

# 2009-11 Omnibus Budget Overview

## Operating Only

### Composition of the Projected Operating Budget Problem

The state faced a projected operating budget shortfall of approximately \$9 billion for the three-year period between fiscal year 2009 and fiscal year 2011.

On the revenue side, the March 2009 forecast estimated near general fund revenues of \$30.4 billion for the 2007-09 biennium and \$30.5 billion for the 2009-11 biennium. The March 2009 revenue forecast assumed that the national and Washington economies would be in recession for most of fiscal year 2009 with modest growth not occurring until the latter part of 2010. As a result of deteriorating economic conditions, in just the last year, the projected Near General Fund-State (NGF-S) revenues collections for fiscal years 2009 through 2011 were reduced by approximately \$5.7 billion.

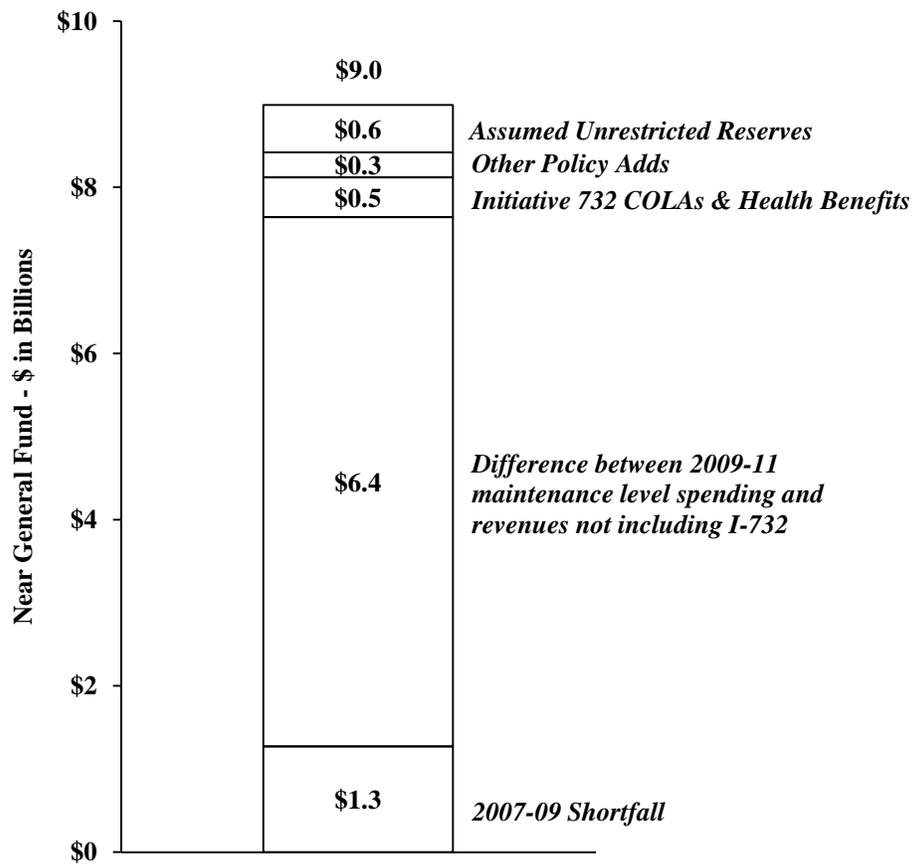
On the expenditure side, in fiscal year 2009, the expected additional costs as a result of increased caseloads, fire, and other costs was estimated at slightly under \$200 million.

For the 2009-11 biennium, the anticipated cost to maintain current programs, including caseload growth in entitlement programs, was \$37.0 billion. Not included in the calculation of the budget shortfall or budget actions are policy enhancements the Legislature typically considers but that are not funded in this proposal. Examples include: cost-of-living adjustments (COLAs – other than those required pursuant to Initiative 732), additional higher education enrollments to keep pace with population, and other enhancements that would make the shortfall even greater if these were included in the shortfall calculation.

