

May 2010

Review of 2010 Legislative Session

Washington legislative leaders used a combination of program reductions, new state tax revenue, federal revenue, transfers to the General Fund from other accounts, and reserves to balance the state's 2010 supplemental budget this spring. Unable to reach agreement by March 11, the end of the regular session, the Legislature finally passed the budget, taxes and associated legislation on April 12, one day short of the end of a 30-day special session.

Biennial Budget Background

The original biennial budget passed in April 2009 assumed a \$9 billion shortfall. The shortfall was addressed through state budget cuts and efficiencies amounting to \$3.2 billion; additional federal revenue of \$3 billion; compensation savings of \$800 million; the use of \$800 million in capital budget funds; the transfer of \$500 million from the rainy day fund; and numerous other fund shifts and cost savings.

Examples of the measures used to balance the original 2009 biennial budget:

- \$557 million cut from public higher education maintenance funding level
- \$600 million reduced from I-728-related allocations to school districts
- \$386 million reduced through administrative or agency-wide reductions and efficiencies
- \$194 million transferred from the Education Construction Account to the General Fund
- \$51 million transferred out of the Education Savings Account
- \$26 million transferred out of the Life Sciences Discovery Fund
- \$449 million in reduced employee compensation costs by modifying actuarial assumptions for retirement contributions
- \$388 million reduced by suspending I-732 (teacher, some college employee COLAs)

2010 Supplemental Budget

In the second year of the biennium, an additional budget shortfall of \$2.8 billion is forecast. The Governor and the Legislature were determined not to take an 'all cuts' approach to this projected shortfall, which is expected to result from a further decline in state tax revenue of \$1.8 billion, increased caseload and mandatory costs of \$652 million (Medicaid, K-12 enrollments), and the failure to enact legislation reducing levy equalization funding.

The Legislature met the shortfall in the following manner:

- \$840 million in program reductions
- \$757 million in net new revenue
- \$633 million in federal revenue
- \$328 million in net transfers to the general fund from various other accounts
- \$256 million is used from reserves (the rainy day fund)

Higher Education Cuts in Supplemental Budget

Higher education institutions were cut a total of \$73 million (6.3 percent on average). The Community and Technical Colleges initially were cut 6.5 percent, but 3 percent of that was restored through an increase in funding for worker training programs.

Financial Aid programs were cut in the following manner:

- State Work Study reduced \$7.4 million, or about 30 percent (with a further reduction of \$250,000 targeted at students considering careers in math and science instruction).
- The Health Professional Loan Repayment and Scholarship program cut nearly \$4 million.
- Future Teachers Conditional Scholarship program cut \$1 million.
- State-funded GEAR UP projects cut \$500,000.
- Washington Scholars cut \$562,000 (equals a two-thirds reduction in the number served).
- Washington Award for Vocational Excellence (WAVE) funding cut \$308,000 – reducing the number of new recipients by two-thirds.
- Funding for Pacific Northwest University of Health Sciences to provide training and education for osteopathic physicians serving rural and underserved regions of the state is cut by half (\$250,000).
- WICHE Professional Student Exchange program funding cut \$210,000. No new scholarships for optometry and osteopathy students.
- Leadership 1000 funds are cut in half, to \$200,000.
- Contributions will not be made to the Foster Care Endowed Scholarship endowment in the second year of the biennium (\$75,000).
- Funding for Childcare Matching Grants eliminated (\$75,000).

Some Positives for Higher Education

No reductions were made in State Need Grant program. Funding was boosted to keep pace with tuition increases, and current eligibility thresholds were kept at 70 percent of median family income. However, rising student demand means fewer eligible students may be served.

Increased funding of \$65 million was appropriated to cover the higher cost of health insurance benefits for all state employees. The HECB's share of this appropriation is \$72,000. It is hoped this will eliminate or reduce the impact of higher out-of-pocket health care costs for employees.

A limited number of targeted initiatives were funded:

- A Bachelor of Science in Nursing degree was approved for the University Center at Everett Community College. Funding of \$158,000 was provided to enroll up to 50 students. The degree will be offered in partnership with the University of Washington Bothell.
- More than \$17.5 million was provided for 3,784 additional worker retraining enrollment slots at the community and technical colleges.
- Opportunity Grant funding was increased \$1 million.
- The State Board for Community and Technical Colleges was provided \$1.75 million to support industry-identified training in the aerospace sector at Paine Field in Everett.
- \$250,000 was authorized for joint planning to increase the number of residency positions and programs in Eastern Washington and Spokane as part of the five-state partnership involving the UW School of Medicine and WSU.
- A few additional targeted research projects at the UW and WSU also were funded.

HECB Funding Reductions

The HECB experienced several additional funding reductions in the supplemental budget.

