STATE BUDGET UPDATE

More Big Challenges Ahead

May 5, 2014
Looking ahead to the 2015–17 budget
Why will the 2015–17 budget be so difficult?

We solved the 2013–15 budget shortfall largely by relying on solutions that are not available again. For example, we:

- Redirected $387 million in capital budget — including $277 million from the Public Works Trust Account — to cover operating expenses
- Captured $351 million in savings by expanding Medicaid under the Affordable Care Act
- Raised $272 million by temporarily extending the hospital safety net assessment
In the current budget, we once again suspended teacher COLAs and did not provide state employee pay raises.

And still we fell far short of our $1.5 billion target for meeting our basic education obligation.
Barring an unforeseen dramatic rise in economic activity and revenue collections, we will face another sizable shortfall when we begin work on the 2015–17 budget.
State revenue collections are expected to grow by more than $2 billion … What’s the problem?
2015–17 Operating Budget Outlook
Near General Fund (GF-State, Education Legacy Trust Account, Opportunity Pathways Account)

Projected Additional Revenue

$2.4 billion

Projected Additional Spending Needs

Maintenance & Carry Forward - $1.8 billion
Includes $707M to continue FY 2015 appropriation level.
Maintenance level estimate includes:
- $296M low-income health care
- $218M K-12 education
- $116M mental health, DD, long-term care

$339M pension costs

$226M I-732 COLA

$198M debt service

$236M employee health care

Policy Enhancements $600M includes:
- early learning
- higher education
- state employee and higher education salaries
- all other policy enhancements

$1.5 billion – $2 billion
McCleary
Two-thirds of the budget is tied to constitutional and federal requirements

- **K-12 Basic Education**: 42.3%
- **Higher Education**: 9.2%
- **Nursing Homes, DD, Courts**: 8%
- **Mandatory Medicaid**: 10.2%
- **Debt Service/ Pensions**: 5.9%
- **Other Human Services**: 13%
- **Other**: 6.5%
- **Corrections**: 5%

*Other includes balance of K-12, legislative agencies, governmental operations, natural resources, transportation, other education, other appropriations*
Some perspective on the structural problem we face in Washington
Meeting our basic education obligation — nearly $5 billion needed over next 4 years

- Estimated cost to continue phasing in HB 2776 (McCleary)
- Projected cost of Initiative 732 (teacher COLAs)
- Projected cost of enrollment and other mandatory increases

FY 2016: $600 million
FY 2017: $1.1 billion
FY 2018: $1.5 billion
FY 2019: $1.7 billion

30,000 more students projected by 2019
Revenue collections are at historically low levels when compared to our overall economy.

- In 1990, GF-S revenue equaled about 7% of total personal income.
- If the same were true today, we would have about $15 billion in additional revenue for current biennium.

General Fund-State revenue as percentage of Washington personal income

Fiscal Year

Washington State Economic and Revenue Forecast Council, September 2013
Washington ranks low in state and local tax collections

State and Local Tax Collections Per $1,000 Personal Income
Fiscal Year 2011

U.S. Average = $108.31

Washington $98.95

Source: Bureau of Economic Analysis and Census Bureau
U.S. Department of Commerce
So what are we going to do?

- Manage the “Lean/efficiency” cuts
- Prioritize our spending
- Bend the cost curve on health care costs
- Look to close loopholes and other new revenue ideas
- Continue to grow jobs and the economy