



Planning and Budgeting Brief

Date Prepared: June 10, 2009

Subject: **2009-11 Washington State Biennial Operating Budget**

Findings

1. In the 2009 legislative session, the legislature faced the worst state budget deficit in recent history.
2. The legislature used mostly one-time federal stimulus funding and budget cuts to close the deficit.
3. Every part of state government was cut, and the relative share of the state budget dedicated to various sectors/areas of spending remained mostly the same.
4. Within higher education, four year schools were cut at a rate greater than two year schools. The cuts to four year institutions were fairly equitably distributed.
5. Even though relative budget shares stayed virtually the same, and even though intra-institutional cuts for four-year schools were equitably distributed in higher education, real cuts (not just slowed/frozen growth) were implemented, which will mean real reductions in services for real people.
6. For the first time in at least 20 years, state spending was actually *reduced* between biennia. Previous shortfalls have resulted in reducing the rate of increase, not reducing actual spending.

Background

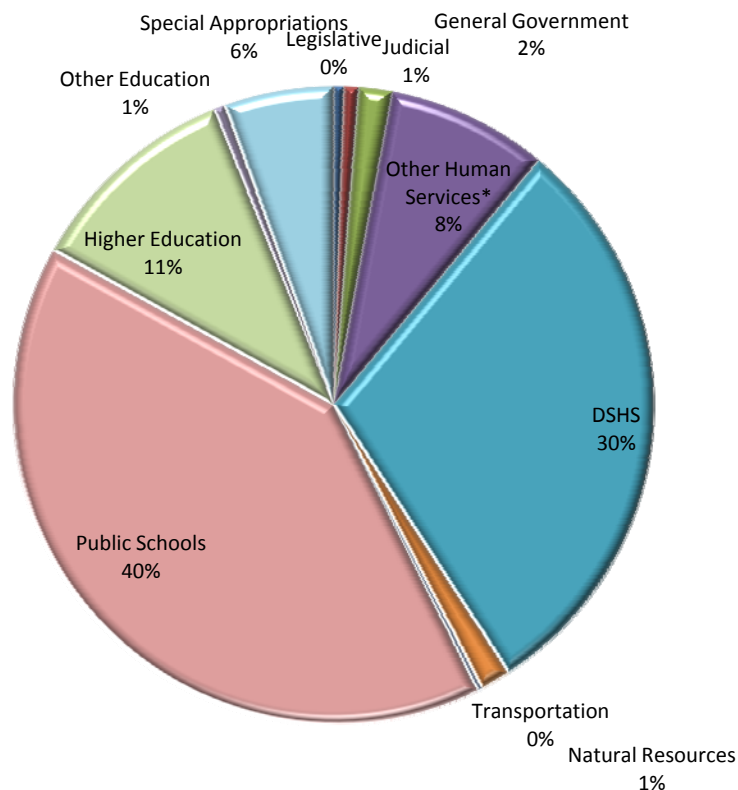
Washington State and the nation are currently enduring the worst economy since the Great Depression. The most recently enacted state biennial budget reflects this. While significant one-time stimulus funds were available to legislative budget writers, the decision to forego any tax increases resulted in the decision to actually reduce state spending in every area of the budget. This resulted in a “zero sum” approach to closing the \$9.0 billion budget gap – what was fiscally maintained in one area meant cuts had to be made elsewhere.

In 2007-09, the majority of state general funds are spent in education

Graph 1 shows the variation in state funds used to support all public services in the 2007-09 biennium. Education (K12 and Higher Education together) is clearly the highest priority reflected in the state budget. For a list of all agencies/programs within each area of the budget, please see Appendix A.

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Graph 1
2007-09 State Biennial Budget, Near General Fund - State



*Other Human Services include corrections and health care (for a full list see Appendix A).

The 2007-09 state budget spent about \$33.6 billion in general state funds (also referred to as near general fund- state or NGF-S) for various public services. In rank order, the largest shares of the 2007-09 state budget went to:

1. Public Schools (K12);
2. The Department of Social and Health Services (DSHS);
3. Higher Education (including financial aid);
4. Other Human Services, primarily health-care and corrections related; and
5. General Government, Natural Resources, the Judicial Branch as well as miscellaneous other sectors and agencies.

