Washington Research Council

Policy Brief

November 8, 2011 PB 11-21

The Budget Arc: State Spending from Expansion to Recession, 2003–2013

Briefly

State budget history over the last 10 years can be divided into two periods—rapid growth followed by retrenchment. Many of the policy enhancements made between 2006 and 2008 ended up on the cutting table in 2009, 2010 and 2011, because they simply couldn't be paid for.

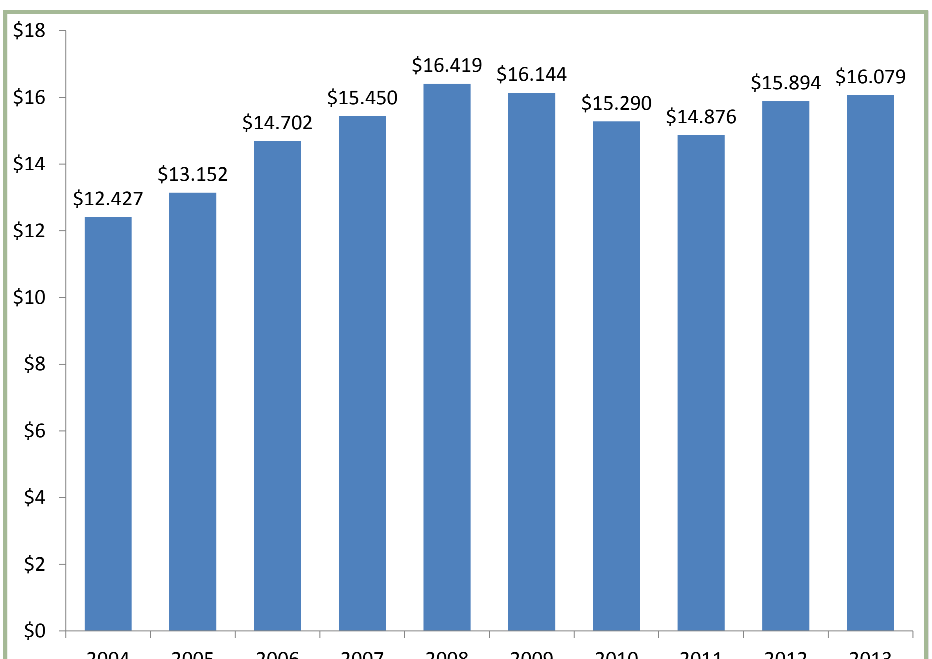
Budgeted NGFS spending in FY 2012 and 2013 is 2 percent below its peak in FY 2008.

State budget history over the last ten years can be divided into two periods:

- Rapid growth following the 2002–03 economic slowdown to the onset of the Great Recession in fall 2008.
- Retrenchment beginning in fiscal year (FY) 2009 and continuing through FY 2013. The recession and still-struggling recovery generated little growth in state revenues, while the costs of entitlements in education, health care, corrections, and pensions, as well as other demands on state government, continued to grow.

Operating expenditures from major state tax sources increased almost 34 percent from FY 2003 through FY 2008, led by the Department of Social and Health Services (37 percent) and higher education (30 percent). Spending in the boom years of FY 2005 to FY 2008, when a superheated housing sector generated extraordinary growth in tax revenue, rose almost 25 percent. In 2008, the legislature enacted a supplemental budget that increased 2007–09 Near General Fund–State (NGFS) spending by nearly $300 million. In analyzing the House and Senate proposals for that supplemental, the Washington Research Council warned that "coming on the heels of the large increases enacted in 2007, the proposed spending will not be sustainable in 2009–11" (WRC 2008).

Chart 1: NGFS expenditures (fiscal years, dollars in billions)



The severe recession that set in with the financial crisis of fall 2008 turned a likely budget shortfall for 2009–11 into a budget crisis from which the state has yet fully to emerge. NGFS spending has declined, in nominal terms, after a succession of budgets that sought to bring expenditures within available resources and a short-lived tax package.

Congress provided $3.6 billion in federal stimulus funding to the state in fiscal years 2009 through 2011. The federal dollars largely supplanted state funds for low-income health care programs, K-12 education, higher education and corrections, producing savings to NGFS. The federal money ran out as the economic recovery faltered, accounting for a large part of an estimated $5 billion budget gap for 2011–13 between projected revenues and the estimated costs of maintaining the 2009–11 budget in the next biennium. That gap was closed—briefly, as it's turned out—through program reductions and other actions taken in the 2011 legislative session (WRC 2011).

Although NGFS spending in FY 2012 and FY 2013 is budgeted to increase over FY 2011, spending is still 2 percent below its peak in FY 2008. Budgeted 2011–13 expenditures are 5.3 percent higher than budgeted 2009–11. If the spending paid for with the one-time federal stimulus funds is added to the base for 2009–11, however, the 2011–13 budget is a decrease of 2.5 percent from the biennium before.

Maintenance level is the estimated cost of continuing the current biennial budget in the following biennium. The calculation of maintenance level starts from authorized expenditures in the current biennium, adjusts for any one-time savings or expenditures, biennializes any spending or reductions that were effective for only part of the fiscal period, and then adjusts for the costs of mandatory caseload, enrollment, inflation and other legally unavoidable costs. Policy changes, whether additions or reductions, are made from maintenance level.

