

# State running dry

Economic pressures erode the capacity to fund public programs

By **KATHIE DURBIN**  
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When the Legislature convenes in Olympia on Monday, its agenda will be short on vision.

Never mind green jobs or health care reform. This session is all about how to balance the state's budget in the worst economic downturn since the Great Depression.

Last week's flooding, which cut off large swaths of Washington from the state capital and froze interstate commerce for days, provided a dire lead-up to what promises to be a grim 105-day session.

With a projected \$6 billion budget deficit looming, it was a reminder that unexpected developments could throw a monkey wrench into lawmakers' efforts to bridge the growing gap between revenue and the state's progressive agenda.

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MARSHA MATTA/  
Columbian photo illustration

Preview:

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Besides the weather, legislators will be grappling with other unknowns.

What kind of federal stimulus will Congress approve? Will Washington projects qualify? Will help come in time to bail out the state's troubled economy in this budget cycle?

Will consumers start spending again and boost the sales tax and real estate tax collections the state depends on to pay its bills?

Does it make sense to ask beleaguered taxpayers to approve new taxes in lieu of eliminating services for the most vulnerable?

Gov. Chris Gregoire's 2009-11 operating budget, unveiled in December, proposes to spend \$33.5 billion in the next two-year budget cycle. That's \$3.5 billion less than would be needed to carry forward current programs. It accomplishes the cuts mainly by slashing funding for health care, human services and higher education.

The current two-year budget authorizes \$33.6 billion in spending; a soft hiring freeze and other steps ordered by the governor already have whittled that by at least \$600 million.

Keeping spending essentially flat means the state must absorb increased costs for wages, health care and fuel as well as the cost of increased school enrollment and social services caseloads.

To balance the budget, the governor also proposes tapping the recently created Rainy Day Reserve for \$600 million and counts on \$1 billion from a federal stimulus package to help with Medicaid and welfare payments.

Gregoire, a Democrat, won praise from Republican leaders for sticking to her pledge not to raise taxes. But her own party may not be willing to stomach the cuts her budget proposes.

And the projected deficit could grow to \$7 billion by mid-March, said Sen. Joe Zarelli, R-Ridgefield, on Thursday after reviewing the latest revenue figures.

Democratic leaders haven't ruled out a temporary tax increase to see the state through lean times.

Most aren't ready to talk about that yet. Sen. Craig Pridemore is.

"I would definitely support a revenue package as an alternative" to the governor's budget, said Pridemore, a member and former vice chairman of the budget-writing Senate Ways and Means Committee.

The Vancouver Democrat, who easily won a second term in November, said he could support sending voters a measure to temporarily increase the state sales tax and business and occupation tax. The tax hikes would "sunset," or expire, when state revenues rebound.

A special session might be necessary after adjournment of the regular session in mid-April if lawmakers opt for new taxes instead of deep cuts, Pridemore said.

"If we do what I've been calling 'slash-and-dash' and let the chips fall where they may, we could be done in 105 days," he said. "Once we start talking about a revenue package, my

guess is that we will be here until June 30."

Rep. Jim Moeller, D-Vancouver, agrees that it's too soon to rule out new taxes. "I don't think the governing party would say everything is off the table in terms of revenue if we're talking \$7 billion," he said. "None of us are familiar with that kind of shortfall."

Any tax increase would have to go to voters, because Democrats couldn't muster, in either chamber, the required two-thirds vote to pass a tax increase outright.

Zarelli favors starting with immediate cuts to ongoing programs authorized in the current budget. As for new taxes, he said, the sooner the Democratic leadership takes that option off the table, the sooner the Legislature can get down to the hard work ahead.

Getting voters to approve new taxes this year is neither politically feasible nor logistically possible, Zarelli said.

Voters who "don't have two nickels to rub together" won't vote to tax themselves more, he said. Besides, he added, "You can't pass a budget that depends on revenue the voters would have to approve" after the Legislature adjourns.

Initiative king Tim Eyman, who filed his latest tax limitation measure with the Secretary of State last week, predicted that asking voters to approve new taxes in the current economic climate would backfire.

