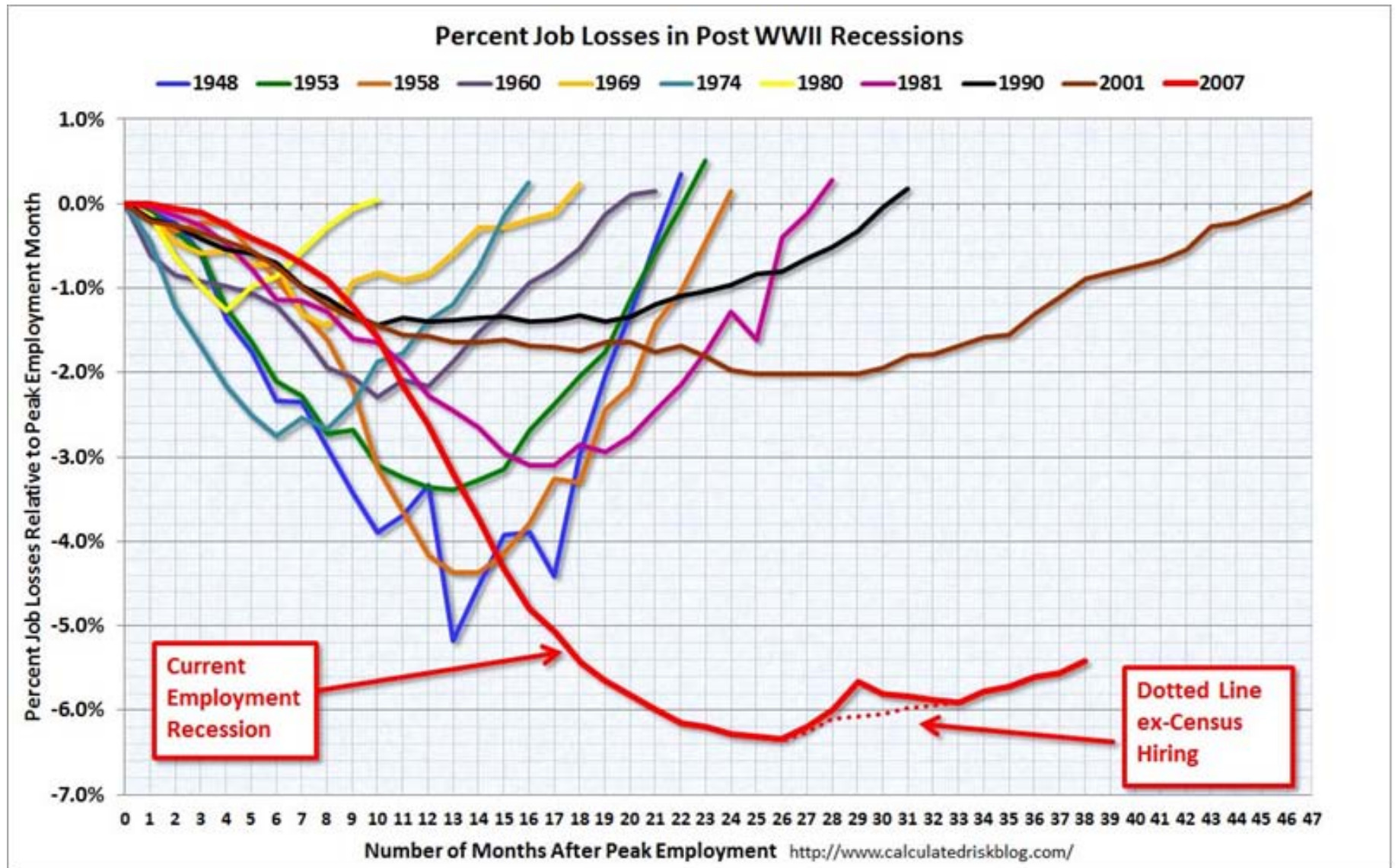


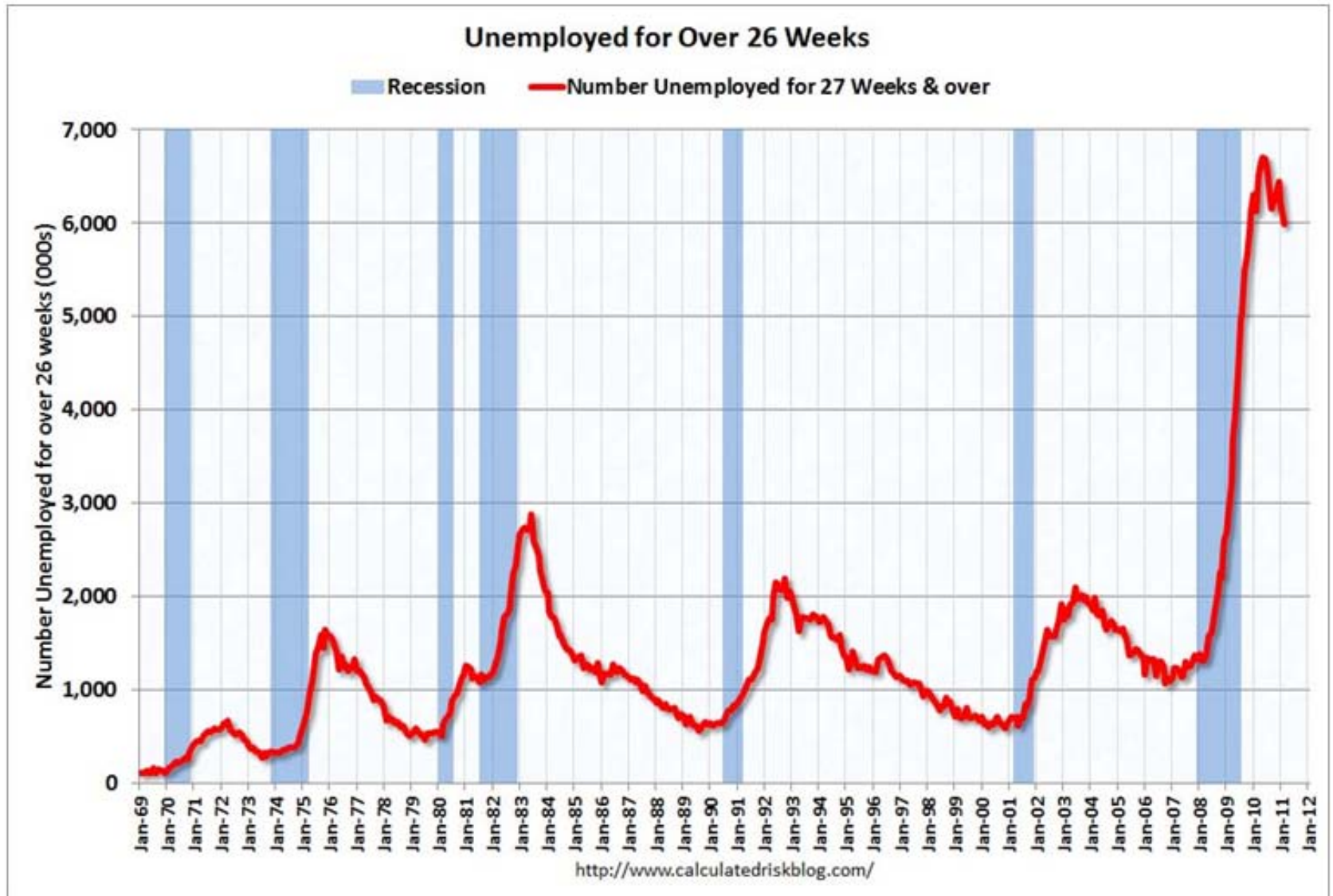
The Great Recession and its impact on the state budget