Policy-level changes to the state budget are any discrete decisions by the legislature to create new programs or services, increase the level or scope of existing programs and services, reduce or eliminate existing programs and services, increase rates of payment to private vendors of state services , or increase or decrease wages and benefits of public employees. Policy-level changes often require changes in law to implement.

In this report we review spending trends from the end of FY 2003 through FY 2008, and then again from FY 2008 through budgeted FY 2013. We look at spending in two ways:

1. Absolute change from beginning year to end year by budget function and agency, adjusting, in some instances, for shifts of program costs from one agency to another. This reflects growth in costs of caseload-driven entitlements such as basic education and Medicaid.
2. Identification of larger and more representative policy-level changes, whether additions or reductions, that helped affect spending trends. Policy changes occurring from 2005 through 2008 are shown in terms of their estimated impacts on 2009–11 maintenance levels, and for 2009-on in terms of their impacts on individual budgets.

Our focus is on three large budget areas (human services, public schools, and higher education), but we highlight other spending as well.

SPENDING TRENDS, FY 2003 TO FY 2008

That the years leading up to the recession were a period of high spending growth is well-known; looking at where the money was spent is essential to understanding the current budget situation. NGFS spending increased $5.6 billion (33.6 percent) from FY 2003 through FY 2008. This was far in excess of combined inflation and state population growth over this period, though below the cumulative increase in state personal income in a time of extraordinary economic growth.

Human Services

The biggest increase in state spending from FY 2003 to FY 2008 (in dollars and in growth rate) was in human services, which increased $2.1 billion (37 percent) from FY 2003 through FY 2008.

Department of Social and Health Services (DSHS) spending increased 37.2 percent, led by mental health (57.1 percent), children and families (40.3 percent), long-term care (37.7 percent), medical assistance (36.2 percent) and developmental disabilities (35.8 percent). Much of the increased spending was for increased payments to vendors of DSHS services (some under terms of collective bargaining agreements with private providers).

Some of the major policy additions in DSHS from 2005 to 2008, with estimated impacts for the 2009–11 biennium, were:

Medical assistance

- Cover All Kids (expanded eligibility for children to 300 percent of the federal poverty level): *$32.2 million*
- Eligibility and services expansions, such as reviewing children's eligibility every 12 months instead of every six months, which increases caseloads: *$31.2 million*
- State funds to cover half of Medicare Part D (prescription drugs) co-pays: *$18.2 million*
- Medicaid vendor rate increases: *$49.6 million*

Mental health

- Cover services for persons who are not Medicaid-eligible, after federal match was disallowed: *$98.8 million*
- System Transformation Initiative (funding a new service delivery model): $*35.9 million*
- Medicaid vendor rate increases: *$75.2 million*
- Expanded mental health services to children: *$10.3 million*

Aging and adult services (long-term care)

- Collective bargaining agreement with individual home care providers: *$112.1 million*
- Wage increases for agency providers to maintain parity with individual providers: *$49.5 million*
- Nursing home vendor rate increases: *$70.0 million*
- Other provider payment increases: *$49.7 million*
- Settlement of SEIU lawsuit over payable hours: *$18.3 million*

Developmental disabilities

- Collective bargaining agreement with individual home care providers*: $60.9 million*
- Rate increases for agency providers for parity with individual providers: *$7.8 million*
- Other vendor rate increases: *$41.3 million*
- Expanded community services through federal Medicaid waivers: *$32.9 million*
- Expanded employment and day programs: *$19.3 million*
- Additional community protection placements of clients deemed a risk to public safety: *$21.6 million*
- Settlement of SEIU lawsuit over payable hours: *$9.5 million*