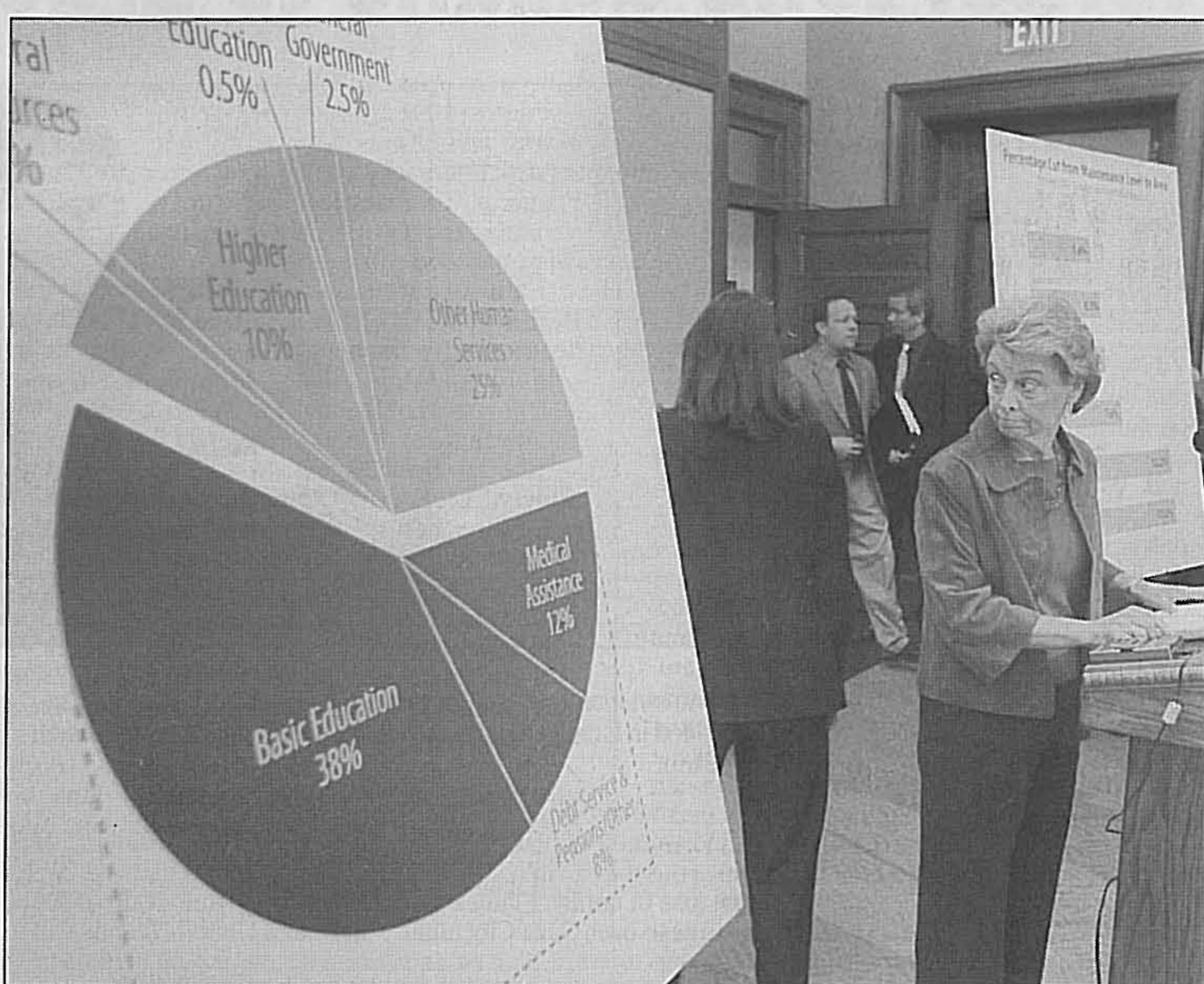
"All that does is make voters angry and make them want to approve our initiative," he said. "They'll throw more citizens into our arms."

Common problem

Washington is not alone in facing steep revenue declines. At least 44 states confront budget shortfalls as the nation's economic meltdown continues. Not all are ruling out new taxes.

Oregon Gov. Ted Kulongoski proposes to deal with a \$1.2 billion shortfall by increasing the state's gas tax, vehicle registration fees and corporate minimum tax. He's also proposing to invest more than \$2 billion in capital construction projects to create thousands of new jobs.

California faces a whopping \$42 billion deficit by the middle of next year and may be unable to pay its bills this spring. Gov. Arnold Schwarzenegger has proposed shortening the school year, furloughing state employees and temporarily increasing the sales tax to help bridge the gap.



Washington Gov. Chris Gregoire stands near a pie chart showing areas of the state budget receiving spending cuts (light shading) and areas of the state budget considered off limits to cuts as she begins a press conference presenting her budget on Dec. 18.

Washington legislators knew coming out of the 2007 Legislature that they would be in deficit territory by 2011. But the picture grew darker with November's revenue forecast, which predicted that the deficit would grow from \$3.2 billion to \$5.1 billion. Since November, sales and real estate taxes have remained anemic, and unemployment rolls have swelled.

"Consumer confidence has plummeted to its lowest value ever recorded," Arun Raha, the state's chief revenue forecaster, said in November. Most economists don't expect a rebound until 2010.

Possible cuts

Lawmakers face tough decisions about whether to cut programs that affect ordinary people. Many Clark County residents will share in the pain of those cuts.

The governor proposes slashing 42 percent from the budget for the Washington Basic Health Program, which provides health insurance for the working poor on a sliding-scale fee.

Moeller, a health care advocate, said that would be a hard vote for him. Instead, he said, lawmakers need to think strategically. For example, they could

divert money from the state's universal vaccine program to support families struggling to afford health care coverage, and let middle-class families pay for their children's vaccines.

Teachers and public employees would go without cost-of-living raises under the governor's budget. College students might face higher tuition costs. Low-income drug addicts would be denied state-subsidized treatment. Developmentally disabled adults would lose day care programs that allow them stay in their homes.

