

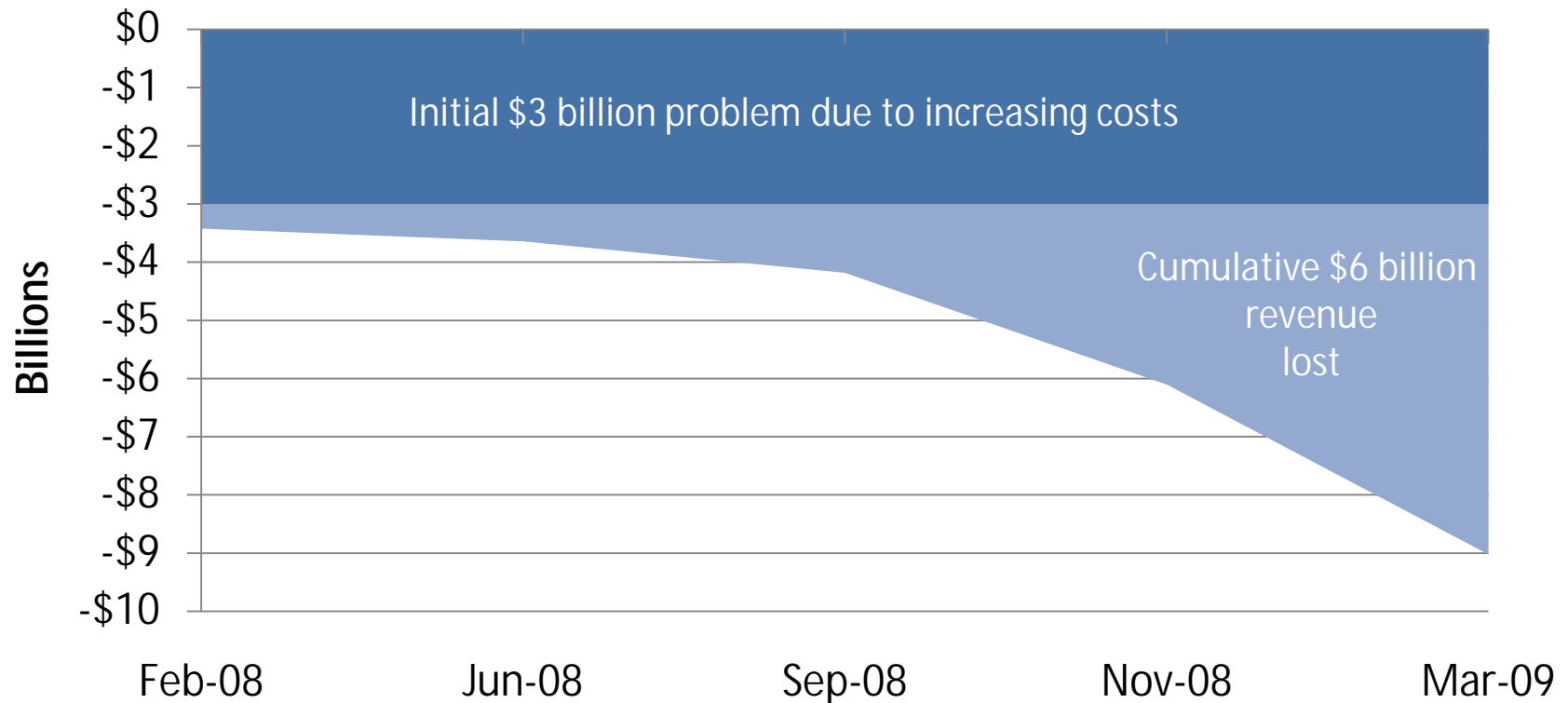
The 2009-11 Budget Story

Where we've been and
where we are now

Overview

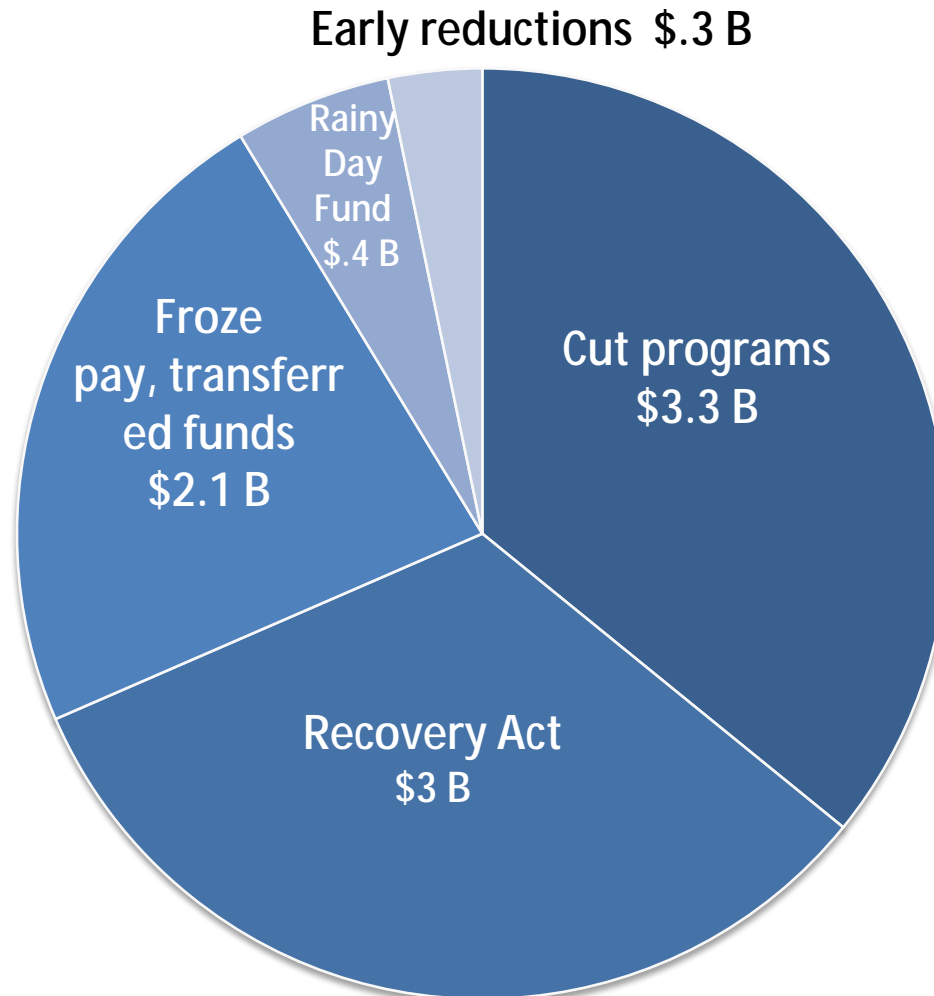
- Over past 18 months, Washington has seen largest drop in revenue in recent memory.
- Last session, we closed \$9 billion shortfall through:
 - cuts to programs and services
 - use of Recovery Act funds
 - fund transfers, including Rainy Day Fund
- As revenue projections continue to decline, we will need to cut more to stay in balance.
- Reduction options are limited by constitutional and federal spending mandates. This will narrow our choices.

\$9 Billion Problem by March 2009



- Before recession, \$3 billion problem projected for 2009-11 due to health care inflation, K-12 growth, prison population growth, pension obligations.
- Problem grew with recession, resulting in \$6 billion loss in revenue from Feb. 2008 - March 2009.

