

Title	2015-17 Budget Outlook
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Synopsis:	Jim Crawford (Assistant Director) and Paula Moore (Senior Budget Assistant), both staff from the Office of Financial Management (OFM), will present the budget outlook for the upcoming biennium. In addition to discussing revenue projections and spending pressures, they will discuss the state's progress in fulfilling its obligations in the McCleary decision on K-12 funding.
Guiding questions:	<ul style="list-style-type: none"> • Given the budget outlook, how does the Council want to approach budget requests? • How will the budget outlook affect the Strategic Action Plan? • How can the Council be most effective in light of the budget outlook?
Possible council action:	<input checked="" type="checkbox"/> Information Only <input type="checkbox"/> Approve/Adopt <input type="checkbox"/> Other: _____
Documents and attachments:	<input type="checkbox"/> Brief/Report <input checked="" type="checkbox"/> PowerPoint <input type="checkbox"/> Third-party materials <input type="checkbox"/> Other



STATE BUDGET UPDATE

More Big Challenges Ahead

June 2014

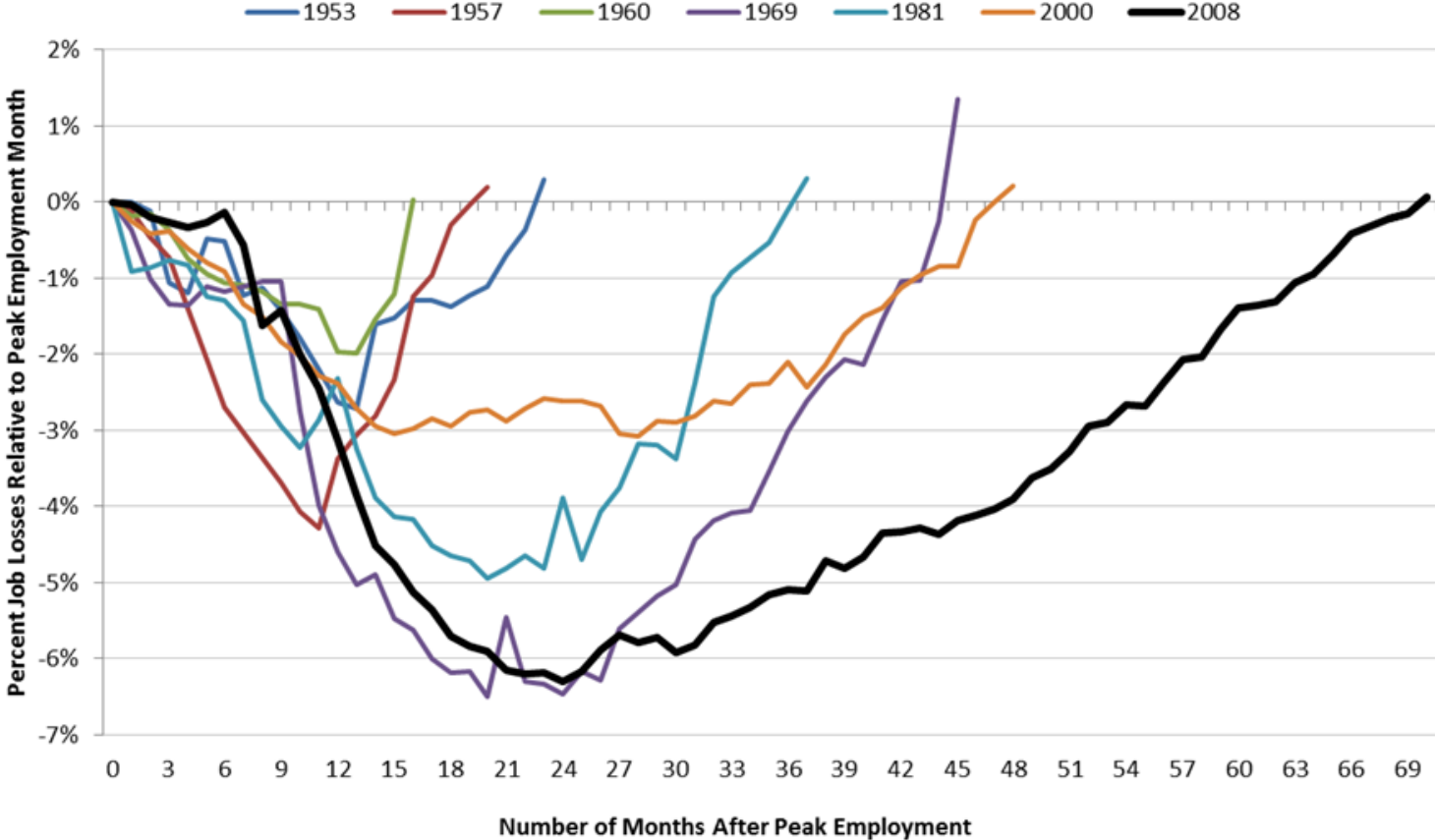
OFFICE OF

FINANCIAL **M**ANAGEMENT

*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

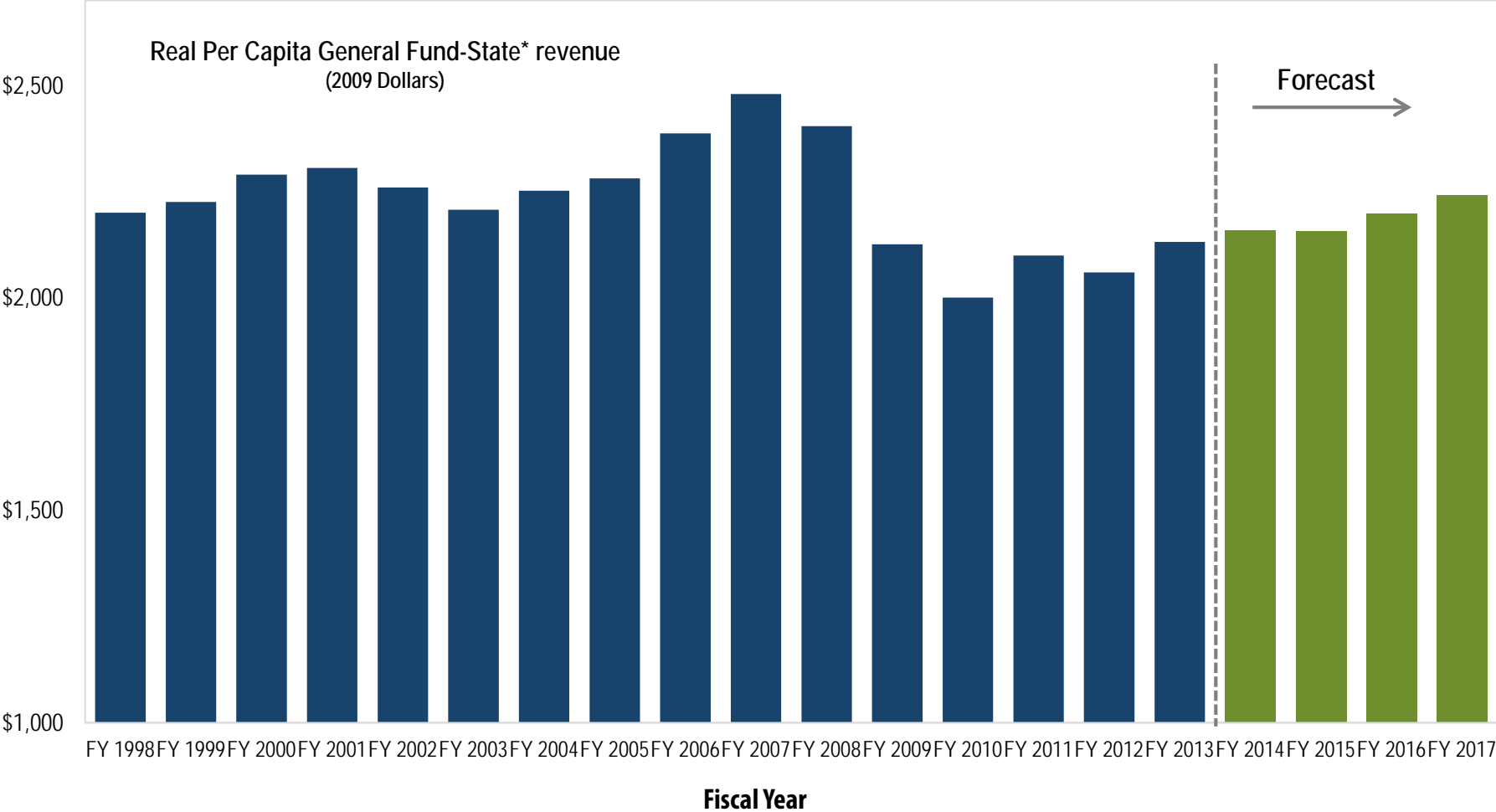
Figure 1: Job Losses and Duration of Post WW2 Recessions in Washington



Major labor management disputes are removed for clarity

State revenue collections are also rebounding, but at a much slower pace than after previous recessions

Projected real per capita revenue growth is relatively flat



*Reflects General Fund and related funds for fiscal years 1995–2009; General Fund, new definition for fiscal years 2010–17

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 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.

