

# 2010 Supplemental Omnibus Budget Overview

## Operating Only

In the 2009 legislative session, the Legislature and the Governor addressed a projected Near General Fund-State budget problem of approximately \$9 billion over the three-year period between fiscal years 2009 and 2011. To solve this \$9 billion budget problem, the 2009-11 enacted budget made program and compensation reductions totaling approximately \$3.8 billion, used federal stimulus and capital budget resources, and utilized a variety of other funds to balance the operating budget.

Since the spring of 2009, revenue performance worsened and, in subsequent forecasts, the Economic and Revenue Forecast Council lowered their General Fund-State revenue projections for the 2009-11 biennium by approximately \$1.8 billion (including the impacts of revenue-related litigation). Caseload and other mandatory costs also increased by \$660 million. Those increases were primarily in state funded health care programs, such as Medicaid, and in K-12 education. Finally, litigation impacts, the cost of policy initiatives proposed during the 2010 session, and other cost pressures, resulted in \$369 million of additional costs.

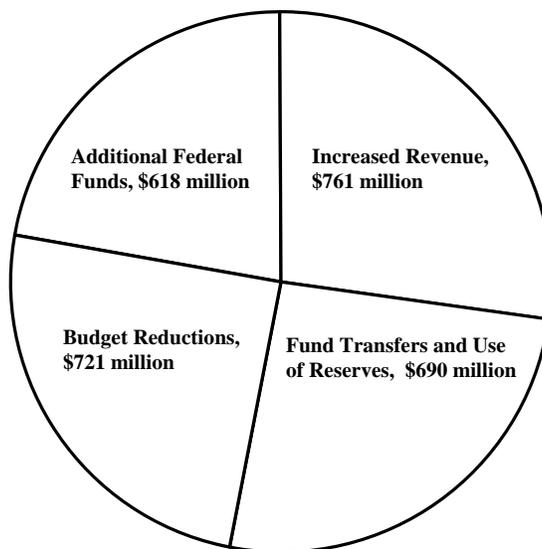
Altogether, this represented an additional \$2.8 billion shortfall compared to the budget enacted one year ago.

### How the Legislature Addressed the \$2.8 Billion Budget Problem

In Chapter 3, Laws of 2010 (ESHB 2921), Chapter 37, Laws of 2010, 1<sup>st</sup> sp.s., Partial Veto (ESSB 6444), and other fiscal related legislation passed in the 2010 session, the Legislature dealt with this shortfall. As depicted below, the steps taken by the Legislature to address this \$2.8 billion budget gap involved four main components.

### The 2010 Supplemental Budget Solution Near General Fund-State

Before Veto Actions  
(Dollars in Millions)



**Total Budget Solution = \$2.8 Billion**

*The amounts depicted do not include the \$102 million fund shift from the general fund or \$113 million in expenditures shifted out of the general fund associated with the Opportunity Pathways Account pursuant to Chapter 27, Laws of 2010, 1st sp.s., Partial Veto (E2SSB 6409).*

### **Budget Reductions – \$721 million**

In February of 2010, the Legislature enacted Chapter 3, Laws of 2010 (ESHB 2921), which reduced Near General Fund-State spending by approximately \$45 million. That legislation also imposed restrictions on state agencies related to hiring, travel, personal services contracts, and equipment.

The subsequent 2010 supplemental operating budget made additional near general fund spending reductions of approximately \$676 million. Reductions were made in virtually every area and agency of state government. Some of the major reductions included: (1) the elimination of the remaining \$79 million in Initiative 728 per student allocations to school districts; (2) \$73 million from reducing funding to institutions of higher education; (3) \$67 million in savings from legislation imposing an additional assessment on hospitals and leveraging federal match; (4) \$46 million from correctional facility capacity reductions (partially financed through a newly-created account); (5) \$39 million reduction to all areas of state government based on legislation requiring temporary layoffs; (6) \$30 million from reducing the grade 4 class size enhancement; (7) \$30 million from information technology savings; (8) \$28 million in reforming the Security Lifeline programs (formerly GA-U); and (9) \$15 million in savings by eliminating the learning improvement day for teachers.