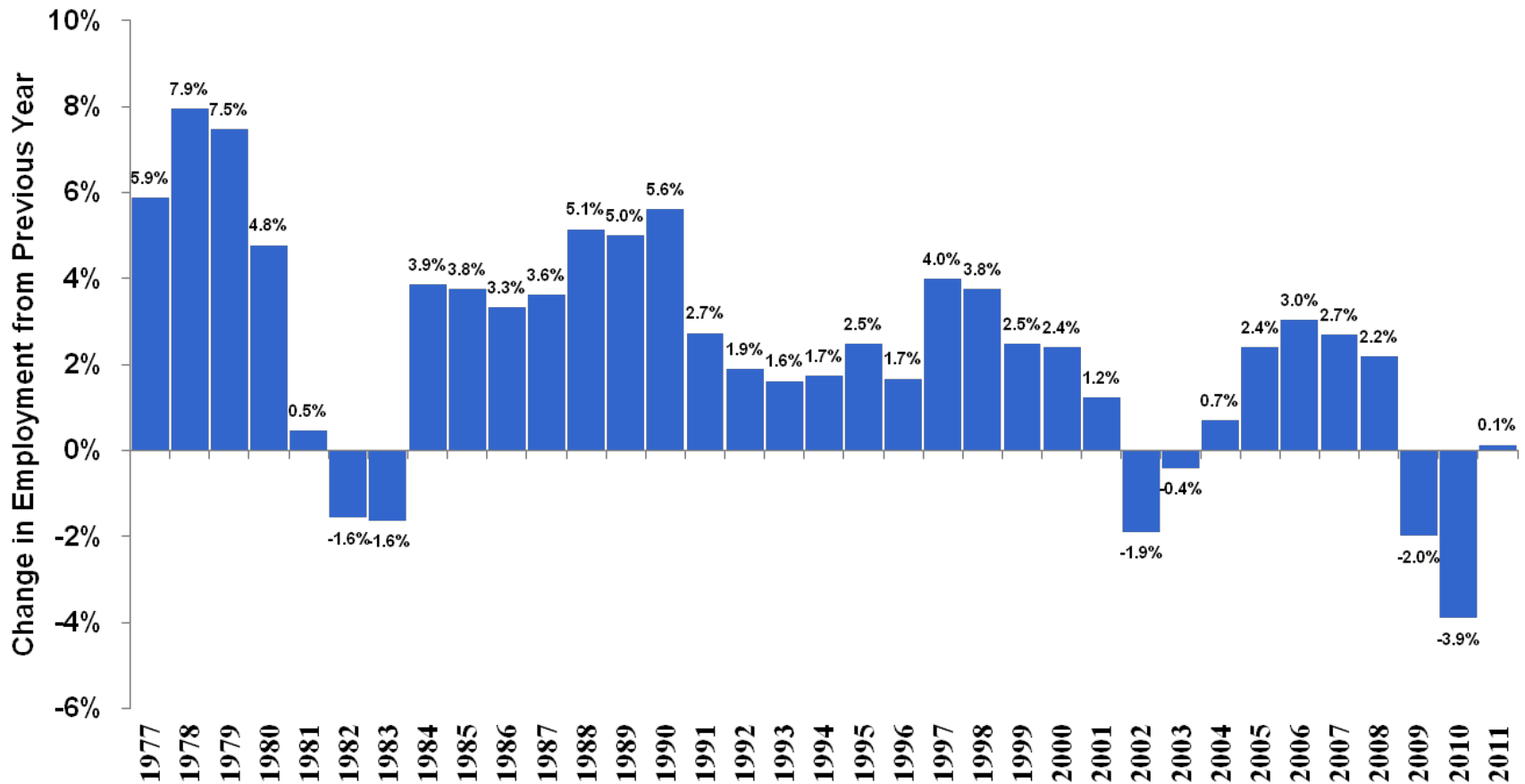
How does this recession compare to others?



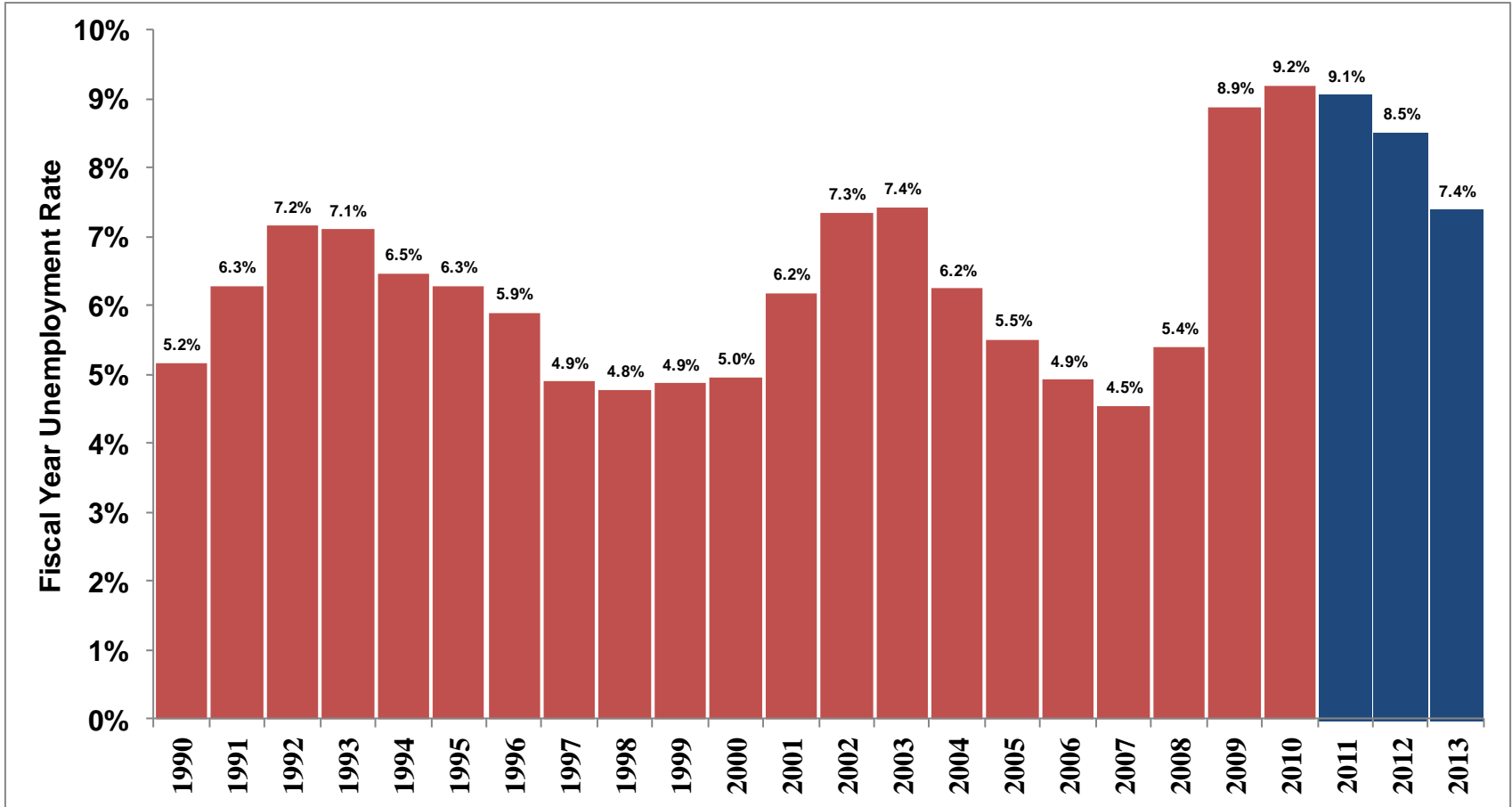
In terms of unemployment, there really is no comparison