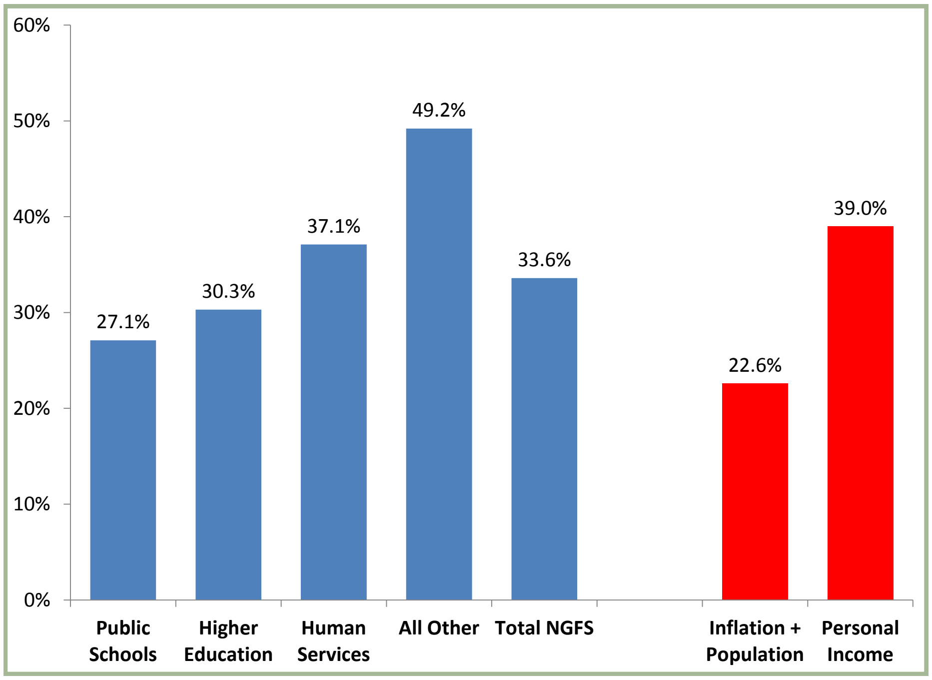


Chart 2: Percent change of NGFS expenditures, FY 2003-2008

Alcohol and substance abuse

- Expanded chemical dependency treatment for adults: *$29.0 million*
- Outpatient payment rate increases: *$14.9 million*

Children and family services

- Additional staff for more frequent child visits and other increases in services: *$41.5 million*
- Legislation requiring enhanced child welfare services: *$18.4 million*
- Vendor rate increases: *$17.1 million*
- Increased support for foster parents: *$9.4 million*

Economic services

- Collective bargaining agreement for family home care providers and matching increase for child care centers: *$96.2 million*
- Vendor rate increases for child care providers: *$36.2 million*.
- Make up for funding shortfall in Temporary Assistance to Needy Family (TANF) program: *$61.8 million.*

Aside from DSHS, spending in other human services agencies rose 36.9 percent, with the largest increase in the Department of Corrections ($272 million, 47.5 percent). Some major policy additions in other human services, with estimated impact on 2009–11 maintenance levels, were:

- Paid family leave (benefits were not immediately funded on enactment in 2007, and in the absence of a dedicated revenue source, they became a general fund obligation moving forward): *$33.2 million* (Employment Security Department).
- Various legislation increasing criminal penalties, with impacts on prison populations: *$60.2 million* (Corrections).
- Offender Re-entry Initiative (a set of programs to prepare adult offenders for reentry to the community): *$32.6 million* (Corrections).
- Additional chemical dependency treatment beds for offenders: *$10.0 million* (Corrections).
- Correctional worker training expansion: *$8.0 million* (Corrections).
- Basic Health Plan expansion: *$18.1 million* (Health Care Authority).
- Health Insurance Partnership (premium support for small businesses): *$5.4 million* (Health Care Authority).
- Increased local public health funding: *$20.0 million* (Department of Health).
- Replacing reduced federal funds for family planning: *$10.0 million* (Health).

K-12 Education

Expenditures for public schools increased $1.4 billion (27.1 percent) from FY 2003 to FY 2008, pushed by major enhancements to some programs. Spending increased for special education by 33.5 percent, pupil transportation by 32.9 percent, levy equalization by 30.7 percent, and the learning assistance program by 37.2 percent. Student Achievement Fund (Initiative 728) allocations to school districts more than doubled from $195 million in FY 2003 to $423 million in FY 2008.

Among the larger policy additions in K-12 in FY 2005 through FY 2008 were (accompanied by impacts in 2009–11):

- Enhancements to the general apportionment (basic education) funding formula, including allocating more classified staff per student; increasing the minimum salary allocation for classified staff; increasing the minimum salary allocation for administrative staff; increasing teacher salary allocations to create more equity between property-poor school districts and wealthier districts that were “grandfathered” at higher base salaries when the current funding system went into place, and increasing the allocation for non-employee-related costs such as building maintenance, utilities, technology and supplies: *$128.4 million*
- Enhancements to special education funding, including $85.6 million in enrichments of the funding formula and $18.9 million more for the safety net program

for high-cost students: *$104.5 million*.
- Phase-in of state funding of all-day kindergarten for high-poverty districts: *$80.3 million*.
- Enhancements to the learning assistance program of remedial education: *$63.1 million*.
- Salary increases for state-funded staff above the cost of living adjustments (COLAs) required by Initiative 732: *$46.0 million*.
- Measures to improve mathematics and science instruction: *$44.8 million*.

Higher Education

NGFS funding for higher education increased $415 million (30.3 percent) from FY 2003 through FY 2008. The increase was driven by 19,930 new budgeted enrollments from FY 2005 to FY 2009 (actual enrollments increased 23,445), and by new and existing financial aid programs.

Major policy additions included (along with 2009–11 impacts):

- Additional general enrollments at the community and technical colleges: *$78.2 million*
- High-demand and other specialized enrollments at the community and technical colleges: *$47.2 million*
- General enrollments at the baccalaureate institutions: *$101.4 million*
- High-demand and specialized enrollments at the baccalaureate institutions: *$42.6 million*
- Increases in the State Need Grant to follow tuition increases, as well as increases for smaller financial aid programs: *$166.1 million*
- Increase salaries for part-time faculty at the two-year colleges to narrow the difference between pay of full-time and part-time staff: *$20.5 million*
- Salary increments (step increases) for two-year faculty: *$17.5 million*.
- Expansion of the University of Washington Medical and Dental School to eastern Washington: *$11.2 million*
- Global Health program at UW: *$6.8 million*
- Life sciences research at UW: *$4.8 million*
- Biofuels research at Washington State University: *$5.0 million*

Other Highlights

As in the major categories of human services, public schools and higher education, policy changes contributed to spending increases in other budget areas as well from FY 2003 through FY 2008. Below are some examples.