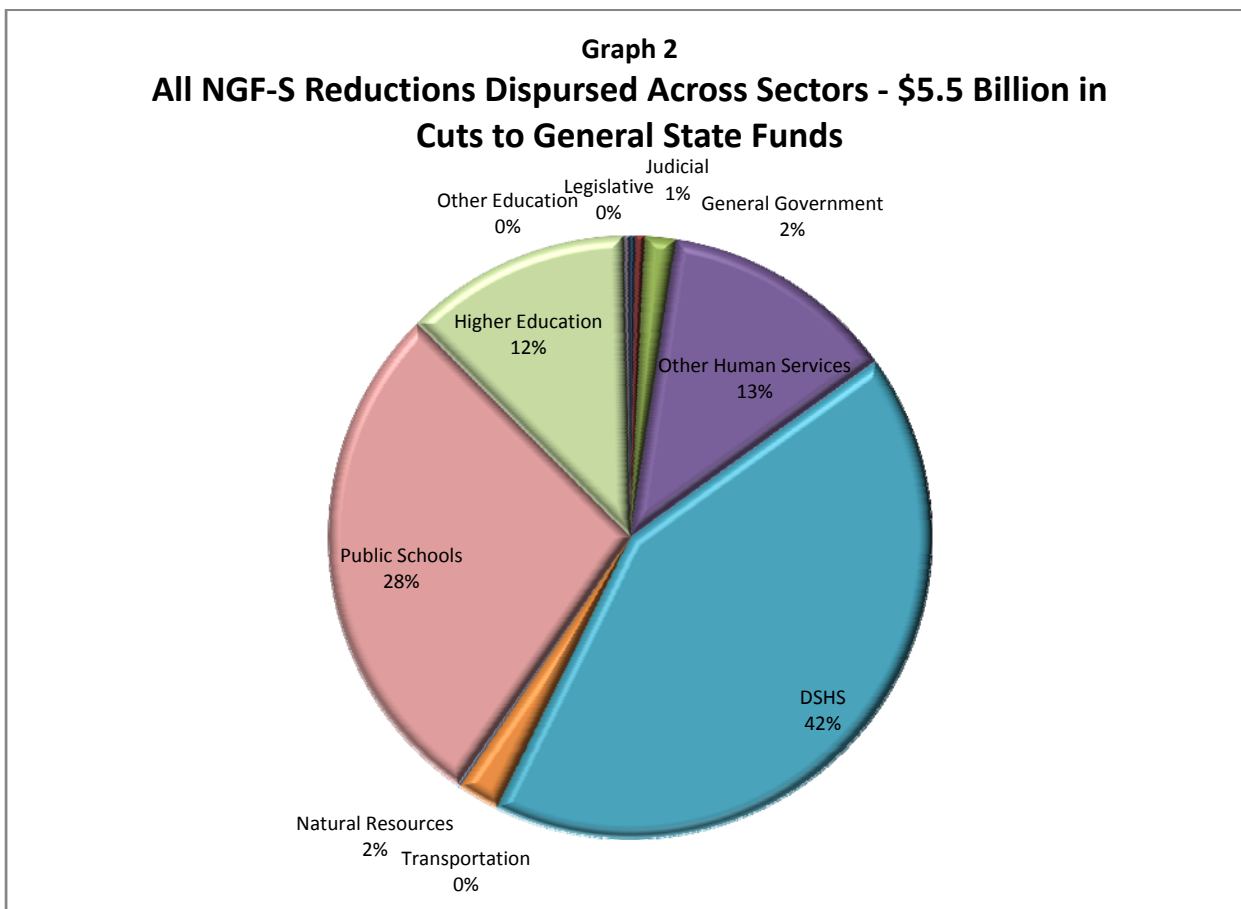
Some areas of the budget are legally protected; this necessitates differential cuts

The state is constitutionally required to fund K12 basic education, so the bulk of those funds are off limits to state budget writers to cut. Additionally, while DSHS does not have constitutional protection, the state has strong incentives to maintain funding levels required for federal matching funds. When the state fails to meet federal matching requirements, Washingtonians lose double the services because not only state dollars are reduced, but their federal match is withdrawn.

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Such constitutional and legal dictates combined with varying legislative interest meant that cuts in the 2009-11 biennial budget were distributed unevenly. The state cut a total of \$5.5 billion in near general fund spending from all agencies. There were some additions, too, but those were kept to a minimum, associated primarily with workload increases, and sometimes necessary to assist in implementing the cuts. The “net” reduction to agencies statewide was closer to \$2.2 billion between the two biennia; but, arguably, the \$5.5 billion figure is closer to representing the real loss of value for programs and services cut or eliminated.

