GUIDING WASHINGTON THROUGH THE GREAT RECESSION

How Governor Gregoire and the Office of Financial Management Addressed a Relentless State Budget Crisis

October 2012

Putting state government on a more sustainable fiscal path

Nothing will define Governor Chris Gregoire's time in office more than how her administration guided state government through the Great Recession[1], the nation's deepest and most prolonged economic downturn since the Great Depression. The Governor's budget office, the Office of Financial Management (OFM), played a pivotal role in the state's response, devising and employing a wide variety of strategies to address repeated historic budget shortfalls and overseeing unprecedented reforms that became models for other states and national organizations.

Throughout this challenging and often painful journey, OFM used a collaborative and priority-based approach that dramatically reshaped state government while helping minimize the damage to essential state services. Actions over the past four years have put state government on a more sustainable fiscal path and will leave Washington better prepared to confront future budget crises.

In a July 2012 review of the state's bond rating, S&P said its stable outlook for Washington "reflects our view that the state's financial management is strong, as demonstrated by its continued willingness to make timely and proactive budget amendments as it deems necessary" to balance the budget.

Since the start of the Great Recession, Governor Gregoire and the Legislature reduced existing and projected spending by more than $11 billion. They enacted landmark pension and debt service reforms that will lead to billions of dollars in future savings. They imposed statewide freezes on hiring, out-of-state travel, equipment purchases and personal services contracts. They eliminated dozens of state boards and commissions, and they engineered the largest agency consolidations in modern times.

During that time, the state general government workforce has been shrunk by more than 12 percent to fewer than 60,000 employees, bringing the number of state workers to its lowest level since the mid-1990s. Meanwhile, the number of managers in state government has been reduced by nearly 15 percent.

Background

Washington's fiscal reality changed dramatically over the past eight years. When Governor Gregoire took office in 2005, Washington's economy was still recovering from the post-9/11 national recession, and state government was facing a projected $1.8 billion budget shortfall. But by the following year, the rebounding economy led to the state's first budget surplus since 2001.

From 2005 to 2007, fast-growing budget surpluses enabled Governor Gregoire to focus on a sizable backlog of pent-up demands and make strategic investments to further strengthen the state's economy. The state expanded health coverage for poor children, steered more money to kindergarten through 12th grade (K-12) education and boosted higher education enrollment. For the first time since they were passed in 2000, two voter-approved initiatives to reduce class sizes (Initiative 728) and increase teacher pay (Initiative 732) were funded. The Governor also set a vision for Washington's future by creating novel public-private initiatives such as the Puget Sound Partnership and the Life Sciences Discovery Fund.

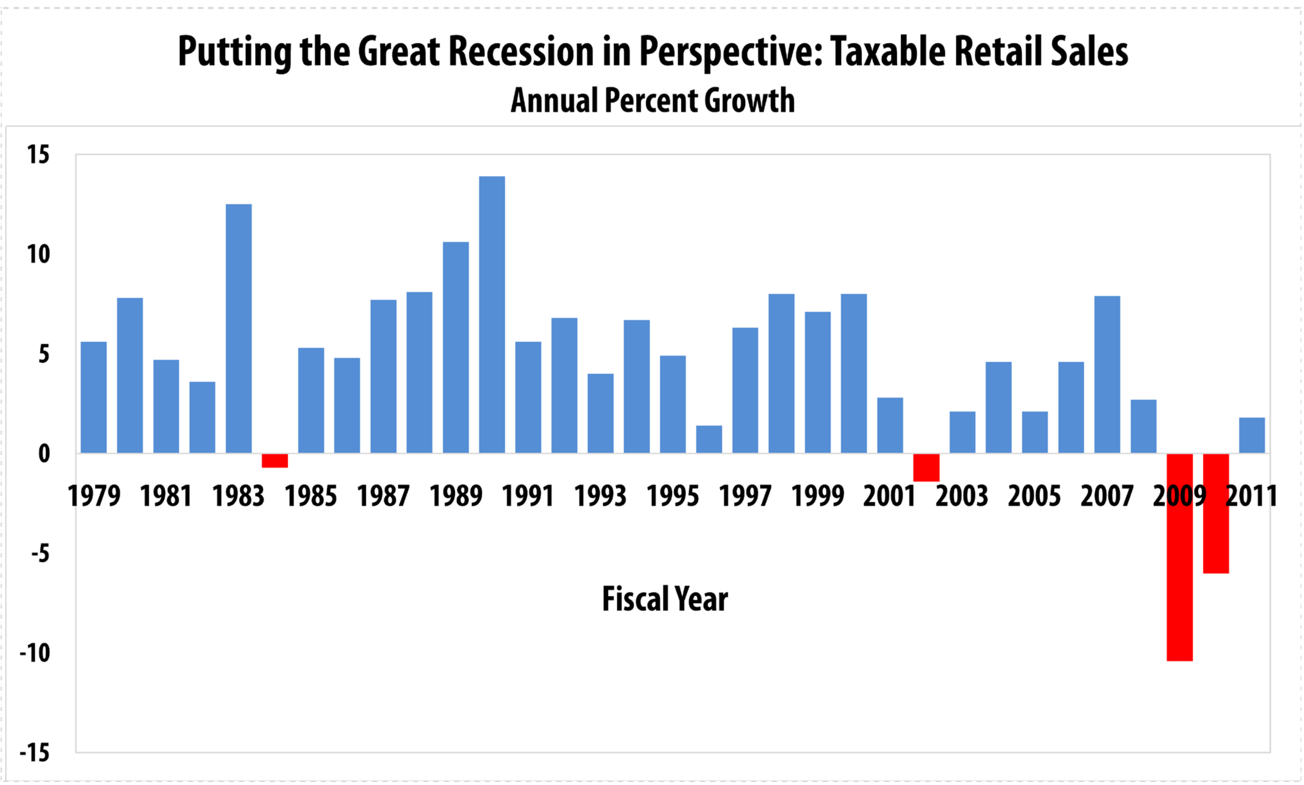
[1] The recession started in late 2007 and technically ended, in the United States at least, in June 2009. But the global economic downturn lasted much longer, and the slow recovery is still impacting Washington's state budget.