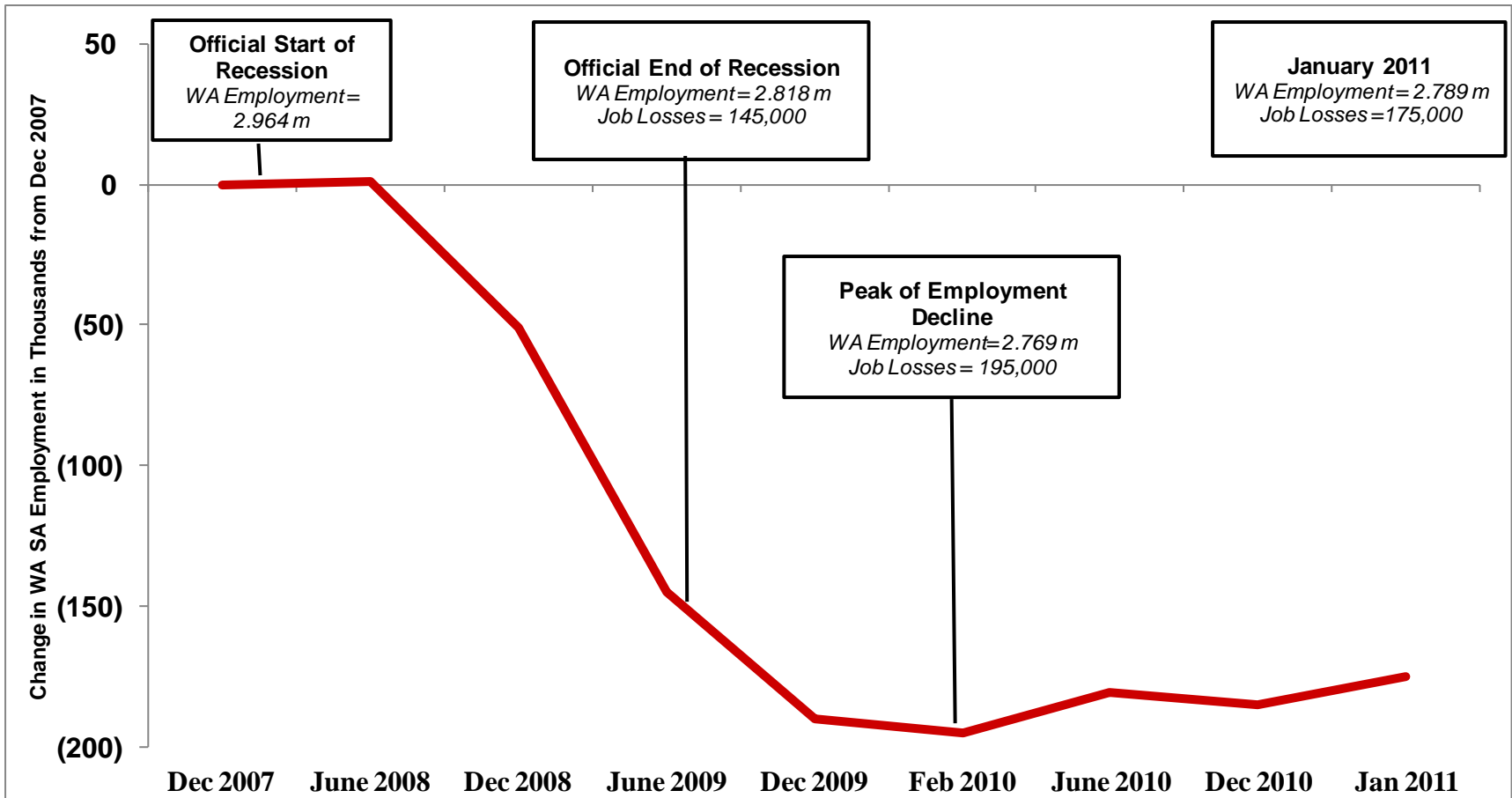
In Washington, the recession created two consecutive years of negative employment growth



The unemployment rate in Washington climbed to over 9 percent and is not expected to return to pre-recession levels for several years

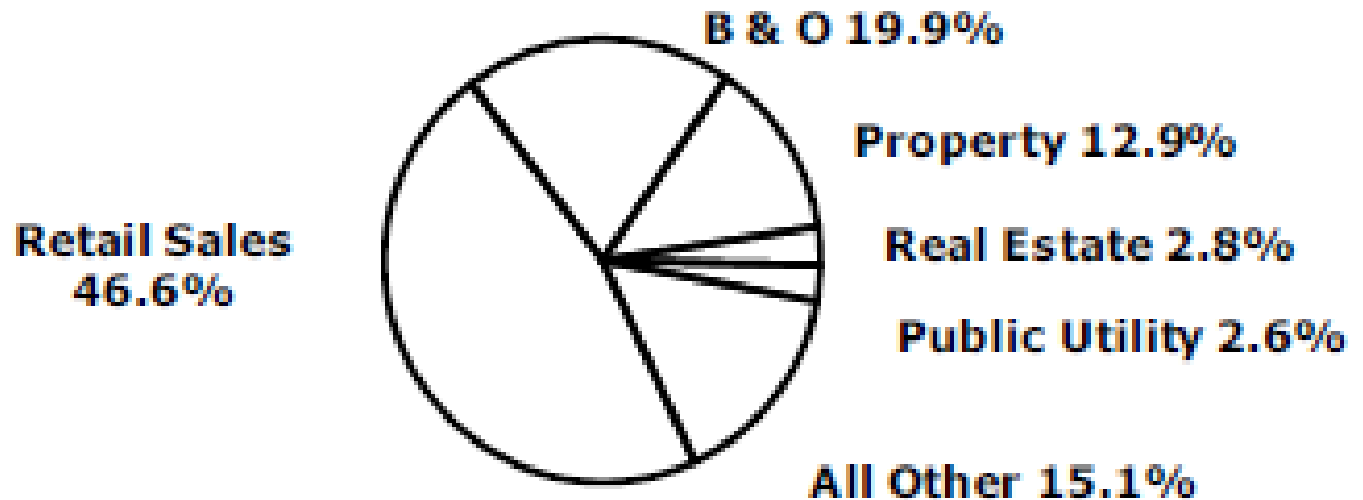


Our state lost 195,000 jobs and has only regained about 20,000 so far

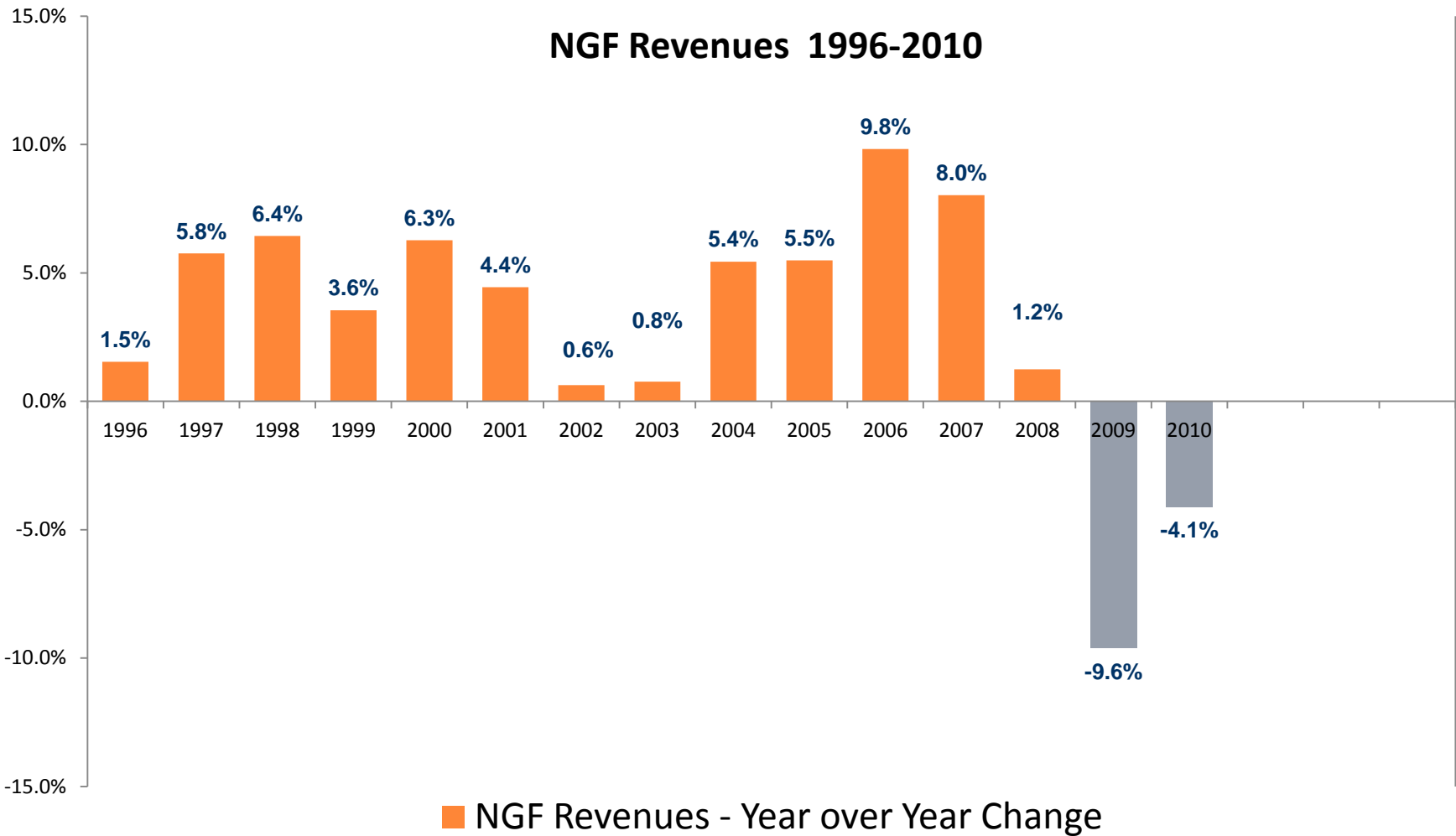


Nearly half of the state budget is supported by consumer spending...