The budget included \$94 million for additional costs of employee health care coverage in K-12, higher education, and state agencies. Additionally, the budget included \$303 million in policy increases. Some of the most significant include: \$82 million to maintain the current higher education financial aid policy; \$55 million for debt service associated with the 2009-11 capital budget; caseload growth in programs for the developmentally disabled; and \$20 million for the final phase of an information technology project designed to improve the efficiency of payments for Medical Assistance vendors.

This combined three-year operating budget shortfall of \$9 billion (shortfall – the difference by which the estimated cost of continuing state government programs and services plus policy increases exceeds forecasted revenue) is illustrated on the chart below.

**Illustration of \$9 Billion Budget Problem Addressed in the 2009 Session**



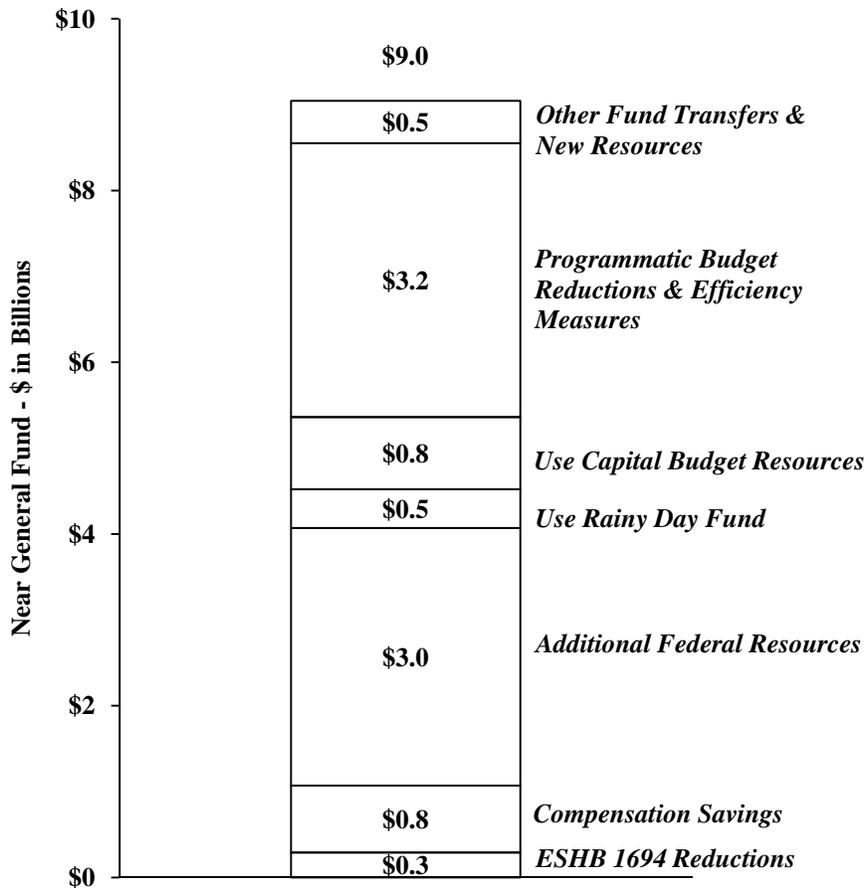
**The Potential Three-Year Budget Problem \***

\* Amounts may not total because of slight rounding differences. "Assumed Unrestricted Reserves" does not include the impact of the Governor's vetoes.

## How the Legislature Addressed the \$9 Billion Budget Problem

The Legislature took several steps in addressing the state's \$9.0 billion budget problem as shown on the chart below:

**The Three-Year Budget Solution Based On As Passed Budget**



**The Potential Three-Year Budget Solution \***

\* Amounts may not total because of slight rounding differences. The amounts depicted do not include the impact of the Governor's vetoes.