Natural resources agencies. Spending increased 32.4 percent, with notable increases in the Department of Agriculture (62.0 percent), the State Parks and Recreation Commission (57.5 percent) and the Department of Ecology (30.1 percent). Significant policy additions in natural resources included (with 2009–11 impacts):

- Create the Puget Sound Partnership in 2007 and start programs: *$8.1 million*
- Grants for farm plans: *$5.7 million* (Conservation Commission).
- Improved maintenance of state parks: *$3.8 million*.
- Eliminate a parking fee in state parks and replace the lost revenue: *$3.1 million*
- Improve and document instream flow in major rivers: *$3.7 million* (Ecology).
- Support local watershed planning: *$2.9 million* (Ecology).
- Climate change mitigation: *$2.7 million* (Ecology).
- Shoreline Planning Grants: *$2.5 million* (Ecology).

Department of Community, Trade and Economic Development. The budget of CTED, which is now the Department of Commerce, increased 34.3 percent. Some of the larger policy additions in CTED were a new Transitional Housing and Rent program for the homeless ($10 million), increased funding to county Associate Development Organizations for economic development ($5.0 million), state funding to supplement federal funding for Community Services Block Grants ($5.0 million), an "Entrepreneurial Stars" program to recruit researchers to UW and WSU ($4.4 million), and grants to encourage use of cleaner energy ($4.0 million).

Department of Revenue. Expenditures increased 27.8 percent from FY 2003 through FY 2008. Enhancements included $2.5 million for additional audit activity, expected to more than pay for itself through increased tax collections, and $11.0 million for a property tax deferral program in which participation fell far below expectations.

Department of Early Learning. Spending for the department, established in 2006, increased 86.5 percent from (a historically-adjusted) $31 million in FY 2003 to about $64 million in FY 2008. Major additions included $34.1 million to increase the number of children served by the Early Childhood Education and Assistance Program,

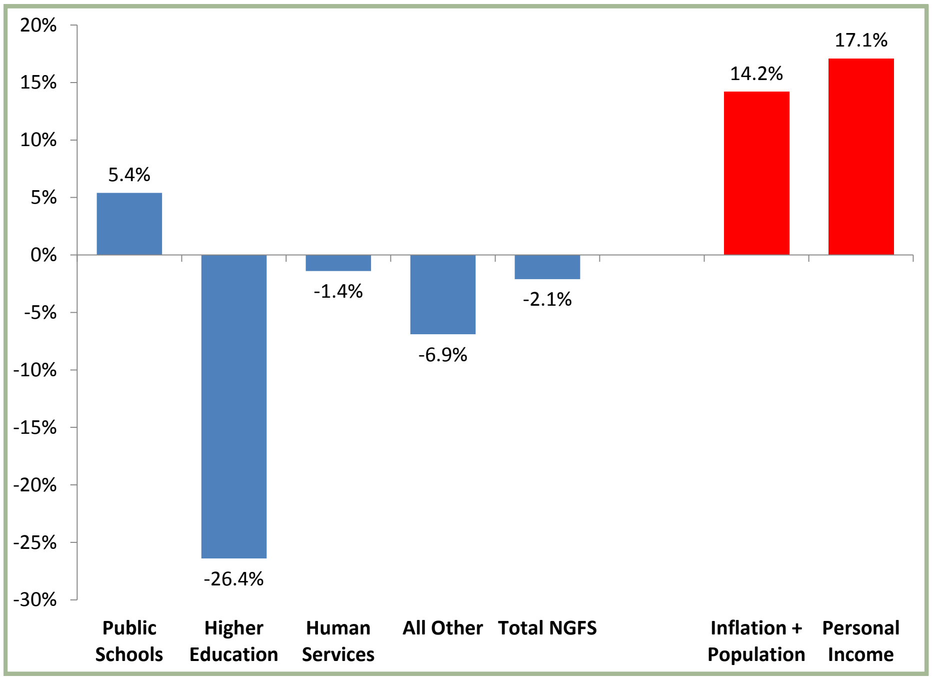


Chart 3: Percent change of NGFS expenditures, FY 2008-2013

$3.7 million for various resource and referral supports, and $3.0 million to create a career wage ladder for child care workers.

Judicial. FY 2003 through FY 2008 was a period of major budget expansion for the judicial branch, in which agency budgets increased a cumulative 79.9 percent. These include a 67.9 percent increase for the Administrative Office of the Courts and a 92.9 percent increase for the Office of Civil Legal Aid. The Office of Public Defense more than tripled its budget from $6.5 million to $27.0 million, receiving policy additions of $23.1 million for funding to counties for counsel to indigent parents in child dependency cases and $15.1 million to expand criminal indigent defense services. The Office of Civil Legal Aid had $8.7 million in enhancements to increase services.

The increased spending due to all these policy additions could not last forever, though.