At the same time, the state was setting aside historic reserves. Even as the budget surplus grew, Governor Gregoire began taking actions and making significant reforms to stabilize the state's budget process and make government more effective and efficient. Under an executive order issued by the Governor in 2005, Washington became the first state in the nation to adopt Government Management, Accountability and Performance, a data-based process that helps Washington state agencies measure and improve their performance. Governor Gregoire also continued the Priorities of Government approach to budgeting. And in 2007, she requested and the voters approved the Budget Stabilization Account, a constitutionally protected "rainy day" reserve.

But Washington's budget surpluses were short-lived. The global financial crisis that hit in the fall of 2008 escalated rapidly, tipping the world economy into a deep recession. Unemployment soared, the housing market crashed and tax revenues plummeted.

Washington state, with its heavy reliance on sales taxes and sectors such as home construction, was particularly hard hit. In the first year of the downfall, total taxable retail sales in Washington dropped by 10.4 percent and fell another 6 percent the following year. To put that in perspective, the previous biggest decrease in taxable retail sales since at least the 1960s was a 1.4 percent decline in the year after the Sept. 11, 2001, attacks.

"Everything we feared could go wrong, did," Arun Raha, the state's then-chief economist said in early 2009. "We are witnessing an unprecedented economic crisis."



Office of Financial Management/Department of Revenue, October 2012

In previous recessions, the national and state economies typically began to recover within a year. But in the Great Recession, which already was far deeper than any downturn since the Great Depression, the turnaround took much longer. State tax collections did not even begin to rebound for three years. In fact, on a real per capita basis, General Fund revenue collections in 2012 remain well below the peak in 2007.

Over a four-year period beginning in November 2007, nearly every quarterly state revenue forecast brought more bad news. In all, the state's revenue projections for the 2007–09, 2009–11 and 2011–13 biennia fell 16 out of 17 quarters. The total revenue decline during that period was more than $12.6 billion.

But, as is typically the case during economic downturns, demand for many state services accelerated. During that four-year period, for example, the state's caseloads for medical assistance (Medicaid) and Temporary Assistance for Needy Families grew by more than 25 percent.

Plummeting revenue collections and increasing demand for services resulted in repeated budget shortfalls that forced the Governor and Legislature to reduce General Fund spending in successive and significant steps. Each round of cutting proved an even greater challenge than the last.

Faced with such a calamitous fiscal crisis, Governor Gregoire and her budget leaders recognized early on that that they would need to find new and creative ways to identify and implement budget solutions. Oftentimes they discovered that wherever they looked for ideas on how to turn the crisis into an opportunity, other states, former governors and budget directors, national organizations and others were looking to Washington for answers.

Throughout the last four years of budget reductions and government reforms, OFM was guided by several overarching principles. Chief among these was making sure that impacts on government services and programs were balanced; though priorities would be set, everyone would share in the sacrifice. The Governor and OFM also emphasized a collaborative approach that gave agencies, community leaders and key stakeholders a role in budget development decisions. And they strived to make sure the entire process was plainly visible and understandable to the public.

Building the 2009–11 Budget

At the first signs that the global economy was starting to sour in 2008, Governor Gregoire began reining in costs. In August of that year, OFM informed agencies that the Governor was imposing an immediate freeze on new hires, out-of-state travel, personal services contracts and equipment purchases not related to public safety. And, in light of skyrocketing fuel prices, she directed agencies to cut gas consumption by 5 percent.

A few months later, financial markets crashed and the bottom fell out of the state budget. At the time, the Governor and OFM were in the middle of preparing the 2009–11 biennial budget. OFM had recently reached new collective bargaining agreements with state employee unions that called for modest salary increases (about 2 percent in most cases). But before the Governor's proposed budget was released in December 2008, OFM informed the unions that the raises were not financially feasible and would not be included in the budget, as allowed by law.

By the time the Governor unveiled her budget, the state was facing a projected $5.7 billion shortfall for the remainder of the 2007–09 budget and the yet-to-be-enacted 2009–11 biennial budget. Within two months, that shortfall had ballooned to nearly $9 billion — by far the worst in state history.

