

Budget Tidbits... just the facts

Senate Republican Caucus

Budget Brief #5: (6/18/08)

The Case for a Hiring Freeze

Reducing the projected \$2.5 billion deficit through prompt action

I. Budget outlook continues to worsen

When the Governor signed the supplemental state operating budget in April, non-partisan budget staff predicted a \$2.5 billion deficit would await the next Legislature,¹ stemming from a two-year budget that increased spending more than two-and-a-half times the rate of revenue growth (16% vs. 6%).²

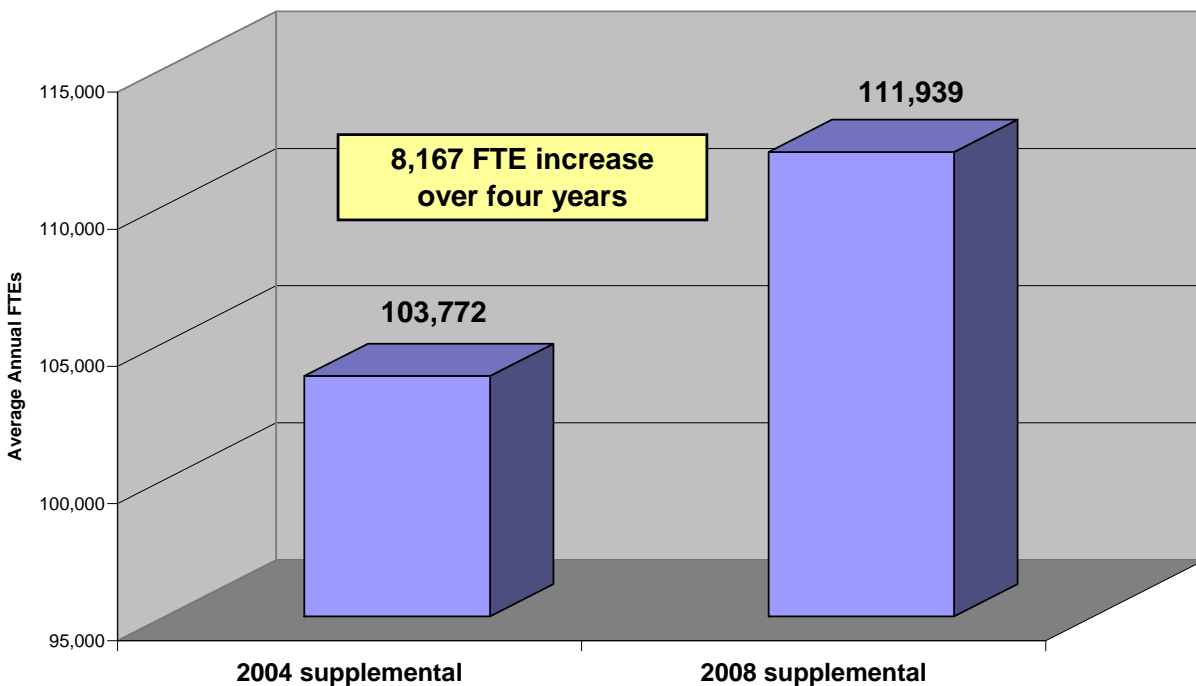
Since then the economic outlook has worsened. Washington has *lost* jobs in the last three monthly reports,³ and recently the state's forecast council revised downward our state's economic and job growth projections for the next two fiscal years.⁴ Tomorrow brings the new quarterly state revenue forecast, potentially exacerbating the deficit projection.

II. Two common-sense steps to reduce the deficit

1. Beginning July 1st, state government should be subject to a "soft" hiring freeze.

During Gov. Gregoire's tenure the state has budgeted for an increase of more than 8,000 full-time equivalent (FTE) employees.

Biennial Budgeted FTEs



* Source: LEAP Statewide Summary -- WinSum (Operating, Capital and Transportation Budgets Combined)

■ What would be the hiring freeze policy?

- Beginning July 1st most state agencies would be subject to a “soft” hiring freeze, meaning they could fill one spot for every four employees who leave. This would slowly reduce state government FTEs while maintaining agencies’ flexibility to fill critical spots.
- Certain functions and agencies would be exempt from the hiring freeze:
 - Public safety employees, including state patrol and corrections workers (although administration headquarters would be subject to the freeze)
 - Employees who care for the state’s most vulnerable, including child welfare caseworkers, mental health and developmental disability institutional staff, and veterans’ hospital employees
 - Higher education faculty⁵
 - Agencies not funded by the operating budget (primarily the Department of Transportation)
 - Small agencies with less than 15 FTEs
- The freeze would remain in effect for 12 months, after which agencies could hire for every vacancy but could not grow above the FTE level they had at the end of the year.
- **This policy would shrink state government by 1,927 FTEs heading into next biennium, reducing the deficit by \$135 million near general fund state and \$339 million total budgeted.**⁶

2. State government should limit discretionary expenditures on consultant contracts, equipment, and travel.

Discretionary expenditures have risen sharply in the two most recent fiscal years.

