gregoire may implement an additional round of across-the-board cuts totaling \$110 million, to bring total reduction to \$698 million—still far shy of closing the shortfall. Consequently, the legislature will have much more cutting to do when they return in January.

Facing a 2009–11 biennial budget shortfall of \$1.1 billion, legislators met on December 11 for a one-day special session to approve cuts. The resulting Supplemental, HB 3225, passed both chambers overwhelmingly and contains over \$490 million in reductions. It also transfers \$54 million into the Near General Fund-State (NGFS) from other accounts. Additionally, the bill provides funding for new auditors and tax examiners, who are expected to increase revenues by \$19.5 million.

Legislators also passed SB 6892, which waives certain tax penalties and interest and is expected to increase revenues in FY2011 by \$24.4 million (net). A third bill, SB 6893, suspends the child support pass through payment (accounted for with the HB 3225 reductions). All told, the actions taken by the Legislature during the special session are expected to reduce the shortfall by \$588.3 million.

Budget Reductions

The House Office of Program Research (OPR) estimates that the Supplemental, which takes effect immediately, reduces the NGFS budget by \$490.4 million.

The functional areas of the NGFS budget that are cut are: Public Schools, Other Human Services, the Department of Social and Health Services (DSHS), Higher Education, Natural Resources, Judicial, Governmental Operations and Legislative.

Public Schools: NGFS appropriations are reduced by \$260.4 million. Of this, \$208 million is back-filled with a federal Education Jobs grant. It had been expected that these funds would be used in the 2011-13 biennium, but they have been pulled forward to help close the more immediate 2009-11 budget gap. The K-4 class size reduction will be eliminated, saving \$39.4 million. Education Reform is cut by \$9.2 million. The Office of Superintendent

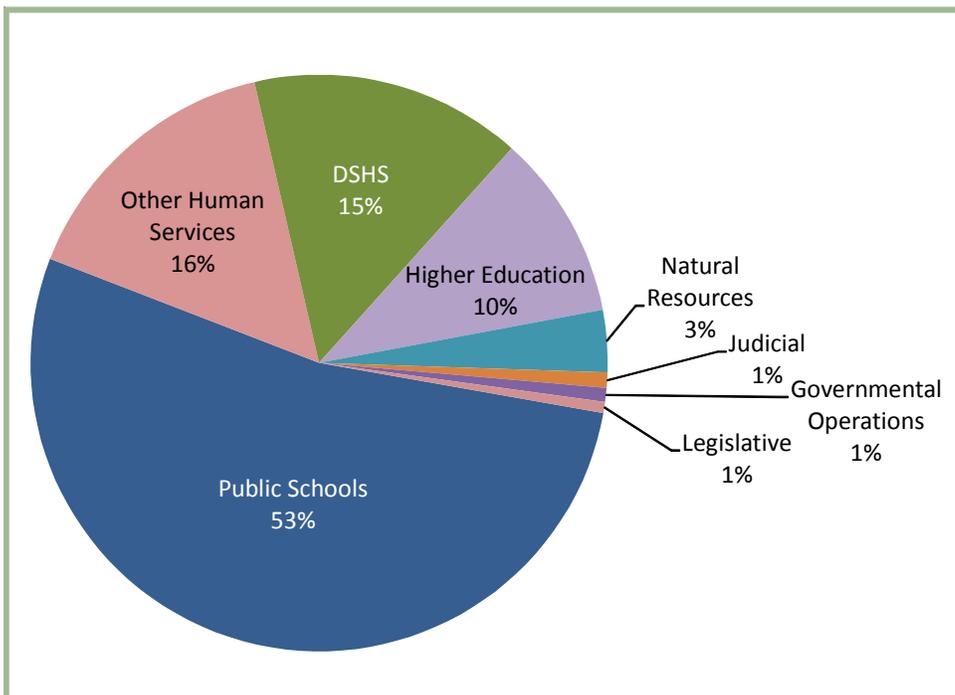
of Public Instruction and statewide programs are cut by \$3.7 million. Levy equalization is held steady.

Other Human Services: NGFS appropriations are reduced by \$76.1 million. The Basic Health Plan is reduced by \$27.7 million, as a result of keeping enrollment closed through the end of the fiscal year. In the Department of Health, funding for tobacco prevention is cut by \$3 million (out of the All Funds Budget, not NGFS). Finally, the Department of Corrections is cut by \$48.4 million. That includes closing the McNeil Island Corrections Center on April 1, 2011, for a reduction of \$3.3 million. To offset lost capacity, \$1.0 million is appropriated to open the Larch Corrections Center Elkhorn Unit.

Special Session Summary NGFS, dollars in millions

	FY 2011
Budget Reductions (HB 3225)	\$490.4
Fund Transfers (HB 3225)	\$54.0
Tax Penalty and Interest Waiver (SB 6892)	\$24.4
Budget Driven Revenue (HB 3225)	\$19.5
Total	\$588.3

HB 3225 Reductions, NGFS



DSHS: All agencies within DSHS are cut, for a reduction of NGFS appropriations of \$74.7 million. Children and Family Services is cut by \$13.2 million. The Economic Services Administration is reduced by \$15.8 million. Of that,

\$1.4 million is a result of the suspension of the child support pass through (SB 6893). Additionally, cash diversion assistance is reduced by \$856,000, and funding for the Disability Lifeline grant is reduced by \$12.3 million (the grant will be reduced by 21 percent as of January 2011).