Well before the crisis hit full force, the Governor and OFM had begun building the 2009–11 budget through the Priorities of Government (POG) process. POG is different from the usual budgeting process, which simply adds to or cuts from an existing budget. Under POG, the administration conducts a government-wide assessment of services to establish a clear set of results that citizens expect from state government and then reprioritizes state spending to focus on services most instrumental in achieving those results.

The first step in POG requires state agencies to rank their activities among three categories of priority — low, medium or high — in terms of achieving the agency's mission. The second step charged 10 multi-agency teams with looking beyond their own agencies' borders for the means to maintain or improve high-priority services in state agencies despite budget constraints.

In the final step, the teams delivered recommendations that prioritized state agency services. These recommendations were reviewed by a guidance team and then forwarded to Governor Gregoire for her consideration as she shaped the 2009–11 budget.

Her budget was guided by several core values:

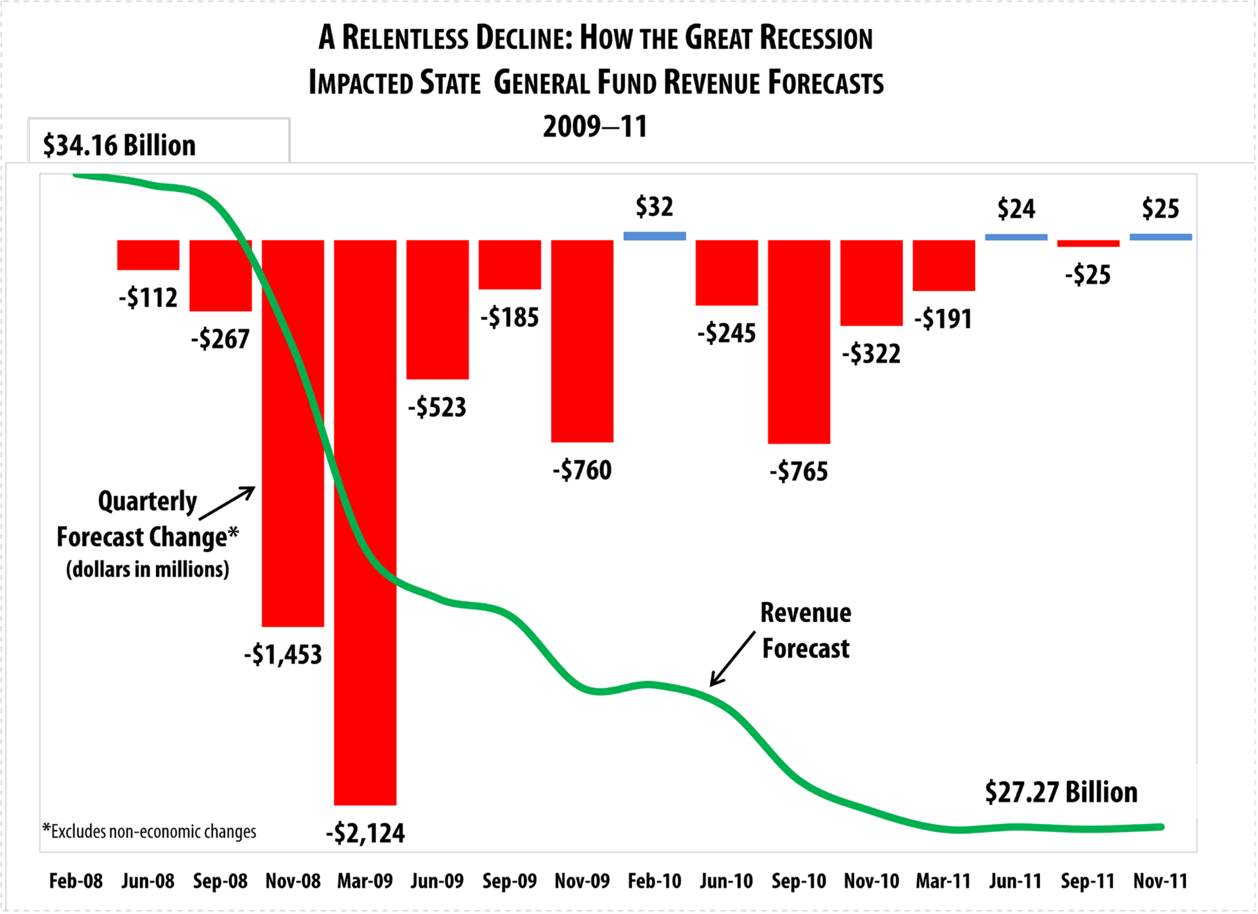
- Ensure a solid foundation for our future, and that means investing in and protecting our children.
- Maintain the safety of our communities.
- Partner with communities to support and protect our most vulnerable.
- Lay the foundation for a strong quality of life and economy for the 21st century.
- Recognize that we are one state and it will take all of us working together to get through these tough times.

Fearing that new taxes might cramp the state's economic recovery, the Governor proposed solving the 2009–11 shortfall primarily through spending cuts. Some of the more drastic cuts originally under consideration — such as closing more than a dozen state parks — were avoided. But the Governor and the Legislature eventually agreed on a budget that included more than $4.4 billion in cuts. The new budget suspended the class-size reduction initiative, I-728, and the teacher-pay initiative, I-732; reduced enrollment in the state's Basic Health Program by 40,000; and cut state support for higher education, but allowed universities and colleges to offset reductions with tuition increases.

