

July 28, 2010

The Honorable Christine Gregoire  
Washington State Governor  
Olympia, WA 98504

Dear Governor Gregoire:

Last week we had a new collections report come out that details June's tax collections. Collections are down about \$85 million from our expected results, based on the forecast that came out 3 weeks ago. In combination with the decline in the forecast and our shared concern about a federal Medicaid matching funds (FMAP) extension we believe that you need to take action within your authority under the Budget and Accounting Act to respond to these declines.

All budgets are made up of a set of assumptions about revenue projections, economic behavior, caseload growth, inflation, federal spending and other variables that affect the bottom line. The biggest elements of the budget that are out of our control are the economic and revenue forecast and federal behavior. Washington has a bipartisan forecasting committee and a forecaster independent of either the legislature or the executive. The forecast was approved unanimously and didn't seem unreasonable at the time.

*Major General Fund-State (GF-S) revenues for the June 11, 2010 – July 10, 2010 collection period were \$91.3 million (7.7%) lower than our June forecast. (later corrected to \$85.5 million)*

While our forecast document points out that month to month revenue collections are volatile, this is a significant drop when combined with our concern about the federal government delivering an extension to the federal Medicaid match rate (FMAP) we were told to expect. Washington (and 30+ other states) took Congress at its word and added this money into our budgets. It now seems as if they will not deliver it, leaving a \$480 million hole in our budget. It's important to note that this money was not expected to be received until January, so we do not have an immediate cash-flow problem.

There is some thought that Congress may still deliver the FMAP funding, but if they do not act before they leave for their August recess they are unlikely to do so before lame-duck session in December.

The combination of the decline in collections, the pessimistic tone of the collections report, and the increased risk of not receiving the promised FMAP extension cause us to believe that immediate action should be taken.

There are three basic options:

1. Assume that Congress will eventually take action. This avoids additional cuts now that we may not eventually need to make, but if we wait until January to determine that we need to make the cuts they will be twice as severe as they would be if taken now.
2. Have the legislature return for a special session and make changes to the budget. This will take a long time and many people believe it would be difficult to achieve consensus on what to do, leading to a significant potential delay in taking action.
3. The Governor can make across the board cuts to all expenditures equally to bring the budget back in balance. The Governor can do this without the legislature being in session. These cuts would exclude some areas protected by the constitution, like basic education, pension payments, and debt service.

**If Congress does not act on the FMAP extension prior to leaving for their August recess, we recommend that the Governor, in consultation with legislative leadership, take option 3 on August 10<sup>th</sup>, with the cuts to take effect September 1.**

If it turns out that Congress does deliver the FMAP extension or the economy improves significantly we can revisit the decision, or these cuts can help us address the deficit we face next session. If they do not, we will have taken the prudent action and made much less severe cuts than would be necessary in January. The consequences of these cuts will be felt across the state, but the alternative of waiting puts us at a much greater risk of having to make draconian cuts that will leave a damaging lasting impact.

Sincerely,

A handwritten signature in black ink that reads "Ross Hunter". The signature is written in a cursive style with a long horizontal stroke extending to the right from the end of the name.

Rep. Ross Hunter  
Finance Committee Chair

Kelli Linville  
Ways and Means Committee Chair