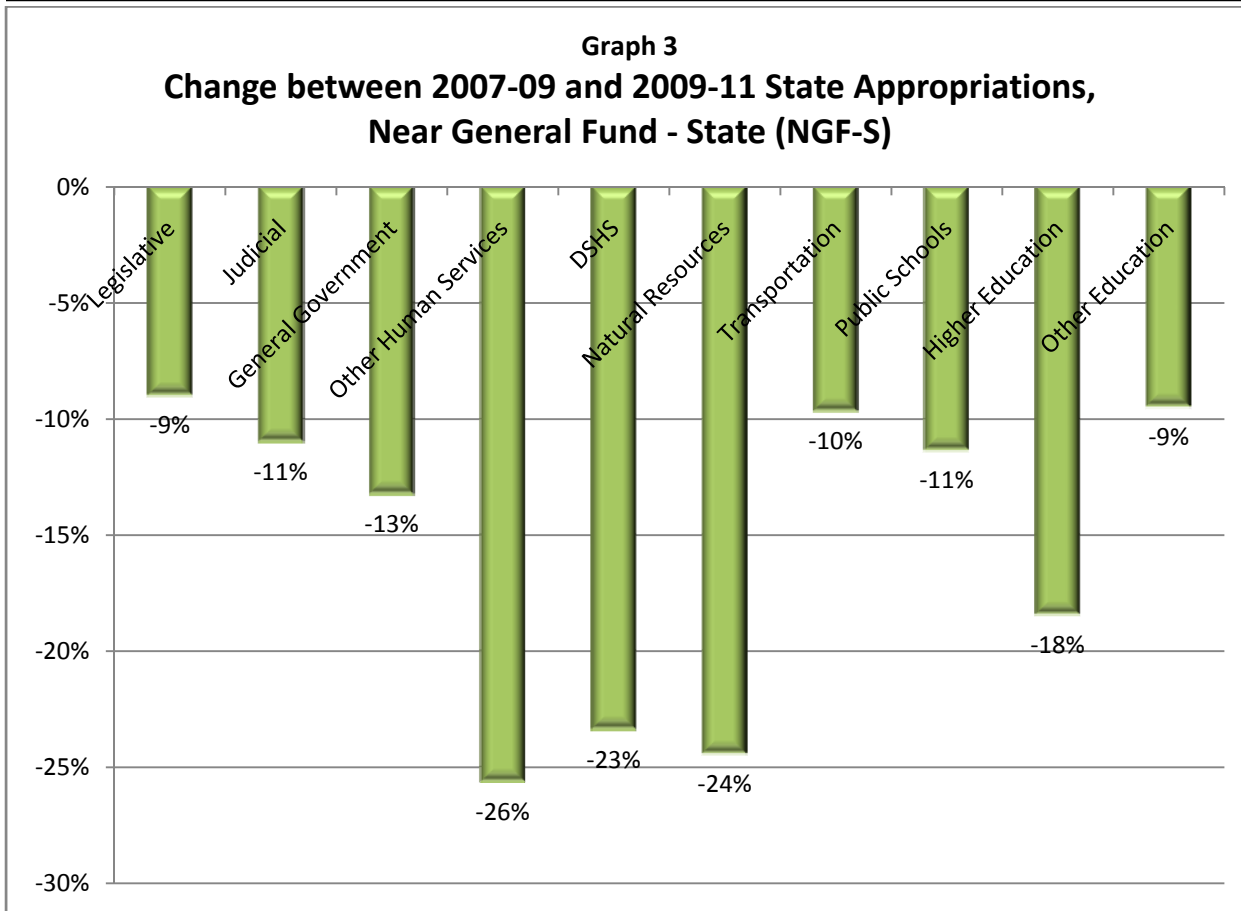
Graph 2 depicts the distribution of state funds cut in the 2009-11 biennial operating budget.



Of the \$5.5 billion in cuts to programs funded through state general funds, DSHS received the highest share, followed by Public Schools, and both Higher Education and Other Human Services had roughly equivalent shares of the total reduction in state funding. The picture is somewhat different if you look at cuts for 2009-11 as a percentage reduction in funding from the previous biennium.

Graph 3 reflects the distribution of the reductions taken from state general funding between biennia within the various sectors of state government. Clearly, Other Human Services (mostly health care and corrections) took the highest reduction in state general resources, with more than a quarter of state general funds cut from its programs, on average. For example, the Basic Health Plan (BHP) – health care for the working poor – was nearly cut in half. Changes in sentencing and supervision were part of the state funds reductions in Corrections.