And, barely a month after convening in 2009, the Legislature passed a bill putting the Governor's hiring, travel and equipment purchase freeze into statute for the remainder of the 2007–09 biennium. The law allowed for certain exceptions to the freeze, for which it required OFM to oversee an exemption review and reporting process.

As was the case for most states, the cuts would have been much worse if not for the federal government's economic stimulus package. More than $8 billion came to Washington state through the American Reinvestment and Recovery Act. Besides helping to directly address the state's budget crisis, the stimulus also bolstered the construction sector and supported thousands of jobs by providing funding for transportation and other "shovel ready" projects across the state.

Despite the freezes and deep cuts, it quickly became clear that the state's budget crisis was far from over. Barely six months into the new biennium, the state faced another multi-billion dollar shortfall.



The original state General Fund forecast (February 2008) for the 2009–11 biennium was more than $34 billion. But the forecast was revised downward nearly every quarter of the biennium, closing out at a little more than $27 billion — a nearly $7 billion decline.

Office of Financial Management/Economic and Revenue Forecast Council, October 2012

Once again, the Legislature charged OFM with enforcing a statewide freeze on hiring, travel, contracting and equipment purchases through the end of the 2009–11 biennium.

After the Governor put forward an all-cuts supplemental 2009–11 budget in 2010 that included major program eliminations and suspension of the state's school levy equalization program, she worked with legislative leaders on a revenue package to offset some of the deepest cuts to education and health care.

In the end, they agreed on more than $750 million in new cuts, including another suspension of the education initiatives and additional reductions in higher education. OFM was tasked with implementing legislation requiring most state employees to take up to 10 days of unpaid furloughs and tracking how furloughs were accomplished. The Governor and Legislature also approved a revenue package that called for $760 million in targeted increases, such as temporary taxes on soda, candy and bottled water, a beer tax surcharge and a temporary business and occupation tax increase on services — but no general tax increases.

Yet after a massive campaign led by the American Beverage Association, voters repealed the soda, candy and bottled water taxes. Voters also shot down a citizen-led initiative that would have imposed a state income tax on the top 1 percent of income earners to raise new funding for education and health services.

Meanwhile, the state's revenue picture continued to worsen. After the state's September 2010 revenue forecast projected another shortfall for the remainder of the 2009–11 biennium, Governor Gregoire immediately ordered a 6.287 percent ($520 million) across-the-board cut to state agencies and programs. More than half of the amount of the cuts would have to come from the Department of Social and Health Services, as the state's largest agency.

OFM had already finished its work on a supplemental budget and used it as a base for the across-the-board cuts. But instead of serving as a budget solution, the imposition of across-the-board cuts proved unworkable for a number of reasons:

- By having to cut everything by the same percentage amount, agencies had no ability to prioritize programs or services.
- Federal government spending requirements could not be changed.
- In some cases, the state needed to renegotiate contracts.
- Some across-the-board cuts — especially in areas such as state prisons and entitlement programs — were impossible without statute changes.

Recognizing that across-the-board cuts were untenable in many cases, legislative leaders agreed with Governor Gregoire's decision to call for a special session. After negotiating in advance with legislative budget leaders, the Governor called the Legislature for a one-day special session in December to approve another $590 million of budget solutions, including reductions to non-basic education programs and higher education.

At the Governor's request, the Legislature also unanimously enacted the state's first-ever amnesty program for businesses that owe back taxes. Under the amnesty program, the state waived penalties and interest for qualifying businesses that paid agreed-upon taxes. The program helped businesses to quickly resolve old tax issues and gave the state more sorely needed revenue than was originally projected. During the three-month amnesty window, nearly 8,900 businesses paid $343 million in back taxes: $282 million to the state and $61 million to local governments.

BUILDING THE 2011–13 BUDGET

Even as they were still struggling to plug holes in the 2009–11 budget, the Governor and OFM had to prepare for yet another deep shortfall in 2011–13 biennium. They realized that POG alone would not provide sufficient guidance for making the necessary budget choices. So, in the summer of 2010, the Governor launched what she called the "Transforming Washington's Budget" process.

First, as agencies began preparing their budget proposals, the Governor and OFM asked a series of tough questions to guide decisions on how to invest scarce dollars among so many competing demands:

- Is the activity an essential service?
- Does state government have to perform the activity, or can it be provided by others?
- Can the activity be eliminated or delayed in recessionary times?

- Does the activity need to be paid for with state general funds? Should users pay a portion of the costs?
- Are there federal funds or other fund sources available to support this activity?
- Are there more cost-effective, efficient ways to do the activity?
- Can the activity be the subject of a performance contract?
- Can the activity be the subject of a performance incentive?

Second, the Governor appointed the Transforming Washington's Budget Committee. Thirty-six business, nonprofit and government leaders offered and evaluated ideas. The Governor attended three of four OFM-sponsored town halls across the state that drew more than 2,000 citizens. A list of ideas was sent to the Governor for consideration in the budget process, based on citizen and committee input; many were included in the Governor's budget proposal and her policy reforms.

