



CONTINUING TO RESET STATE GOVERNMENT WITH NEW REFORMS

Governor Gregoire believes that we cannot waste a crisis, but must seize the opportunity it presents to reshape and reset state government to achieve efficiencies and savings. She has built a solid record of reform through a number of actions during the Great Recession.



While many reforms have been achieved in recent years, the Governor proposes additional actions to change how the state delivers services in the following areas to save taxpayer money and operate state government more efficiently:

Washington State Lottery

The Governor is exploring whether it makes sense to privatize lottery operations, which could generate savings and potentially new revenue that would mean more funds for the state. The Lottery will issue a request for proposal, or RFP, to determine the feasibility of shifting operations to the private sector. Under such a scenario, the state would oversee lottery operations.

Timeline: RFPs to be issued as required by legislation.

Washington State Liquor Control Board

With the passage of Initiative 1183, the Liquor Control Board will be closing all its retail operations and significantly downsizing the agency. As this diminishes the need for the Liquor Control Board, the Governor proposes to eliminate the three-person paid board and use a director who will be responsible for overseeing the remaining licensing and enforcement functions. The liquor agency will continue to contribute to the safety of our communities by ensuring the responsible licensing, and preventing the misuse of, alcohol and tobacco.

Timeline: 90 days after legislation is signed into law.

“Lean” techniques

Toyota pioneered this continuous improvement production practice to boost efficiency, decrease waste and use data to confirm results. For the past two years, in partnership with Lean subject matter experts in the private sector such as Boeing and Virginia Mason Medical Center, we have launched implementation of Lean process improvements in state government. Instituting Lean processes will build capacity to support state employees as they work to identify waste, eliminate delays, save money and deliver high-quality services.

Lean techniques have already yielded benefits to the Department of Labor and Industries, which helped keep workers' compensation rates flat for 2012. And the Economic Services Administration in the Department of Social and Health Services has saved \$300,000 by moving from paper to electronic payments to clients.

The Governor is issuing an executive order to extend this effort across all executive Cabinet agencies to drive additional efficiencies.

Timeline: In progress

The Department of Enterprise Services

Since opening its doors in October, the Department of Enterprise Services is centralizing many administrative functions that state agencies require, such as facilities and lease management, accounting, human resources, risk management, contracting and printing. By consolidating all or parts of five state agencies, the state is expected to save \$18.8 million by the end of the next fiscal year.

Legislation that created DES required that the agency work with the Office of Financial Management to issue RFPs for up to six business functions to determine whether they could be performed more cost-effectively by the private sector. That process has concluded and DES is putting to bid contracts for these services:

- » Bulk printing
- » Mail services outside of Thurston County
- » Website development

The agency has already put to bid contracts for the following services:

- » Print and imaging fulfillment services (the storage and distribution of certain printed items)
- » Surplus real property disposal services

Timeline: RFPs will be issued early next year.

Directives on cutting costs and improving efficiency

Over the past few years, the Governor has solicited ideas from state workers on how to improve government. Ten suggestions were evaluated as having real savings potential. So this fall, she issued Directive 11-18, which requires state agencies to find savings through smarter use of cellular communications, state vehicles, home assignment and personnel procedures such as assignment pay and voluntary separation incentives.

Examples of suggestions that state agencies have initiated and will be implementing include the following:

- » Eliminating the mailing of renewal notices for a driver's license and vehicle licenses, which saves \$1 million in the current biennium and \$5.3 million in future biennia as renewals can be sent electronically.
- » Extending the schedule for replacing vehicle license plates from seven years to 10, which could save \$1 million in the current biennium and \$4 million in the next biennium.
- » Requiring electronic notification and posting of contract awards, which promotes transparency.
- » Using electronic signatures on bids and authorized state contracts, which speeds up processing time for both the state and the private sector.
- » Halting the printing of wall calendars for state agencies, which will save \$30,000 annually in printing costs.

The Governor continues to evaluate employee ideas as submitted.

