STATE BUDGET UPDATE

More Big Challenges Ahead

November 2014
Washington’s economy is rebounding … but at a very slow pace
It took more than 5 years to recover all the jobs lost during the Great Recession.

Job losses and duration of Post WWII recessions in Washington.

Major labor management disputes are removed for clarity.
State revenue collections are also rebounding, but at a much slower pace than after previous recessions
State revenue remains well below historic growth trend

Total Near General Fund assuming 4.5% growth

Total Near General Fund
Looking ahead to the 2015–17 budget …
It could be more challenging than the 2013–15 budget
Why will the 2015–17 budget be so difficult?

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

- Redirected $387 million in capital budget — including $277 million from the Public Works Assistance 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.

The budget includes new revenue — $159 million from the estate tax (Bracken) fix and $99 million in telecom reform savings.
The June 2013 forecasts also helped — $230 million in additional revenue and $229 million in caseload savings.

Even after all that, we once again needed to suspend teacher COLAs, and did not provide state employee pay raises.

And still we fell short of our $1.5 billion target for meeting our basic education obligation.
State revenue collections are expected to grow by more than $2.5 billion ... What’s the problem?
Preliminary 2015–17 Operating Budget Outlook
Near General Fund (GF-State, Education Legacy Trust Account, Opportunity Pathways Account)

Projected Additional Revenue

$2.8B

Projected Additional Spending Needs

Maintenance & Carry Forward
Estimated $1.9B

I-732/K-12 salaries $400M
Bargaining $583M
Highest Priority Policy Needs $500M
McCleary $1.2B
I-1351 $2B

Pension costs $275M
Debt service $200M
State employee health care $190M

$750M

$2.45B
About 2/3 of the budget is protected by constitutional and federal requirements . . . So we must look to the other 1/3 for savings.
Some perspective on the structural problem we face in Washington
Meeting our statutory education obligations — $5.7 billion needed over next 2 biennia

- 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: $760 million
FY 2017: $1.3 billion
FY 2018: $1.7 billion
FY 2019: $2 billion
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 the current biennium.
In 1995, Washington ranked 11th in state and local tax collections ... By 2011, we ranked 35th

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

Washington $98.95

Source: Bureau of Economic Analysis and Census Bureau
U.S. Department of Commerce