## ESHB 1694 Transfers & Reductions – \$381 Million

In early action fiscal legislation passed in mid-February, Chapter 4, Laws of 2009 (ESHB 1694 – Fiscal Matters – 2007-09 Operating Budget), the Legislature adopted approximately \$290 million in various reductions or savings measures. Many of these reductions were the result of the Governor's hiring, travel, equipment, and goods and services freeze implemented in the fall of 2008. In addition, the Legislature transferred \$91 million from a variety of accounts into the state general fund.

## Employee Compensation – \$837 Million

As a result of suspending the Initiative 732 requirement for the 2009-11 biennium, the budget did not include \$388 million in funding for COLAs for K-12 and certain community and technical college staff.

The budget also saved \$449 million by modifying the actuarial assumptions and methods used for determining public employee retirement contributions. The changes include: (1) phasing in the adoption of a new funding method for the Plan 1 unfunded liabilities; (2) changes to assumed salary growth assumptions; (3) temporarily suspending the minimum contribution rates; and (4) delaying the adoption of new mortality tables until the 2011-13 biennium.

The budget provided increases of 3 percent each fiscal year for state employee health benefits, which is less than the expected 7 percent rate of medical inflation. Similar adjustments were made to the rate provided for K-12 employees through state funding formulas. The net result of these changes is a \$94 million increase in the costs for state, higher education, and K-12 employee health benefits coverage for the 2009-11 biennium.

While not included in the budget problem, no funding is provided for COLAs for any state and higher education employees.

## Federal Stimulus Funds – \$3.0 Billion

The federal American Recovery and Reinvestment Act of 2009 will provide a significant amount of additional resources to Washington State. As depicted below, the budget over the next three years incorporated slightly over \$3 billion to offset state costs or avoid having to make further reductions in state services.

### Additional Federal Funds Used in the Budget (\$ in thousands)

	<u>FY 2009</u>	<u>2009-11</u>	<u>3-Year Total</u>
<b>FMAP (Primarily DSHS)</b>			
ESHB 1694	205,000	0	205,000
ESHB 1244	321,532	1,301,341	1,622,873
<b>Fiscal Stabilization (ESHB 1244)</b>			
K-12	449,621	259,946	709,567
Higher Education	0	110,000	110,000
Public Safety	0	182,433	182,433
<b>Other Federal</b>			
ESHB 1694	133,190	0	133,190
ESHB 1244	0	74,285	74,285
<b>Total</b>	<b>1,109,343</b>	<b>1,928,005</b>	<b>3,037,348</b>

As noted on the chart, the State will receive approximately \$1.8 billion in federal funding by an enhanced rate for Medicaid eligible services for low-income health care and certain related programs.

The State will also receive \$1 billion of “fiscal stabilization” funding. The budget used these funds to support K-12 public schools, higher education, and the Department of Corrections.

Some of the other major types of federal assistance that help offset state costs are additional funding from Temporary Assistance for Needy Families (TANF) contingency funds, enhanced match for the State Children's Health Insurance Program (SCHIP), and child support match. It does not include money that goes directly to K-12 school districts, nor federal increases for items such as Byrne grant, community services block grant, and homeless programs.

### **Budget Reductions – \$3.2 Billion**

Besides compensation savings, the budget made \$3.2 billion in programmatic reductions in all areas of state government. Some of the major reductions included:

- a \$600 million reduction in the Initiative 728 per student allocations to school districts;
- a \$557 million reduction from the amount needed to continue the current level of programs and activities at the state's public colleges and universities;
- achieving \$386 million in savings through administrative or agency wide reductions and efficiencies in state agencies;
- a \$255 million savings by reducing the Basic Health Plan, which provides low-income health coverage;
- a \$127 million savings in amounts provided for hospital reimbursement;
- \$68 million by implementing additional TANF caseload management strategies and reducing administrative costs; and
- \$63 million in sentencing and community supervision changes.

While these are some of the larger reductions, the budget made reductions in all areas of state government. The Governor vetoed various items impacting spending – please see section below for more details.