Timeline: In progress

Reforms and Resets: Selected Actions to Retool State Government

CUT \$10.5 BILLION FROM CURRENT AND PROJECTED SPENDING

Slashed nearly \$10.5 billion in past three years

These reductions have put greater pressure on the state's safety net and forced all of government to do more with less. Among a host of actions, we have:

- Cut more than 60,000 working poor adults from the state Basic Health Plan.
- Closed three prisons and eliminated more than 1,200 positions in the Department of Corrections, including community corrections officers.
- Reduced Temporary Assistance for Needy Family grants by 15 percent.
- Decreased state funding for four-year universities by more than 40 percent, and community and technical colleges by 20 percent.
- Eliminated funding to reduce class size and increase teacher pay.
- Adopted the Discover Pass program to help pay for our state parks system.

Status: Completed

MADE WASHINGTON A BETTER PLACE TO DO BUSINESS, GROW JOBS

Enacted largest workers' compensation reforms in a century

The bipartisan package of reforms will protect workers and help them get back to work, support businesses and save \$1.1 billion over the next four years. This is possible through actuarial reductions in future liabilities which, in turn, should help keep rates lower than they would have been.

Status: To be implemented January 2012

Saved businesses \$300 million with unemployment insurance reform

A bipartisan package helped businesses — especially small businesses — avoid a 36 percent increase in unemployment insurance rates. This will save businesses \$300 million in the first year.

Status: Implemented for 2011 and subsequent rates; permanently restructured formulas

Offered amnesty period on tax penalties

The first-ever amnesty period on back taxes brought in \$343 million and gave a fresh start to more than 8,000 Washington businesses — 78 percent of them small businesses.

Status: Completed April 30, 2011

Implemented a moratorium on all non-essential rules except for public health and safety

All non-critical rulemaking was suspended to provide a more predictable regulatory and policy environment, conserve resources for small businesses and local governments, promote economic recovery and allow agencies to target staff resources on direct service delivery.

Status: Effective Nov. 17, 2010, through 2012

INSTITUTED SPENDING CONTROLS

Created a constitutionally protected Rainy Day Fund

The fund ensures that a budget reserve is available to help provide a cushion when the economy contracts.

Status: Completed

Restricted state debt

The State Finance Committee was directed to lower the state debt limit from 8.75 percent in 2016 to 7.75 percent by 2022 to restrain state borrowing. A citizen commission will recommend a new and even tighter debt policy for the state.

Status: In progress

MADE STATE GOVERNMENT MORE ACCOUNTABLE

Made government operations more transparent and accountable

The creation of the award-winning Government Management Accountability and Performance program and use of performance audits have led to more transparent, efficient and results-driven state services.

Status: In progress

Instituted performance-based contracting

An executive order requires Cabinet agencies to ensure that all new and renewed contracts meet performance-based contracting standards. For the first quarter of the fiscal year, state agencies reported that more than 99 percent of all new or renewed contacts are performance based, and nearly 100 percent of completed contracts have met their performance-based conditions.

Status: In progress

Made the workings of state government more understandable

By requiring the use of “Plain Talk” by state agencies, the public can more easily interact with state government and understand its operation.

Status: In progress

MANAGED LABOR COSTS:

WASHINGTON IS ONE OF JUST 6 STATES TO USE ALL 4 STRATEGIES (LAYOFFS, FURLOUGHES, PAY CUTS & BENEFIT REDUCTIONS) TO SLASH EMPLOYEE COSTS

Shrank state workforce

In 2001, Washington had 5.9 million residents and more than 64,000 state general government employees. In fiscal year 2011, our state was home to more than 6.8 million residents and about 62,000 state employees. Put another way: We have nearly 1 million more people being served by 2,000 fewer state employees. Over the past three years, we have reduced the state workforce by more than 6,400 employees.

Status: Ongoing

Reduced management

Nearly 1,000 management positions — or 11 percent — were eliminated from state government.

Status: Completed

Furloughed state employees

Legislation directed temporary layoffs (furloughs) of state employees for up to 10 days, with exemptions for certain employees, such as those working in public safety.

Status: Completed

Reduced state employee salaries

In the first cut of its kind since at least the 1960s, when the state created the current personnel system, the salaries of public servants were cut — not frozen — by 3 percent for two years.

