



## **REGULAR MEETING AGENDA ITEM**

**TAB 5**

**October 30, 2009**

Discussion  Action

### **Topic**

2010 Legislative Session Outlook and Fiscal Update

### **Description**

The 2010 legislative session is set to begin on January 11, 2010. Once again the Legislature will be faced with a budget deficit, currently assumed at \$1.8 billion for the remainder of the 2009-11 biennium.

Complicating this year's session and specifically supplemental budget considerations are several variables: An apparent turnaround in the overall economy but state revenues that continue to lag growth in personal income; Initiative 1033's possible impacts to general state revenue collections; and possible "shocks" to Washington's economy such as the productivity and spending impacts associated with H1N1 and possible emergency needs related to the Howard Hanson Dam on the upper Green River. Despite fiscal constraints, SBCTC staff recommends adoption of a supplemental operating and capital budget (see Tab 6 and 7).

Starting three years ago, the Board adopted a set of policy statements that helped the system connect policy issues that emerge during the legislative session to basic statements of principle. These principles provide a common message that is linked to the Board's System Direction Goals. Attachment B is a draft set of policy principles for the Board and stakeholders to consider.

### **Key Questions**

- Do the draft policy principles represent the values of the Board and the system as a whole?
- Are there significant policy areas that need to be addressed in the policy principles?

### **Analysis**

#### ***Washington State Fiscal Condition***

Talk of recovery is taking hold, but the Washington State two-year operating budget remains a challenge. The current budget deficit for the remainder of the 2009-11 biennium is currently being discussed at \$1.8 billion. This is a combination of lower than expected tax collections, mandatory spending obligations, and the inability of the state to realize some of the cuts levied in the current fiscal year.

The Governor will submit her 2010 supplemental budget recommendations to the Legislature in late December. The Governor will have the benefit of an additional revenue forecast (November 19<sup>th</sup>) and the fate of Initiative 1033 following the November 3rd, general election.

Though the Legislature will conduct budget related hearings throughout the session, they are not expected to unveil official supplemental budget drafts from the respective Ways and Means Committees until late February following the official February revenue forecast.

***Policy Principles***

Attachment A is the official OFM fiscal impact analysis for Initiative 1033. Attachment B is a set of draft policy principles that will help the system and staff to establish positions on bills during the 2010 legislative session. TACTC and WACTC will be asked to review this draft and staff will gather their feedback and edits. The Board will be asked to adopt system policy principles at their December 3<sup>rd</sup> business meeting. The principles are not intended to be positions on specific legislation but rather a set of values that could be applied to any legislation related to a particular topic. Staff has reorganized them this year by Board goal.

**Background Information**

Attachment A: Fiscal Impact Statement for Initiative 1033

Attachment B: Draft 2010 Policy Principles

September Retreat Agenda Item: <http://www.sbctc.ctc.edu/general/admin/TABE-2010LegislativeStrategywithattachment.pdf>

**Outcomes**

Board members will have an opportunity to discuss the climate surrounding the upcoming 2010 Legislative Session, policy principles, and emerging issues that may require the attention of the Board before and during the upcoming legislative session.

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STATE OF WASHINGTON

## OFFICE OF FINANCIAL MANAGEMENT

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### **Fiscal Impact Statement for Initiative 1033**

As sent to the Office of the Secretary of State, August 10, 2009

#### **Fiscal Impact through Calendar Year 2015**

Initiative 1033 limits annual growth of state, city and county general fund revenue to the rate of inflation and population growth. General fund revenues exceeding this limit must be used to reduce the following year's state, city or county general fund property tax levy. The initiative reduces state general fund revenues that support education; social, health and environmental services; and general government activities by an estimated \$5.9 billion by 2015. The initiative also reduces general fund revenues that support public safety, infrastructure and general government activities by an estimated \$694 million for counties and \$2.1 billion for cities by 2015.