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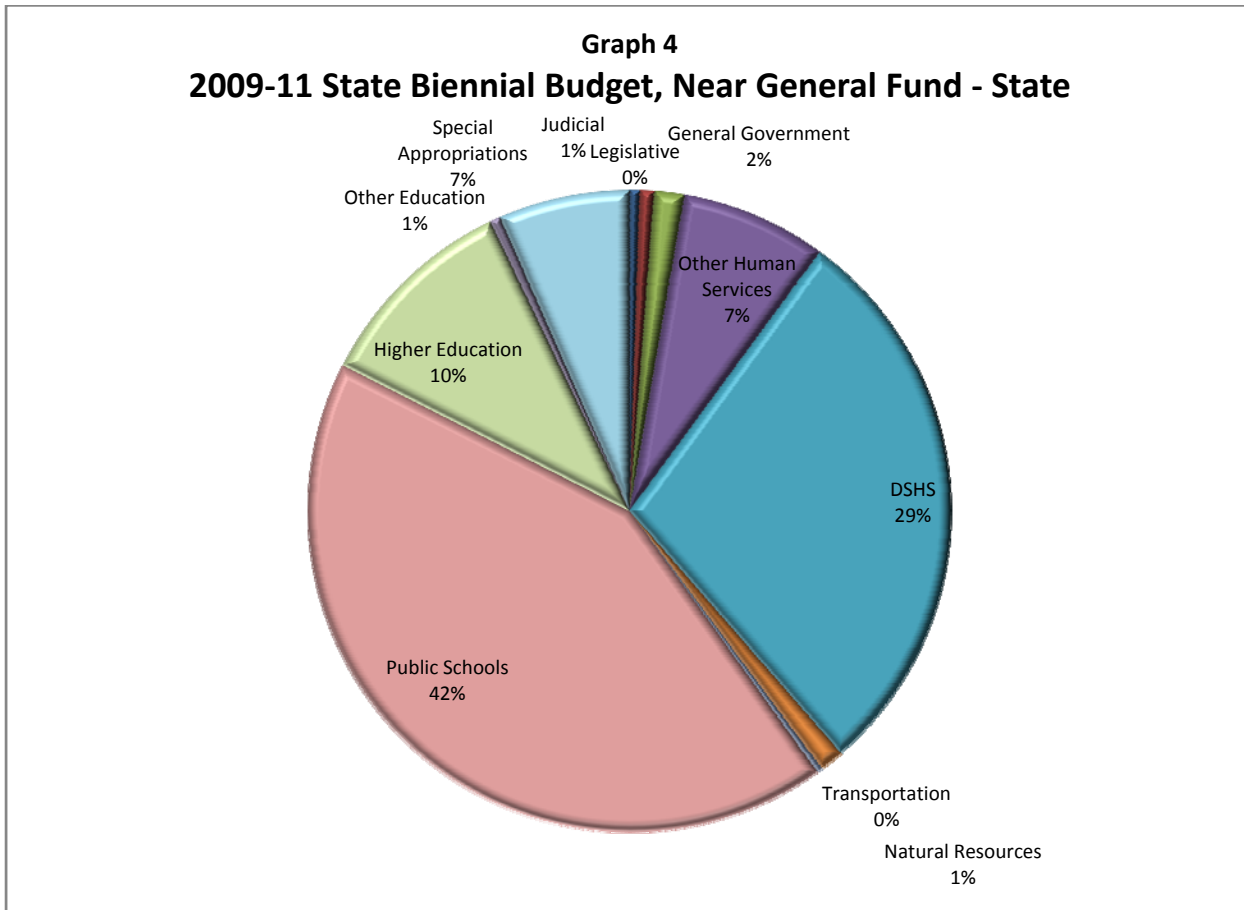
As Graph 3 demonstrates, the dismal budget situation for 2009-11 resulted in a reduction of state funding across *all sectors of state government*. In other words, this wasn't a case where state resource *increases* declined, rather, state resources actually were reduced across all sectors of state government. This is the first time in decades that actual state appropriations were reduced between biennia, rather than having the rate of increase slow.

As Graphs 2 and 3 highlight, the cuts to DSHS deserve special mention in light of their depth to the agency and because of the significant contribution made to the overall reduction in state spending. Of the \$5.5 billion in non-compensation reductions taken by the state, DSHS alone was cut by \$2.3 billion with minimal allowances for increased spending. Medical Assistance took the highest cut in general state funds of any DSHS program with significant fiscal relief from the American Recovery and Reinvestment Act's (ARRA) temporary rate increase in the Federal Medicaid Assistance Percentage (FMAP).

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The distribution of state resources looks mostly the same after the budget cuts in 2009-11

Despite the differential cuts described above, there is minimal redistribution of state resources between the 2007-09 and 2009-11 biennia. Comparing Graph 4 to Graph 1 demonstrates that the relative share of state resources continues to maintain the current distribution, but that K12 will receive a larger proportion in 2009-11 and that DSHS, Higher Education, and Other Human Services will reduce their share by roughly one percent each.