Status: Implemented July 2011

Held down ferry system and employee costs

The Governor signed legislation that eliminates baseball-style arbitration as the default arbitration process, and allows the arbitrator or arbitration panel the ability to consider whether the state can afford to pay the award. The law also requires that the Office of Financial Management certify both negotiated and arbitrated settlements as financially feasible before inclusion in the Governor's budget.

Status: Implemented April 1, 2010

Increased state employee share of health insurance costs

Workers agreed to pay a 25 percent larger share of health insurance costs, from 12 percent to 15 percent — more than ever before even while state employee salaries lag private sector salaries for comparable positions.

Status: To be implemented January 2012

Saved taxpayers \$20 million in health care costs

Thanks to a campaign by the Public Employees Benefit Board, 6,200 ineligible dependents were removed from coverage, leading to annual savings of \$20 million.

Status: Completed

Cut unfunded liability in half in older pension plans

Future automatic benefit increases will end in closed pension plans, which will save taxpayers \$344 million over the next two years and \$7.6 billion over the next 25 years. Washington is one of the top 5 best-funded pension systems in the country.

Status: Completed July 2011

Helped stabilize the state pension system

The elimination of gain sharing, which used above-average investments returns to increase pension benefits, will save an estimated \$120.3 million in 2013–15. Savings to all employers (including schools and local governments) are estimated at \$206.4 million over the same period.

Status: In progress

Eliminated retire-rehire option

Restrictions now disallow retired public employees who return to work for an institution of higher education to participate in a separate retirement plan offered by the institution. Individuals are no longer allowed to draw full-time retirement benefits and a salary.

Status: To be implemented January 2012

MADE STATE GOVERNMENT MORE EFFICIENT

Initiated Lean principles

For the past two years, in partnership with Boeing and Virginia Mason Hospital, we have begun implementation of Lean process improvements. This year, the Governor issued an executive order for its implementation across all executive Cabinet agencies to drive improvements and savings.

Status: In progress

Eliminated 154 boards and commissions

Nearly one-third of 460 boards and commissions were eliminated, and 22 were restructured, to save taxpayer money and operate more efficiently.

Status: Completed

Implemented shared services to cut down costs, achieve economies of scale

As of Nov. 30, 2011, more than 31,000 users from 29 agencies are using shared email service, server virtualization, small agency human resource services and Motor Pool consolidation. Agencies with fewer than 176 full-time equivalent employees are required to use the Small Agency Client Services division of the Office of Financial Management for their accounting, payroll and budget needs.

Status: In progress

Focused on sustainability programs to save \$3.5 million

As one example, since 2005, we have cut prison overhead costs through such practices as on-site composting at each prison, recycling, and reducing energy and water use.

Status: In progress

Instituted efficiencies in state services

The Governor issued a directive to ensure that state vehicles, cellular communications, home assignment and personnel procedures are used appropriately and efficiently to save taxpayer money.

Status: In progress

SHUTTERED INEFFICIENT AND COSTLY STATE INSTITUTIONS

Closed McNeil Island Corrections Center, Maple Lane School, Pine Lodge Corrections Center, Ahtanum View

The state closed the Corrections Center on McNeil Island; Maple Lane School, a youth treatment facility near Centralia; Pine Lodge, a facility for female offenders near Spokane; and Ahtanum View, a facility in Yakima for elderly offenders. The last major closure occurred in the 1970s. These actions will save \$106 million, eliminate 544 full-time equivalent positions and not entail the early release of a single offender.

Status: Completed 2011

Closed Frances Haddon Morgan and consolidated other residential habilitation centers

For the first time in 18 years, the state closed a residential habilitation center, halted admissions at another and ended admissions of people 16 and younger. The state will invest savings into comprehensive community care so Washingtonians with disabilities can live in their community.

Status: In progress

CONSOLIDATED DUPLICATIVE, OVERLAPPING OR INEFFICIENT OPERATIONS

Consolidated the Health Care Authority and Medicaid Administration

This move combines the state's two largest health care purchasers to promote evidence-based medicine, realign incentives to improve care and cut health care costs in anticipation of federal health care reform. Our goal is to limit the growth of overall health care spending in Washington to 4 percent annually by 2014.

