

**Testimony of Governor Chris Gregoire**  
**2010 Supplemental Budget**  
**Senate Ways & Means Committee, Jan. 12, 2010**  
**House Ways & Means Committee, Jan. 13, 2010**

Good afternoon, Chair [Prentice (Senate)/Linville (House)] and honorable committee members. Thank you for the invitation to present my 2010 supplemental operating budget.

The national economic picture continues to be bleak. According to the Center on Budget and Policy Priorities last month, an increasing number of states are struggling to keep their 2010 budgets in balance as the mid-point of the fiscal year approaches. Because revenues have fallen short of projections, mid-year shortfalls have opened up in 39 states.

These new shortfalls are in addition to the gaps states closed when adopting their fiscal year 2010 budgets last year. Counting both initial and mid-year shortfalls, 48 states have addressed or still face such shortfalls in their budgets for fiscal year 2010, totaling \$193 billion or 28 percent of state budgets — the largest gaps on record.

These numbers suggest that when all is said and done, states will have dealt with a total budget shortfall of at least \$350 billion for 2010 and 2011. (This includes both gaps already closed and gaps projected for the future.)

At home, we, too, face challenges. Washington state has experienced a year unprecedented since the Great Depression. Last year, we worked together to plug a \$9 billion shortfall through a combination of cuts to services, one-time funds provided through the American Recovery and Reinvestment Act, and fund transfers.

Despite those efforts, and earlier steps to curtail spending on state employee hiring, travel and other expenses, our deficit has grown. Our budget is still in a precarious position for two reasons:

- Consumers are still spending less, and until confidence is restored — especially in the jobs market — we will continue to see soft revenue receipts, and
- Costs are rising in such areas as health care, as more people are seeking services, perhaps in fear that they will lose their jobs and hence their coverage; and in public education, with more students showing up in classrooms as families no longer can afford private options.

Unlike private business, when customers show up at our door, we are obligated to serve them.

What makes our work even more challenging is that 71 percent of our budget is protected — that is, subject to restrictions by state constitutional or federal requirements. This leaves less than 30 percent available for further reductions, or slightly more than \$7.3 billion, for the rest of the biennium.

To build my budget, I worked with my staff and with selected state agency directors, and we went through the budget with a fine-tooth comb. Line by line, program by program, I asked the questions “Who does this serve?” and “What happens if this funding goes away?”

I have to tell you, that process was gut-wrenching.

High-risk mothers losing their prenatal care. Seniors losing services to help keep them in their homes. The terminally ill losing hospice care.

With a new \$2.6 billion gap, and on top of the \$3.5 billion in reductions we made last year to cover a three-year shortfall, we weren’t left with many options to further cut. My Book 1 was not a shock-and-awe tactic. This was what was left in the budget for eliminating or suspending. As I’ve said before, we had only 29 percent of the budget to cut, of which social services and corrections are the major components.

When I released my Book 1 budget last month, I made it clear that I did what the law required me to do — to propose a budget based on current revenues. I also made it clear that budget did not reflect my values nor the values that I believe are held by a majority of Washingtonians.

So I have developed a second, or Book 2 budget. This spending plan would restore items that are critical to the safe, productive and humane operation of our state. These include:

- Levy equalization, which provides extra support to districts with a lower than average property tax base (\$165 million);
- State Basic Health Plan, which provides health care coverage to nearly 65,000 individuals (\$160.5 million);
- State Need Grant program, where grant amounts for qualified students are funded and eligibility is restored for 12,300 college students (\$146.4 million);
- A re-designed General Assistance Unemployable program, which provides grant support for an average of 23,000 adults and medical services to nearly 7,200 adults (\$84.5 million);
- All-day kindergarten, gifted programs and Reading Corps (\$42 million); and
- Subsidized child care for TANF — or Temporary Assistance to Needy Families — recipients and low-income families (\$39.5 million).

My Book 2 budget restores a number of other items, as well. They are explained on the handout you have been provided. In total, Book 2 restores services worth \$779 million.

To be clear, my Book 2 budget does not avoid many harmful reductions in programs and even elimination of some vital services. It contains more cuts than new revenue to address our \$2.6 billion problem. Some of the items I do not restore are:

- a long list of human services cuts (\$432.9 million )
- student achievement program — or Initiative 728 — which provides for smaller class sizes (\$78.5 million);
- kindergarten through 4<sup>th</sup> grade enhancement, a statewide program that reduces class size in the early grades (\$110.6 million);

- funding for both the two-year and the four-year colleges and universities (\$89.5 million);
- Work-Study program and several smaller financial aid programs (\$34.7 million); and
- general government and natural resources reductions (\$65.8 million)

Today I also want to highlight some steps I am proposing to improve our revenue system. These are changes that represent good tax policy, and would be appropriate no matter what our revenue collections looked like.

**First, we need to address several court cases** that have expanded the scope of tax preferences beyond anyone's original intent. The estimated value of these three court cases is \$16.4 million this biennium and \$39.2 million for the 2011–13 biennium.

**Second, we should eliminate tax policies that unfairly benefit out-of-state businesses.** During these tough times, we have an even greater obligation to ensure that our state businesses are not at a disadvantage. Businesses that engage in our markets and compete directly with our in-state businesses should pay their fair share of tax. I will be proposing legislation that will level the playing field so that out-of-state businesses are not succeeding to the detriment of Washington businesses. The estimated value this biennium is \$73 million and \$375 million in 2011–13.

**And third, we should close some ineffective tax exemptions.** I have worked with my staff to review the tax system to look for loopholes and identify tax preferences that are no longer effective. I plan to revise some tax preferences, allow some tax preferences to expire as scheduled, and renew selected others that are working. The estimated value this biennium is \$15.7 million and \$63.7 million in 2011–13.

The total revenue package represents \$105.2 million for the current biennium and \$477.6 million for the 2011–13 biennium.

Also in terms of revenue, I expect that Washington state will receive additional resources through the Federal Medicaid Assistance Percentage (FMAP), State Fiscal Stabilization Funds and possibly waivers for Basic Health Plan provisions. However, we do not yet know what these amounts will be.

Let me assure you that I am looking at revenue enhancements that will not hamstring our families and businesses as they get back on their feet. I am mindful that our people and especially our small businesses are still reeling from the recession, and I do not want to propose actions that will jeopardize their prospects for recovery.

I look forward to continuing this dialogue with you and our many stakeholders as we work together to identify fair and strategic solutions to our budget shortfall.

Last year, I told you that as difficult as writing the budget was for me — especially after the November revenue forecast — your job was even harder as the effects of the recession grew. I am hopeful that we have seen the worst of it, with housing sales picking up and unemployment at least leveling off. But we are not out of the woods yet. We have much work to do together on

behalf of the people of Washington, and I look forward to working hard with you to find solutions to strengthen our economy and position us well to take full advantage of the recovery.

I thank you for your time this afternoon. I am available to respond to a few questions and Victor is able to take over for me.

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