One of the most controversial proposals would eliminate the General Assistance-Unemployable program, which serves 21,000 physically and mentally incapacitated adults who are unemployable and otherwise ineligible for assistance. In Clark County alone, 520 people are served by the program, which provides basic shelter, food and medical care.

Craig Lyons, executive director of the Clark County Coalition for the Homeless, said elimination of the program would mean those who are not already homeless could become homeless if they have to choose between health care and a place to sleep.

"When you have this level of budget cuts, you have to

prioritize," he said. "What are our basic needs that need to be maintained versus what we can afford to cut?"

Advocates for these and other vulnerable populations will show up in Olympia to make sure lawmakers see the human faces of those who stand to be hurt by their decisions.

"All of the cuts are going to be extremely difficult to make," Pridemore said. "Our priority has been and always will be K-12 education. If you try to hold it harmless, other things get cut. What should she have cut instead? There isn't anything else she could have cut instead."

Schools not immune

The governor's budget limits cuts to K-12 education, by law the state's paramount responsibility. Still, every Clark County school district except Ridgefield will feel the pinch if levy equalization funds are cut by one-third over two years as the budget proposes.

Mike Merlino, the Evergreen Public Schools' chief financial officer, said the governor's budget would squeeze the district's bottom line in three ways: through cuts in levy equalization money; cuts in funding for Initiative 728, which among

other things pays for limiting class size; and increases in state health insurance contributions that the district would have to match for employees not covered by the state program.

Combined with other budget cuts, Evergreen will likely enter the next school year with \$15 million less — about a 6 percent reduction in its operating budget. But things could get worse, Merlino said.

"We don't know what will happen when the House and Senate adopt their budgets," he said. "And if the state shortfall gets bigger and they have to cut further, what's going to happen to K-12 at that point?"

Higher education would take a steeper hit.

The governor's budget would authorize tuition increase of up to \$450 annually at research institutions, \$310 at regional colleges and \$125 at community and technical colleges to help offset budget cuts.

Washington State University and its regional campuses, including WSU Vancouver, would face a 13 percent budget cut. The university's board of regents will decide where to make the cuts, said WSU Vancouver Chancellor Hal Dengerink.

"I would suspect the regents won't take action until April or May, but we will have the broad outlines within the next two months," Dengerink said. The cuts will be selective, not across-the-board, he said.

"We aren't just going to tell everyone that they have to cut their budget by certain percentages. I don't know yet if programs will be eliminated. There will be some things we want to do that we won't be able to do," including a new doctoral program in nursing that was scheduled to begin this fall, he said.

Clark College already has cut its budget by 4.3 percent — about \$400,000 — under a "soft" hiring freeze the governor ordered last fall, said college President Bob Knight. The college also eliminated most travel and personal service contracts.

The college would face an additional 6 percent cut in 2009-11 under the governor's budget. The state's community college presidents are developing a plan to address those cuts collectively, Knight said. They're holding virtual meetings via high-tech teleconferencing to save travel and lodging costs.

Gregoire proposed smaller cuts for community colleges because of the critical role they play in job retraining. For that reason, Knight said, he doesn't foresee program cuts.

"We're cautiously optimistic that this will do it for us," Knight said.

The governor has not proposed eliminating any of the tax breaks that businesses enjoy. But lawmakers could target some of those to avoid deeper cuts.

Mike Bomar of the Building Industry Association of Clark County said his industry will be playing defense in the upcoming session as it struggles to recover from a severe construction downturn.

"The focus for us is going to be to avoid making things worse," he said. "The market is really sensitive. Any additional taxes or fees on new development will dramatically hurt our chances."

Several county projects in hands of Legislature

Governor has proposed delays

The 2009 Legislature will decide the fate of several Clark County projects.

Gov. Chris Gregoire's budget calls for delaying several state highway projects in the county and statewide to help deal with a \$1 billion transportation funding shortfall over the next six years. Under the governor's budget:

- A \$57 million safety im-

provement project that would lengthen four miles of Highway 14 through Camas and Washougal, already modified to save money, would be delayed two years, to 2012.

■ The first phase of a new \$40 million Ridgefield Junction interchange at Interstate 5, of which \$13 million was to be paid for with gas tax revenue, would be delayed until 2011. Bart Gernhart, deputy regional administrator of the Washington Department of Transportation, said the project is de-

signed and "shovel ready" and might be eligible for federal stimulus funding.

■ The second phase of the Interstate 5 to Battle Ground interchange project would be divided into two phases. Intersection improvements along Highway 502, including turn signals and turning lanes, would be built in 2012. Widening of the five-mile section of highway between I-5 and Battle Ground from two lanes to four lanes would be postponed until 2018.

The governor's budget includes \$59.27 million for capital projects in Clark County, including:

- \$38.676 million to build the Applied Technology and Classroom Building at Washington State University Vancouver
- \$3.1 million for infrastructure improvement at Vancouver's waterfront redevelopment project on the site of the former Boise Cascade mill. Sen. Craig Pridemore said he will work to win an additional \$3 million.

— Kathie Durbin

Clark County's legislative delegation

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