### **Additional Federal Funds – \$618 Million**

Under the current law provisions of the federal American Recovery and Reinvestment Act (ARRA), the enhancement to the Federal Medical Assistance Percentage (FMAP), which is the share of Medicaid costs that are paid by the federal government, is set to end in December 2010. The 2010 supplemental operating budget assumes that the ARRA provisions related to increased federal support will be extended by six months (from January 1, 2011, to June 30, 2011). The proposed six-month extension has been in various pieces of proposed federal legislation and is included in President Obama's pending budget request. If enacted by Congress, this extension would allow \$480 million in federal funds to substitute for state support.

In February of 2010, the federal government announced it was revising an interpretation of how certain provisions of ARRA were being applied to selected Medicaid expenditures (the Medicare Part D Clawback). This allowed \$87 million in federal funds to take the place of state support. The 2010 supplemental operating budget also directly offset \$39 million in the Security Lifeline (formerly GA-U) and Basic Health programs in anticipation of receiving a waiver allowing a portion of those state costs to be supported with federal funds.

Including the budgeted increases in two other smaller sources of federal aid, the 2010 supplemental operating budget assumes that approximately \$618 million in additional federal resources will help address the shortfall.

### **Fund Transfers & Use of Reserves – \$690 Million**

As it passed the Legislature, the 2010 supplemental operating budget made \$461 million in additional transfers from various funds to increase near general fund resources. Some of the largest transfers to the general fund included: \$141 million from the Public Works Assistance Account; \$101 million from the Education Savings Account; \$21 million from the Job Development Account; \$18 million from the Education Construction Account; \$16 million from the Life Sciences Discovery Account; \$16 million from the State and Local Toxics Control accounts; \$15 million from the Performance Audits of Government Account; \$15 million from the Public Service Revolving Account; \$12 million from the State Treasurer's Service Account; \$10 million from the Savings Incentive Account; and \$10 million from the Insurance Commissioners Regulatory Account. The Governor vetoed the Life Sciences Discovery Account and the Insurance Commissioners Regulatory Account fund transfers. See section below.

The budget also transferred \$25 million from two lottery related accounts to the Education Legacy Trust Account.

The 2010 supplemental operating budget transferred a total of \$229 million from the Budget Stabilization Account (sometimes called the "Rainy Day Fund") to the state general fund. After these transfers, there is projected to be no ending fund balance in the Rainy Day Fund.

Including the impact of vetoes, the projected Near General Fund-State ending balance for 2009-11 is \$456 million – \$33 million less than was assumed in the budget enacted a year earlier.

### **Increased Revenue – \$761 Million**

In the 2010 session, the Legislature took a multi-pronged approach to raising additional revenue. One component was narrowing tax preferences. Another aspect of the package is related to clarifying provisions related to “economic nexus,” or the grounds for taxing out-of-state businesses with substantial activities in Washington. Finally, there are several tax rate increases, including: (1) the permanent removal of the sales tax exemption for candy; (2) the temporary removal of the sales tax exemption for bottled water; (3) a temporary increase for the tax on both carbonated beverages and beer; (4) a temporary 0.3 percent increase to the businesses and occupation tax on service businesses; and (5) increasing the tax on cigarettes and other tobacco products. Through these actions, the Legislature anticipates \$774 million in additional revenue (in addition to \$15 million from additional lottery revenues and \$10 million from the Washington State Convention and Trade Center Account included in the fund transfer section). This was partially offset by the passage of legislation that decreased revenues by approximately \$3 million.

The combined effect was an estimated net increase of \$761 million in near general fund revenues.

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

The Governor vetoed approximately 60 sections of the operating budget passed by the Legislature. The net effect of her vetoes reduced near general fund reserves by approximately \$27 million. Operating budget vetoes include: (1) \$16 million transfer from Life Sciences Discovery Account to the state general fund; (2) \$10 million transfer from the Insurance Commissioners Regulatory Account to the state general fund; (3) \$10 million in compensation savings targeted at Washington Management Service and exempt management positions; (4) provisions that would have exempted restaurants from the liquor markup imposed based on the original 2009-11 budget and related \$5.5 million fund transfer from the state general fund; and (5) \$2.6 million appropriated for a pilot program operating in two locations and targeted at low-income adults awaiting coverage from the Basic Health Plan.