Status: Completed July 2011

Consolidated information technology, office support functions

The single Department of Enterprise Services provides central support functions once offered by five agencies. This list includes property management, and human resources and info technology support. The Consolidated Technology Services consolidates and standardizes information technology and services for all state agencies. And the Office of the Chief Information Officer is patterned after the private sector. These three new agencies represent the biggest reform of state government's structure in nearly 20 years and will save \$18.8 million in the next fiscal year.

Status: Effective October 2011

Consolidated DSHS regional offices, cut other costs

The Department of Social and Health Services flattened management by cutting six service regions to three, which saved \$1.4 million and eliminated 16 full-time equivalent employees in the current biennium. The agency also eliminated one in five managers and cut administrative expenses by 29 percent.

Status: Completed

Reduced the number of environmental hearings boards

The number of environmental hearings boards was cut from five to two without affecting any rights or increasing timelines. We expect long-term savings and efficiencies by co-location of offices, and less confusion by simplifying and clarifying the appeals process.

Status: Completed

Improved delivery of natural resource services

The Governor issued an executive order that directed the state's natural resource agencies to share resources and consolidate regional boundaries. The Puget Sound Partnership and Recreation and Conservation Office have consolidated information technology functions and share communications, fiscal and graphics staff. The departments of Natural Resources and Fish and Wildlife have formal shared services agreements for 30 activities. The Pollution Liability Insurance Agency is co-located with the Department of Ecology, and the Environmental Hearings Board has relocated to the State Parks headquarters. State Parks, DFW and DNR jointly created the Discover Pass and an informational website.

Status: Completed

Closed or consolidated 11 driver licensing offices while improving online services, mail options

The Department of Licensing performed 600,000 fewer manual transactions from state offices. It expects more than 700,000 transactions will be conducted online next year. This will further shrink the need to go to an office while those customers who prefer to visit an office will experience the lowest wait times in years.

Status: Completed

FOUGHT FRAUD THROUGH NEW PROTECTIONS

Created the Office of Fraud and Accountability

The new office in the Department of Social and Health Services is cracking down on inappropriate use of benefits such as food, cash and medical assistance, and improving transparency in the agency.

Status: Implemented May 2011

Ensured only state residents get state driver's licenses

The Department of Licensing is putting protections in place that would deny a driver's license for up to five years, instead of the current one year, if a person commits fraud while attempting to obtain a license or ID card.

Status: In progress

Three agencies working together to fight the underground economy

The Department of Revenue, the Department of Labor and Industries, and the Employment Security Department are partnering in a ground-breaking program to share information to identify fraud in the underground economy. Their efforts are already saving the state millions in lost taxes and workers' compensation premiums.

Status: Completed

**Office of the Governor
December 2011**

**Six-Year Outlook, assuming Governor's November 21, 2011 Supplemental Budget
Restoration of Initiatives 728 and 732 and State Employee and K-12 Salary Reductions**

Dollars in Millions

	2012	2013	2014	2015	2016	2017
Beginning Balance (General Fund-State)	(92)	(590)	601	(69)	(891)	(1,910)
Revenues						
November 2011 Revenue Forecast	14,697	15,491	16,188	16,917	17,678	18,474
B&O Tax Surcharge Sunset			(258)	(269)	(281)	(294)
High Tech B&O Credit and Sales Tax Deferral Sunset				35	71	74
Transfers to Budget Stabilization Account	(128)	(136)	(142)	(149)	(156)	(163)
Statutory Transfer to Education Construction Account	(102)	(102)	(102)	(102)	(102)	(102)
Other Enacted Revenue Transfers	223	225	-	-	-	-
Governor's 2012 Supplemental Budget						
Transfers from Other Accounts	153	23	-	-	-	-
Transfers from Budget Stabilization Account	129	136	-	-	-	-
Reduced Distributions to Local Governments	-	74	77	81	84	88
Total Revenue	14,972	15,711	15,763	16,512	17,295	18,077
Biennial Total		30,683		32,276		35,372
Expenditures						
2011-13 Enacted Budget	15,766	15,955				
Governor's 2012 Supplemental Budget	(297)	(1,435)				
Baseline Expenditures (assumptions below)	15,470	14,520	14,797	15,607	15,922	16,237
Changes from the 2011-13 Base Budget						
Restore FY 2013 Apportionment Payment Delay			330			
Restore K-12 Salary Allocation Reduction of 1.9% and 3%			74	94	95	96
I-732 K-12 and Community Colleges Teachers/Staff Pay Increases			76	166	273	399
I-728 K-12 Class Size			403	519	539	561
Continue Implementation of Basic Education bill (HB 2776)			317	724	1,105	1,305
K-12 Bus Depreciation			49			
K-12 Assessments			22			
K-12 Local Effort Assistance			67	-	-	-
Restore State Employee 3% pay cut			88			
Collectively Bargained Additional Pay Step			20			
Projected Pension Rate Changes			153	186	339	382
Restore Use of Health Insurance PEBB Fund Balance (K-12 and State Employees)			36	39	41	43
Total Expenditures	15,470	14,520	16,434	17,334	18,314	19,023
Biennial Total		29,990		33,767		37,337
General Fund State ENDING BALANCE	(590)	601	(69)	(891)	(1,910)	(2,855)
Budget Stabilization Account	-	-	142	291	447	609
Total Reserves	(590)	601	73	(599)	(1,463)	(2,246)