Third, an interactive website was developed to provide a forum for the public to participate and evaluate suggestions. More than 19,000 visitors offered 137,000 votes on hundreds of ideas to save money and operate government more efficiently. The Governor and OFM director responded to the most popular suggestions through videos and web postings that described what ideas were in use, what were under consideration and why some weren't feasible.

Shortly before unveiling her proposed 2011–13 budget, the Governor announced new collective bargaining agreements to reduce state employee pay by 3 percent — the first state employee pay cut in at least a half century. The agreements also required employees to pay a larger share of their health coverage. The Legislature approved the new contracts, in agreement with the Governor, reduced funding for K-12 salaries: 1.9 percent for teachers and 3 percent for classified and administrative staff. These pay cuts saved the state more than $350 million.

In all, the original 2011–13 budget included no new taxes and about $4.5 billion in reductions, including a renewed suspension of I-738 and I-732; additional cuts to higher education (again offset by increased tuition authority); additional enrollment cuts for the Basic Health Plan; a reduction in Temporary Assistance for Needy Family grants; and elimination of the Disability Lifeline program's monthly cash grants for unemployable adults.

The Legislature also approved many of the ideas put forward by the Governor and OFM to permanently "bend the curve" on the cost of state government. For example, lawmakers adopted the Discover Pass to replace General Fund support for the state parks system and a new user-pay fee structure to help pay for the licensing of adult family homes.

Washington has been widely recognized for having one of the nation's healthiest public pension systems, in large part due to reforms enacted as far back as 1997. But more benefit changes were needed to ensure their long-term sustainability. During the 2011 session, for example, lawmakers approved the Governor's proposal to end automatic annual benefit increases for members of the state's older employee pension plans. The reforms were projected to save taxpayers $344 million during the 2011–-13 biennium and $7.6 billion over the next 25 years.

Meanwhile, under a bipartisan agreement that Governor Gregoire helped broker, the State Finance Committee will gradually lower the state debt limit from 8.75 percent in fiscal year 2016 to 7.75 percent by fiscal year 2022. The agreement also sets up a commission to examine the state's use of debt, make recommendations on debt policy and debt limitations, and determine whether a constitutional change is needed.

OFM played a key role in the 2011 creation of the Department of Enterprise Services (DES), which consolidated all or parts of five agencies that provide support services to state government. Under the merger, DES is delivering essential services with greater efficiency, effectiveness and coordination. The Legislature also approved creating the Consolidated Technology Services agency to begin the merging of information technology services provided separately to other state agencies. The consolidation is saving the state nearly $19 million in the current biennium and reduced the state payroll by 95 FTEs.

The mergers brought significant new management functions to OFM. The newly created Office of the Chief Information Officer, which now has authority for statewide technology policy and standards, is bringing more clarity and alignment to state government IT investments. OFM is now home, too, to the Office of the State Human Resources Director, which oversees all statewide personnel policy functions such as classification, compensation, recruitment and retention and workforce data. Meanwhile, several OFM divisions were moved to DES: Risk Management, Contracts, Small Agency Client Services and Information Services.

Another major consolidation merged the state's two largest purchasers of health care: the Medicaid program at the Department of Social and Health Services and the Health Care Authority. The merger greatly increased the purchasing power of the new agency, which provides health care coverage for more than 1.6 million Washington residents.

But with consumer confidence still sinking, overall revenue collections continued to fall short of expectations. Anticipating yet another shortfall, OFM in August 2011 sent a memo instructing state agencies to prepare supplemental budget proposals for spending reduction plans of 5 and 10 percent.

Then, almost like clockwork, less than six months into the new biennium, the fall 2011 state revenue forecasts tore yet another gaping hole in the state budget. In September, Governor Gregoire announced she would again be calling the Legislature into special session in November to begin work on the supplemental budget, which she promised to unveil nearly a month early.

"Congressional gridlock, the European debt crisis and high unemployment continue to take their toll on consumer confidence and our state's economy," Gregoire said. "Once again, we are facing a budget shortfall and once again I'm calling the Legislature back into special session to address the state's budget. My only option is across-the-board cuts, and that option is unacceptable. Solving this budget crisis will require the Legislature to act."

The Governor devised a new approach to launch the budget deliberations. Working from the 5 and 10 percent cut proposals submitted by state agencies, the Governor and OFM reviewed more than $4 billion in budget reduction alternatives. In late October, a month before releasing her budget and the start of the special session, the Governor released her recommendations for about $2 billion in reduction alternatives that she would likely propose to the Legislature.