#### **General Assumptions**

- The initiative is set on a calendar year (CY) basis.
- CY 2010 revenue limit is calculated as follows:  
$$\text{CY 2009 General Fund Revenue} \times (1 + 2009 \% \text{ Change Population}) \times (1 + 2009 \% \text{ Change Inflation})$$
- CY 2010 general fund revenues that exceed the CY 2010 revenue limit will be transferred into new "Lower Property Tax Accounts" for the state, counties and cities. The first transfer(s) into the new accounts will occur in CY 2011.
- The first property tax levy to be reduced by the initiative is the 2011 levy, which is collected in CY 2012. Thus, funds will be transferred from the new "Lower Property Tax Accounts" into state, county and city general funds in CY 2012 to account for any reduction in 2011 levies.

#### **State Revenue Estimate – Assumptions**

- The initiative defines state general fund revenue as the aggregate of revenue from taxes, fees and other governmental charges received by state government that are deposited into any fund subject to the state's expenditure limit under RCW 43.135.025. For CY 2009 and CY 2010, state general fund revenues are General Fund – State revenue estimates from the June 2009 Washington State Economic and Revenue Forecast Council converted from a fiscal-year basis to a calendar-year basis.

- The following state revenue sources, totaling less than \$30 million annually, have been excluded from these estimates:
  - Sales and income from property.
  - Contributions and grants.
  - Grant and loan repayments.
  - Indirect and prior cost recoveries.
  - Unclaimed property.
  - Charges for publications and documents.
  - Interest and investment earnings.
- State general fund revenues for CYs 2011–15 are estimated to grow, on average, by the change in real per capita personal income plus change in inflation plus change in population, adjusted for revenue elasticity. This methodology is consistent with prior long-term revenue forecasts produced by the Office of Financial Management (OFM), and results in an average annual growth rate of 4.8 percent.
- State general fund revenues are reduced by the amount required to be transferred into the Budget Stabilization Account created under Article 7, Section 12, of the Washington State Constitution.
- The initiative defines inflation as the annual percentage change in the Implicit Price Deflator for Personal Consumption for the United States as published on or about March 27 each calendar year by the Bureau of Economic Analysis and reported by OFM. Inflation estimates for CY 2009 and CY 2011 are from the June 2009 Washington State Economic and Revenue Forecast. Inflation estimates for CYs 2012–15 are from the June 2009 IHS Global Insight forecast of the Implicit Price Deflator for the United States. The Washington State Economic and Revenue Forecast Council relies on IHS Global Insight models and data for the U.S. portion of the official state economic forecast.
- The initiative defines population growth as the percentage change in the statewide population based on the annual statewide population determinations reported by OFM during the prior calendar year and the current calendar year. Statewide population growth estimates are from OFM’s 30-Year Forecast of the State Population.

**Estimated STATE Cash Receipts:**

FUND	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015
General Fund - State	0	(\$676,000,000)	(\$875,000,000)	(\$1,125,000,000)	(\$1,447,000,000)	(\$1,803,000,000)
Lower State Property Tax Account	0	\$676,000,000	\$875,000,000	\$1,125,000,000	\$1,447,000,000	\$1,803,000,000

**State Costs to Implement – Assumptions**

Less than \$50,000 will be incurred by OFM in CY 2009 and CY 2010 to set up, test and verify computer systems, and establish policies and practices to implement a state general fund revenue limit.

**County and City Revenue Estimate – Assumptions**

- The initiative applies to counties, first class cities, second class cities, code cities, towns and unclassified cities.

- To account for possible different patterns in population and revenue growth, counties and cities were analyzed using four groupings:
  1. Urban County – 7 counties
  2. Rural County – 32 counties
  3. Cities in Urban Counties – 109 cities and towns
  4. Cities in Rural Counties – 172 cities and towns

Urban counties are Clark, King, Kitsap, Pierce, Snohomish, Spokane and Thurston; all others are rural counties. Under RCW 82.14.370, rural counties are defined as a county with a population density of less than 100 persons per square mile or a county smaller than 225 square miles as determined and published each year by OFM for the period July 1 to June 30.