Funding for Medical Assistance Payments is cut by \$37.6 million. This includes eliminating adult non-emergency dental (\$7.2 million), changing the reimbursement method for federally qualifying health centers (\$20.3 million), and using a federal performance bonus under the Children’s Health Insurance Program Reauthorization Act (\$10.1 million).

The DSHS cuts to the All Funds Budget are significantly larger than

those to NGFS because many of these programs are funded by Medicaid. Because state dollars are matched by federal funds, when the state cuts program funding, it loses the federal money as well.

Higher Education: NGFS appropriations are reduced by \$51.1 million. This includes cuts to the University of Washington (\$11.4 million), Washington State University (\$7.5 million), Western Washington University (\$2.0 million), Eastern Washington University (\$1.5 million), Central Washington University (\$1.4 million), The Evergreen State College (\$777,000), and the Community/ Technical College System (\$26.4 million).

Natural Resources: NGFS appropriations are reduced by \$17.0 million. The Department of Ecology is cut by \$5.8 million, the Department of Fish and Wildlife is cut by \$3.8 million, and the Department of Natural Resources is cut by \$4.1 million.

Judicial: NGFS appropriations are cut by \$4.3 million.

Governmental Operations: NGFS appropriations are reduced by \$3.7 million. The Office of the Governor is cut by \$359,000, the Office of the Secretary of State is cut by \$1.3 million, the Office of the Attorney General is cut by \$576,000, and the Office of Financial Management is cut by \$2.3 million.

Legislative: NGFS appropriations are cut by \$3.1 million. Of that, the House of Representatives is cut by \$1.2 million, while the Senate is cut by \$1.6 million.

Fund Transfers

HB 3225 also transfers \$54 million from various accounts into the NGFS. These are: State Toxic Control Account (\$20 million), Disaster Response Account (\$15 million), Treasurer Service Revolving Account (\$10 million), Financial Services Regulation Account (\$5 million), Tobacco Prevention and Control Account (\$3 million), and Nisqually Earthquake Account (\$1 million).

HB 3225 As Passed Legislature, Dollars in Thousands

	2009-11 Appropriations		2011 Supplemental		2011 Cuts as Percent of 2009-11	
	NGFS	All Funds	NGFS	All Funds	NGFS	All Funds
Legislative	\$153,900	\$158,277	(\$3,067)	(\$3,067)	-1.99%	-1.94%
Judicial	\$228,493	\$273,554	(\$4,266)	(\$4,266)	-1.87%	-1.56%
Governmental Operations	\$464,375	\$3,921,610	(\$3,742)	(\$3,742)	-0.81%	-0.10%
Other Human Services	\$2,214,952	\$5,187,799	(\$76,148)	(\$79,148)	-3.44%	-1.53%
DSHS	\$8,761,093	\$21,262,641	(\$74,652)	(\$127,826)	-0.85%	-0.60%
Natural Resources	\$372,107	\$1,494,562	(\$17,035)	(\$17,063)	-4.58%	-1.14%
Transportation	\$77,996	\$194,952	\$0	\$0	0.00%	0.00%
Public Schools	\$13,442,302	\$15,909,596	(\$260,356)	(\$50,257)	-1.94%	-0.32%
Higher Education	\$3,094,912	\$9,453,410	(\$51,088)	(\$51,088)	-1.65%	-0.54%
Other Education	\$125,446	\$496,323	\$0	\$0	0.00%	0.00%
Special Appropriations	\$2,035,286	\$2,229,691	\$0	\$0	0.00%	0.00%
Total	\$30,970,862	\$60,582,415	(\$490,354)	(\$336,457)	-1.58%	-0.56%

Tax Penalty and Interest Waiver

SB 6892 authorizes the Department of Revenue to waive penalties and interest related to the state business and occupation tax, state public utility tax, and state or local sales or use taxes, for taxes due before February 1, 2011. It is expected that this amnesty will induce tax compliance.

To qualify, taxpayers must file all outstanding tax returns by April 18, 2011 and make full payment by May 1, 2011. If they receive a waiver, they may not seek a refund or challenge their tax liability.

OPR estimates that this provision will increase revenues by \$24.4 million in FY2011, but that it will decrease revenues by \$11.5 million in the 2011–13 biennium and by \$3.4 million in the 2013–15 biennium.

Budget Driven Revenue

HB 3225 includes funding for new auditors and tax examiners as a means to generate an estimated \$19.5 million. Hiring six new auditors for five months to increase assessments would increase revenues by \$17.7 million. Additionally, hiring seven new excise tax examiners for five months to increase tax return examinations is estimated to increase revenue by \$1.8 million.

Discussion

In all, legislators reduced the \$1.1 billion 2009–11 budget shortfall by \$588 million. Governor Gregoire may implement an additional round of across-the-board cuts totaling \$110 million, to bring total reduction to \$698 million—still far shy of closing the shortfall. Consequently, the legislature will have much more cutting to do when they return in January. That said, this is a significant start at solving the 2009-11 problem.

A larger problem awaits the legislature in writing a budget for the 2011-13 biennium, when the shortfall is estimated to be \$2.5–5.5 billion, depending on how you calculate it. We will have more to say on this problem when the governor releases her 2011–13 budget later this week.