*Note: The term Near General Fund-State (NGF-S) used in this document is defined as the state general fund plus the Education Legacy Trust Account.*

**2009-11 Estimated Revenues and Expenditures**  
**Near General Fund**  
(Dollars in Millions)

| <b>RESOURCES</b>   |               |
|--|---------------|
| <b>Beginning Fund Balance</b>                              | <b>310</b>    |
| <b>Revenue</b>   |               |
| November Revenue Forecast                                  | 29,224        |
| February Forecast Change                                   | 14            |
| Transfer to Budget Stabilization Account                   | -252          |
| Dot Foods, Inc. v. Department of Revenue                   | -154          |
| Legislation Increasing Revenue                             | 774           |
| Legislation Decreasing Revenue                             | -13           |
| <b>Total Revenue</b>                                       | <b>29,593</b> |
| <b>Other Resource Changes</b>                              |               |
| Transfer of Related Fund Balances                          | 89            |
| Enacted Fund Transfers & Other Adjustments                 | 831           |
| Original 2009-11 Budget - Use Budget Stabilization Account | 45            |
| 2010 - Use Budget Stabilization Account                    | 229           |
| 2010 Transfers to Near General Fund                        | 461           |
| 2010 Transfers from Near General Fund                      | -108          |
| Budget Driven Revenue                                      | -1            |
| <i>Governor's Fund Transfer Vetoes</i>                     | -21           |
| <b>Total Other Resource Changes</b>                        | <b>1,527</b>  |
| <b>Total Revenues and Resources</b>                        | <b>31,430</b> |
| <b>EXPENDITURES</b>  |               |
| <b>Spending</b>  |               |
| Enacted Budget   | 31,389        |
| 2010 Maintenance Level Changes                             | 660           |
| 2010 ESHB 2921 - Early Action Savings                      | -45           |
| 2010 Net Policy Level Change                               | -1,039        |
| <i>2010 Governor's Vetoes</i>                              | 7             |
| <b>Total Spending</b>                                      | <b>30,971</b> |
| <b>RESERVES</b>  |               |
| Unrestricted Ending Fund Balance                           | 459           |
| Budget Stabilization Account Balance                       | 0             |
| <b>Total Reserves</b>                                      | <b>459</b>    |

**2010 Supplemental Washington State Omnibus Operating Budget**  
**Cash Transfers to/from General Fund-State**  
(Dollars in Millions)

| <b>Fund Transfers to General Fund-State</b>   | <b>Total</b>  |
|---|---------------|
| Public Works Assistance Account   | 141.2         |
| Education Savings Account   | 100.8         |
| Job Development Account   | 20.9          |
| Education Construction Account  | 17.9          |
| Performance Audits of Government Account  | 15.0          |
| Public Service Revolving Account  | 15.0          |
| Local Toxics Control Account  | 12.8          |
| State Treasurer's Service Account   | 12.0          |
| Savings Incentive Account   | 10.1          |
| Washington State Convention & Trade Center Account  | 10.0          |
| Washington Distinguished Professorship Trust Fund   | 6.0           |
| Data Processing Revolving Account   | 5.8           |
| Technology Pool Account   | 5.6           |
| Future Teacher Conditional Scholarship Account  | 4.3           |
| Institutional Welfare/Betterment Account  | 4.0           |
| Financial Services Regulation Account   | 4.0           |
| College Faculty Awards Trust Account  | 4.0           |
| Aquatic Lands Enhancement Account   | 3.5           |
| State Toxics Control Account  | 3.4           |
| Waste Reduction, Recycling, and Litter Control Account  | 2.0           |
| Washington Graduate Fellowship Trust Account  | 2.0           |
| GET Ready for Math and Science Scholarship Account  | 1.8           |
| Streamline Sales Tax Mitigation Account   | 1.6           |
| Judicial Information Systems Account  | 1.5           |
| Criminal Justice Access Fees from Transportation  | 1.3           |
| Energy Freedom Account  | 1.1           |
| Department of Retirement Systems Expense Account  | 1.0           |
| Fair Account  | 1.1           |
| Fingerprint Identification Account  | 0.8           |
| Water Quality Capital Account Residual Balance  | 0.3           |
| <i>Life Sciences Discovery Account (\$16.2 million transfer vetoed by the Governor)</i>           | 0.0           |
| <i>Insurance Commissioner's Regulatory Account (\$10 million transfer vetoed by the Governor)</i> | 0.0           |
| <b>Total</b>  | <b>410.6</b>  |
| <b>Budget Stabilization Account</b>   | <b>229.0</b>  |
| <b>Fund Transfers to Education Legacy Trust</b>   |               |
| State Lottery Account   | 19.0          |
| Shared Game Lottery Account   | 6.0           |
| <b>Total</b>  | <b>25.0</b>   |
| <b>Total Fund Transfers to Near General Fund-State (including vetoes)</b>                         | <b>664.6</b>  |
| <b>Fund Transfers from General Fund-State</b>   |               |
| GF-S to School Construction Fund - Lottery (E2SSB 6409)   | -102.0        |
| <i>GF-S to Liquor Revolving (\$5.5 million transfer vetoed by the Governor)</i>                   | 0.0           |
| <b>Total</b>  | <b>-102.0</b> |