County and city general fund revenues are defined as the aggregate of revenue from taxes, fees and other governmental charges received by the county or city and deposited into the county current expense fund or city general fund, respectively. County and city revenues are estimated from 2007 financial information contained in the Local Government Financial Reporting System (LGFRS) of the Washington State Auditor’s Office. Only funds reported within LGFRS as general fund revenues are assumed to be deposited into the county current expense fund or city general fund, and therefore, are included in these estimates.

- The following county and city revenue sources have been excluded from these estimates:
  - Federal and state direct and indirect grants.
  - State shared taxes or revenues.
  - Charges for contracted services performed by counties or cities.
  - Charges for enterprise activities or charges that are not governmental in nature.
  - Inter-fund and inter-department charges.
  - Interest and investment earnings.
- County and city general fund revenue growth rates for CYs 2009–15 are related to the state’s revenue growth rate by estimating each grouping’s five-year historical rate of revenue growth in proportion to the state’s revenue growth rate of 4.8 percent.
- Inflation estimates for counties and cities are the same as used for the state.
- Population growth is defined as the percentage change in the countywide population for counties and the percentage change in citywide population in cities, as reported annually by OFM. County and city population growth is estimated from OFM’s 30-Year Forecast of the State Population, adjusted using OFM’s Washington State County Growth Management Population Projections: 2000-2030 and each grouping’s historic population growth rates.

**Estimated URBAN COUNTY Cash Receipts:**

FUND	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015
General Fund – Urban Counties	0	(\$55,000,000)	(\$70,000,000)	(\$87,000,000)	(\$111,000,000)	(\$137,000,000)
Lower County Property Tax Accounts	0	\$55,000,000	\$70,000,000	\$87,000,000	\$111,000,000	\$137,000,000

Estimated RURAL COUNTY Cash Receipts:

FUND	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015
General Fund – Rural Counties	0	(\$24,000,000)	(\$35,000,000)	(\$46,000,000)	(\$58,000,000)	(\$72,000,000)
Lower County Property Tax Accounts	0	\$24,000,000	\$35,000,000	\$46,000,000	\$58,000,000	\$72,000,000

Estimated CITIES IN URBAN COUNTIES Cash Receipts:

FUND	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015
General Fund – Cities in Urban Counties	0	(\$176,000,000)	(\$257,000,000)	(\$350,000,000)	(\$463,000,000)	(\$588,000,000)
Lower City Property Tax Accounts	0	\$176,000,000	\$257,000,000	\$350,000,000	\$463,000,000	\$588,000,000

Estimated CITIES IN RURAL COUNTIES Cash Receipts:

FUND	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015
General Fund – Cities in Rural Counties	0	(\$30,000,000)	(\$42,000,000)	(\$55,000,000)	(\$72,000,000)	(\$91,000,000)
Lower City Property Tax Accounts	0	\$30,000,000	\$42,000,000	\$55,000,000	\$72,000,000	\$91,000,000

**County and City Costs to Implement – Assumptions**

County and cities will incur indeterminate costs to implement the initiative during CY 2009 and CY 2010 to modify computer systems, establish policies and practices, train employees and respond to requests for public information. Costs will vary by jurisdiction and depend, in large part, on the jurisdiction's ability to modify accounting systems to identify and track revenues subject to the general fund revenue limit.

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### **State Board for Community and Technical Colleges**

### **2010 Legislative Policy Principles**

There are issues throughout a legislative session that cannot be predicted or acted upon with system-initiated legislative requests. What follows are a series of policy principles aimed at providing the Board, staff, and college officials with a clear understanding of the interests of the CTC system in policy deliberations that may occur. These represent key interests of the system and are not detailed positions on specific bills or ideas. These principles will serve as a framework for evaluating legislative requests, budget recommendations, and ideas of interest to the community and technical college system.