SPENDING TRENDS, FY 2009 TO FY 2013

The historic recession that began in the fall of 2008, combined with unsustainable commitments to expanded programs and services made in the years before, necessitated a major slowdown in NGFS spending since FY 2009. From its peak of $16.4 billion in FY 2008, NGFS expenditures fell to below $15.0 billion in FY 2011, but the use of federal stimulus funds supplanted NGFS resources for human services, K-12 education, higher education and other functions. The budgeted level for FY 2013—without the benefit of those one-time federal funds—is $339 million, or 2.1 percent, below FY 2008. Inflation and state population have increased 14.2 percent over that time, and state personal income has increased 17.1 percent.

Budgeted NGFS 2011–13 expenditures are $1.7 billion, or 5.3 percent, higher than budgeted 2009–11. If the spending paid for with the one-time federal stimulus funds is added to the base for 2009–11, the 2011–13 budget is a decrease of $820 million, or 2.5 percent, from the biennium before.

The 2011–13 budget makes a net $4.1 billion in policy reductions, including $4.5 billion in policy reductions and $424 million in policy additions, of which $115 million is repayment of payments to school districts that were delayed in the 2011 supplemental budget. Chart 4 shows net policy changes by major functions. Because more than $4 billion in medical assistance payments are transferred in this biennium from DSHS to the Health Care Authority (HCA), and because the Basic Health Plan (BHP) is now operated on a Medicaid waiver, we combine DSHS and HCA for the purposes of the chart. The Department of Corrections is broken out from remaining human services agencies. Because the suspensions of the two education initiatives make up such a large part of all reductions in the biennium, they are shown separately from other changes in public schools. DSHS and HCA make up 32 percent of net reductions, Initiatives 728 and 732 make up 28 percent, other K-12 makes up 17 percent, and higher education makes up 15 percent.

Human Services

NGFS expenditures for human services agencies did not grow between FY 2008 and budgeted FY 2013. State spending dipped from FY 2009 through FY 2011, thanks to $1.7 billion in federal aid used to supplant state funds, most of it from a temporarily higher federal Medicaid match.

Among DSHS programs, medical assistance payments increased 12.0 percent over this span, adjusting for the FY 2012 shift of the program from DSHS to HCA, including just 3.4 percent as budgeted for FY 2013. The budget bills enacted between April 2009 and May 2011 included policy reductions in medical assistance totaling about $1.1 billion. These included reductions in payments to hospitals, community clinics and other providers, reductions to optional Medicaid services, reductions to state-only programs such as the Children's Health Program and

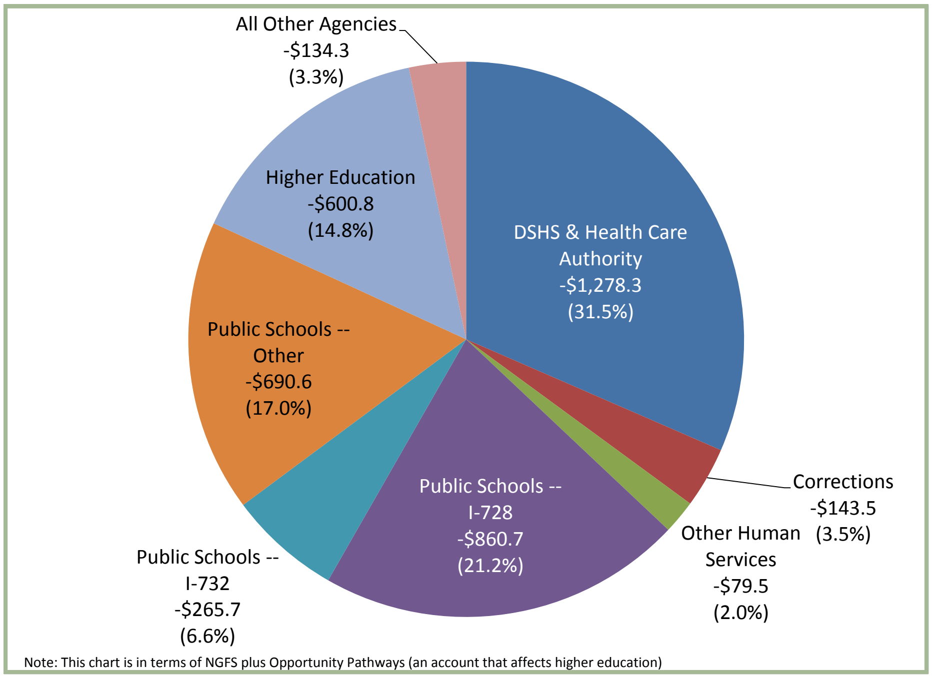


Chart 4: 2011–13 budget, net policy changes (dollars in millions)

the Disability Lifeline (DL) Medical program, reductions to provider payments, efficiencies in the purchase and delivery of services, and other actions. Savings were achieved by obtaining a Medicaid waiver to gain a federal match for coverage of BHP and DL clients, and by using revenue from a hospital provider tax in place of state general fund resources.