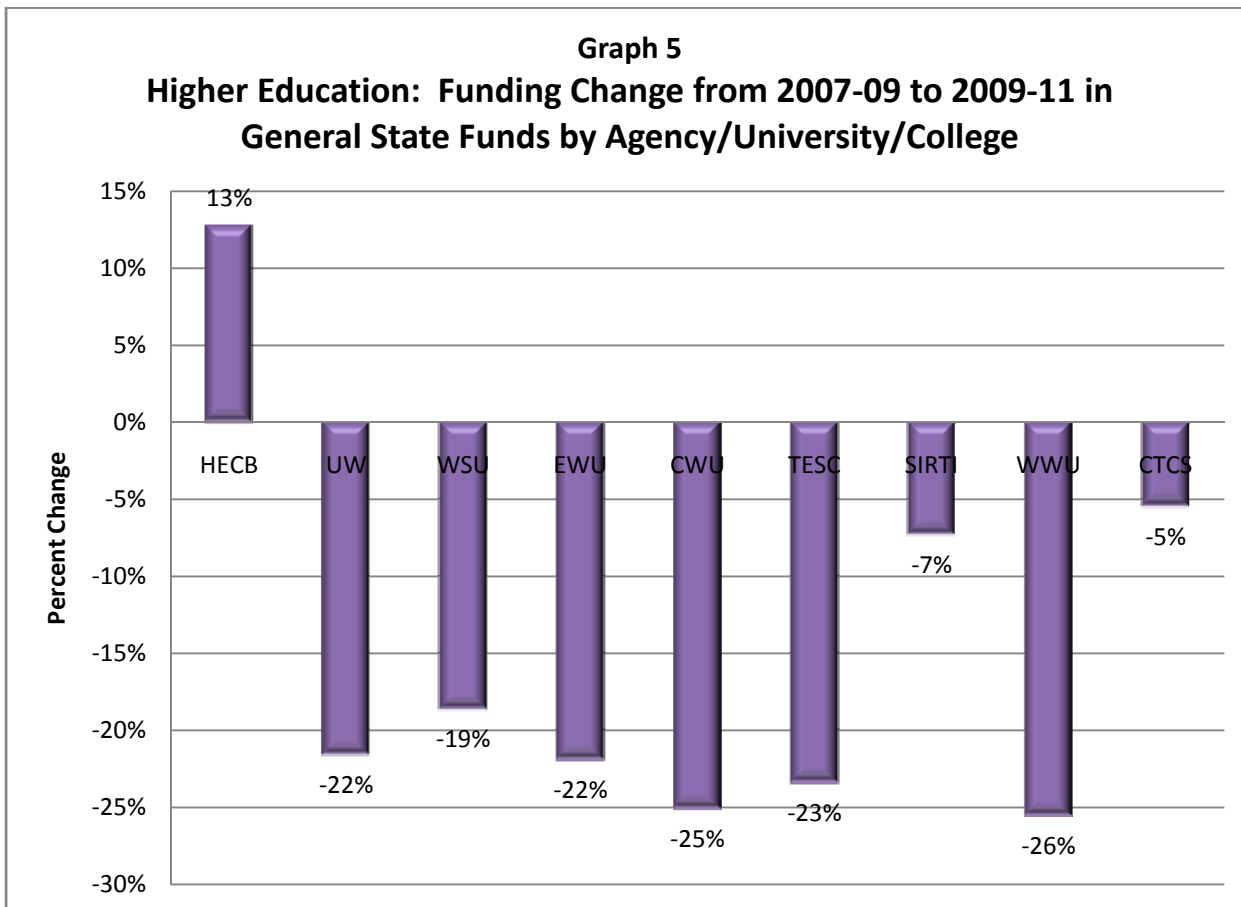




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Like all other sectors in state government, Higher Education experienced differential cuts

Graph 5 illustrates the change in near state general fund appropriations within Higher Education between 2007-09 and 2009-11. The Higher Education Coordinating Board (HECB) was the only higher education entity to receive an increase in general state funds to protect and enhance financial aid due to the extraordinary tuition increases allowed in order to mitigate cuts in state general fund to institutional budgets. Underlying HECB state funding was, in fact, reduced but financial aid saw enhancements and restructuring that resulted in an overall increase for the agency. The community and technical college system was not cut as significantly as the four-year public institutions. An attempt for equity between baccalaureates was made by the legislature; variations in cuts between institutions were mostly due to tuition revenue estimates.



HECB = Higher Education Coordinating Board; UW = University of Washington; WSU = Washington State University; EWU = Eastern Washington University; CWU = Central Washington University; TESC = The Evergreen State College; SIRT = Spokane Intercollegiate Research & Technology Institute; WWU = Western Washington University; CTCS = Community & Technical College System