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

(Dollars in Millions)

|   | FY 2010  | FY 2011  |
|---|----------|----------|
| <b>Limit (adopted by Expenditure Limit Committee 11/2009) for FY 2010</b> | 15,836.1 |          |
| <b>FY 2011: Rebase To FY 2010 Appropriation (with 2010 Supplemental)</b>  |          | 15,662.5 |
| <b>Adjustments to the Expenditure Limit</b>                               |          |          |
| 2009 Adopted Adjustments  |          | 1,080.7  |
| <b>Program Shifts From GF-S &amp; Related Accounts</b>                    |          |          |
| <b>2009-11 Biennial Budget</b>  |          |          |
| Secretary of State: Corporations & Charities Fees                         | 0.0      | -1.9     |
| PERC: Higher Education Fund Source Change                                 | -0.1     | 0.0      |
| HCA: Basic Health Program Bridge  | 0.0      | -13.0    |
| HCA: Maintain Current Basic Health Plan Enrollment                        |          | -12.9    |
| CJTC: Reimbursement for Ammunition Costs                                  |          | -0.2     |
| L&I: Cost Allocation Adjustment   | 0.0      | -0.2     |
| L&I: Crime Victims Compensation Changes                                   |          | -2.7     |
| DOH: Self Insurance Premium   | -0.1     | 0.0      |
| DOH: Newborn Clinic Support   | 0.0      | -0.4     |
| DVA: Stimulus FMAP Extension  | 0.0      | -0.5     |
| DOC: Federal Funding  | -1.1     | 0.0      |
| DOC: McNeil Island Corrections Center                                     |          | -34.5    |
| DSB: Increased Federal Revenue  | 0.0      | 0.0      |
| DSHS: APS Fund Switch   | 0.5      | -0.2     |
| DSHS: BRS Deferral  | 2.4      |          |
| DSHS: CHIPRA Bonus Payment  | -7.5     | 7.5      |
| DSHS: Close Maple Lane School   |          | -5.0     |
| DSHS: CPE Hospital Hold Harmless  | 5.9      | -5.5     |
| DSHS: Educational Advocacy Coordinators                                   | -0.1     | -0.2     |
| DSHS: Eliminate City Agreement Funding                                    | -0.1     | -0.1     |
| DSHS: Medicare Part D Clawback  | 44.8     | -17.9    |
| DSHS: Federal Stimulus FY 2011 Correction                                 | 0.0      | 24.6     |
| DSHS: FMAP Adjustment   | 0.0      | 0.8      |
| DSHS: Hope Centers  | -0.1     | -0.2     |
| DSHS: Hospital Safety Net Assessment                                      | -16.0    | -34.8    |
| DSHS: Increase Nursing Home License Fees                                  | 0.0      | -1.9     |
| DSHS: Increase Residential License Fees                                   | 0.0      | -1.1     |
| DSHS: MCS Bridge Federal Waiver   | 0.0      | -26.5    |
| DSHS: Medicaid Match on PACT  |          | -1.3     |
| DSHS: Medicare Part D Stimulus FMAP                                       | -63.2    | 39.4     |
| DSHS: Non-Forecasted Budget Unit Stimulus                                 | 0.0      | 0.2      |
| DSHS: Secure Crisis Residential Centers                                   | 0.0      | -2.4     |
| DSHS: Security Lifeline Act   |          | -0.9     |
| DSHS: Stimulus FMAP Extension   | -2.0     | -475.4   |
| DSHS: TBI Transfer  | 0.0      | -1.5     |
| DOE: Pollution Activities Fund Shift                                      | -1.3     | -2.5     |
| DOE: Reduce GF-S Subsidy of Fees  | 0.0      | -0.1     |
| Parks: Fund Shift to PRSA   | 0.0      | -1.2     |
| Parks: Transfer Parks to Local Owners                                     | 0.0      | -0.2     |
| Fish & Wildlife: Shift Work to Dedicated Accounts                         | -0.5     | -0.5     |
| Fish & Wildlife: Fish Program Fund Shift                                  | 0.0      | -3.7     |
| DNR: Shift Fire Protection Costs to FFPA                                  | -3.0     |          |
| DNR: Natural Heritage Program   | 0.0      | -0.2     |
| Dept of Agriculture: Equitable Administration Funding                     | -0.2     | -0.9     |
| Dept of Agriculture: Shift Pesticides Testing to STCA                     | 0.0      | -0.4     |
| WSP: Criminal Records Funding   | -0.4     | -1.2     |
| WSP: Fire Training Academy Funding  | -0.1     |          |
| WSP: Cost Allocation Adjustment   | -0.1     |          |
| WSP: Criminal Records Fund Shift  | 0.0      | -0.8     |