Other DSHS changes from FY 2008 to FY 2013 included:

- *Children and families* was reduced 5.5 percent, as enhancements made in the previous years were trimmed and staffing cut.
- *Mental health* was held to almost no growth, primarily through reductions to funding for non-Medicaid-eligible clients.
- *Developmental disabilities* (DD) increased 16.8 percent, leaping up in FY 2012 as caseloads grow and the enhanced Medicaid match expires. Policy reductions such as a cut in personal care hours for clients and a delay in Initiative 1029-mandated training for individual home care providers limited the FY 2013 increase in DD, however, to a half a percent.
- *Long-term care* increased 15.9 percent reflecting rising caseloads and the loss of the federal funds, but was held to 3.6 percent growth in FY 2013. Major policy cuts in the 2011–13 budget include the reduction in personal care hours, the delay in I-1029 mandatory training, and reductions in nursing home rates.
- *Economic services* decreased 10.4 percent through budgeted 2013. Economic services received little federal stimulus money, so most of the savings achieved were through program changes, including caseload reduction efforts in the WorkFirst program, the replacement of the DL (formerly General Assistance-Unemployable or GA-U) cash assistance program with a much smaller housing assistance program in the Department of Commerce, and reduction of the Food Assistance Program for non-citizens.

The HCA budget is reduced 89.1 percent from FY 2008 to FY 2013, after adjusting for the shift of $4.4 billion to the agency from DSHS in 2011–13 as part of the governor's health care consolidation initiative. BHP was reduced by 43 percent through a combination of measures in the 2009–11 budget. In 2010, the program was shifted to a federal Medicaid waiver, with the goal of maintaining current enrollment, for savings of $33 million over the rest of the biennium from a federal match for state dollars. The 2011–13 budget freezes new admissions to BHP for savings of $128 million. An additional $44 million in savings were obtained by diverting certain Tobacco Settlement payments from the Life Sciences Discovery Account to fund BHP enrollments.

The Corrections budget declines 8.0 percent ($69.2 million). Corrections was another area in which federal stimulus aid was used to help balance the 2009–11 budget, with $182 million in federal stimulus funds spent in place of state funds. The legislature made $125 million in net policy reductions in Corrections, above the savings from federal stimulus funds, and another $61 million in 2010 supplemental budgets. Net reductions in the 2011–13 budget total $100 million. Policy changes include:

- Reduce community custody sentences: *$12.0 million savings* (2009–11 budget).
- Close McNeil Island Correctional Center: *$49.2 million savings* (2010 supplemental); *$23.2 million savings*, with $4.8 million added for increasing capacity elsewhere (2011–13 budget).
- Close Pine Lodge Correctional Center: *$7.2 million savings* (2010 supplemental).
- Reduce staff positions across the agency: *$18.7 million savings* (2011–13 budget).
- Reduce payments to counties for jail beds for supervision violators: *$7.0 million savings* (2011–13 budget).
- Early deportation of certain alien offenders: *$4.0 million savings* (2011–13 budget).

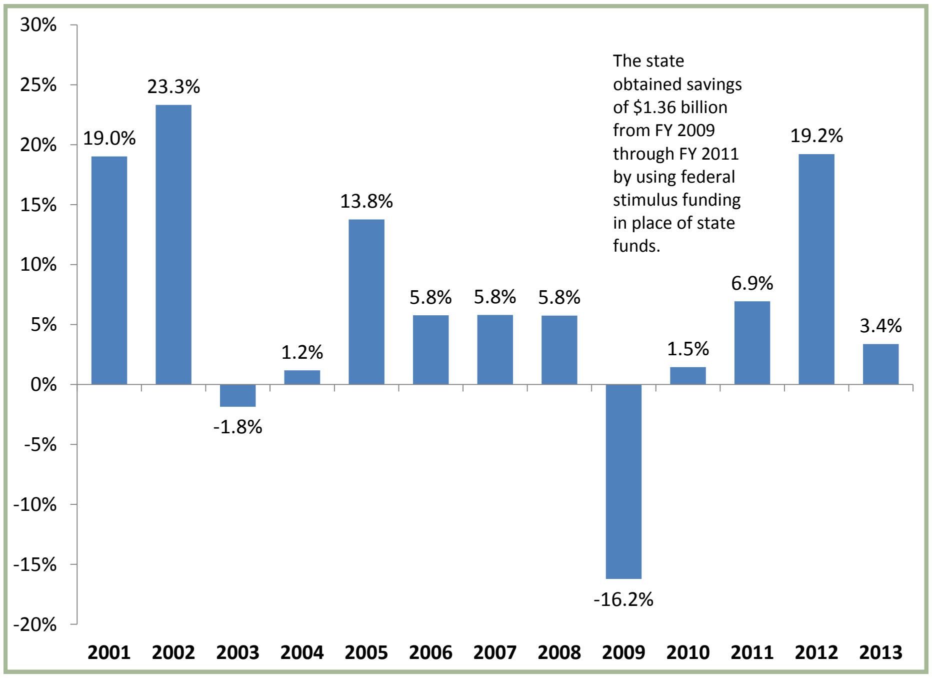


Chart 5: Annual percentage change in medical assistance payments (NGFS, fiscal years)

The Department of Health, which grew 56.4 percent from FY 2003 to FY 2008, now sees that growth almost reversed. The Health budget declines 46.1 percent through FY 2013, with much of the impact falling on local governments. The $20 million in funding for local public health that was added in the 2007–09 budget is eliminated in the 2009–11 budget. Public health grants funded in 2008 under the Blue Ribbon Commission Act were cut in half in 2011 for biennial savings of $10 million. State funding for universal purchase of childhood vaccines was discontinued in 2009, but the program was resumed through a public-private partnership in 2010.