### **Capital Related Transfers – \$777 Million**

The operating budget utilized \$777 million of cash-related funds typically appropriated in the capital budget. This includes:

- \$194 million (including \$11 million from additional lottery earning from multi-state games) from the Education Construction Account;
- \$180 million from the State and Local Toxic Accounts; and
- \$368 million from the Public Works Assistance Account (PWAA).

In addition to the \$368 million of PWAA transferred to the general fund, \$10 million of PWAA is transferred to the City and County Assistance Account to increase aid to 15 mostly rural counties and 174 small cities.

### **Use of Rainy Day Fund – \$445 Million**

In fiscal years 2009 and 2010, the budget transfers a total of \$445 million from the Budget Stabilization Account (“Rainy Day Fund”) to the state general fund. After these transfers, the ending fund balance in the Budget Stabilization Account is estimated to be \$250 million.

## **Other Fund Transfers – \$314 Million**

ESHB 1694 and ESHB 1244 made a variety of transfers from a variety of funds to increase General Fund-State reserves. Some of the largest transfers include: \$62 million from the Liquor Revolving Fund; \$51 million from the Education Savings Account; \$29 million from the Performance Audit Fund; \$26 million from the Life Science Discovery Fund; \$22 million from the Convention Center Account; \$31 million from the Treasury Service Account; \$20 million from the Tobacco Prevention and Control Account; and \$10 million from the Judicial Information Systems Account. The Governor vetoed two of these fund transfers – please see section below for more details.

## **New Resources – \$180 Million (Net Increase)**

Actions taken in the Operating Budget and in other legislation are expected to increase resources. Some of the measures projected to increase revenues include: \$103 million from restructuring the resale certificate program and \$8.8 million from changes to provisions related to the Department of Revenue collections of unpaid tax warrants. The Legislature also passed legislation that reduced resources including repealing the hybrid vehicle tax exemption and creating several tax incentives to renewable energy sources, log hauling, radioactive waste cleanup, and livestock nutrient management programs.

The budget also assumes \$80 million in budget-driven revenue. These measures include:

- the Department of Revenue implementing additional strategies related to out-of-state auditing and compliance, the purchase of third party data sources for enhanced audit selection, and increased traditional auditing and compliance efforts;
- transferring a portion of the lottery unclaimed prizes to the general fund; and
- the Liquor Control Board opening new state stores and contract stores, opening nine additional state stores on Sunday, opening state liquor stores on seven holidays, and opening six mall locations during the holiday season.

## **Fund Consolidation**

The majority of the summary materials reference NGF-S. This is a grouping of individual state accounts and includes the General Fund, the Student Achievement Fund, the Health Services Account, the Public Safety and Education Account (including the Equal Justice Subaccount), the Violence Reduction and Drug Enforcement Account, the Water Quality Account, the Pension Funding Stabilization Account, and the Education Legacy Trust Account. All but the last two accounts are also statutorily subject to the state expenditure limit.

Legislation was passed in the 2009 session that combines the accounts currently subject to the state expenditure limit into the state general fund starting with the 2009-11 biennium.

## **Governor's Operating Budget Vetoes**

The Governor vetoed several spending and fund transfer related items that were passed by the Legislature. The combined effect of these vetoes was to decrease reserves by approximately \$82 million from the level passed by the Legislature. These vetoes included:

- increasing spending by \$32 million in the 2007-09 biennium;
- eliminating the transfer of \$29 million from the Performance Audit Account to the general fund; and
- eliminating the \$22 million transfer from the Convention Center Account to the general fund.

