



PUTTING THE STATE BUDGET ON A SUSTAINABLE TRAJECTORY

The pressures of the Great Recession have battered state budgets through falling revenue and increasing spending demands. Washington is no exception. Over the past three years the state has cut nearly \$10 billion, putting more pressure on the state's safety net and forcing all of government to do more with less.

Since January, working in an unprecedented bipartisan spirit, Governor Gregoire and the Legislature made significant strides toward putting the recession behind us and tackling some of the state's largest cost drivers. The 2011–13 budget offers some of the largest transformations seen in the past several decades. The budget includes approximately \$4.5 billion in reductions as well as major cost-cutting reforms and agency consolidations.

GETTING FAMILIES AND BUSINESSES BACK ON THEIR FEET

Governor Gregoire worked with the Legislature to take bold actions that will speed up our economic recovery and help Washington families get back to work.

CREATING JOBS

We are helping Washington families get back to work. The new transportation budget will support an estimated 30,000 jobs and the capital budget will support another 15,000 jobs.

TAX AMNESTY

In December, at the Governor's request, the Legislature unanimously enacted the state's first-ever amnesty program for businesses that owe back taxes. Under the amnesty program, the state waived penalties and interest for qualifying businesses that paid agreed-upon taxes. The program helped businesses to quickly resolve old tax issues and provided the state with sorely needed revenue. During the three-month amnesty window, nearly 8,900 businesses paid \$343 million in back taxes — \$282 million to the state and \$61 million to local governments.

WORKERS' COMPENSATION

The Governor and the Legislature negotiated the largest reform ever to the state's 100-year-old workers' compensation system. That system faced troubling trends that would lead to double-digit rate increases and seriously undermine its long-term viability. The reforms, which are projected to save the system about \$1.1 billion over the next four years, will get injured workers back on the job as quickly as possible, prevent double-digit rate increases and protect the long-term financial integrity of the system.

UNEMPLOYMENT INSURANCE

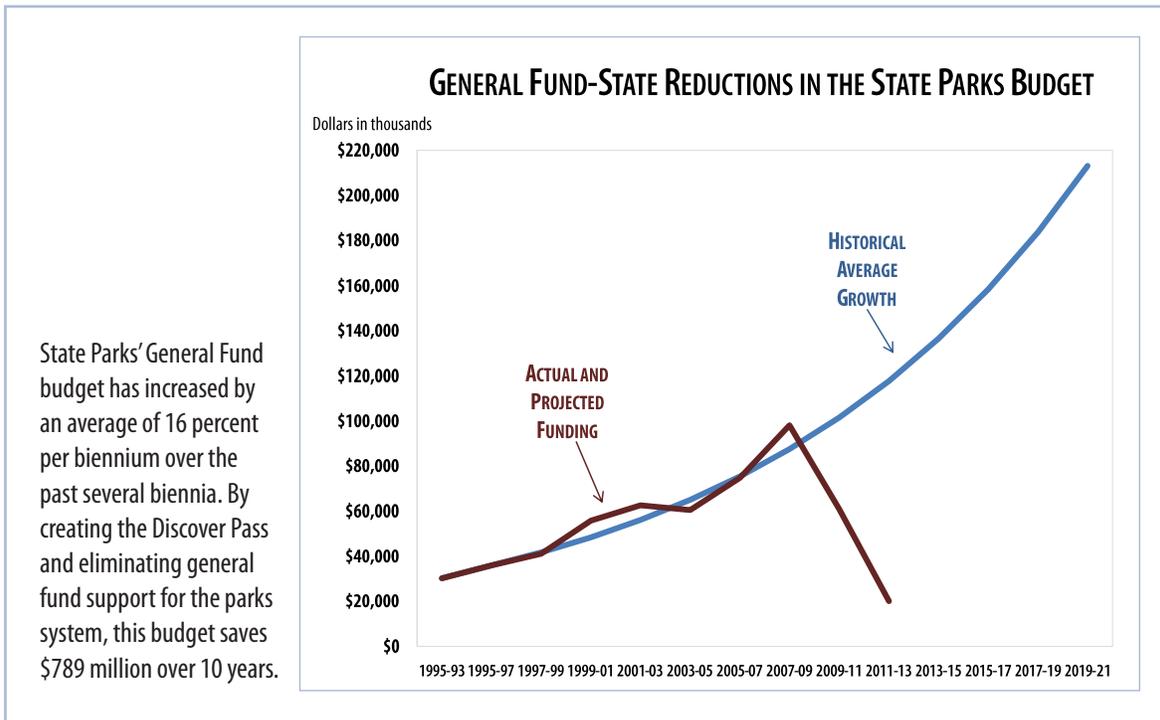
The rates that businesses pay into the unemployment insurance trust fund are based on a set formula. Because we've seen high demand for benefits in a down economy, Washington businesses, on the cusp of recovery, were facing an average 36 percent increase in unemployment insurance rates. As the Governor requested, the first piece of legislation delivered to her desk was a rate reduction to help more than 65,000 small businesses avoid the costly increase. Those savings allow businesses to begin hiring and start growing. The rate reduction saves \$300 million in the first year, with an additional \$50 million expected in later years. The Legislature also extended unemployment insurance benefits for 70,000 Washingtonians.