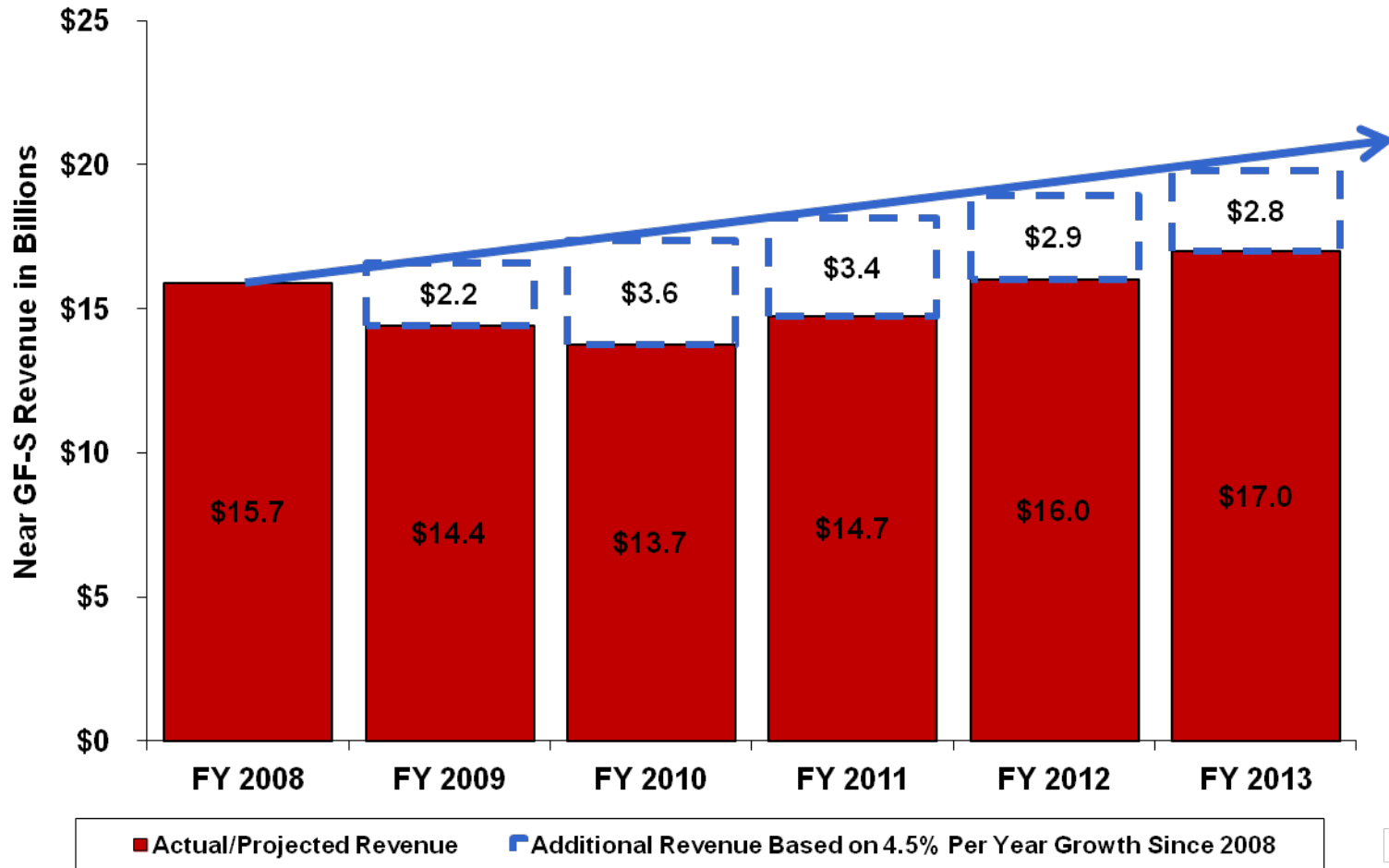
The sources of tax revenue
for the state general fund



...which means high unemployment has caused revenues to decline significantly

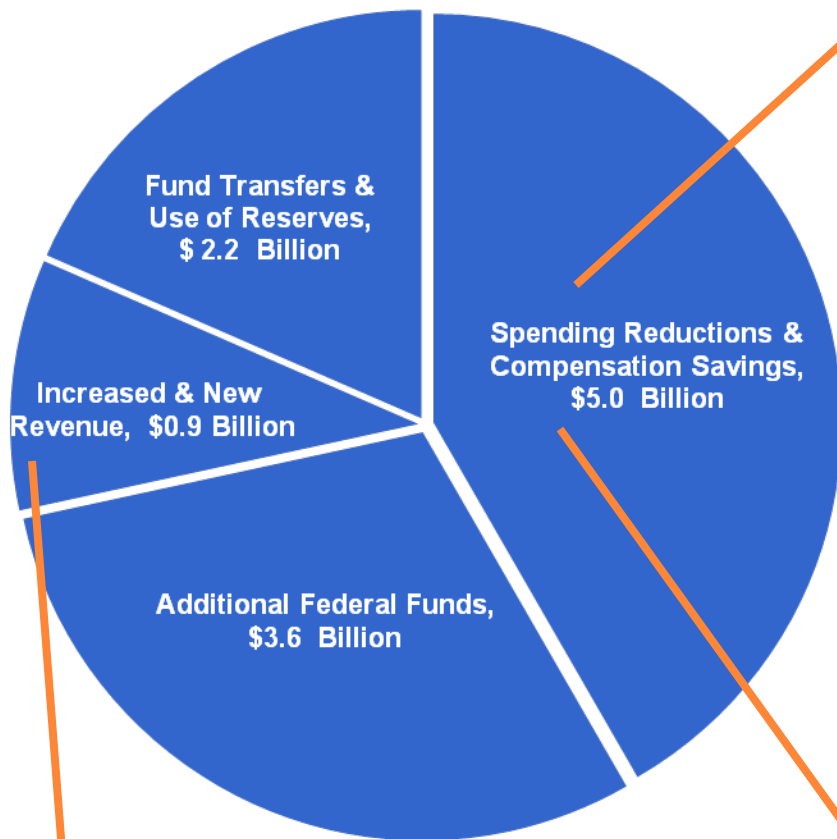


If revenues had grown at the historical average since 2008, resources would be about \$15 billion higher between 2009-2013



* FY 2010 – FY 2013 based on the November 2010 revenue forecast.

In 2009 and 2010, the Legislature addressed a nearly \$12 billion revenue shortfall: here's how