**Estimated Revenues and Expenditures**  
**Near General Fund**  
(Dollars in Millions)

	<b>2007-09</b>	<b>2009-11</b>
<b>RESOURCES</b>		
<b>Beginning Fund Balance</b>	<b>2,105.2</b>	<b>563.7</b>
<b>Revenue</b>		
November Revenue Forecast	31,213.8	32,765.5
March Revenue Change	-776.5	-2,262.0
Transfer to Budget Stabilization Account	-125.2	-263.4
Revenue Changes	0.0	100.4
<b>Total Revenue</b>	<b>30,312.2</b>	<b>30,340.5</b>
<b>Other Resource Changes</b>		
Prior Fund Transfers (2007 & 2008)	117.1	0.0
ESHB 1694 Fund Transfers	91.3	0.0
Use Budget Stabilization Account	400.0	45.1
Use Capital Budget Resources	77.0	700.1
Other Fund Transfers	24.5	197.9
Budget Driven Revenue	-0.9	80.3
Other Changes	18.9	1.0
Governor's Fund Transfer Vetoes	0.0	-51.2
<b>Total Other Resource Changes</b>	<b>727.9</b>	<b>973.2</b>
<b>Total Revenues and Resources</b>	<b>33,145.2</b>	<b>31,877.4</b>
<b>EXPENDITURES</b>		
<b>Spending</b>		
Enacted Budget in 2007-09/2009-11 Budget	33,655.2	31,390.2
2008 Actual Spending Adjustment	-15.6	0.0
ESHB 1694 (Early Action)	-634.7	0.0
2009 Supplemental	-455.7	0.0
Governor's Spending Related Vetoes	32.3	-1.6
<b>Total Appropriations</b>	<b>32,581.5</b>	<b>31,388.6</b>
<b>RESERVES</b>		
<b>Ending Balance &amp; Reserves</b>		
Unrestricted Ending Fund Balance	563.7	488.8
Budget Stabilization Account Balance	31.8	250.0
<b>Total Reserves</b>	<b>595.4</b>	<b>738.8</b>

*Note: The balance sheet reflects appropriations included in the enacted budget. In the 2009 regular session, the Legislature did not enact several bills that were assumed in the budget to generate approximately \$70 million in savings.*

**2009-11 Washington State Omnibus Operating Budget**  
**Cash Transfers to/from General Fund-State**  
(Dollars in Millions)

	<b>To GF-S</b>
<b>Capital Budget Related Fund Transfers</b>	
Public Works Assistance Account	368.0
School Construction Account/Lottery (Includes Multi-State)	193.8
Local Toxics Account	148.1
State Toxics Account	31.7
CEPRI Account	11.1
Aquatic Lands Enhancement Account	10.1
Thurston County Capital Facilities Account	8.4
Energy Freedom Account	6.0
<b>Total</b>	<b>777.1</b>
<b>ESHB 1694 (Early Action Supplemental)</b>	
Education Savings Account	51.1
Treasury Service Account	10.0
Savings Incentive Account	9.2
Streamline Sales Tax	8.6
Retirement Systems Expense	6.2
Family Leave Insurance Transfer	4.5
Reading Achievement Account	1.7
<b>Total</b>	<b>91.3</b>
<b>Other Fund Transfers</b>	
Liquor Revolving Fund (Assumed Retail Price Increase)	62.0
<i>Performance Audit Account (\$29.2 million transfer vetoed by the Governor)</i>	0.0
Life Sciences Discovery Account	26.0
<i>Convention &amp; Trade Center Account (\$22 million transfer vetoed by the Governor)</i>	0.0
Treasurer's Account	20.8
Tobacco Prevention & Control Account	20.0
Judicial Information Services (JIS) Account	10.0
Economic Development Strategic Reserve	5.0
Washington Distinguished Professorship Trust Account	5.0
College Faculty Awards Trust Account	4.9
Waste Reduction & Recycling Account	4.0
Natural Resources Equipment Revolving Account	3.3
Customized Training Account	3.0
Flood Control Assistance Account	2.0
GET Ready for Math and Science Scholarship Account	1.9
DRS Expense Account	1.5
Washington Graduate Fellowship Trust Account	1.4
State Emergency Water Projects Account	0.4
<b>Total</b>	<b>171.2</b>
<b>Total Fund Transfers</b>	<b>1,039.6</b>

## Washington State Omnibus Operating Budget Adjustments to the Initiative 601 Expenditure Limit

(Dollars in Millions)

