



JAMES L. McINTIRE  
State Treasurer

State of Washington  
Office of the Treasurer

January 5, 2011

Hon. Christine Gregoire, Governor  
PO Box 40002, Olympia, WA 98504-0002

Hon. Mike Hewitt, Senate Minority Leader  
PO Box 40416, Olympia, WA 98504-0416

Hon. Lisa Brown, Senate Majority Leader  
PO Box 40403, Olympia, WA 98504-0403

Hon. Richard DeBolt, House Minority Leader  
PO Box 40600, Olympia, WA 98504-0600

Hon. Frank Chopp, Speaker of the House  
PO Box 40600, Olympia, WA 98504-0600

Dear Governor Gregoire, Senator Brown, Speaker Chopp, Senator Hewitt and Representative DeBolt:

Throughout the past two years, you have responded to the fiscal challenges presented by the worst collapse in state revenue we have seen in 80 years with thoughtful and compassionate resolve. Your prompt and decisive response to the latest revenue forecast revision during the December special session is to be commended – but it is only a first step toward the fiscal discipline needed to maintain Washington’s hard-won reputation for strong financial management.

Governor Gregoire’s supplemental budget makes it abundantly clear that it will be extremely difficult to find enough spending cuts to balance the current biennial budget by June 30. While you will write your own version of this painful budget, **I urge that you act this month – without gimmicks or delay – to avoid ending the biennium with the state general fund in deficit for the first time in nearly three decades.**

The fiscal discipline to balance the current budget will also be needed in many of the other financial decisions you make during the upcoming legislative session:

- The Governor’s proposed budget for next biennium illustrates the necessity of continuing the reductions in the supplemental budget to balance the 2011-13 budget with available, forecasted revenues. It’s very unlikely that revenues will rise sharply during the next two years.
- Increased pension fund contributions account for \$700 million of next biennium’s budget gap – contributions that will help pay for contractual obligations made to teachers and public employees. While it is very tempting to defer pension payments to pay for education and health care today, the absence of investment returns on these contributions can quadruple the drain on the general fund in the future. Whether or not you enact the Governor’s benefit reform proposals, I believe you should adopt constitutional provisions to stop the practice of underfunding pension obligations. These provisions are already in statute, but are too easily modified under fiscal duress.
- The bond-financed portion of the capital budget will likely be dramatically smaller during the next biennium as we are up against the state’s constitutional debt limit. Three years of below normal revenue growth has brought this limit lower than anticipated and increased debt service



payments to over 6% of state general fund expenditures. We must avoid artificial measures to expand the debt limit into the future if we want to avoid crowding out critical education and health care over time. Washington's debt burden is already in the top ten states – double the national median.

Unfortunately this is not a Happy New Year – it's a fiscal reality check. Washington has retained its excellent credit rating through the last two difficult years. **A credit rating downgrade now would take several years to reverse, and would increase interest costs by several hundred million dollars for bond-financed state capital and transportation budgets, and for virtually all local K-12 school district bonds, which are guaranteed by the state.** But higher interest costs mean more than just smaller capital budgets – they also mean fewer general fund dollars for critical education and health care spending and other priorities.

The good news is that, unlike other states, we have a very good track record of strong financial management and of making timely decisions to bring our budgets into balance and of paying our bills. We have been a national leader in pension reforms, and with those I propose we will remain a national leader.

Because a smaller capital budget does not bode well for our anemic construction industry, I pledge to work with you and local governments on a proposal to expand investments in public infrastructure – including such things as storm water systems and flood levees. I believe if we work together we can stimulate new construction jobs and bolster our economy – without new revenues and without expanding the state debt limit.

I look forward to working with you on these difficult challenges in the weeks and months ahead. Fiscal discipline today will help us create a much more sustainable financial future for the state – and ultimately prevent even deeper service cuts. I know there will be many more extraordinarily difficult and painful decisions to make. My office is here to help in any way we can to find the best way forward. Please do not hesitate to contact me if I can be of any assistance.

Sincerely,



James L. McIntire,

State Treasurer

Cc: Senator Ed Murray, Chair Ways and Means Committee  
Representative Ross Hunter, Chair Ways and Means Committee