TRANSFORMING GOVERNMENT

This session, some of the most significant modernization and innovations in state government history will result in reduced costs, consolidated function and preservation of important services.

DISCOVER PASS

At the Governor's urging, the Legislature approved a new approach to funding state parks. Sales of the newly created Discover Pass, along with the current opt-out vehicle registration donation program, will fully replace General Fund support of the state parks system in four years. This shift in funding is projected to save \$789 million over the next 10 years and preserve our state's natural treasures.



DEPARTMENT OF ENTERPRISE SERVICES & CONSOLIDATED TECHNOLOGY SERVICES

Lawmakers approved the Governor's proposal for the creation of the Department of Enterprise Services (DES), which consolidates five agencies that provide support services to state government. The Legislature also approved creating the Consolidated Technology Services (CTS) agency to begin the consolidation of information technology services provided separately to other state agencies.

DES merges the Department of General Administration, Office of Financial Management, Department of Personnel, the State Printer and portions of the Department of Information Services into two agencies. DES will handle facilities and lease management, fleet management, purchasing and contracts, business systems applications, printing, accounting and human resources, which are central services provided to all state agencies. The Office of Financial Management is reorganized, adding to this agency the state Chief Information Officer and the state Human Resources Manager, combining in one agency the authority to set policy and oversee the management of the people, the technology, and the money of state government. CTS will have a focused mission of providing efficient and effective information technology services for state agencies.

During the next biennium, this reorganization of state government is expected to save \$18.8 million and employ 95 fewer employees. Future savings will be realized through possible contracting out of certain services and continued analysis to reduce or eliminate redundant activities.

LICENSING ADULT FAMILY HOMES

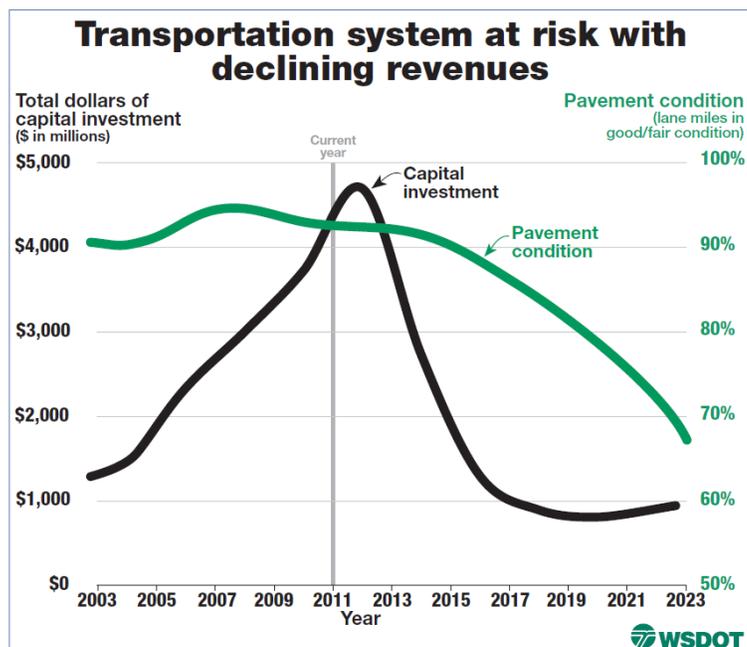
The Governor proposed adopting a user-pay approach to help cover the cost of licensing and regulating the adult family home industry. Today, fees cover only 6 percent of those costs — the rest is subsidized by the state.