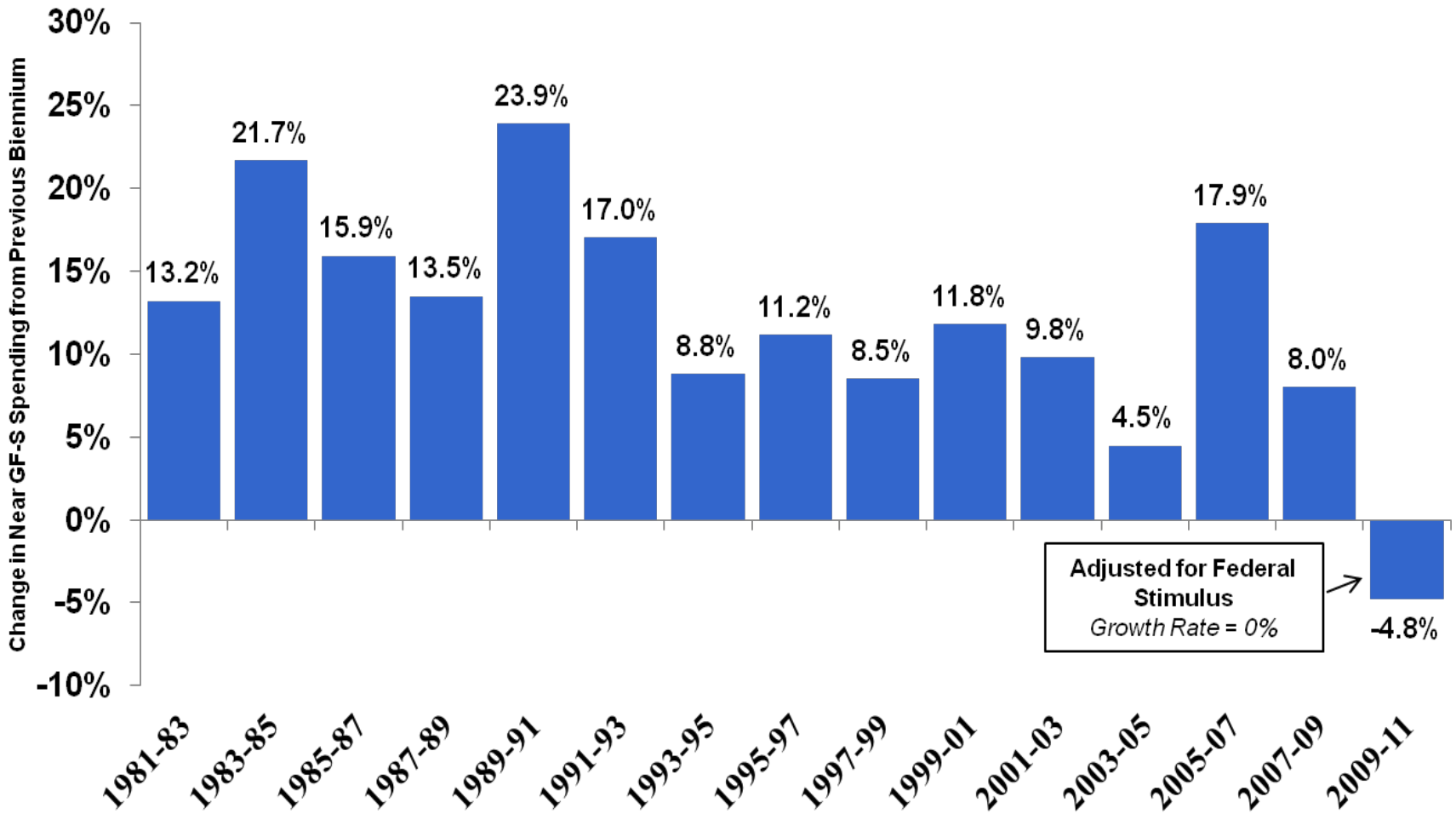


Approximately \$250 million was repealed when voters approved Initiative-1107

- Cut 8,200 FTEs, or 3.9 percent of the state workforce
 - 3,000 state employees
 - 3,100 higher education
 - 2,100 school districts
- Implemented a statewide salary freeze
- Mandated 10 furlough days for state employees (3.8 percent annual wage cut)
- Cut state worker health benefit plans, causing employees to pay up to \$1,250 more per year in out-of-pocket medical expenses each
- Cut over \$350 million in agency administration costs
- Cut over \$840 million in compensation for those who deliver public services, such as teachers, prison guards and food inspectors
- Cut \$710 million from the smaller class-size initiative, I-728
- Cut \$680 million from our state colleges and universities
- Cut over \$250 million from the Basic Health Plan, resulting in 40,000 fewer enrollments
- Cut over \$150 million from our corrections system, including five facilities closures
- Cut over \$100 million from Welfare to Work
- Reduced rates for nursing homes, adult family homes, boarding homes, group homes, and in-home care

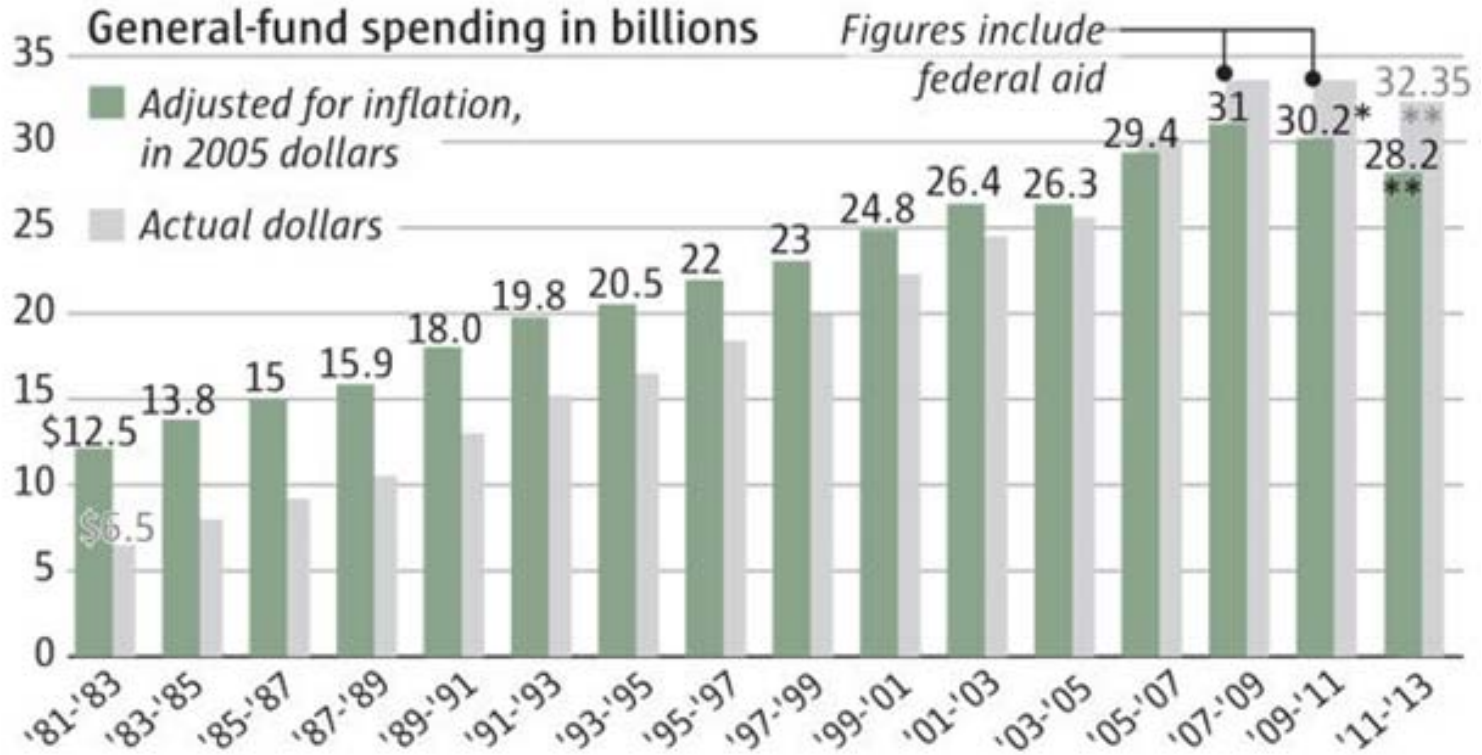
Total Budget Solution Fiscal Years 2009 - 2011= \$11.8 Billion

As a result, growth in spending is at lowest levels in at least 30 years



* Based on the 2010 enacted budget. After additional reductions are made in the 2011 supplemental budget, the growth rate is likely to be less.