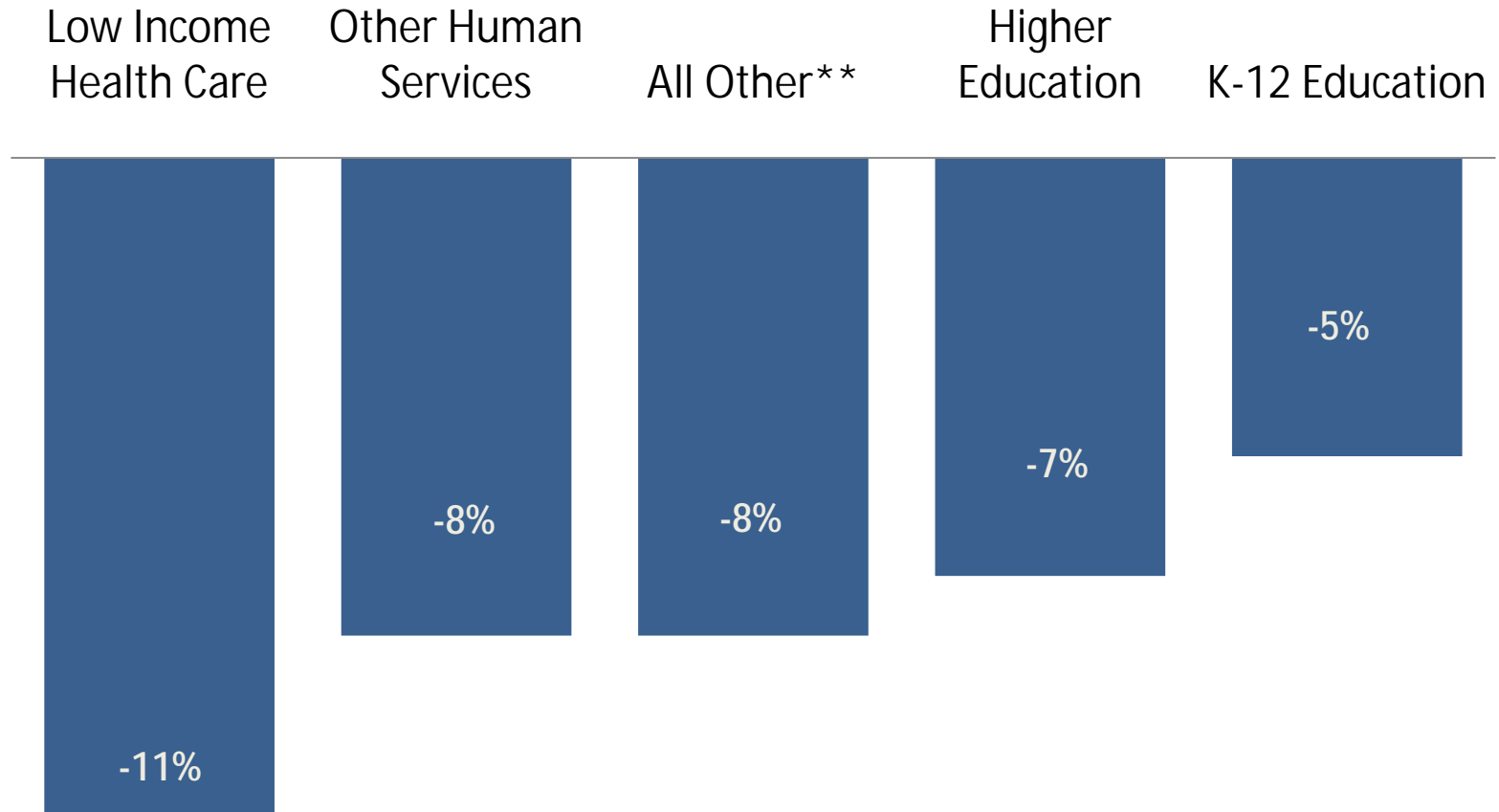
Solving \$9 Billion Gap: Actions to balance budget



\$3.3 Billion in Cuts and Efficiencies: Examples

- **\$600 million** in K-12 through class size increases.
- **\$557 million** in higher education by reducing 1,800 employees and raising tuition 14% (universities), 7% (community colleges) per year.
- **\$386 million** through administrative or across-the-board cuts.
- **\$255 million** from Basic Health Plan by increasing premiums 70% and reducing enrollment by 36,000 (36%).
- **\$127 million** in payments to hospitals.
- **\$130 million** from Corrections, including **\$73 million** by reducing beds and community supervision.