We also were helped by good news in June 2013 forecasts — \$230 million in additional revenue and \$229 million in caseload savings.

The budget includes new revenue — \$159 million from the estate tax (Bracken) fix and \$99 million in telecom reform 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

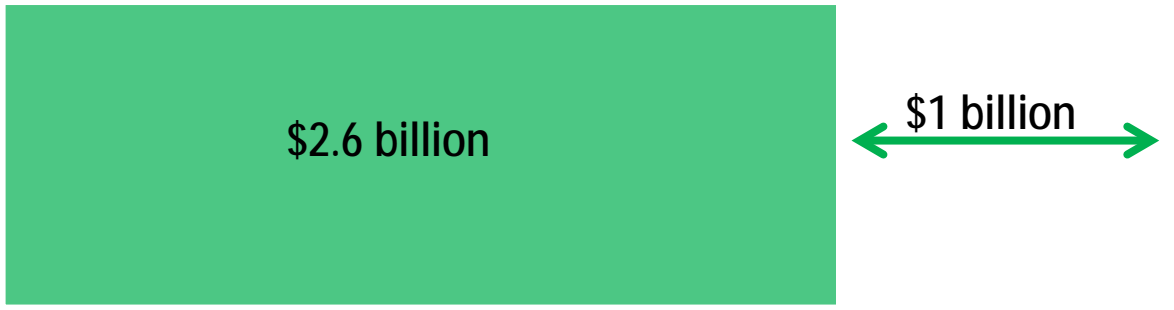
Barring an unforeseen dramatic rise in economic activity and revenue collections, we will face another sizable shortfall when we begin work on the 2015–17 budget

*State revenue collections are expected to grow
by more than \$2.5 billion ... What's the
problem?*

Preliminary 2015–17 Operating Budget Outlook

Near General Fund (GF-State, Education Legacy Trust Account,
Opportunity Pathways Account)