**Washington State Omnibus Operating Budget  
Adjustments to Initiative 601 Expenditure Limit**  
(Dollars in Millions)

|   | <b>FY 2010</b>  | <b>FY 2011</b>  |
|---|-----------------|-----------------|
| OSPI: Stabilization Fund Adjustment                         | 19.2            | -19.2           |
| HEC Board: Fund Source Change                               | -16.0           |                 |
| HEC Board: Opportunity Pathways                             | 0.0             | -73.5           |
| U W: Stabilization Fund Adjustment                          | 0.0             | -19.2           |
| W S U: Maintenance Fund Shift                               | -9.1            | 0.0             |
| E W U: Maintenance Fund Shift                               | 0.0             | -2.2            |
| C W U: Maintenance Fund Shift                               | 0.0             | -2.0            |
| T E S C: Maintenance Fund Shift                             | 0.0             | -3.2            |
| W W U: Maintenance Fund Shift                               | 0.0             | -2.2            |
| Dept of Early Learning: Opportunity Pathways                |                 | -40.0           |
| Special Appropriations: Extraordinary Criminal Justice Cost | 0.6             | -0.6            |
| <b>Revised Limit Related Funds</b>                          | <b>15,788.8</b> | <b>16,000.7</b> |
| Expenditures: FY 2010 & FY 2011 (Budgeted/Projected)        | 15,035.6        | 15,429.7        |
| <b>Remaining Capacity Under the Expenditure Limit</b>       | <b>753.2</b>    | <b>571.1</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 2011 is rebased to FY 2010 appropriations, including these proposed 2010 Supplemental changes.*

*The FY 2011 fiscal growth factor is 4.17 percent as adopted by the ELC in November 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>2010 Legislative Session</b>     |               |                                  |      |            |
| 2SHB 2436 - Vehicle License Fraud   | C 270 L 10    | Department of Revenue            |      | 75         |
| 2SHB 2436 - Vehicle License Fraud   | C 270 L 10    | Washington State Patrol          |      | 250        |
| <b>Total</b>                        |               |                                  |      | <b>325</b> |
| <b>2009 Legislative Session</b>     |               |                                  |      |            |
| SSB 6122 - Elections Division Costs | C 415 L 09 PV | Office of the Secretary of State | 160  | 160        |