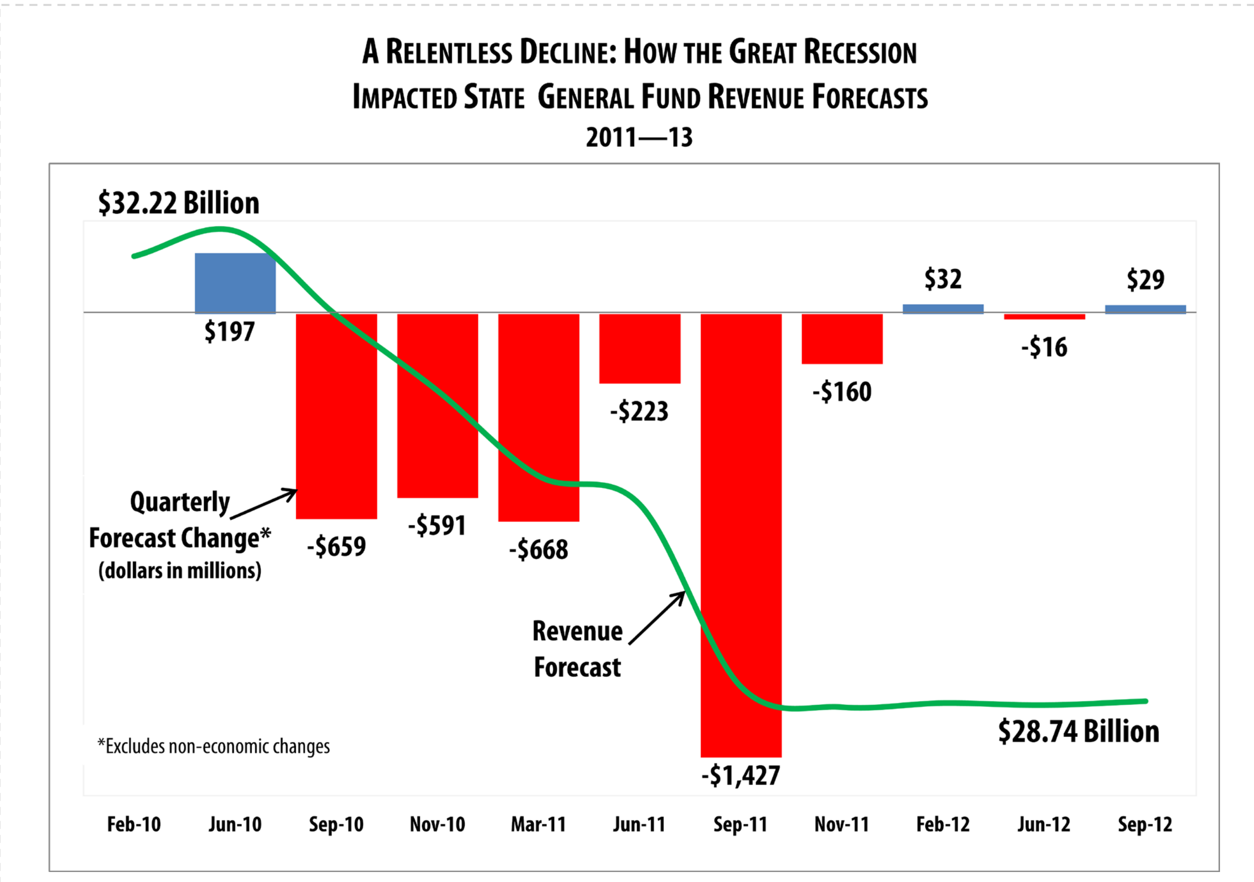
Hoping to prevent further damage to the state's safety net and to schools, the Governor and OFM then worked with the Department of Revenue to identify potential new sources of revenue. In all, the Governor reviewed more than 150 options submitted by Revenue, or suggested by citizens, state employees and interest groups, as well as a number of fees to offset the costs of certain programs. The options ranged from eliminating the state sales tax exemption for nonresidents and taxing the windfall profits of oil companies and banks to auctioning licenses for non-tribal casinos.

The Governor's goal was to identify revenue options that would support or have limited negative effect on the state's economic recovery, promote fairness among taxpayers, simplify the state's tax structure and provide immediate benefits. Using the theme "Building a Better Future" for her proposed supplemental budget, the Governor recommended the Legislature allow voters to decide whether to approve a temporary one-half cent sales tax increase that would raise $494 million during the biennium to prevent cuts to critical services in education, public safety and social services.

Governor Gregoire also asked the Legislature to consider passing on its own a series of revenue alternatives worth nearly $341 million; some could be passed with a simple majority and others with a two-thirds vote. The Governor offered a prioritized list of budget cuts that she felt should be restored first if the Legislature approved new revenue.

During its fall special session, the Legislature did not take up the Governor's revenue proposals. But legislators did approve an early supplemental budget that included more than $450 million in spending cuts and fund transfers.

Then, early in the 2012 regular legislative session, the immediate need for new revenue dwindled, thanks to a modest increase in the state's revenue forecast and an unexpectedly large drop in state medical assistance caseloads. Together, these lowered the shortfall by about $400 million.



The original state General Fund forecast (February 2010) for the 2011–13 biennium was more than $32 billion. But the forecast has fallen steadily since then, and the state is now projected to take in less than $29 billion during the biennium.

Office of Financial Management/Economic and Revenue Forecast Council, October 2012

Still, lawmakers needed two more special sessions to solve the latest shortfall (bringing to six the total number of extra sessions since the start of the recession in 2008). In the end, lawmakers approved nearly $300 million in additional spending cuts and reduced funding to local governments by $74 million. Lawmakers also approved a modernization of the state's process for collecting and dispersing local sales tax revenue that added nearly $240 million to the state's working capital reserve. The budget also assumed $120 million in savings resulting from agencies spending less than their appropriations after the 2012 supplemental reductions.

For the first time in several years, the 2012 supplemental budget made no new cuts to K-12 or higher education, although the Governor and lawmakers agreed to permanently repeal I-728.