K-12 Education

Spending for public schools increased 5.4 percent, from about $6.6 billion in FY 2008 to a budgeted $6.9 billion in FY 2013. General apportionment, accounting for almost 77 percent of all K-12 expenditures, increased 10.7 percent, with enrollment growing slowly over these years. A federal "Edujobs" grant was used in the December 2010 "early action" supplemental budget to cover $208 million in apportionment costs.

As funding basic education is an obligation required by the state constitution, policy reductions in public schools, where they took place, had to come from the approximately 10 percent of the K-12 budget that was outside the legislative definition of basic education. The largest of those is the Student Achievement Program, established by Initiative 728 (the "class size" initiative), which was adopted in 2000 with no new revenue source attached. The initiative redirected a portion of property tax and lottery funds at a time when the state enjoyed a budget reserve. The legislature used $362 million in federal stimulus funds in place of NGFS in FY 2009. It used $200 million more in federal stimulus funding for that purpose in the 2009–11 budget, while also reducing the program by $600 million, for a total $800 million savings in the biennium. The remaining $79 million in I-728 funding was eliminated in the 2010 supplemental budget. Student Achievement Fund allocations are suspended in the 2011–13 budget for $861 million in savings.

Levy Equalization, another large, non-basic education program, increased by 51.5 percent from FY 2008 to FY 2013. This is in part because of 2010 legislation increasing authorization of local districts to generate levy revenues, which in turn increases levy equalization costs to the state. The legislature used $176 million in federal stimulus funds for levy equalization to obtain budget savings in the 2009–11 biennium. It made no policy reductions to the program in that budget or in the 2011–13 budget, where it is funded at $612 million.

Education reform, a collection of activities loosely directed toward standards-based improvement in student performance, was reduced by 10.6 percent. The changes in this program from year to year can mislead, as the legislature has tended to shift costs between this and other programs. Recent budgets have, however, made major reductions in education reform, including:

- Discontinue additional learning improvement days for mathematics and science teachers: *$39.7 million savings* (2009–11 budget).
- Elimination of a special allocation for library services that was initiated in the previous biennium: *$8.0 million savings* (2009–11 budget).
- 50 percent reduction in funding for mathematics and sciences instructional coaches: *$3.9 million savings* (2009–11 budget).
- Two-thirds reduction to grants for career and technical education that were begun in the previous biennium: *$1.8 million savings* (2010 supplemental budget).
- Reduction and then elimination of the Focused Assistance program: *$3.5 million savings* (2009–11 budget), *$3.0 million savings* (2011–13 budget).

A COLA for state-funded education staff mandated by Initiative 732 (adopted in 2000 without a revenue source) was suspended in the 2009–11 budget for $369 million in savings, and in the 2011–13 budget for $266 million in savings.

The 2011–13 budget makes $1.9 billion in net policy reductions in public schools (excluding the $115 million added for the June apportionment payments to districts that were delayed in the 2011 supplemental budget). Of that total, more than $1.1 billion, or 66 percent, comes from suspension of funding for I-728 allocations and I-732 COLAs. Another $275 million in savings comes from pension reform legislation eliminating the Uniform COLA in the Plans 1. Those three items account for 73 percent of the total savings in K-12. Of the $528 million in net reductions remaining, $179 million is from a 1.9 percent reduction in allocations for salaries. The largest other reduction is elimination of funding for class size reduction in grades K-4 ($179 million). It is partly offset by an addition of $34 million for class size reduction in grades K-3 in high-poverty schools. Public schools receives $82 million in enhancements in the current budget, most related to phasing in components of the new basic education formula adopted by legislation in 2010.

Higher Education

NGFS expenditures for higher education decline 26.4 percent, from $1.78 billion in FY 2008 to $1.13 billion as budgeted in FY 2013. Spending is reduced 45.0 percent for the University of Washington, 38.2 percent for Washington State University, and 44.0 percent for Western Washington University, the state's largest regional institution. Spending for the community and technical college system declines 17.5 percent.

The 2009–11 budget made $556 million in institutional reductions in higher education as part of the legislature's effort to solve a three-year budget problem estimated at $9 billion. Confronted with an emerging new shortfall, the legislature made an additional $90 million in reductions to colleges and universities in the 2010 supplemental budget. This includes $28 million from 2010 temporary layoffs (under SB 6503, state agencies were required to achieve reductions in employee compensation costs) that were taken as cuts to institutional budgets.

The 2011–13 budget made $617 million in institutional reductions. This includes $82 million from the 3 percent employee salary reductions enacted this year, which in higher education is taken, again, as cuts to institutional budgets rather than to individual pay.

Reductions in NGFS support for colleges and universities were partly offset by increased authorizations for tuition revenue. The 2010 supplemental budget appropriates $3.1 billion in NGFS for higher education, while authorizing institutions to raise $1.9 billion in tuition and other operating fees. The institutions incurred a 16.6 percent reduction from their NGFS base, but a net reduction of 6.5 percent after tuition increases. Higher education also relied on $110 million in federal stimulus funds in 2009–11 to offset NGFS reductions.