While the Governor proposed an almost entirely fee-supported system, the budget includes a fee structure that recovers 39 percent of the licensing and oversight costs in fiscal year 2012 and 60 percent in fiscal year 2013. Taxpayers will save \$2.9 million in the biennium, and \$3.6 million per biennium thereafter.

FERRY REFORM/TRANSPORTATION FUNDING

Governor Gregoire signed a transportation budget that will invest \$5.6 billion in more than 800 projects across the state. This budget reflects \$20 million in savings from recently negotiated contracts with ferry employees, and \$4.1 million in savings in ferry system administrative costs.

Even with these reforms and savings, critical transportation needs remain unfunded as voter-approved transportation revenue packages end. The Governor has formed a Transportation Advisory Group to develop a 10-year strategy for funding the state’s transportation system. The group’s recommendations will be ready for presentation to the Legislature and the public in 2012.



ACCELERATING THE LEARNING CURVE

Governor Gregoire proposed landmark reforms aimed at building a world-class, student-centered education system.

EARLY LEARNING

We have increased the number of children who can benefit from the state's preschool program for at-risk children. This early investment gives young children the skills they need to succeed in school and life. A new early learning assessment of developing skills will help early learning and kindergarten teachers to identify what help children need when they come to school. Through a public-private partnership, we are expanding early learning support for our youngest children (up to 3 years old) through more home visitations.

LAUNCH YEAR

The Legislature approved the governor's "Launch Year" legislation, which addresses gaps in one of the key transition points of a student's journey. The legislation provides students certainty that the advanced coursework they take in high school will count toward the achievement of a technical certificate or academic degree.

HIGHER EDUCATION FUNDING TASK FORCE

Lawmakers also took action on several recommendations from the Higher Education Funding Task Force, which the Governor appointed last year. The state will renew its commitment to higher education by providing for sustainable, long-term funding that links tuition and state support and gives higher education governing boards the ability to manage their institutions' budgets. Legislation also strengthens accountability and performance measures. And it creates an endowment to help low- and middle-income Washington students earn a bachelor's degree.

REFORMING HEALTH CARE TO SAVE MONEY AND DRIVE QUALITY

Health care costs are one of the biggest drivers for the state budget as well as for businesses and families across the state. Governor Gregoire has set a cost target of holding the rate of health care per capita costs below 4 percent.

HEALTH INSURANCE EXCHANGE

With legislation requested by Governor Gregoire, Washington becomes one of the first states in the nation to implement a health insurance exchange in advance of the 2014 federal deadline. The Affordable Care Act requires a health insurance exchange to be established in each state, either by the federal government or the state. Exchanges are consumer-friendly marketplaces where individuals and small employers can shop for insurance coverage. Low-income residents will also be able to access subsidized coverage through the exchange.

HEALTH CARE AUTHORITY

Lawmakers approved the Governor's proposal to merge the state's two largest purchasers of health care — the Medicaid program and the Health Care Authority. Together, these agencies purchase health care for more than 1.6 million Washington residents. Their new leverage will align other state health care purchasing, as well as work with other health care payers and providers, to reform the health care system to benefit all health care consumers.

A key theme in the Governor’s approach to high-quality care is evidence-based medicine — focusing on health care that is proven to work and eliminating the 30 percent of health care costs that studies show do not contribute to meaningful care. Washington was the first to establish a Health Technologies Assessment program, which now contributes more than \$31 million in annual cost avoidance.

CUTTING LONG-TERM COST DRIVERS

Tackling the debt limit and pension costs will help assure our state’s high bond rating and spur confidence and investment in Washington.