- General administrative funding for the agency was cut \$354,000 (4 percent from the level provided in the original 2009-11 biennial budget).
- Additionally, agency spending reductions on employee compensation of \$255,000 were ordered under ESSB 6503, the bill requiring agencies to reduce direct compensation expenditures either by observing 10 unpaid employee furlough days or through an alternative compensation reduction plan.
- Finally, \$143,000 was cut based on the assumption that OFM's Small Agency Client Services Unit (SACS) will conduct work now done by agency budget, accounting, and payroll personnel. OFM does not intend to implement this plan this biennium.

Adopted Legislation

Agency Request – Retirement Plan

The Legislature passed SHB 1545, offered by request of the Select Committee on Pension Policy. It was signed into law by the Governor March 12, and takes effect June 10. The law allows the HECB to offer a retirement benefit plan under the TIAA/CREF program to selected employees. The bill exempts from participation HECB employees who have not previously participated in a higher education retirement system and those who have previously received retirement benefits from a Washington retirement system.

Agency Request – System Design Plan

The Legislature passed SSB 6355, implementing **System Design Plan** recommendations, and it was signed into law by the Governor on March 29, 2010. The law authorizes the HECB to review, approve, and recommend proposals for major expansion of higher education facilities or programs made either by institutions or local authorities.

A **major expansion** is defined as one requiring a significant capital investment that involves either 1) the creation of a new institution, campus, branch, or center; or 2) mission changes at an existing campus, branch, or center. A **mission change** is defined as a change in the type of degree/s awarded or a change in institutional type not currently authorized by law.

The law also:

- Removes the pilot status of applied baccalaureate degree programs offered by community and technical colleges. The SBCTC and the HECB are given the authority to review applications from community and technical colleges seeking to offer applied baccalaureate degrees and select colleges according to specified criteria.
- Removes from current law a prohibition on the conversion of community colleges into four-year liberal arts colleges.
- Allows the Fund for Innovation and Quality in Higher Education to be used to for small-scale competitive grants to promote increased educational attainment, enhance efficiency, serve underrepresented populations, expand online coursework, develop technology, and improve productivity through accelerated programs and alternative scheduling.
- Revises the HECB's role in the capital budget process by authorizing the HECB to create a single, prioritized list of capital projects.

Financial Aid – Lottery Contributions

E2SSB 6409 establishes a new Opportunity Pathways account to house Lottery money that can be used to support financial aid programs and other initiatives such as the Early Childhood Education and Assistance program (ECEAP), and the STARS Researcher program. Financial aid programs eligible to receive funding from the new Opportunity Pathways account include the State Need Grant program, College Bound Scholarship, State Work Study, Washington Scholars, and the WAVE (vocational excellence) program.

It is important to note the bill does not place full funding responsibility for financial aid programs in the hands of the Lottery. Financial aid appropriations will now come from three sources: the state General Fund, the Lottery, and the Education Legacy Trust Account, which includes cigarette and estate taxes earmarked for education.

The 2010-11 supplemental budget transfers \$73.5 million in Lottery money from the General Fund to the new Opportunity Pathways Account and reduces General Fund support for financial aid by a like amount. An additional \$40 million is transferred to support ECEAP.

In future years, as Lottery revenues grow and stadium bonds are paid off, more money will be placed in the Opportunity Pathways account to support financial aid. The bill requires future Lottery marketing campaigns to emphasize the link between Lottery purchases and state student financial aid programs. It is hoped this will increase Lottery sales resulting in additional support for financial aid programs.

The governor vetoed the section of the bill requiring the Joint Legislative Audit and Review Committee (JLARC) to study lottery marketing and vendor expenditures. The JLARC study was to have been completed by November 2010 and to have identified cost savings through analyses including a survey of every state's lottery marketing and vendor contracts. In her partial veto message, the governor pointed out that the Legislature did not include the cost of conducting the study in the budget, and both JLARC and the governor are in agreement that such a study should take place next biennium.

Opportunity Express Program

The Opportunity Express program was created through E2SHB 2630, increasing from 1,000 to 5,000 the number of high school students allowed to participate in this internship program. The measure directs the SBCTC to prioritize worker retraining funds for a list of specified industries, including aerospace, health care, and others. It creates an Opportunity Express Account, which receives \$17.5 million in the supplemental budget. Opportunity Grant funding was increased \$1 million with funds from this account. The account also can be used to fund Opportunity Internships, and worker retraining programs that meet criteria listed. The governor vetoed the emergency clause in the bill since funding does not start until July 1.

Nursing Program in Everett

The University Center at Everett Community College, in partnership with UW Bothell, received authority and funding to offer a bachelor of science in nursing program with a capacity of up to 50 full-time students (HB 2694). The supplemental budget included \$158,000 in the upcoming fiscal year for the program.