Baseline Expenditure Assumptions in Forecasting Model

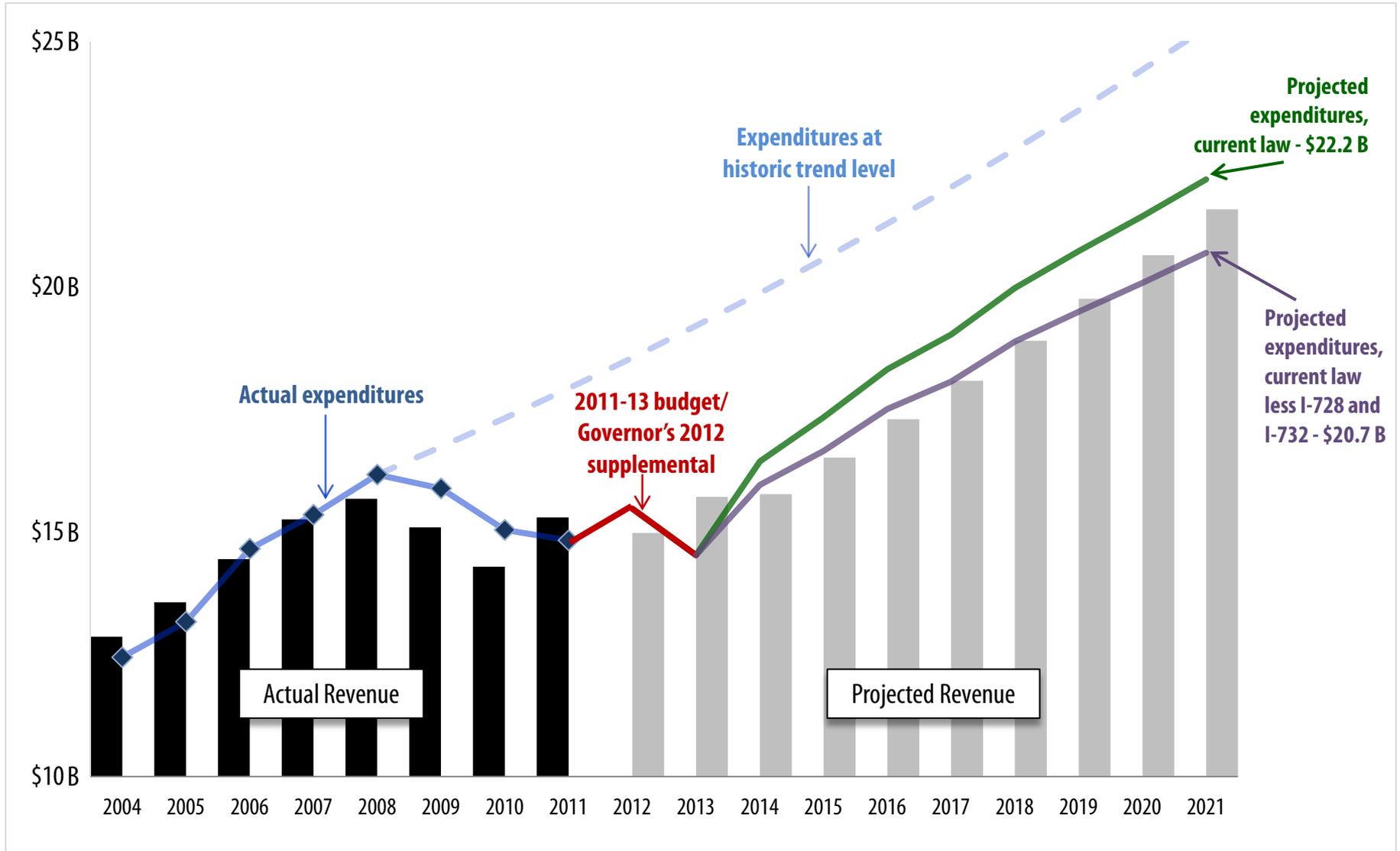
- a. After FY 13, revenue grows at 4.5% per year
- b. There are no salary increases assumed for state employees or vendors (except for I-732 COLAs).
- c. Health Care inflation is assumed at 2.91%, 3.12%, 3.26%, and 3.21% for FY 2014-17 (IPD plus population growth).
- d. Employee Health Benefits are assumed to grow at 6% per year (based on historical growth).