All Areas of Budget Cut Percent Reduction*

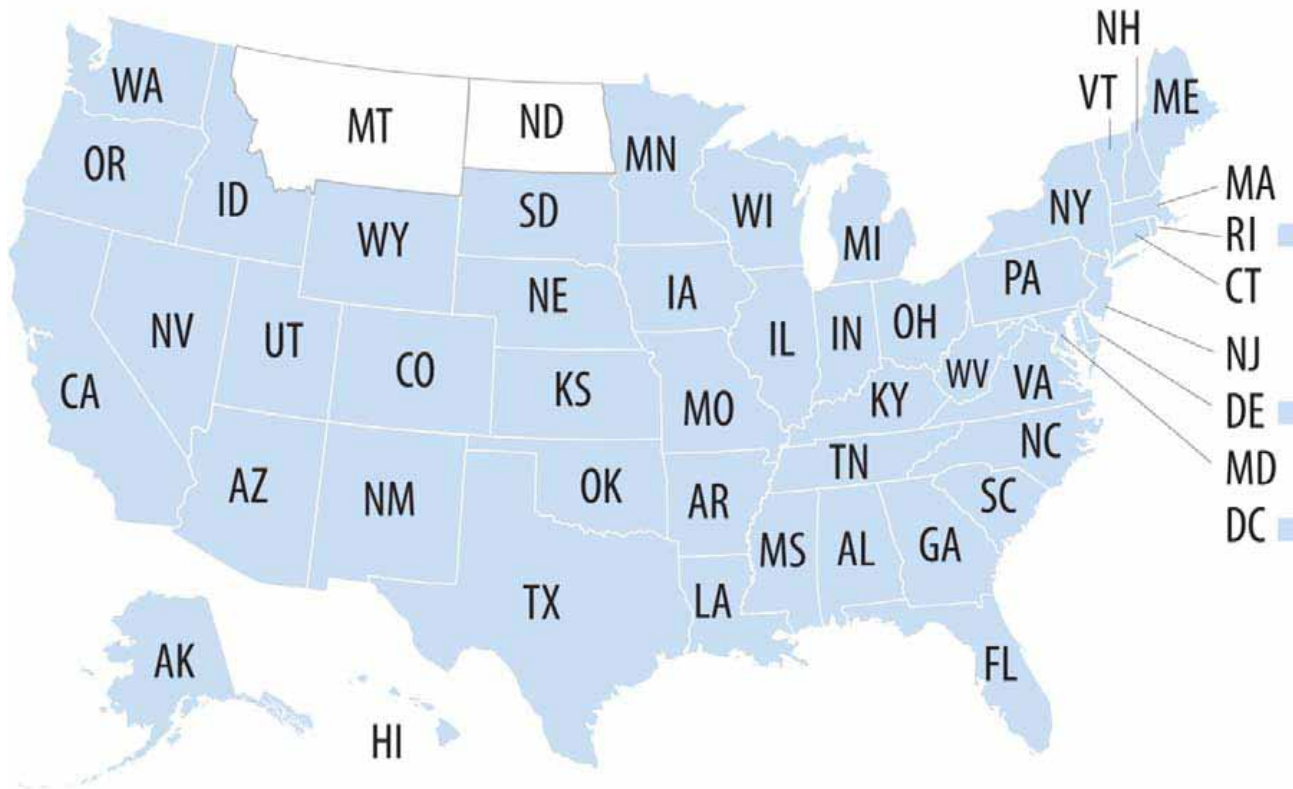


* Includes adjustments for additional tuition and Recovery Act money that offset reductions. Excludes compensation and special appropriations.

** Includes general government (including legislative and judicial agencies); natural resources; transportation; other education agencies.

Other States in Same Predicament

48 States Face Budget Shortfalls



- 48 states have addressed or still face shortfalls for FY2010.
- 49 states had total tax revenue fall during 2nd quarter; 36 report double-digit declines.
- 25+ states face new shortfalls after balancing budgets just months ago.

Sources of \$2.0 Billion Shortfall

Revenues dropping

- \$686 million June forecast
- \$238 million September forecast
- \$237 million tax lawsuit
- \$32 million October revenue collections
- \$65 million November revenue collections
- **\$1.26 billion** **Subtotal**

Costs rising, issues emerging

- \$659 million increased demand for health care, schools, prisons
- \$12 million forest fires, landslides, dam failures, other possible emergencies
- \$71 million lawsuits blocking planned cuts
- **\$742 million** **Subtotal**

