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Dear Governor Gregoire:

As you know, state revenues are projected to increase by some $2 billion, or 7.5%, in the current 2011–13 budget compared to 2009–11, yet the state economist's latest report shows future revenue is not expected to rise as much as lawmakers thought it would when they enacted the budget in May. As a result, tax revenue will not increase fast enough to provide as much money as the legislature planned to spend over the next two years.

You have called lawmakers to meet in special session beginning November 28 so they can reduce future increases in state spending by some $1.4 billion to match the slower reported rate of revenue growth.

In a speech on September 21 at the Association of Washington Business conference at Suncadia resort, you said "send me your ideas" for how to balance the state budget.

Washington Policy Center is an independent, non-profit research and educational organization. Our policy analysts develop commonsense, constructive ideas for improving policies that serve the public interest. Below are seven ideas for balancing the budget. If adopted, they would put our state on the path to long-term financial stability so lawmakers do not feel they have to increase the financial burden they place on citizens by raising tax rates.

1. **Provide the Governor discretionary authority to cut spending.** Enhanced budget cutting authority for the Governor would provide budget reduction tools other than the current requirement that that Governor order across-the-board cuts. This would allow the Governor to set priorities while addressing any accountability or transparency concerns.0

2. **Adopt performance-based Priorities of Government budgeting to control the rate of spending growth.** The Priorities of Government standard has proved successful in the past. The legislature and state agencies should adopt it as a permanent part of writing the budget by requiring all spending proposals use this sensible review process, so that the most essential public services are funded first. Priorities of Government brings discipline to public spending, helps limit the tax burden government officials place on citizens and directs available government money to where it is most needed.

3. **Restore the legislature's ability to amend collective bargaining agreements.** The rise in salary and benefit expenses is a major cost driver in state government. Yet collective bargaining agreements are negotiated in secret and sent to the legislature for a single up-or-down vote; no amendments are permitted. The legislature should reassert its authority over increases in personnel spending to provide greater accountability and transparency, and to offer amendments to control costs while adequately rewarding the excellent work of state employees.

4. **Direct state managers to use more competitive contracting.** Performance-based contracting saves money, fosters private-sector jobs and improves the quality of service to the public. Many state programs

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would benefit from competitive contracting out, but internal rules and regulatory barriers prevent managers from taking advantage of competition to lower costs and improve service. The experience of other states shows typical cost savings of 15–25% when agency managers use open competition to perform government work.

5. **Repeal unaffordable programs instead of suspending them.** By suspending rather than repealing programs, lawmakers are providing a false sense of hope to program supporters while putting undue pressure on future budget writers. The teacher pay and class size initiatives are examples of state programs that exist on paper, but have not been funded for years. Keeping these programs on the books artificially inflates estimates of future spending. Repealing them would more accurately reflect the true level of state spending and would increase the accuracy and reliability of budget planning.

6. **Bring state employee health care premium contributions in line with those of the private sector.** State workers pay for a far smaller share of their health benefits than is common in the private sector, meaning private sector workers are funding more of their own benefits while paying more, through taxes, for the health benefits of state workers. To save money and encourage state workers to be better stewards of health care dollars, the state should increase the share of health insurance premiums paid by its employees. Lawmakers should actively promote the choice of Health Savings Accounts, which you signed into law this year, so state workers can have direct control over their own health care benefits.

7. **Ask state lawmakers to set aside a 5% reserve when adopting the next biennial budget.** The previous ideas will help state lawmakers deal with the immediate slowing in the rise of state revenue. This proposal would help prevent such a crisis from happening again in the future. To avoid more special sessions, lawmakers should adopt structural requirements that set a financial standard that at least 5% (not counting a constitutional rainy-day account) be reserved when enacting the budget at the start of the next two-year spending cycle. Previous reserves were around 1%, clearly not enough to prevent painful budget adjustments when the actual rate of revenue increase failed to keep pace with the planned rate of spending increase.

We hope you find these ideas helpful. Many are based on the work of our lead budget analyst, Jason Mercier, who served on your Budget Transformation Committee. More information and research findings about our proposals are available in *The Policy Guide for Washington State*, available on our website at washingtonpolicy.org.

Washington Policy Center looks forward to working with you to streamline state government and bring about the spending reforms necessary to improve budget sustainability and performance for taxpayers. Our organization stands ready to help you and other state leaders bring about practical and permanent budget reform.

Sincerely,

Greg Porter
Chairman of the Board

Daniel Mead Smith
President