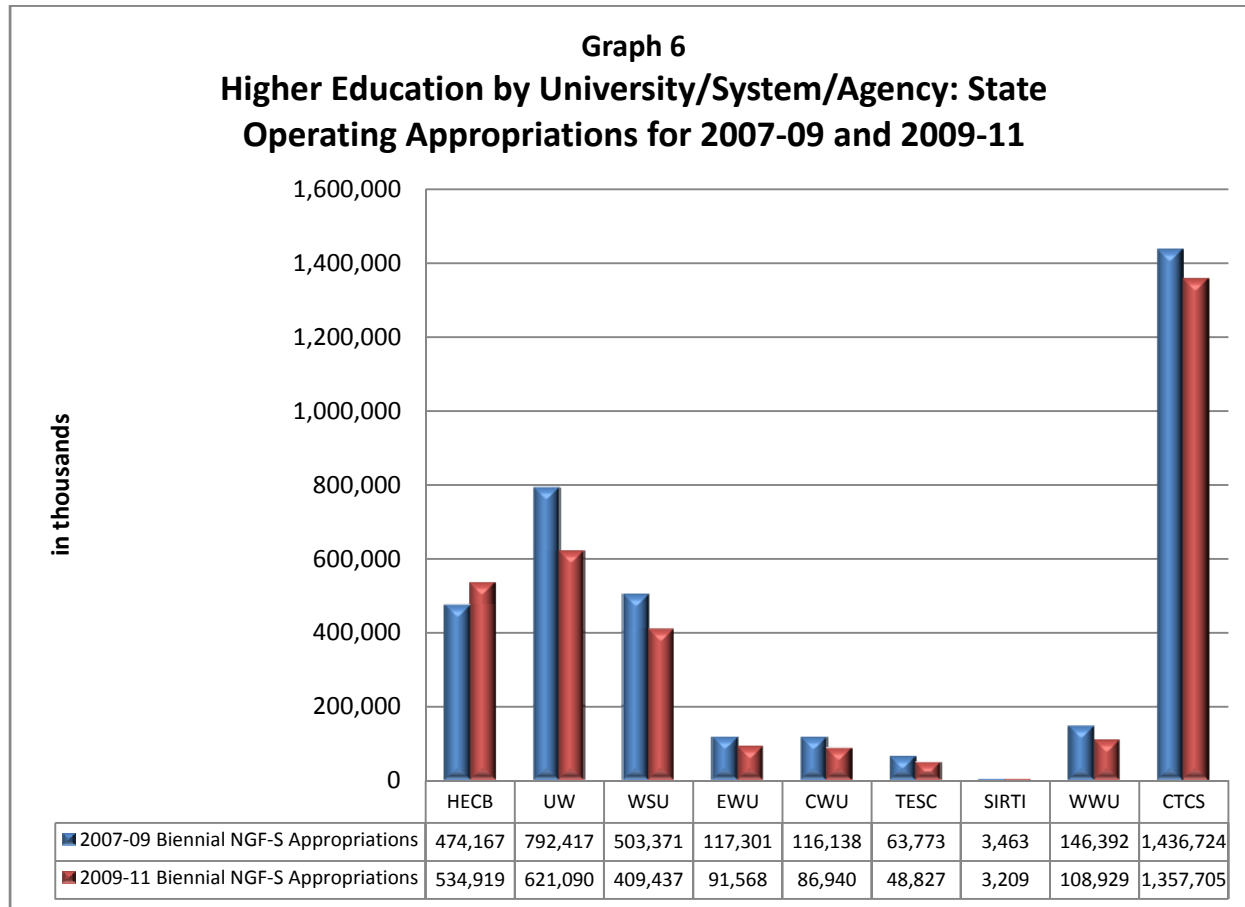


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The distribution of resources within Higher Education remains the same after cuts

Graph 6 portrays the appropriation levels in the 2007-09 and 2009-11 biennia within higher education. This graph demonstrates that the UW’s relative position within higher education remains the same, thus reflecting its prominence in baccalaureate and graduate degree production, as well as research.

Graphs 5 and 6 reflect what higher education institutions across the state face as they attempt to educate students with fewer state resources. Increases in tuition of 14% per year for the next two years at public baccalaureates will help reduce the severity of cuts on campuses, but cuts will be necessary. For every public baccalaureate institution and the community and technical college system, the final appropriation levels are lower in 2009-11 compared to the previous biennium – both with and without tuition increases.



University of Washington Budget Reductions and Tuition

Table 1 provides the UW 2009-11 biennial operating budget in greater detail. In each biennium, the budget starts with the total appropriations for the previous biennium: total near state general funds for the UW in 2007-09 were \$792.4 million. Adjustments for continuing or expiring studies or programs, previous enrollment, etc. then are made; these totaled \$42.9 million in additional state funding for the UW, as shown in Table 1 below. The UW budget was cut by \$214.2 million and federal stimulus funds were added at \$24.7 million. Finally, a tuition increase of 14% was estimated to add an additional \$89.7 million. Taken together, the total adjustment in near state general funding plus tuition was



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\$56.9 million less in 2009-11 than 2007-09, or an overall reduction of 7% between biennia with all the additions and reductions. All of these figures are noted in Table 1.