In fact, actual spending is at its lowest level since 2003-05

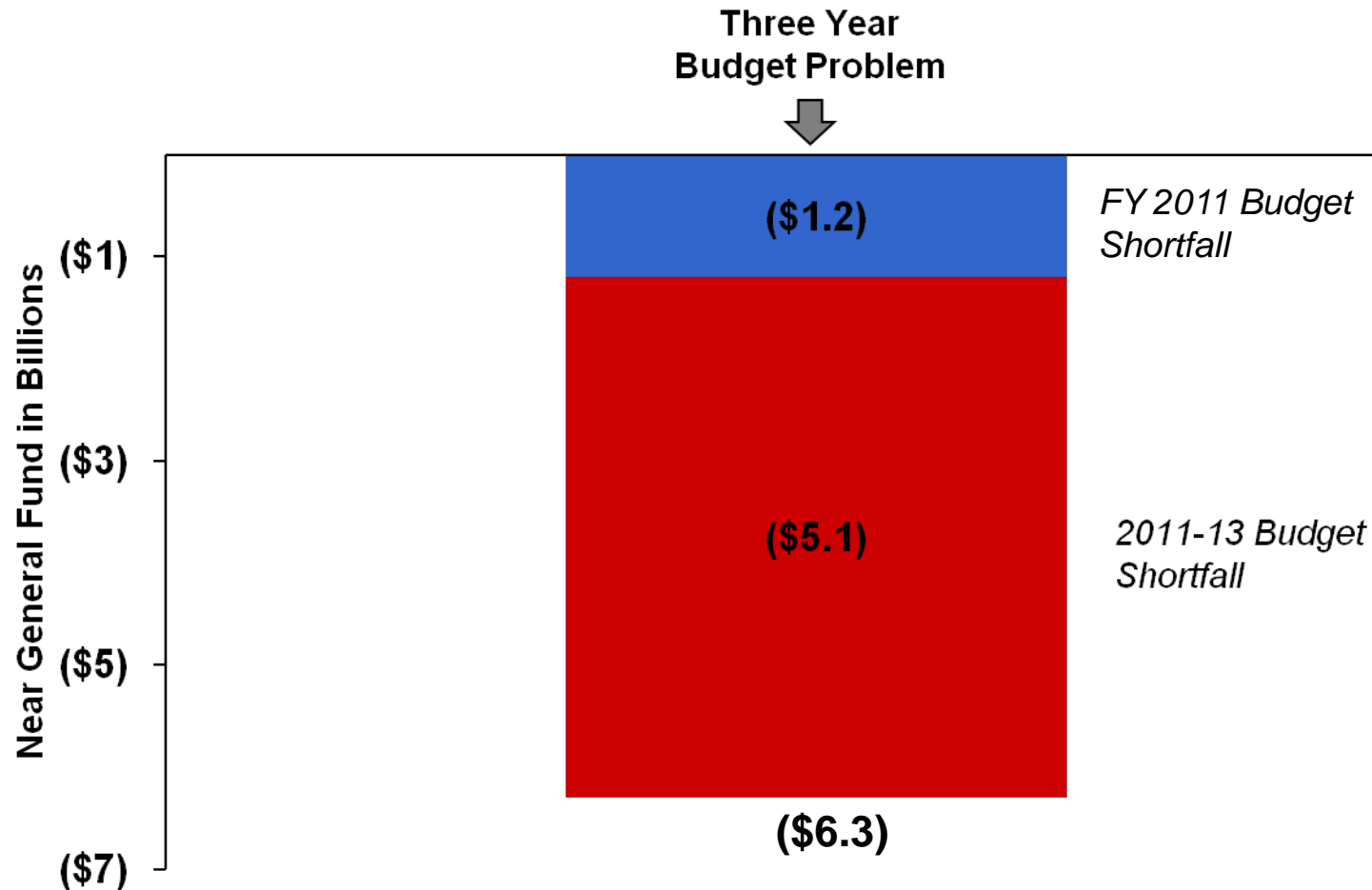


* State is expected to cut more than \$1 billion in spending

** Gov. Chris Gregoire's proposed budget

THE SEATTLE TIMES

And yet, due to the weak recovery, caseload increases, and other spending demands, the Legislature is facing an additional budget shortfall of over \$6 billion in 2011-13



The challenge is enormous (no federal relief funds and no new revenue)

We could cut our entire public system of higher education -- all six of our public four-year institutions and all 34 of our two-year community and technical colleges -- and we'd solve **50 percent** of the current problem.



We could close down our corrections system -- all nine prisons, three minimum custody camps, and fifteen work release centers -- and we'd solve **33 percent** of the current problem.

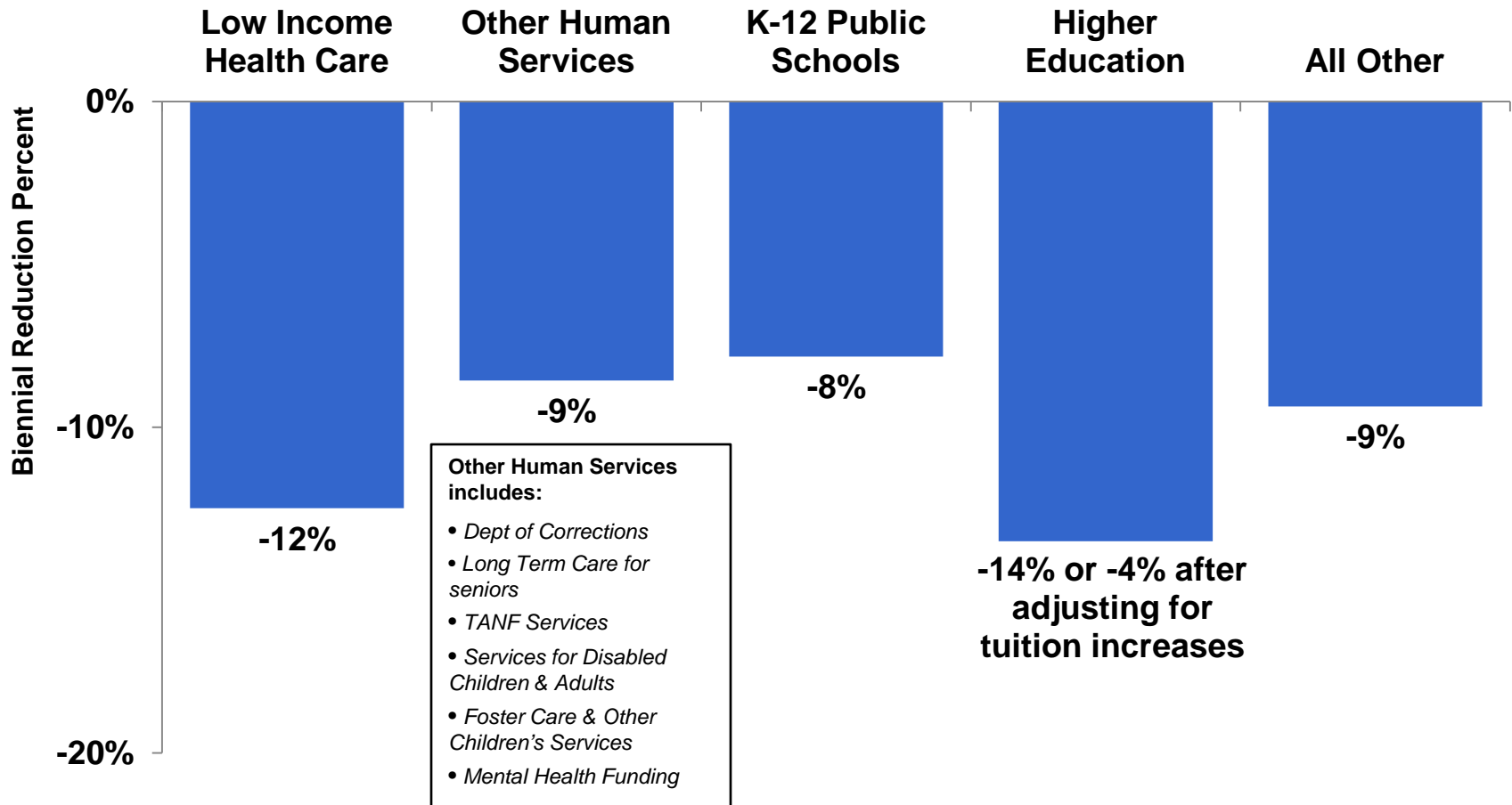


We could eliminate all state environmental efforts -- all programs that promote clean air and water, clean up pollution, preserve and support our vast natural resources, protect endangered species and encourage conservation -- and we'd solve **less than 10 percent** of the current problem.



Most significantly, we could do all of these things and it still wouldn't bring the budget into balance.