The principles expressed here are grounded in the ten-year goals established by the State Board in the 2006 System Direction:

**Economic Demand** – Strengthen state and local economies by meeting the demands for a well educated and skilled workforce.

**Student Success** – Achieve increased educational attainment for all residents across the state.

**Innovation** – Use technology, collaboration and innovation to meet the demands of the economy and improve student success.

These budget principles are also grounded in the reality of our current fiscal situation – large budget cuts and record student enrollments. The college system is committed to serving students, but the quality of the student experience is under stress as they experience class wait lists, fewer support services, and overall reductions in resources. To sustain the current level of effort, colleges must be insulated from additional budget reductions in the short-term and will require additional investments when state resources allow it.

**Economic Demand** – Strengthen state and local economies by meeting the demands for a well educated and skilled workforce

#### **Budget Reductions**

- **Critical Investment** – The community and technical college system is a critical investment for the long- and short-term economic health of the state and should be protected from additional budget cuts.
- **High Tuition is Not the Answer** – Too often during economic downturns, the legislature cuts colleges' budgets and partially backfills the cuts with large tuition increases. This leaves the colleges with inadequate funding and places a substantial burden on students and parents at a most difficult time.

#### **Student Enrollments**

- **Targeted Populations** – Funding for new enrollments should include consideration of the economic needs of the state, as well as population increases:
  - The fastest growing segment of our adult population over the next ten years will be those 25-35 years old and they need to be a focus of access and student success.
  - The fiscal health of our private and public sectors will require us to achieve greater success with traditionally low skilled populations such as ABE and ESL learners.

- Many “high-demand” fields as reported by our state’s employers are high-cost and will require resources in excess of the average funding rate for existing college enrollments.
- Where tuition waivers are used to promote student access for targeted populations of students, they come at a serious cost to the colleges, who need to be compensated for the lost revenue.
- **High School Completion Programs** – Community and technical colleges should continue to play a role in high school completion and GED preparation for those that leave the K-12 system without a high school diploma.
  - **Flexibility** – Colleges should retain local flexibility in their program offerings for high school completion and/or GED pathways.
  - **Preventive Role** – The CTCs can play a significant role through partnerships to create success for students before they become high school dropouts.
  - **Adequate Funding** – Colleges will need adequate resources to provide high school completion pathways.
  - **Alignment of Pathways** – High school completion or GED pathways should position the learner to seamlessly enter college.
- **Dual Enrollment Programs** – Washington taxpayers and families save millions of dollars by taking advantage of programs that offer high school credit and college credit simultaneously. These programs should be expanded to increase the efficiency of our education system.
  - **Variety of Pathways** – Students learn at different paces and in different ways and a variety of dual enrollment options should be available such as Running Start, College in the High School, Tech Prep, and more.
  - **Efficient** – Dual enrollment programs reduce time to completion for students and should be promoted as part of a larger strategy to achieve more degrees and certificates.
  - **Adequate Funding** – Dual enrollment programs are a tremendous benefit to students, parents, and tax payers and should be encouraged but with adequate resources for the colleges and their K-12 partners.
  - **Enrollment Counting** -- When colleges are serving students in dual enrollment programs, the colleges should be allowed to count the portion of the enrollment that is not directly funded by the K-12 partner.
- **Baccalaureate Production** – The CTCs play a critical role in the preparation of baccalaureate degree students:
  - Growth in baccalaureate production should recognize the large contribution made by the CTCs both as contributors to university enrollments at the upper division and as institutions that offer baccalaureate degrees directly to their students.
  - Increasing baccalaureate degree participation in the state should first consider solutions that utilize existing higher education infrastructure such as university centers on CTC campuses.

**Student Success** – Achieve increased educational attainment for all residents across the state.

**Tuition**

- **Public Good** – Tuition policies should be developed under the context that higher education is a public good and a private benefit. “We” all have a vested interest in keeping higher education affordable.