Table 1

University of Washington (*budget worksheet in thousands*)

2007-09 Estimated Expenditures	792,417
Adjustments	42,852
Cuts	-214,179
Federal Stimulus ARRA	24,730
14% tuition increase	89,676
2009-11 Estimated Expenditures	735,496

It is important to keep in mind that the Adjustments listed in Table 1 are designated for specific purposes, such as health care benefits, and commonly not for the general operations of the University. In contrast, the “real” cut involved a massive reduction of 27% in state funding (\$214.2 million) for the general purpose of educating students. This cut did have some “backfill” of federal funding (\$24.7 million) and tuition (\$89.7 million) to represent a net reduction between biennia of 13%.

State Public Higher Education: A Piece of a Smaller State Pie

Ultimately, the economic pressure of declining existing revenues without new revenues lead to deep cuts distributed across all sectors of government in Washington State. Public K12 education fared somewhat better than other areas due to constitutional protection, but no area was spared, and some agencies, such as DSHS, took disproportionately large cuts. The final distribution of state general funds among sectors, however, remains largely the same even after steep cuts, and, within higher education, relative institutional shares of state funds remained largely the same.

Implementing these cuts will mean sharp reductions in programs and services for Washingtonians including those seeking a higher education. Despite a one-time allocation of temporary federal stimulus funds and the authorization of large tuition increases for two years, public four year institutions in Washington will experience a significant decline in the funds available for educating students.



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Notes on Methodology

- The Washington State Legislative Evaluation and Accountability Program (LEAP) provided all the data for this analysis. LEAP is an excellent source of data and provides comparability across all sectors of state government, for all resources, over time. LEAP data was provided by agency with budget detail in 2009-11, as well as reviewed via their website for historical aggregate data going back 20+ years.
- This brief compares Near General Fund – State 2007-09 versus 2009-11 biennial operating appropriations. Other budget documents previously provided both by the UW Office of Planning and Budgeting, as well as the state, also compare reductions taken from the 2009-11 Maintenance Level. The Maintenance Level is an artificial creation of the state and includes adjustments agreed upon by the Governor, legislature and state agencies. The Maintenance Level of any agency basically includes all expenditures required to maintain current services from one biennium to the next. However, actual appropriation levels were used for this analysis because they represent what the UW (and other agencies) received last biennium versus what it will receive next biennium. This is a more straightforward view of resources as most people more intuitively relate to funding they actually received this year, compared to what they will get next year.
- This brief only reflects Near General Fund – State expenditures. Near General Fund – State includes the state general fund, health services account, violence reduction and drug enforcement account, public safety and education account, water quality account, student achievement fund, and education legacy trust account.
- The total cuts of \$5.5 billion discussed in this paper only reflect non-compensation related reductions. This is not a net figure. Compensation adjustments were also made, e.g., the calculation of pensions was changed, but those are not included in the \$5.5 billion reduction figure.

For more information, please contact: Carolyn Busch, Office of Planning & Budgeting, 206/685-4874, (cbusch@u.washington.edu)



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Appendix A (in thousands)

Agency/Sector	2007-09 NGF-S Appropriations	2009-11 NGF-S Appropriations
House of Representatives	71,377	66,879
Senate	56,891	52,139
Joint Legislative Audit & Review Committee	6,669	5,758
Legislative Evaluation & Accountability Program	3,922	3,675
Office of the State Actuary	25	225
Joint Legislative Systems Committee	18,300	17,170
Statute Law Committee	10,106	9,639
Redistricting Commission	0	610
Legislative Subtotal	167,290	156,095
Supreme Court	14,990	13,860
State Law Library	4,537	3,846
Court of Appeals	33,237	31,688
Commission on Judicial Conduct	2,251	2,114
Administrative Office of the Courts	117,213	105,419
Office of Public Defense	54,133	49,977
Office of Civil Legal Aid	22,477	22,280
Judicial Subtotal	248,838	229,184
Office of the Governor	13,549	11,756
Office of the Lieutenant Governor	1,619	1,558
Public Disclosure Commission	4,994	4,531
Office of the Secretary of State	55,679	39,814
Governor's Office of Indian Affairs	811	542
Comm on Asian-Pacific-American Affairs	805	460
Office of the State Treasurer	0	0
Office of the State Auditor	1,600	1,451
Commission on Salaries for Elected Officials	384	383
Office of the Attorney General	15,336	10,979
Caseload Forecast Council	1,608	1,551
Department of Financial Institutions	1,500	0
Department of Community, Trade, & Economic Develop	150,316	103,178
Economic & Revenue Forecast Council	1,553	1,520
Office of Financial Management	59,646	42,955