Adjustments to the Baseline

- e. No assumptions are made regarding the effect of changes in the federal budget or in federal health care reform.
- f. The K-12 costs assume a 176-day school year, per the Governor's 2012 Supplemental budget.
 - I-732 K-12 Teachers/Staff Pay Increase Rate by year: 1.8%, 1.6%, 2.1%, and 2.2% based on Seattle CPI, per RCW
- g. 28A.400.205
- h. I-728 Class Size initiative is restarted.
- i. Continue Implementation of Basic Education bill (HB 2776), which includes Full Day Kindergarten, K-3 Class Size, Materials/Supplies/Operating Costs, and Transportation costs.
- j. K-12 Bus Depreciation--a one-time FY 2013 Shift
- k. K-12 Assessments--restores the delay of this process.
- l. K-12 Local Effort Assistance--a one-time FY 2013 Shift. The Governor's 2012 Supplemental implements a new policy that reduces the program by half. Because the program runs on a calendar year basis, savings are realized in FY 2013 by shifting a portion of the costs into FY 2014, creating a one-time bump. For FY 2015 and beyond, funding is back to
- m Pension increase uses Office of the State Actuary's estimates for FY 2014-2017.
- n. Restore use of PEBB fund balance (K-12 and State Employees) by increasing the PEBB rate.

State Revenue and Expenditures Outlook

General Fund-State — Dollars in Billions



State Revenue and Expenditures Outlook

Actual revenue

General Fund-State revenues, FY 2004–11.

Projected revenue

The Economic and Revenue Forecast Council has not yet forecast GF-S revenue for 2013–15, so the chart reflects the November forecast for the current biennium. Future years are increased by 4.5 percent per year with adjustments for expiring B&O surcharges and B&O/sales tax credits.

Actual expenditures

Actual GF-S expenditures, FY 2004–11.

Expenditures at historic trend level

Actual expenditures between FY 2004 and FY 2009 represent an average 5 percent annual increase. This increase is applied to FY 2008 and beyond as an approximation of how expenditures might have increased without the past three years of budget cuts.

2011-13 budget/Governor's 2012 supplemental

Reflects current biennium expenditure levels and Governor's proposed 2012 supplemental.

Projected expenditures, current law

Projections through FY 2021 are derived from the OFM model that applies demographic/caseload changes and general/medical inflation (IPD) to the current budget (Governor's supplemental). This baseline is adjusted for extraordinary costs that affect future expenditures in ways the model cannot predict: primarily the restoration of I-728, I-732, state employee/K-12 salaries that were suspended in the current biennium, pension rate increases, continuation of increases related to the Basic Education Law (HB 2776) and restoration of K-12 apportionment payment delays.

Projected expenditures, current law less I-732 and I-728

Same current law assumptions as above, but omits adjustments for restoration of the two initiatives.