For future budgets, Washington governors and legislators will face another new challenge. Under legislation approved this year, beginning with the 2013–15 biennium, Washington will be the only state in the nation required to pass a budget that balances spending against anticipated revenue over a four-year period. The Legislature created a new State Budget Outlook Work Group to develop long-term revenue and expenditure outlooks to measure whether the operating budget is balanced. The work group is composed of members from OFM, the Legislative Evaluation and Accountability Program, Office of the State Treasurer, the Economic and Revenue Forecast Council, the Caseload Forecast Council, and the Senate and House Ways and Means Committees.

A preliminary four-year outlook completed in August 2012 by OFM projects the state faces a nearly $500 million General Fund shortfall at the end of the next biennium, including reserves. But the outlook does not take into account the additional funding (estimated at more than $1 billion in the 2013–15 budget) needed for K-12 to meet the requirements of the Supreme Court's ruling earlier this year that the state for years has failed to meet its constitutional "paramount duty" to amply fund basic education.

As it begins building its 2013–15 budget, OFM is once again using the POG process. In OFM's initial budget instructions to agencies, Director Marty Brown cautioned that General Fund revenues will once again be "very limited" and that any proposals for new spending will have to be offset by new cuts. He also urged agencies to look for ways to make more fee-based programs self-supporting and stressed that the Governor's priority for any increase in General Fund revenue will be K-12 education.

"I wish I could say that our economic situation has stabilized but, despite some positive signs, we still face a degree of uncertainty about revenues and caseloads in both the current and ensuing biennia," Brown wrote. "The new budget must continue to re-examine all state functions to ensure that only essential services are funded, and that those services are delivered with maximum efficiency and attention to outcomes."

BUDGET CHALLENGES AND LESSONS LEARNED

No Washington governor in modern times has faced an economic and budget crisis that rivals what Governor Gregoire and her budget staff have experienced the past four years. But along the way, they have gained experience and insights that may prove valuable to future governors and OFM directors.

Strong, measured leadership is essential during the downturn

One of the greatest challenges any governor faces during an economic crisis is convincing political leaders, agencies, stakeholders and the public of the state's fiscal reality. Contrary to what many people seem to believe, the budget can't be balanced by simply eliminating the proverbial "Department of Fraud, Waste and Abuse." The fact is, Washington is consistently rated by independent groups as of the five best-managed states in the nation.

When facing a major budget crisis, a governor must be frank about the need for swift and bold action. The governor must clearly convey the difficult choices ahead and possible ramifications.

But there is a tricky balance the governor must strike: how to accurately communicate the state's fiscal situation without being overly alarmist or further weakening consumer confidence. To that end, the Governor and OFM made it a priority to keep agencies, state employees and the public informed on a regular basis about the state's budget situation, thereby helping ensure there were no big surprises when a new budget proposal was rolled out each fall.

Much of the problem was out of our hands

As was true for nearly every state, Washington's budget writers have had to handle a tremendous amount of uncertainty from Congress and the federal government. Likewise, the state's economy was continually buffeted by other outside economic forces, such as the debt crisis in Europe.

Congress' intransigence in addressing the nation's debt problem has rattled consumer confidence. And federal leaders have often lost sight of the fact that when they cut funding to states, a portion of those cuts are typically passed on to local governments. Nationwide, the loss of state and local government jobs has continually offset gains in private sector jobs.

The one positive thing Congress did for the states during the recession was to pass the American Recovery and Reinvestment Act of 2009. Without the federal stimulus for transportation, public works and weatherization projects, the construction sector might have collapsed. State budgets would have been decimated without the stimulus funding for teachers, higher education and public safety workers. Services to those with the greatest needs would have suffered without enhanced funding for Medicaid programs. Indeed, the nation might well have fallen into a depression without the budget-sustaining, job-creating federal stimulus package. If anything, the federal stimulus package should have been larger.

However, there is a downside to any federal bailout that must be taken into consideration. By their nature, bailouts are temporary. So unless the economy recovers rapidly enough to replace the federal windfall, the state will likely face another fiscal cliff when those funds run out.

Navigating political and fiscal realities closer to home

Governor Gregoire and OFM had to continually manage budget forces, political realities and legal roadblocks that put serious limitations on their ability to reduce or revamp state spending.

About 60 percent of the state's General Fund spending is largely off limits — such as basic education, debt service and federally funded programs that have strict maintenance-of-effort requirements — for cuts. That means most spending cuts typically had to come from the remaining 40 percent of the budget. Oftentimes, the Governor found that where she *could* cut was precisely where she didn't *want* to cut.

Every budget reflects certain values. The challenge for budget writers is that different individuals and groups have different values. Citizens, interest groups and most elected officials look at the state budget in terms of silos — their silos — and don't fully recognize the budget's complexity or interconnectedness. As much as possible, a governor needs to avoid letting the budget become a battle ground that pits competing interest groups against each other.

Seeking to quell the perennial budget tussle between education and social service interest groups, for instance, Governor Gregoire often emphasized how their budgets were tied together. As the Governor frequently pointed out, getting a better education usually means less reliance on social services in the long run. Likewise, a healthy child stands a much better chance of succeeding in the classroom.