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Office of Administrative Hearings	0	0
Department of Personnel	96	0
State Lottery Commission	0	0
Washington State Gambling Commission	0	0
Washington State Commission on Hispanic Affairs	683	513
WA State Comm on African-American Affairs	519	487
Department of Retirement Systems	450	0
State Investment Board	0	0
Public Printer	0	0
Department of Revenue	206,471	217,917
Board of Tax Appeals	2,856	2,732
Municipal Research Council	425	0
Office of Minority & Women's Business Enterprises	0	0
Department of General Administration	1,181	1,626
Department of Information Services	8,778	2,208
Office of Insurance Commissioner	0	0
State Board of Accountancy	0	0
Forensic Investigations Council	0	0
Washington Horse Racing Commission	0	0
Washington State Liquor Control Board	3,822	0
Utilities and Transportation Commission	160	0
Board for Volunteer Firefighters	0	0
Military Department	24,875	20,534
Public Employment Relations Commission	6,543	6,258
LEOFF 2 Retirement Board	0	0
Department of Archaeology & Historic Preservation	2,869	2,798
Growth Management Hearings Board	3,821	3,223
State Convention and Trade Center	0	0
General Government Subtotal	572,949	478,974
Washington State Health Care Authority	575,310	388,433
Human Rights Commission	7,076	5,616
Board of Industrial Insurance Appeals	0	0
WA State Criminal Justice Training Commission	37,450	38,322
Department of Labor and Industries	49,948	49,461
Indeterminate Sentence Review Board	3,888	3,830
Home Care Quality Authority	3,452	2,450
Department of Health	264,369	193,048
Department of Veterans' Affairs	29,055	20,123
Department of Corrections	1,757,543	1,580,733
Department of Services for the Blind	5,174	5,094



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Sentencing Guidelines Commission	2,170	1,954
Employment Security Department	342	7,107
Other Human Services Subtotal	2,735,777	2,296,171
Children and Family Services	674,028	633,214
Juvenile Rehabilitation	222,625	197,951
Mental Health	925,855	820,901
Developmental Disabilities	901,415	820,242
Long-Term Care	1,459,710	1,284,289
Economic Services Administration	1,210,027	1,145,907
Alcohol and Substance Abuse	195,028	166,889
Medical Assistance Payments	4,083,328	3,582,184
Vocational Rehabilitation	23,982	20,579
Administration and Supporting Services	87,268	69,392
Special Commitment Center	106,972	107,164
Payments to Other Agencies	119,206	106,903
Information System Services	0	0
DSHS Subtotal	10,009,444	8,955,615
Columbia River Gorge Commission	1,061	886
Department of Ecology	133,540	118,356
Washington Pollution Liability Insurance Program	0	0
State Parks and Recreation Commission	98,104	46,485
Recreation and Conservation Funding Board	3,349	3,069
Environmental Hearings Office	2,286	2,153
State Conservation Commission	16,613	15,399
Department of Fish and Wildlife	111,268	81,173
Puget Sound Partnership	8,758	6,417
Department of Natural Resources	104,370	81,132
Department of Agriculture	29,837	24,911
Natural Resources Subtotal	509,186	379,981
Washington State Patrol	81,829	81,834
Department of Licensing	3,785	3,380
Transportation Subtotal	85,614	85,214
OSPI & Statewide Programs	76,916	67,767
General Apportionment	9,265,714	10,186,760



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Pupil Transportation	574,919	614,427
School Food Services	6,318	6,318
Special Education	1,139,955	1,294,103
Educational Service Districts	16,049	16,789
Levy Equalization	423,655	252,918
Elementary & Secondary School Improvement	0	0
Institutional Education	38,869	36,935
Education of Highly Capable Students	17,171	18,867
Student Achievement Program	868,339	104,101
Education Reform	276,477	292,805
Transitional Bilingual Instruction	135,155	158,931
Learning Assistance Program (LAP)	198,988	251,284
Compensation Adjustments	566,508	9,957
Public Schools Subtotal	13,605,033	13,311,962
Higher Education Coordinating Board	474,167	534,919
University of Washington	792,417	621,090
Washington State University	503,371	409,437
Eastern Washington University	117,301	91,568
Central Washington University	116,138	86,940
The Evergreen State College	63,773	48,827
Spokane Intercollegiate Research & Technology Inst	3,463	3,209
Western Washington University	146,392	108,929
Community & Technical College System	1,436,724	1,357,705
Higher Education Subtotal	3,653,746	3,262,624
State School for the Blind	12,074	11,810
State School for the Deaf	17,773	17,248
Work Force Training & Education Coordinating Board	3,493	3,143
Department of Early Learning	138,666	121,523
Washington State Arts Commission	5,089	3,759
Washington State Historical Society	7,356	5,228
Eastern Washington State Historical Society	3,987	3,267
Other Education Subtotal	188,438	165,978
Bond Retirement and Interest	1,575,674	1,813,244
Special Appropriations to the Governor	169,875	123,992
State Employee Compensation Adjustments	0	800
Contributions to Retirement Systems	116,400	130,230



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Other Legislation	0	160
Special Appropriations Subtotal	1,861,949	2,068,426
TOTAL BIENNIAL APPROPRIATIONS	33,638,264	31,390,224