Here's how the Governor's cuts would address the shortfall

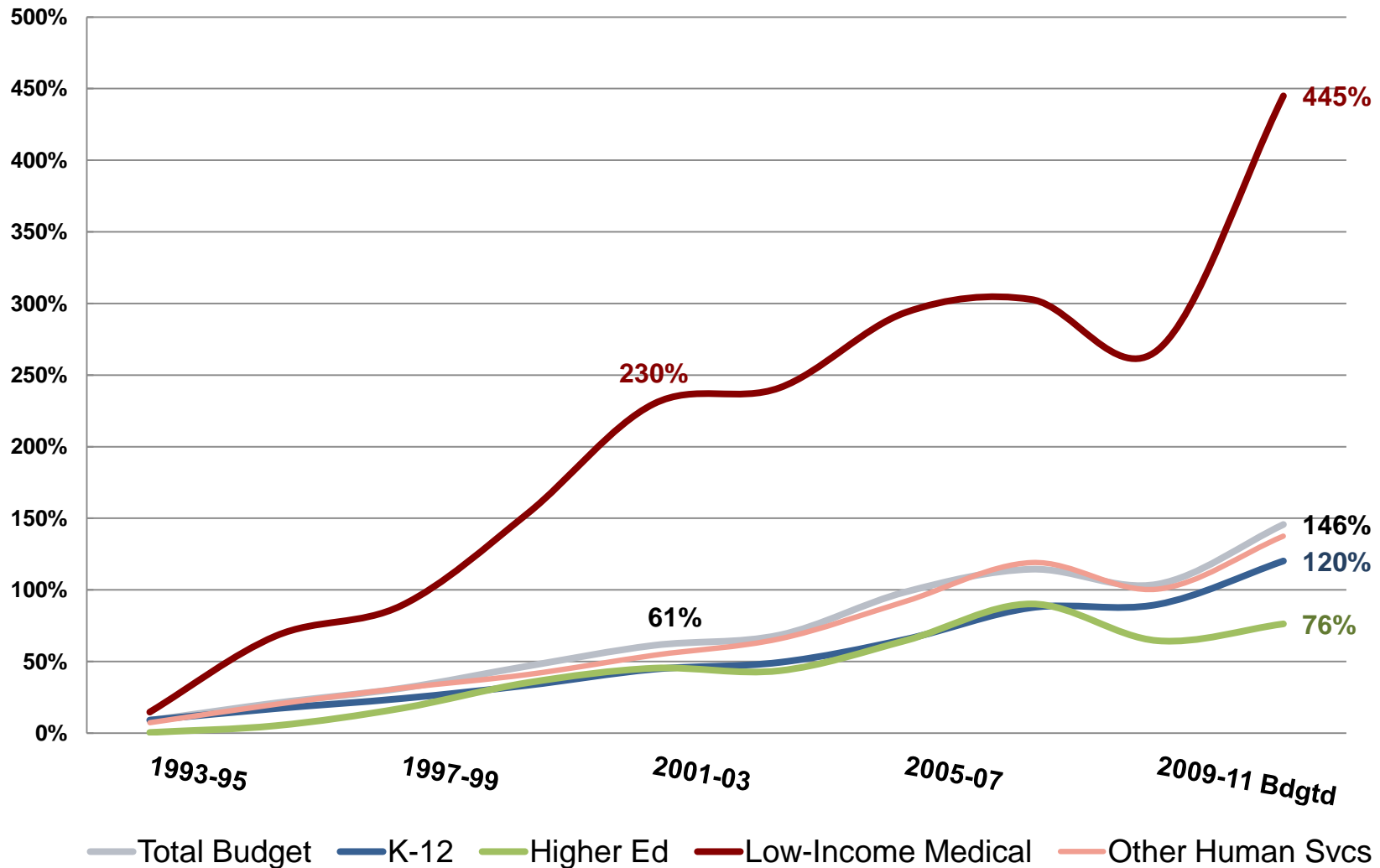


* Reflects 2011-13 net near general fund policy change after accounting for reductions and increases, but excludes impacts of compensation-related adjustments and some fund shifts.

Is it true that there's \$3 billion more revenue in 2011-13 than in 2009-11?

- It's *projected* that in 2011-13, revenues will grow by \$3 billion over 2009-13 levels (*see previous slides for how projections can err*).
- But just to continue the same state-supported medical programs for low-income, disabled and elderly individuals costs us \$1.7 billion more due to inflation and an additional \$590 million due to greater usage (*see next slides for more on this trend*).
- Also, costs for teacher and employee pension obligations will increase by \$584 million.
- And other increases – including the cost of more kids in school, increased corrections costs, debt service increases, etc. – cost an additional \$650 million
- That totals \$3.524 billion more in costs.
- Remember, the extra federal funds we received in 2009-11 – approximately \$3.6 billion worth – won't be forthcoming this time around, so it's all something of a wash...

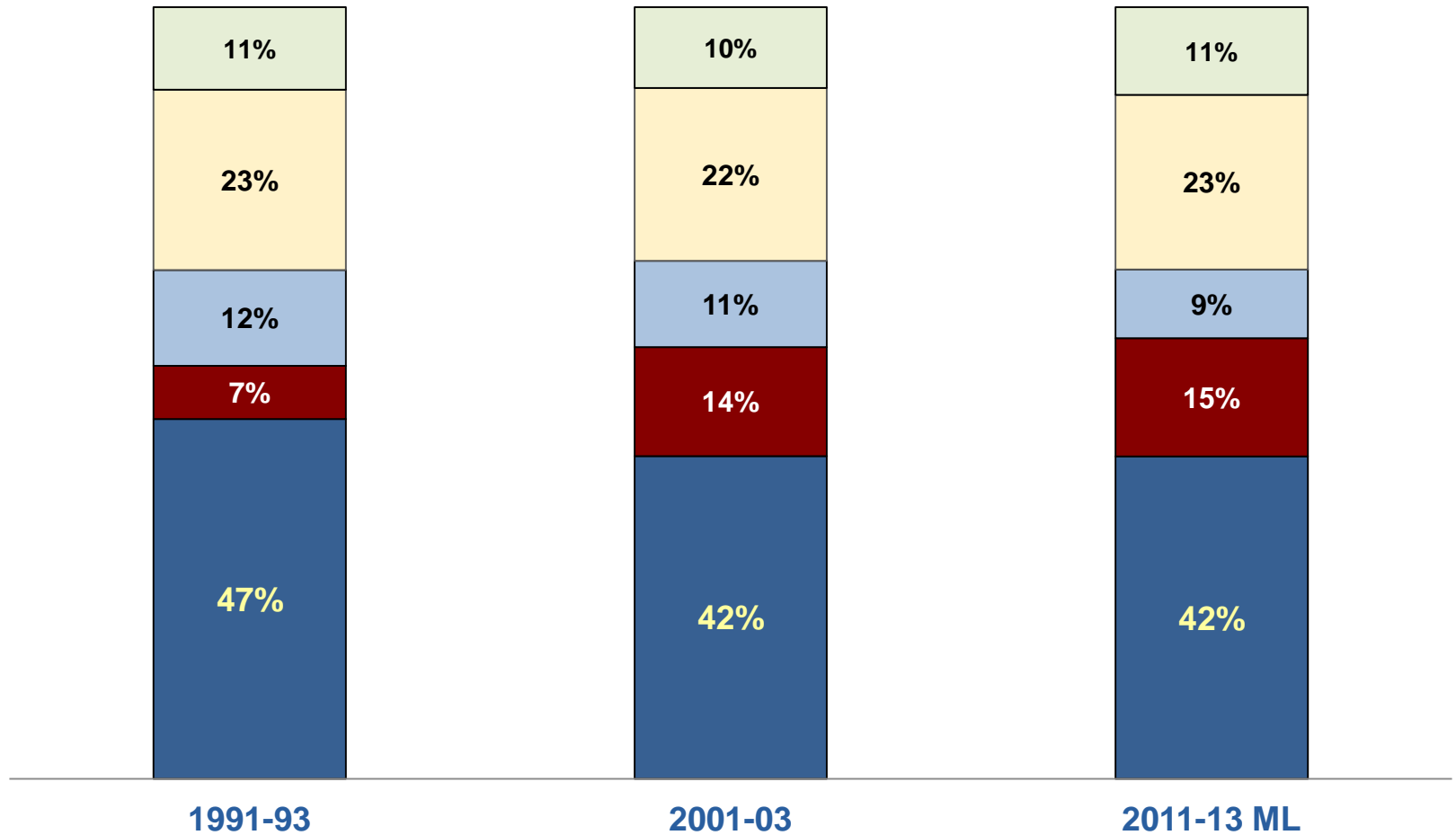
Revenue growth is being swallowed by low-income medical costs, which have grown 3-4 times faster than the state budget over the past 20 years ...