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
<b>Limit (Adopted by ELC 11/08) for FY 2009 (Rebased for FY 2010 &amp; 2011)</b>	<b>16,834.5</b>	<b>16,436.1</b>	<b>16,590.4</b>
<b>Adjustments to the Expenditure Limit</b>			
<b>2009 Supplemental Program Costs Shifts</b>			
LCB: Tobacco Enforcement	-1.9		
DSHS/DD: Employment & Day Waiver	-0.3		
DSHS/DD: Core Waiver	-1.0		
DSHS/DD: Medicaid Claiming Rate	-3.1	3.1	
DSHS/Economic Svcs: Fund Shifts	-3.2	3.2	
DSHS/Economic Svcs: Food Stamp Bonus	-2.0	2.0	
DSHS/Economic Svcs: TANF Contingency	-133.2	133.2	
DSHS/Economic Svcs: Basic Food Stimulus	-1.7		
DSHS/DASA: One-Time General Fund - State Savings	-15.6	15.6	
DSHS/DVR: One-Time General Fund - State Savings	-3.0	3.0	
DSHS/MA: Transportation Related FMAP	-0.4		
DSHS/MA: Move Some Pregnant Women to SCHIP	-2.1		
DSHS/MA: SCHIP For 113% to 200% of FPL	-4.4		
DSHS/MHD: Increased DSH Revenues	-2.3		
DSHS/MHD: Federal Block Grant Funding	-0.2		
DSHS/MHD: State Hospital Revenues	0.9		
DSHS/MHD: Dementia Wards	1.1	-1.1	
DOH: Maximization of All Fund Sources	-1.5		
DOL: Shift Costs to Transportation Funds	-0.3		
PSP: Fund Source Correction	-0.2		
State Parks: Parks Operations	-0.8		
DNR: Air Pollution Control Account	-0.2		
Agriculture: Shift to Dedicated Accounts	-0.2		
Ecology: Various Fund Shifts	-1.6		
OSPI: Assessment System	-0.5		
Arts Commission: Federal Grants	0.0		
Veteran's Affairs: Maintenance Level Revenue	-0.2		
* Veteran's Affairs: Federal Stimulus FMAP in Supplemental	-0.6		
* DSHS/MHD: Increased Stimulus DSH Revenues	-1.5		
* K-12: Fiscal Stabilization Federal Stimulus	-362.0		
* DSHS (Multiple): Federal Stimulus FMAP in ESHB 1694	-205.0		
* DSHS (Multiple): Federal Stimulus FMAP in Supplemental	-304.3		
* DSHS/Economic Svcs: Child Support Stimulus	-6.2		
<b>2009-11 Biennial Budget -- Program Cost Shifts</b>			
Agriculture: GFS in Fee Based Programs		-0.6	
Commerce: THOR Transfer		-4.3	
Commerce: CSBG		-1.4	
Commerce: Homeless Family Shelter Program		-2.5	
Commerce: State Energy Program		-0.9	
* DEL: Career & Wage Ladder		-0.8	
* DEL: Childcare Resource and Referral		-0.4	
DOC: Auto Theft Transfer		-2.0	
* DOC: Fiscal Stabilization Federal Stimulus		-182.4	182.4
* DOC: Reduce Offender Re-entry		-1.2	
* DOC: Security Threat Mitigation		-1.2	1.2
DOH: HIV and Syphilis Testing		0.4	0.0
DOH: Licensing Ambulatory CFL		-0.1	
DOH: Reduce Family Planning Grants			-3.0
DOH: Reduce Public Health Assistance		-8.0	

## Washington State Omnibus Operating Budget Adjustments to the Initiative 601 Expenditure Limit

(Dollars in Millions)