- Consultant contracts are up over 31%, including an increase of 152% on social research contracts and 148% on communication consultants.⁷
- Discretionary goods and equipment purchases are up 19%.⁸
- Travel expenditures are up 19%, including a 27% increase in out-of-state travel.⁹
- **What would be the discretionary expenditure policy?**
 - For the upcoming fiscal year beginning July 1st, most agencies would be instructed to reduce consulting contract expenditures by 20% and travel and goods purchases by 10% from the prior fiscal year. (*Note: This policy would still result in statewide expenditures in each area being higher than they were just two years prior.*)
 - Truly non-discretionary items would be excluded from this policy, including:
 - Agency expenditures on utilities, insurance, repairs, and rent
 - Correctional and mental health institutions’ supplies and travel expenditures
 - Legal defense expenditures¹⁰
 - In addition, the Office of Financial Management would have the authority to issue up to \$5 million worth of “extraordinary circumstances” waivers for agencies which demonstrate critical expenditure needs that would be impaired by this policy.

- **This policy would reduce the deficit by \$178 million near general fund state via lowering expenditures in the current budget and requiring agencies' discretionary spending to not exceed that level in the upcoming biennium.**

III. Acting Now Makes Sense

- These are not novel ideas. These are policies Senate Republicans pushed for and implemented in the 2003 supplemental budget to ease the multi-billion deficit confronting the Legislature that session.
- Now, as then, the budget situation demands prompt attention, rather than status-quo waiting to address the issue next session. Action delayed is a savings opportunity foregone.
- Simply put, every expense avoided now is a dollar in taxes that will not have to be raised, or a dollar in core services that will not have to be reduced.

Bottom Line

In light of the huge deficit facing state government, should the executive branch and state agencies act now to impose a hiring freeze and reduce discretionary expenditures?

1. Source: Senate Ways & Means Committee, April 11, 2008 – Six year outlook update.
2. See Budget Tidbit, "It's a Spending Problem" (2/20/08) – chart #2. Enacted budget grew actual expenditures by 16.0%, rather than 15.8% as Governor had proposed. Revenues from February 2008 economic forecast, near general fund-state, plus education legacy trust account, per legislative staff (2005-07: \$30.176 billion; 2007-09: \$31.983 billion). Spending based on 2006 supplemental actual spending, not appropriated level and 2008 supplemental budget (2005-07: \$29.003 billion; 2007-09: \$33.655 billion)
3. Employment Security Department, 6/17/08 news release.
4. Economic and Revenue Forecast Council, Preliminary June 2008 Economic Forecast.
5. All University of Washington hospital employees are also excluded. Graduate teaching assistants are considered faculty and are excluded as well.
6. Model developed by Legislative Evaluation Accountability Program (LEAP). Assumes actual fiscal year 2007 FTEs for each agency, a 4.8% turnover rate, a 25% fill rate for agencies subject to the freeze, and accounts for each agency's near-general fund state split. Savings estimate is three-year impact (FY 09-11) of one-year hiring freeze.
7. LEAP (near general fund state). Consultant contracts, object C in the statewide administrative and accounting manual, increased from \$56.1 million near general-fund state in fiscal year 2005 to \$73.8 million in fiscal year 2007. Social research service contracts went from \$2.3 million to \$5.8 million. Communication consultant contracts went from \$695,000 to \$1,725,000.
8. LEAP (near general fund state). Discretionary goods and equipment constitutes objects E and J in statewide administrative accounting manual, excluding subobjects EC (utilities), ED (rentals and leases), EE (repairs, alterations, maintenance), EM (attorney general services), and EU (insurance). Near-general fund state increased from \$592.7 million in fiscal year 2005 to \$706.1 million fiscal year 2007.
9. LEAP (near general fund state). Travel, object G in the statewide administrative and accounting manual, increased from \$38.4 million in fiscal year 2005 to \$45.6 million near general-fund state in fiscal year 2007. Out-of-state travel went from \$9.3 million to \$11.8 million.
10. Also excluded from the reduction are OSPI contracts related to administering the WASL, Office of Public Defense expenditures for legal services, DOC and DSHS mental health contractual payments for hospital and medical care for inmates and psychiatric patients, Dept. of Ecology contracted hazardous waste cleanup, and Dept. of Natural Resources' fire suppression contractual expenditures.