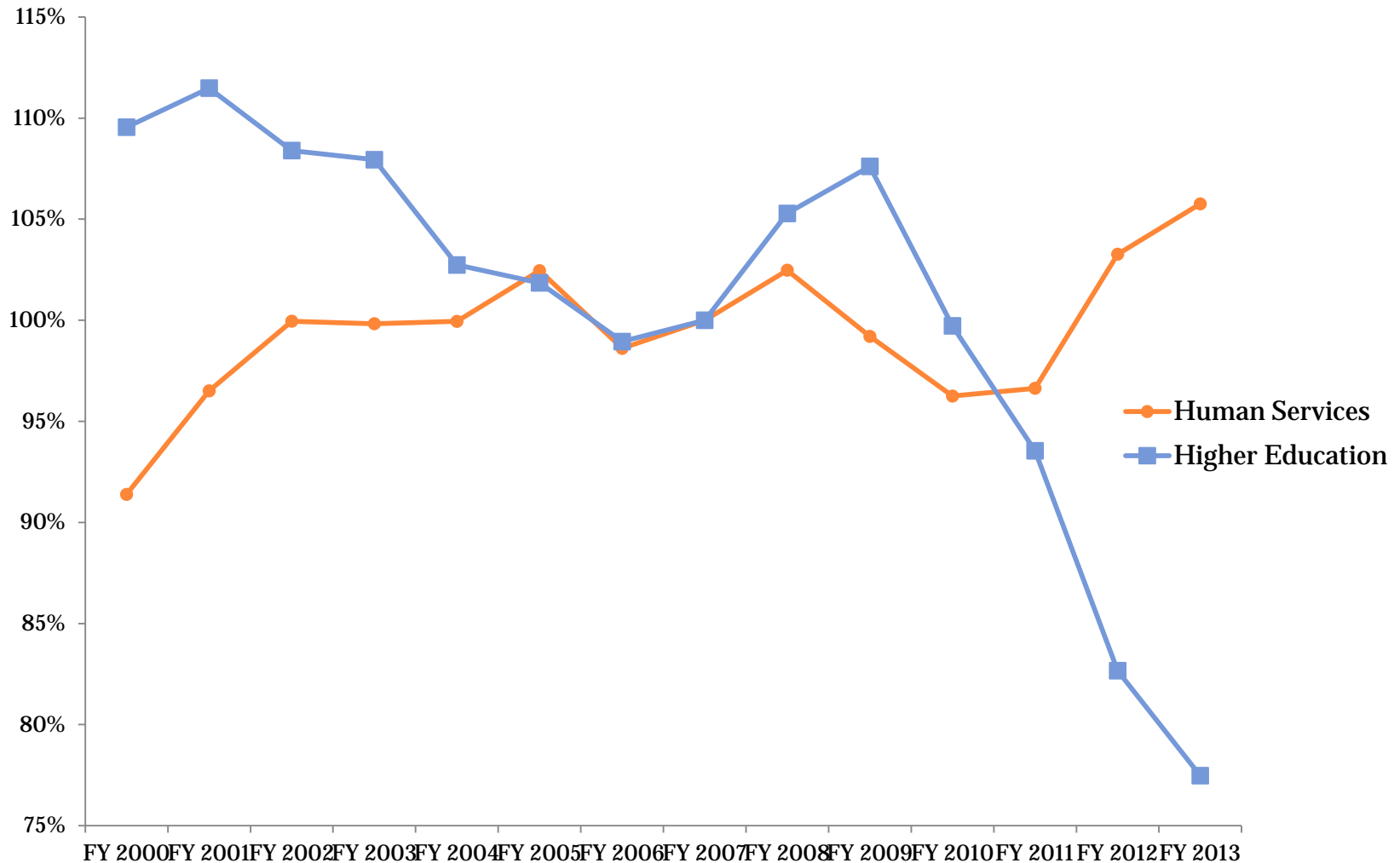
Low income medical includes Apple Health for Kids, the Basic Health Plan and medical support for low-income seniors and the disabled.

...with the result that its share of total state spending has more than doubled

■ K-12 ■ Low-Income Medical ■ Higher Ed ■ Other Human Svcs ■ All Other



Investments in higher education have declined as other costs in the budget have increased



What about tax exemptions? Aren't there billions in exemptions the Legislature could end in order to avoid deep cuts?

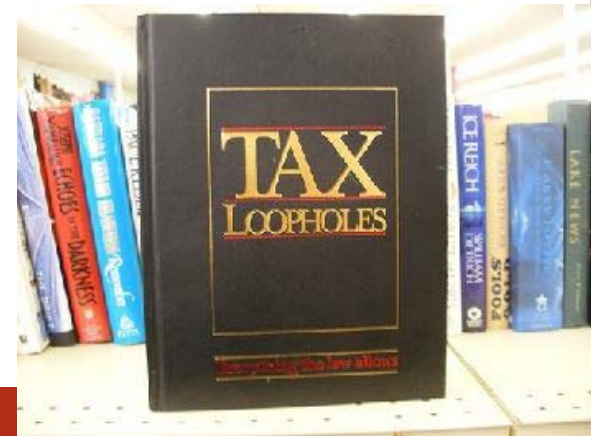
There are a number of exemptions in our tax code, and the biggest ones are well-worth keeping. They include:

- Sales tax exemption on food: \$1.7 billion
- Sales tax exemption on prescription drugs: \$613 million
- Lower B&O rate for manufacturing commercial airplanes: \$150 million
- B&O deduction for nonprofit hospitals and clinics: \$150 million

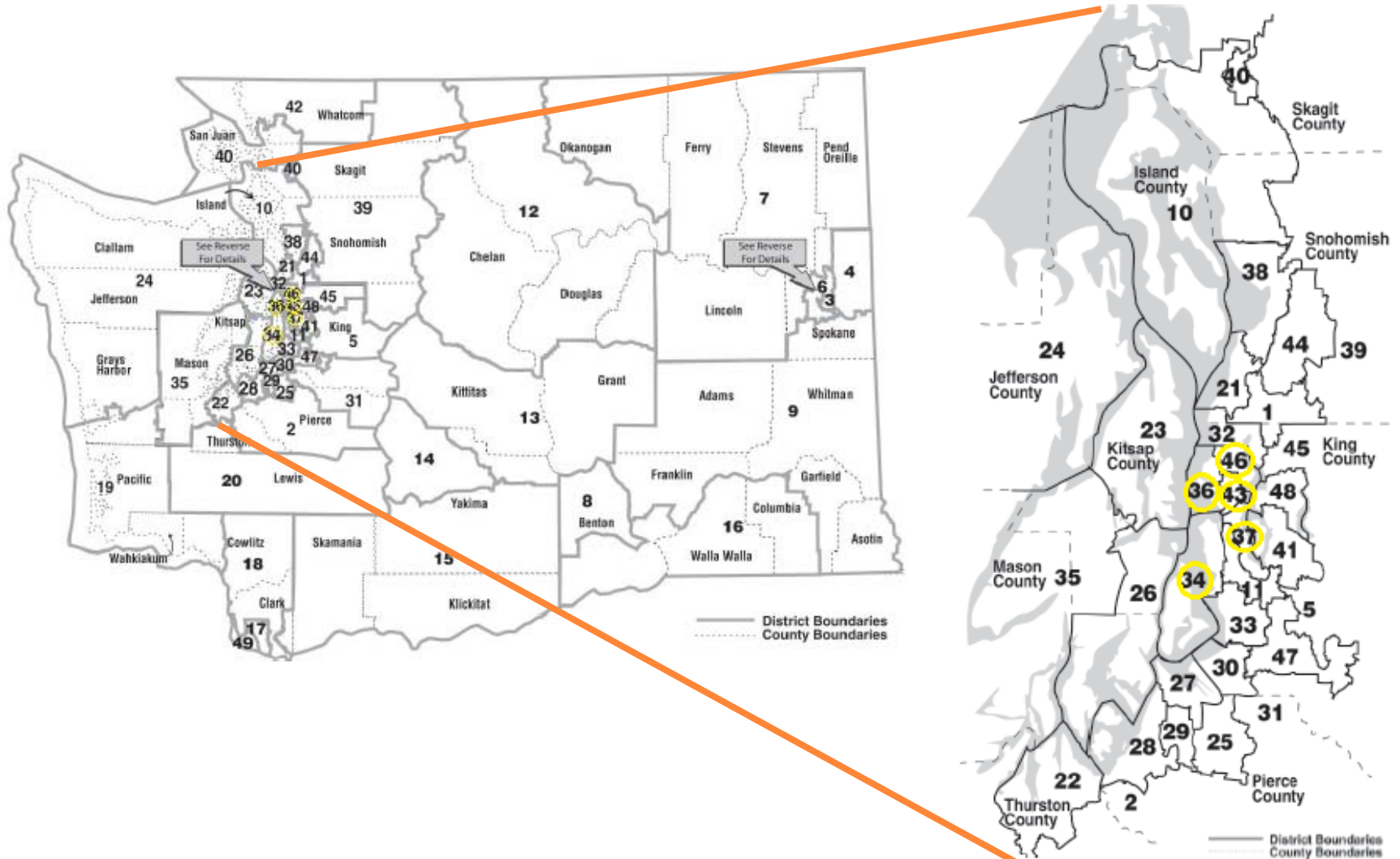
Other exemptions do exist, but they are much, much smaller.

Even if a number of them were bundled together, it still would represent only a small fraction of the overall problem.

And then there's issue of I-1053. According to the initiative, closing tax exemptions counts as a tax increase, which means a two-thirds vote is needed in the Legislature (a political impossibility) or a vote of the people....



Only 5 Seattle legislative districts out of 49 districts statewide supported higher taxes on the November ballot in 2010





QUESTIONS?