Research Commercialization

State universities (UW and WSU) were directed to commercialize research and strengthen their relationships with industry (SSB 6706). The state universities are to perform at least one of the following functions:

- Provide collaborative research and technology transfer opportunities
- Make commercialization processes and resources accessible.
- Pair researchers, entrepreneurs, and investors through workshops, events, and websites.
- Provide opportunities for training through direct involvement in research and industry interactions.

The institutions are authorized to establish and administer bridge funding programs for start-up companies with federal and private funds.

Health Sciences and Services Authority

A second Health Sciences and Services Authority was authorized under SSB 6727. The second authority must be in Eastern Washington. Unlike the first authority, the second one is not authorized to receive funding through a local sales tax credited against the state portion of the sales tax, but it may borrow funding secured by gifts or grants if authorized by the local government in the relevant jurisdiction. It cannot obligate the state or the local government.

Credit for Prior Learning

Under SSB 6357, the SBCTC is required to develop, in consultation with the HECB and many other stakeholders, policies concerning awarding academic credit for prior learning occurring through work and military experience, military and law enforcement training, career college training, internships and apprenticeships. The policies must address issues regarding verification, accreditation, and transfer of academic credit, financial aid, and licensing and professional recognition. Policies developed by SBCTC and any recommendations are to be submitted to the Legislature by December 31, 2010.

SBCTC Administrative Efficiencies

The SBCTC is directed by ESSB 6359 to develop a plan to better coordinate operations among colleges within regions. Any cost savings are to be retained by the colleges to enhance student access and success. The measure also requires the SBCTC to develop criteria and procedures for consolidating colleges into multiple campus districts.

Higher Education Purchasing Efficiencies

University consortia and other entities and institutions across the country have achieved savings through the combined purchasing power of their participants. Under HB 2858, institutions of higher education in Washington will now be authorized to purchase personal services, materials, supplies, and equipment or information services through group purchasing organizations.

Seattle Community College Opportunity Center

SHB 2684 establishes an opportunity center within the Seattle Community College District. The center is envisioned as a strategy to integrate educational and social services to improve access to employment, counseling and public benefit programs, as well as education, training and financial aid. The SBCTC will make recommendations on the location of the new center by Dec. 1, 2010.

Other

- Public institutions of higher education may award **honorary degrees** to people who were students at those institutions in 1942, but who failed to graduate because they were ordered into **internment camps**. Senate Bill 6467 also authorizes relatives of deceased persons who would qualify to request honorary degrees on behalf of the deceased individual.

- If a student residing in Washington is on **active military duty** and is stationed in one of nine Oregon border counties, the student is eligible to pay **resident tuition** following passage of HB 2973. Such students' spouses and dependents are also eligible for resident tuition if they reside in Washington. If the person on active military duty moves from Washington or becomes stationed outside of one of the nine Oregon border counties, that person's spouse or dependent maintains eligibility for resident tuition as long as they remain residents of Washington and remain continuously enrolled in a degree program.
- The **HECB Advisory Council** and 44 other state boards, commissions, committees and councils are being **eliminated** (E2SHB 2617), effective June 30, 2010. From July 1, 2010 through June 30, 2011, members of state boards and commissions, except class 4 boards (the HECB is a class 3 board) may not receive allowances for subsistence, lodging, and travel if such costs are paid from the state general fund. Exceptions may be granted by the director of the Office of Financial Management or the director's designee.
- ESSB 6503 requires state agencies and higher education institutions to **reduce employee compensation** costs by a total of \$48 million through methods such as furloughs, leave without pay, reduced work hours, voluntary retirements and separations, layoffs, and other means. Agencies and higher education institutions are to develop plans to achieve their assigned level of such savings (for HECB, the target is \$255,000 from all funds) or be subject to closure on 10 designated furlough days, about one per month, beginning in July 2010.

Numerous exceptions are allowed. For example, employees at corrections and social service institutions, child protective services, state parks, highways and ferries, the Department of Revenue, higher education classroom instruction and student employees, and many others are exempted. Employees earning less than \$30,000 annually are allowed to use vacation days instead of being furloughed.

The Governor vetoed one section of the bill that required \$10 million of the compensation savings to come from Washington Management Service employees and exempt managers. The veto message states that since this group of employees is so small a portion of the impacted employees, this provision would force disproportionate cuts. For example, nearly two weeks of additional furlough days would have to be imposed on these employees, beyond the 10 required, in order to achieve this level of savings. Managers will be subject to temporary layoffs in proportion to all employees, the governor wrote, noting also that this section is impractical and would interfere with recruiting and retaining qualified and experienced employees.

Note: The Governor is scheduled to take action on the budget legislation on May 4. All other measures described in this report have been acted upon by the governor. Partial vetoes have been noted in the report. All other bills were signed in their entirety.