- **Predictability** – Students, parents, and college administrators need a tuition model that is predictable, stable and is placed in the larger context of the full cost of attendance.
- **Sector Differences** – Different tuition policies (and subsequent state support) need to reflect the diverse student populations that are served by each higher education sector.
- **Affordability** – Even when tuition is matched with financial aid, the “sticker” price, whether real or perceived, discourages many populations from beginning their pursuit of higher education.
- **Linked to Aid** – Tuition increases should be matched with appropriate financial aid, including innovative ways to respond to part-time students and other non-traditional students.

### Financial Aid

- **Need Based** – Financial aid programs should be focused first on assisting financially needy students.
- **Adequacy** – Financial aid packages should be adequate and responsive to the particular needs presented by diverse populations of learners in order for them to achieve their educational goals.
- **Underserved** – Changes in financial aid policies should target low income students; first generation learners; and strive for substantial simplification for all students.
- **Working Adults** – Financial aid systems should be structurally modified to address the real financial barriers experienced by low-income working adults.
- **Fairness** – Financial aid policies linked to tuition should provide proportional amounts of aid based on credit loads taken and be available for all programs of study.
- **Leveraging** – Changes in state financial aid programs should retain an emphasis on leveraging federal, local, and private resources.
- **Comprehensive Support** – Financial aid is a subset of comprehensive support and should be paired with adequate funding for counseling, advising, and other engagement resources.

**Innovation** – Use technology, collaboration and innovation to meet the demands of the economy and improve student success.

### Technology and eLearning

- **Modes of Delivery** – Delivering the benefits of higher education to broad segments of our population should recognize the immense power of technology.
- **Systems Infrastructure** – Increasing accountability and effectiveness stems in large part from robust and relevant data systems that need to be supported at the statewide and local level.
- **Shared Resources** – Where possible, the legislature should develop policy solutions that create equal opportunities for all students through cost-effective shared resources such as digital libraries and on-line advising.

**Faculty Role** – At the heart of effective innovation are motivated and well supported faculty who incorporate technology and take personal risks to learn new methods of content delivery.

- **Professional Development** – Just as they provide for their students, faculty need opportunities to learn, explore, and take risks with new technologies, delivery styles, and content.
- **Collaboration Time** – Innovation takes root when risk takers have the opportunity to disseminate their knowledge, skills, and abilities with their colleagues.
- **Incentive Systems** – Compensatory rewards such as faculty salary increments need to be adequately funded to hasten the pace of innovation and teaching reform.

### **Compensation and Staffing**

- **Adequacy** – Faculty and staff should be compensated adequately and within the context of a competitive environment. The burden for adequate compensation should fall to the State Legislature which sets the college system’s overall funding per student and enrollment targets.
- **Quality** – Compensation systems should contribute to the recruitment and retention of high quality employees.
- **Collective Bargaining** – Collective bargaining changes aimed at faculty should respect the whole of collective bargaining – labor and management’s key issues. These include salaries, workload, tenure, and more.
- **Data Driven** – Long-term changes to compensation practices and staffing should be based on comparative information and other measurable data.
- **Flexibility** – Compensation practices should ensure appropriate flexibility so that colleges can make staffing adjustments necessary to meet the changing demands of their local communities.
- **Comprehensive Duties** – Compensation systems should recognize the full spectrum of duties/responsibilities performed by employees.

### **Accountability**

- **Responsibility** – The SBCTC is responsible for ensuring statewide accountability for the community and technical college system in response to policy initiatives of the Governor and legislature.
- **Student Achievement Data** – The SBCTC will measure results using data that focuses on student access, retention, and success.
- **Reporting Requirements** – There are too many redundant reporting requirements for higher education. The Legislature should focus on measures of student progress and achievement.
- **Sector Differences** – Higher education sectors serve substantially different student populations and the accountability measures should recognize the diversity of mission and student populations.