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PORTLAND BUSINESS JOURNAL

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State's budget must match new fiscal reality

Puget Sound Business Journal (Seattle) - by [Richard Davis](#)

A special summer session to fix the state budget figured in no one's vacation schedule. Worse, for majority Democrats a budget-cutting, tax-raising session before the November election makes incumbency as attractive as acne the night before the prom.

Yet, a special session cannot be ruled out. Here's the problem: The budget that lawmakers passed last spring counted on \$480 million from the feds in extended Medicaid funding. It seemed like a safe bet at the time. The president promised the money, and Congress signaled support. But so far, no joy. Lacking sufficient reserves to cover the loss, Gov. Chris Gregoire says she'll make across-the-board cuts if the suddenly deficit-demure Democrats in D.C. don't deliver by Aug. 9.

Smarter, targeted cuts would require legislative action. So would the deeper cuts necessary to leave some money in the bank. Another round of tax hikes this close to an election is scarcely conceivable.

The immediate shortfall, however, is not Gregoire's biggest worry. Even if Congress comes through, the two-year budget lawmakers write in 2011 begins with a \$3 billion shortfall. That's probably a best-case scenario. Revenue is falling below forecasts. The gap will widen.

That's why the governor launched her current effort to "transform the state budget" and named an advisory committee of nearly three dozen members, including representatives from organized labor, business, higher education, and the Legislature. (I'm one of them.)

The public participation element began this week, with hearings held in Tacoma and Everett. Hearings in Spokane and Vancouver are scheduled for next week.

Governors across the country face a common condition. Oregon Gov. Ted Kulongoski recently told Portland's City Club, "We have taken stock of the role and functions of state government and concluded that the government we have is too expensive to maintain in the wake of the Great Recession." True in Oregon, Washington and most other states.

Kulongoski was speaking about the final report of his "Governor's Reset Cabinet." It's a comprehensive "menu of options" — some look good, others not so much — that will inform his budget recommendation for 2011-13. He's not eligible for reelection this year, so implementation falls to his successor. Still, this looks like more than a lame duck governor's deathbed conversion.

As he says, the recession "changed reality." And, while "change is hard ... uncertainty is worse." States must decisively reset.

This corner of the U.S. has been slow to acknowledge the persistence, the permanence of the Great Recession. Sure, overspending contributed to the problem, but there's no denying the deep drop in

state revenue. Consumer and business spending won't return to peak levels for years. State tax collections won't soon rebound. Add to the "changed reality" the likelihood of voters here reinstating a supermajority requirement for tax increases and the budget vise tightens even more.

The new austerity conflicts with the expansive and expensive policy agenda of liberal Democrats and their labor, environmental and social service allies. So there's certain to be a distinctive Northwest blue tint to the lens through which this administration scrutinizes state spending.

Gregoire pointedly insists that her budget transformation will "reflect the values that we hold as a state." She lists them: early childhood education, improved health, environmental protection, and more. It's an inoffensive and unenlightening compilation.

Apparently, we value it all. But we cannot afford it all.

Don't anticipate from Gregoire the feisty enthusiasm of New Jersey Gov. Chris Christie, who revels in his battles with public employee unions. And don't look for her to walk away easily from her favored health and education initiatives. Do, however, expect her and the next Legislature to adapt to the new fiscal realities. They're out of time and alternatives.

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