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
DOH: Vaccine Program Transition		-3.4	
DOL: Professional Athlete Monitoring		-0.1	-0.2
* DSHS (Multiple): Federal Stimulus FMAP		-366.4	457.6
DSHS (Multiple): FMAP ML		34.8	10.3
DSHS/Childrens: Crisis Residential Center Funding		-2.7	
DSHS/Childrens: Domestic Violence Cost Shift		-0.3	
DSHS/Childrens: Hope Beds		-0.7	
* DSHS/Childrens: Sex Abuse Recognition Training		-0.2	
DSHS/Childrens: Street Youth		-0.9	
* DSHS/DASA: Drug Court Funding		-1.0	
DSHS/DD: Employment & Day Waiver		-6.7	-0.2
DSHS/DD: State Only to Waiver		-1.3	-0.4
DSHS/DVR: Leveraging Federal Revenue		-2.1	
* DSHS/Economic Svcs: Basic Food Stimulus Funding			1.7
* DSHS/Economic Svcs: Child Support Stimulus		-2.0	6.2
DSHS/Economic Svcs: WorkFirst Employment and Training		-18.1	7.0
DSHS/LTC: Adult Family Home License Fees		-0.4	
DSHS/MA: Claim FMAP for Transportation Administration		0.3	-0.3
DSHS/MA: CPE Funding		-7.2	
DSHS/MA: GA-U Outpatient DSH		-10.9	10.9
DSHS/MA: Higher FMAP for 133% to 200% Kids		-5.0	-27.8
DSHS/MA: Interpreter Services Higher Match		-1.3	-0.7
DSHS/MA: Medicaid Match for Legal Immigrants		-2.0	0.2
DSHS/MA: Medicare Part D Clawback		14.5	11.0
DSHS/MA: Non-citizen Pregnancies		2.0	-2.3
DSHS/MHD: Federal Block Grant Funding		-0.4	
DSHS/MHD: State Hospital Revenues		2.5	-0.8
* DSHS/MHD: Stimulus DSH		-1.5	1.5
Fish and Wildlife: Title 77 RCW		-0.5	
GA: Barrier Free Facilities		-0.1	
Higher Education: Central Services Agency Charges		-1.7	
* Higher Education: Fiscal Stabilization Federal Stimulus		-81.4	81.4
Higher Education: Tuition increase to replace GFS		-20.9	-22.4
Judicial Agencies: Utilize JST Account		-4.0	-2.7
* K-12: Fiscal Stabilization Federal Stimulus		-14.6	376.6
Liquor Control Board: Tobacco Enforcement		0.0	
Military: WIN 211		-0.5	
Puget Sound Partnership: Administrative Cost Shift		-0.1	
Puget Sound Partnership: Coastal Monitoring		-0.2	
Recreation Conservation Funding Board: Operating Shift to Capital		-0.1	
State Parks: Various Park Related Adjustments		-21.7	0.0
* State Patrol: Crime Lab Funding		-0.3	
* State Patrol: Meth Task Force		-0.7	
* Veteran's Affairs: Enhanced Federal FMAP		-0.5	0.5
Veteran's Affairs: Federal Funding from GI Bill Change		-0.5	
Veteran's Affairs: Maintenance Level Revenue		-2.4	-0.8
Veteran's Affairs: Transitional Housing		-0.2	0.0
<b>Revised Limit Related Funds</b>	<b>15,777.3</b>	<b>15,859.3</b>	<b>17,677.3</b>

Notes: Adjustments are for display purposes only and are not official until adopted by the State Expenditure Limit Committee (ELC).

The limit for FY 2010 is rebased to FY 2009 actual spending (FY 2009 appropriations are used as the proxy). Fiscal

Growth factors for FY 2010 (5.20 percent) and FY 2011 (4.61 percent) are as adopted at the November 2008 ELC meeting.

\* These adjustments are related to the federal American Recovery and Reinvestment Act of 2009.

**2009-11 Washington State Budget**  
**Appropriations Contained Within Other Legislation**  
(Dollars in Thousands)

Bill Number and Subject	Session Law	Agency	GF-S	Total
<b>2009 Legislative Session</b>				
SSB 6122 - Elections Division Costs	C 415 L 09 PV	Office of the Secretary of State	160	160