In the years leading up to the Great Recession, when the state was amassing record budget surpluses, everyone wanted spending increases for individual pet projects or tax breaks and tax cuts for particular businesses and industries. Then, as the economy began its nosedive, everyone wanted pet programs to be held harmless. Though it quickly became clear that all programs would have to be cut or altered in some way, interest groups typically offered suggestions for cutting someone else's program. This reality is compounded by the fact that, in addition to opposing cuts to their favorite programs, people are often even more unwilling to pay for them with new taxes — especially during hard times.

But it's not just legislators, interest groups and the public who push back against a governor's efforts to balance the budget. Significant resistance can come from within the Governor's own Cabinet agencies, which, just like outside groups and individuals, often struggle with the big picture. To help overcome this, Governor Gregoire made a point of keeping all state employees — from agency heads to janitors — apprised of the state's budget situation by sending out regular statewide employee emails. And before finalizing her budget proposals, the Governor made it a practice to convene a special meeting for Cabinet members so they could vent about cuts and hear from each other how their agencies would be affected.

Nearly every legislator has pet projects or programs that he or she works hard to protect or expand. And oftentimes, in order to implement policy, legislators insert provisos in the budget to put conditions or constraints on funding for particular purposes. These provisos reduce state agencies' flexibility to prioritize spending in the face of declining revenue. It was particularly a problem when the state was faced with across-the-board reductions. Funds covered by provisos — no matter how inane the purpose — could not be reduced beyond the across-the-board target percentage without legislative action.

Lawsuits pose another major limitation on a governor's ability to balance the budget. Over the past few years, the state was sued more than a dozen times by groups opposed to particular budget cuts. For example, although legal aliens are not eligible for federal food stamps, a King County judge blocked the elimination of state food assistance, ruling that the impact on legal aliens and immigrants was discriminatory. It took more than a year for the Ninth Circuit Court of Appeals to overturn this decision, costing the state more than $24 million in savings. And a case is pending over the state's decision in 2011 to halt automatic annual benefit increases for members of the older public employee pension plans.

It sends a strong message, but does it work?

When confronting major budget shortfalls, there are certain actions the governor can take unilaterally or with the Legislature to send a message to agencies, interest groups and the public about the severity of the crisis. But while such actions may have strong symbolic value, budget writers should have realistic expectations about how difficult they can be to administer and how much savings they will actually generate.

During financial crises, there are often calls for the governor to impose across-the-board cuts to state government. There are times when across-the-board cuts do have practical advantage as a short-term solution. When the Legislature is not in session, they are the only statutory mechanism at the governor's disposal for putting the brakes on spending. But the reality is across-the-board cuts are generally not an effective or wise way to reduce spending.

Similarly, actions such as freezes on hiring, travel and equipment purchases are effective in sending a message to agencies about the need for spending restraint. While such freezes undoubtedly save money, their overall impact on the budget is minor, while the time and effort to administer them are considerable.

Certain state services are critical. Thus, any long-term freeze must have exceptions, which creates the need for a review and approval process. Under the statutory freezes adopted in 2009 and 2010, that responsibility fell to OFM. During a two-year period, several thousand exemption requests were submitted. Each exemption required extensive preparation by the requesting agency and then reviews by OFM, and in the case of the hiring freeze, input from the Department of Personnel.

What's more, extended hiring and salary freezes also place significant burdens on agencies and their ability to manage. In some cases, agencies can't fill vacancies in positions that are key to the service they provide. And over time, the drain on agencies increases as staff may look elsewhere for jobs in order to get a salary increase.

Some final thoughts

In the months leading up to the global financial crisis in 2008, few economists could have predicted the depth or duration of the recession that ensued. For budget writers here in Washington state, it was like having the fiscal rug pulled out from under them over and over — for more than three straight years.

When having to make successive spending cuts year after year, it became a struggle for agencies to do their "regular business" and to keep a clear vision of how a program is designed and where it is headed. Governor Gregoire relied heavily on OFM and her policy office to constantly gauge the cumulative effects of cuts to individual programs.

The prolonged revenue decline allowed budget writers to solve the problem in incremental steps and often resort to fund shifts or other one-time fixes. That approach may have provided short-term stability, but it likely masked the severity crisis and diminished the opportunity for the sort of long-term "grand solutions" needed to fix the state's structural budget shortfall.

In hindsight, one has to wonder: If the public could have seen in 2008 how bad the recession would get and how long it would last, would there have been more support at the outset for sorely needed revenue reforms? Would budget writers have taken more sweeping budget actions such as wholesale program eliminations or pulling back on local government revenue sharing?

Throughout the recession, one of the state's guiding principles in tackling the budget shortfall was "shared sacrifice" — every agency and every program would have to cut back. That's an important principle in creating a sense of fairness and building support for budget solutions. But, again in hindsight, OFM leaders are left to wonder: When facing such a major crisis, instead of tinkering in every area of the state budget, would it be better for the agency to focus its attention and its analytical horsepower in the relatively few places that make up the bulk of the budget?

One thing that became clear through all of this is the vital role OFM must play during a major recession. In many respects, OFM's most important contribution in a budget crisis is its ability and willingness to identify all of the most difficult spending and revenue alternatives, and then put them on the table for reaction from the Legislature, agencies, interest groups and the public.