DEBT REFORM

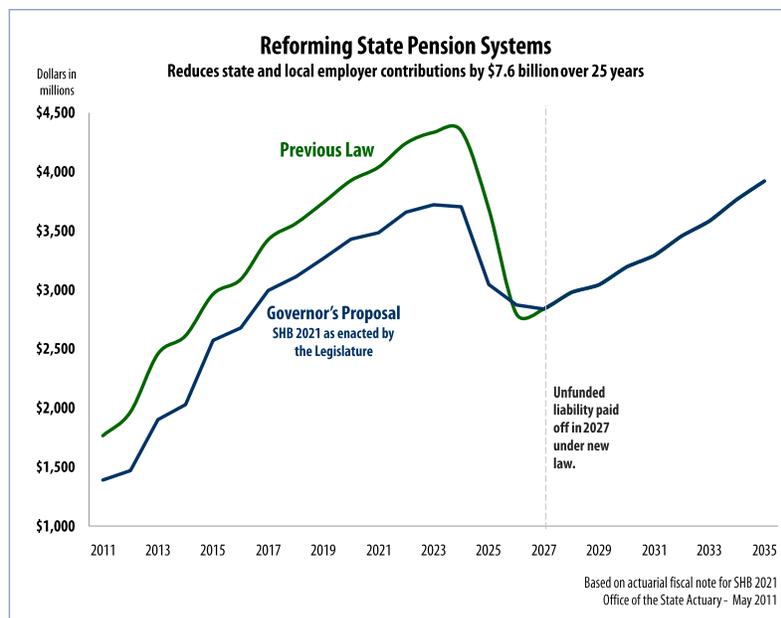
The state’s debt burden has grown steadily over the past two decades. During the 1989–91 biennium, the state’s debt payments for general obligation bonds totaled less than \$500 million — about 3.7 percent of General Fund spending. During the current biennium, our general obligation debt payments will total nearly \$1.8 billion — about 6 percent of General Fund spending.

Under a bipartisan agreement that Governor Gregoire helped broker, starting in fiscal year 2016, the State Finance Committee will gradually lower the state debt limit from 8.75 percent to 7.75 percent by fiscal year 2022. The committee may adjust that working debt limit due to extraordinary economic conditions, and is authorized to delay or reduce bond issuance to not exceed the recommended working debt limit.

The agreement also sets up a commission to examine the state’s use of debt and make recommendations on debt policy, debt limitations and a constitutional change. The commission’s report is due later this year.

PENSIONS

Governor Gregoire proposed eliminating the automatic annual benefit increases to older pension plans, which have been closed to new members since 1977. While the Legislature approved the automatic increases in 1995 to protect against inflation, the increase itself was not linked to inflation. Without action, underfunding would cause employer pension contribution rates to double in the 2011–13 biennium and remain high for the next 20 years. This created an unfunded liability of \$7 billion.



The Legislature approved the Governor’s proposal to end future automatic benefit increases, which would reduce the unfunded liability in the closed plans by more than 50 percent.

The Legislature, as was the case prior to 1995, will still be able to award annual benefit increases at its discretion. The reforms save taxpayers \$344 million over the next two years and \$7.6 billion over the next 25 years.

SHARING IN THE SACRIFICE

Throughout budget-writing deliberations, Governor Gregoire emphasized the importance of “shared sacrifice.” The resulting 2011–13 budget adheres to that principle — virtually every state-funded program, employee, service provider or client is affected.

State employees, whose wages have been frozen since 2008, agreed to take a 3 percent pay cut and contribute a greater portion to their health care costs. These reductions were achieved through collective bargaining, working with employees. Classified school employees and school administrators will also be taking a 3 percent pay cut, while teachers will take slightly smaller 1.9 percent pay cuts in recognition of wages lost through fewer learning improvement days. These pay cuts save the state \$356 million.

There are many other examples of shared sacrifice. Higher education students face higher tuition costs. Visitors to state parks will be required to pay a fee to cover the cost of maintaining our park system. And given the deep cuts to social services, all Washingtonians will need to help fill the holes left in our safety net.

PROTECTING OUR ENVIRONMENT

Governor Gregoire worked with labor, environmentalists, business and other stakeholders to address some of the state’s most pressing environmental issues.

TRANSALTA

Taking a significant step to reduce harmful green-house gas emissions, Governor Gregoire signed legislation to phase out coal-fired energy production at the TransAlta power plant in Centralia. The legislation, which follows four years of negotiations, solidifies into law a collaborative agreement to close TransAlta’s two coal boilers — the first in 2020 and the second in 2025. The agreement provides a path to cleaner power while allowing the time necessary to provide stability to the electrical grid and to the community in Lewis County.