The 2011–13 budget provides for $2.6 billion in NGFS support and $2.3 billion in tuition support, as the state extends a longer-term shift toward greater reliance on user fees to support college and university operations. The higher education budget is a 17.9 percent reduction from the NGFS maintenance level for 2011–13, but a 5.1 percent reduction if $376.4 million in authorized tuition increases are included in the calculation.

Funding for State Need Grants was increased $57 million in the 2009–11 biennium and $37 million in 2011–13 to maintain the policy of offsetting most or all of tuition increases for students in households at up to 70 percent of median family income. Smaller financial aid programs, including some created or expanded in 2005 to 2008, are reduced or suspended for a total of $18.8 million in savings.

Natural Resources

Natural resources agencies were reduced 40.6 percent from FY 2008 to FY 2013, partly by shifting support for some activities from the state general fund to fees and other non-NGFS sources. NGFS spending decreased 82.9 percent for the State Parks and Recreation Commission, 40.2 percent for the Department of Fish and Wildlife, 34.5 percent for the Department of Natural Resources, 33.3 percent for the Puget Sound Partnership, and 25.8 percent for the Department of Ecology.

NGFS support for Parks and Recreation is cut 71 percent from the 2011–13 maintenance level. The legislature provided $20 million (NGFS) as transition funding to full reliance on user fee support for state parks operations in the next biennium through a parking fee called the Discover Pass. Revenue from the Discover Pass is to replace $67 million in NGFS support in this biennium.

In Ecology, policy reductions are made in watershed planning grants to local entities, the water resources program, water rights processing and agency administration. The

NGFS portion of pollution cleanup activities is shifted to the State Toxics Control Account, funded by petroleum taxes, to save $10 million over the two biennia. Local Shoreline Grants are shifted to the Local Toxics Account.

The biggest change in Fish and Wildlife is 2011 legislation increasing fees for hunting and fishing licenses. The new revenue mitigates a shortfall in the State Wildlife Account, avoiding costs of $4.0 million to the state general fund in 2011–13.

Policy changes reduce the Department of Natural Resources budget 19.3 percent from 2009–11 maintenance levels and 12.5 percent from 2011–13 maintenance levels. The legislature made an unspecified NGFS reduction to the department budget of $7.0 million in 2009, in addition to reductions to individual programs such as forest practices, natural areas, and corrections camps. The forest practices program is reduced by another $2.0 million, and administrative costs by $1.0 million.

Discussion

Washington's budget story is far from unique. The Great Recession and the slow, disappointing recovery have rocked the budgets of nearly every state. According to the National Conference of State Legislatures, states faced combined budget gaps of $117 billion in FY 2009, $174 billion in FY 2010, and $96 billion in FY 2011. For FY 2012, 38 states reported budget gaps totaling $91 billion. Many states, our own included, have made strenuous efforts to cut spending and restructure government to live within flat or declining revenue, when the poor economy puts all the more demand on services. Washington will soon commence another round of budget-cutting to address a new budget gap estimated at $2 billion.

While the budget problem Washington faced going into 2009 could not have been avoided, it could have been mitigated and rendered more manageable by more prudent spending policy in the years before. The housing-fueled surge in revenue in FY 2006 and FY 2007—fiscal fool's gold—was used to add $2.7 billion in new and expanded programs and services between the 2006 supplemental budget, the 2007–09 budget passed in 2007, and the 2008 supplemental. That spending carried large costs into the 2009–11 biennium and made the job of managing through that budget shortfall and those that followed more painful than it needed to be. Many of the policy enhancements in education, human services and elsewhere that were made in those years, with the best intentions, ended up on the cutting table in 2009, 2010 and 2011, because they simply couldn't be paid for.

It is axiomatic that periods of unusual economic growth tend to be dangerous to state budgets, and that budget surpluses such as those seen in those years are inherently difficult to manage. The state cannot avoid future national recessions, or ups and downs in state revenue. It can, however, live with them better, and avoid their worst effects, through common-sense steps to promote greater fiscal discipline in budgeting. None are new. All bear repeating:

- Keep budgets within available revenue, or nearly so. Avoid paying for ongoing program costs with one-time resources.
- Build ample reserves into every budget plan to guard against revenue reverses. (The $442 million ending balance the legislature left in May was gone by the middle of June.)
- Take a multi-biennium look at each budget, determining impacts in out-years of spending decisions made now, and considering alternative outcomes for revenue growth.
- In reducing spending, favor elimination over percentage reduction or suspension of non-essential or lower-priority programs and services, so they don't just come back into the base of the budget again in the next biennium.
- Deposit extraordinary revenue growth in the state's rainy day fund, where it's off the board for spending and can soften the blow of a future downturn.

References

Washington Research Council (WRC). 2008. House and Senate Turn Attention to the 2008 Supplemental Budget. PB 08-05. March 10.

———. 2011. The 2011–13 Budget and the Upcoming Revenue Forecast. PB 11-16. September 6.

Washington Research Council
16300 Christensen Road, Ste. 207
Tukwila, Washington 98188
206-467-7088
fax: 206-467-6957
www.researchcouncil.org