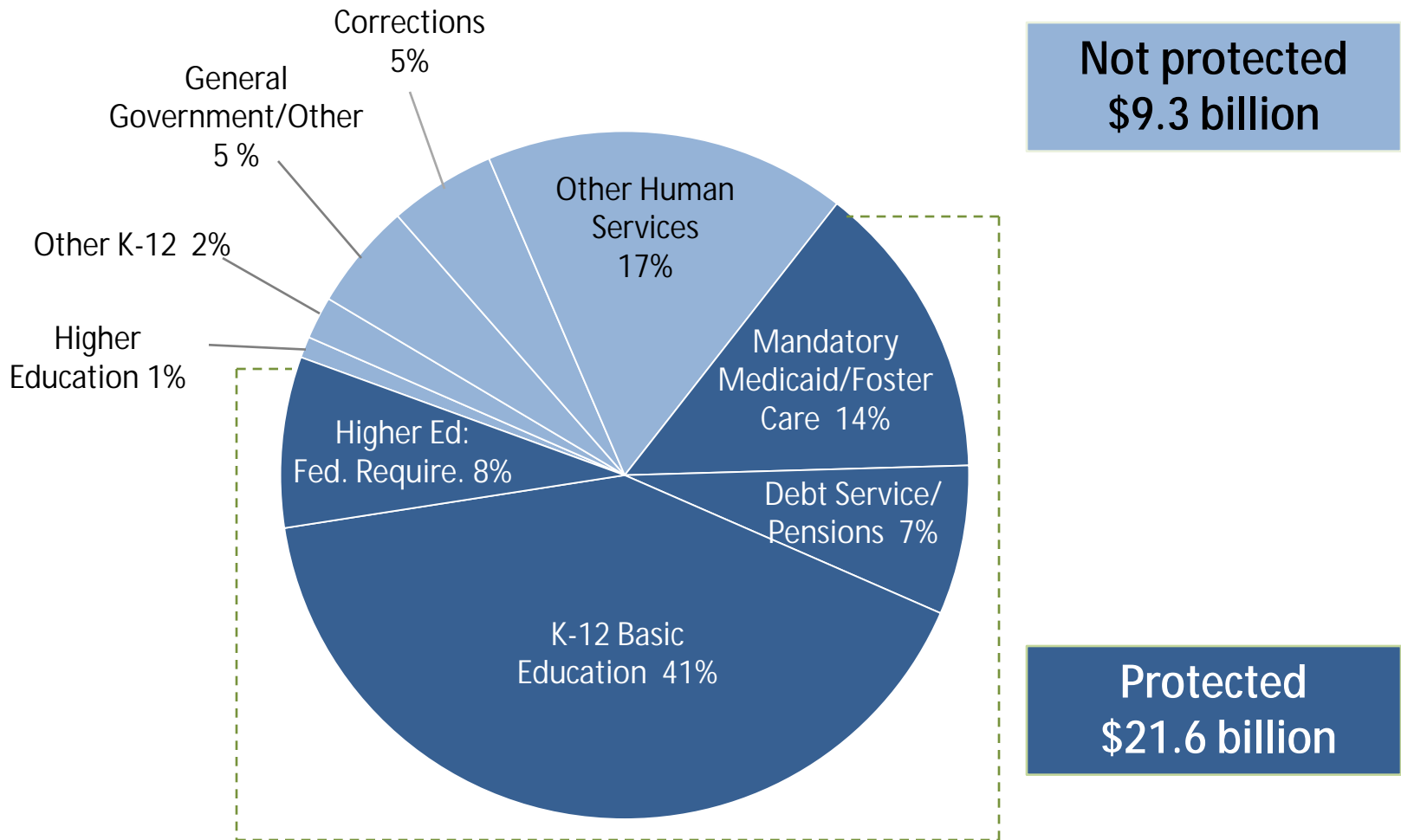
What Should We Expect?

Revenue uncertainty continues

According to state Economic and Revenue Forecast Council:

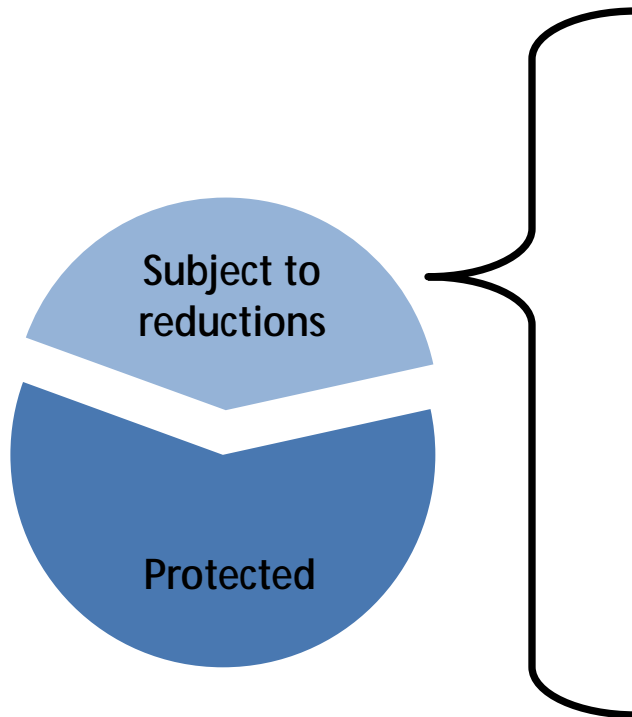
- State revenues will lag economic recovery
- Job growth will lag economic recovery
- Unemployment will remain high
- Less revenue expected in 2009-11 than collected in 2007-09

Majority of \$31 Billion Budget Is Protected: Tied to state constitutional or federal requirements



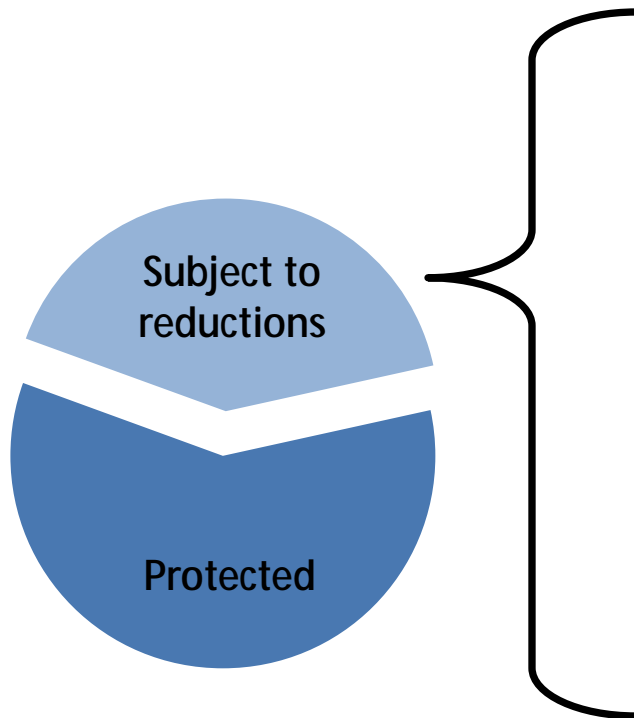
70% of the Budget Is Protected

Possible Areas for More Cuts: Non-Protected Budget



- Mental health and developmental disabilities services: **\$1.6 billion**
- Prisons/community supervision of offenders: **\$1.6 billion**
- Care for low-income elderly: **\$1.3 billion**
- Economic support for low-income families: **\$1.1 billion**
- K-12 non-basic education funding (class size reduction, others): **\$635 million**
- Higher education: **\$500 million** (most is financial aid)
- Juvenile corrections: **\$198 million**

Examples Not Enough to Fill Gap: Non-Protected Budget



- Eliminating all state-funded environmental and natural resource protection, and all recreation and parks programs : **\$364 million.**
- Eliminating all of the legislative and judicial branches of state government : **\$335 million.**
- Eliminating all state support for cultural and art organizations, and all early learning programs: **\$164 million.**
- Eliminating 23 of smallest general fund agencies: **\$52 million**

How Big is \$2.0 Billion?

1

Close all community and technical colleges	\$1.4 billion
Close Dept. of Commerce	\$103 million
Close Dept. of Revenue	\$218 million
TOTAL	\$1.72 billion

2

Eliminate all state funding for UW, WSU	\$1 billion
Eliminate all state funding for CWU, EWU, WWU, TESC	\$337 million
Eliminate all state funding for Dept. of Health	\$193 million
TOTAL	\$1.53 billion

3

Close Dept. of Corrections	\$1.6 billion
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Budget Timeline

Time	Action
Mid December	Governor's Supplemental Budget released
Feb. 18, 2010	Revenue forecast released
March 11, 2010	Session adjourns