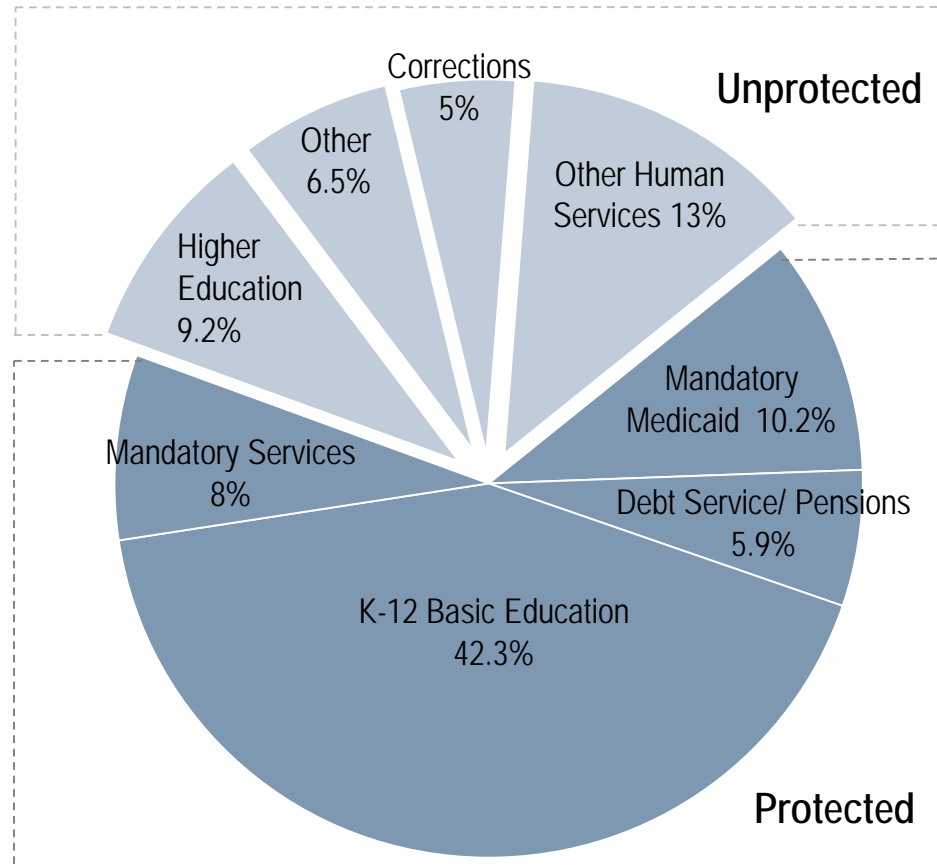
Projected Additional Revenue



Projected Additional Spending Needs

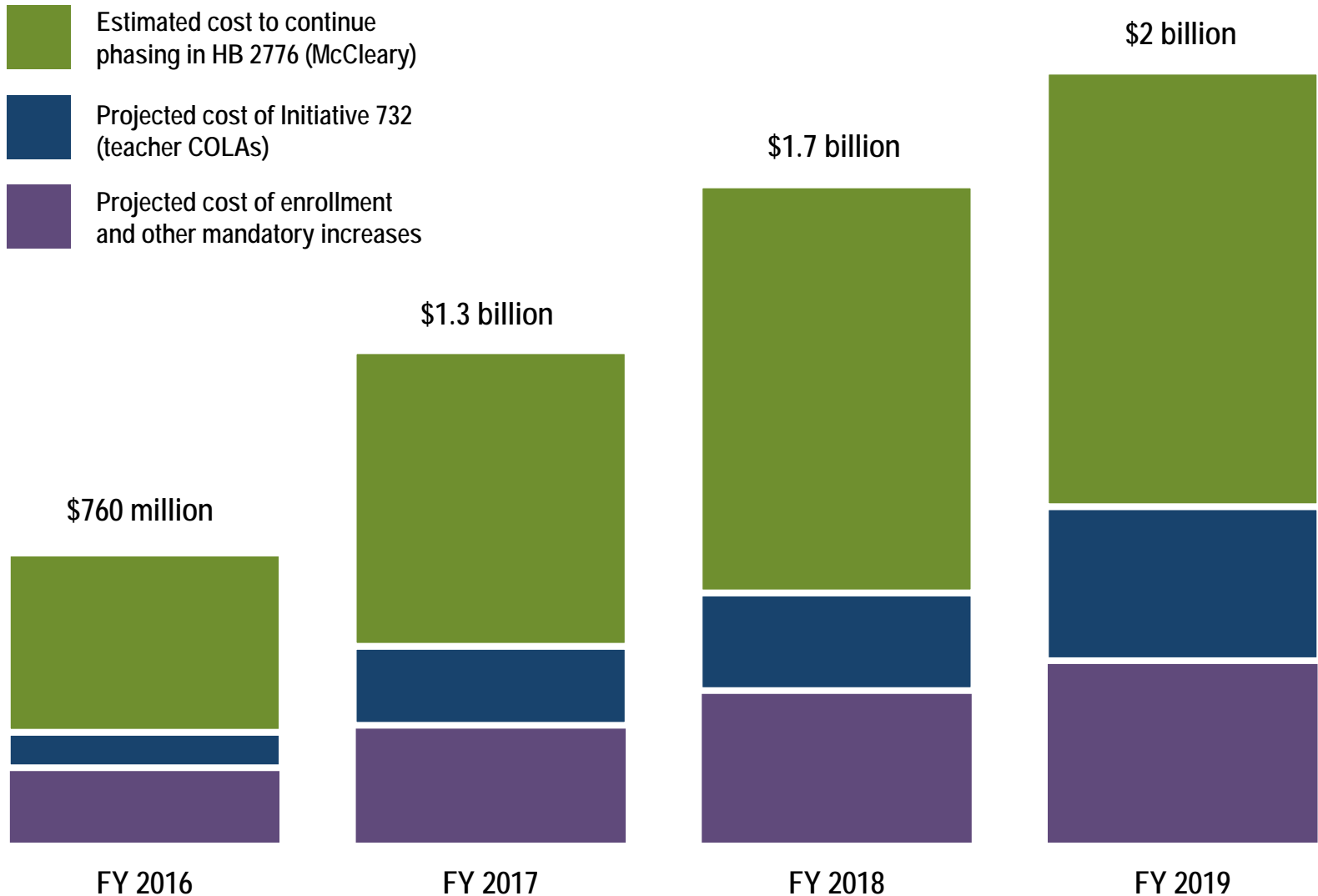
<p>Maintenance & Carry Forward Estimated \$1.7 billion</p> <p>Includes \$647M to continue FY 2015 appropriation level.</p> <p>Maintenance level estimate includes:</p> <ul style="list-style-type: none"> • \$175M low-income health care • \$215M K-12 education • \$150M mental health, DD, long-term care 	<p>\$432M pension costs</p>	<p>\$200M debt service</p>	<p>\$308M employee health care</p>	<p>\$321M I-732 COLA</p>	<p>Policy Enhancements \$600M includes:</p> <ul style="list-style-type: none"> • early learning • higher education • state employee and higher education salaries • all other policy enhancements 	<p>\$1.2 billion –\$2 billion McCleary</p>
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About 2/3 of the budget is protected by constitutional and federal requirements . . .
So we must look to the other 1/3 for savings

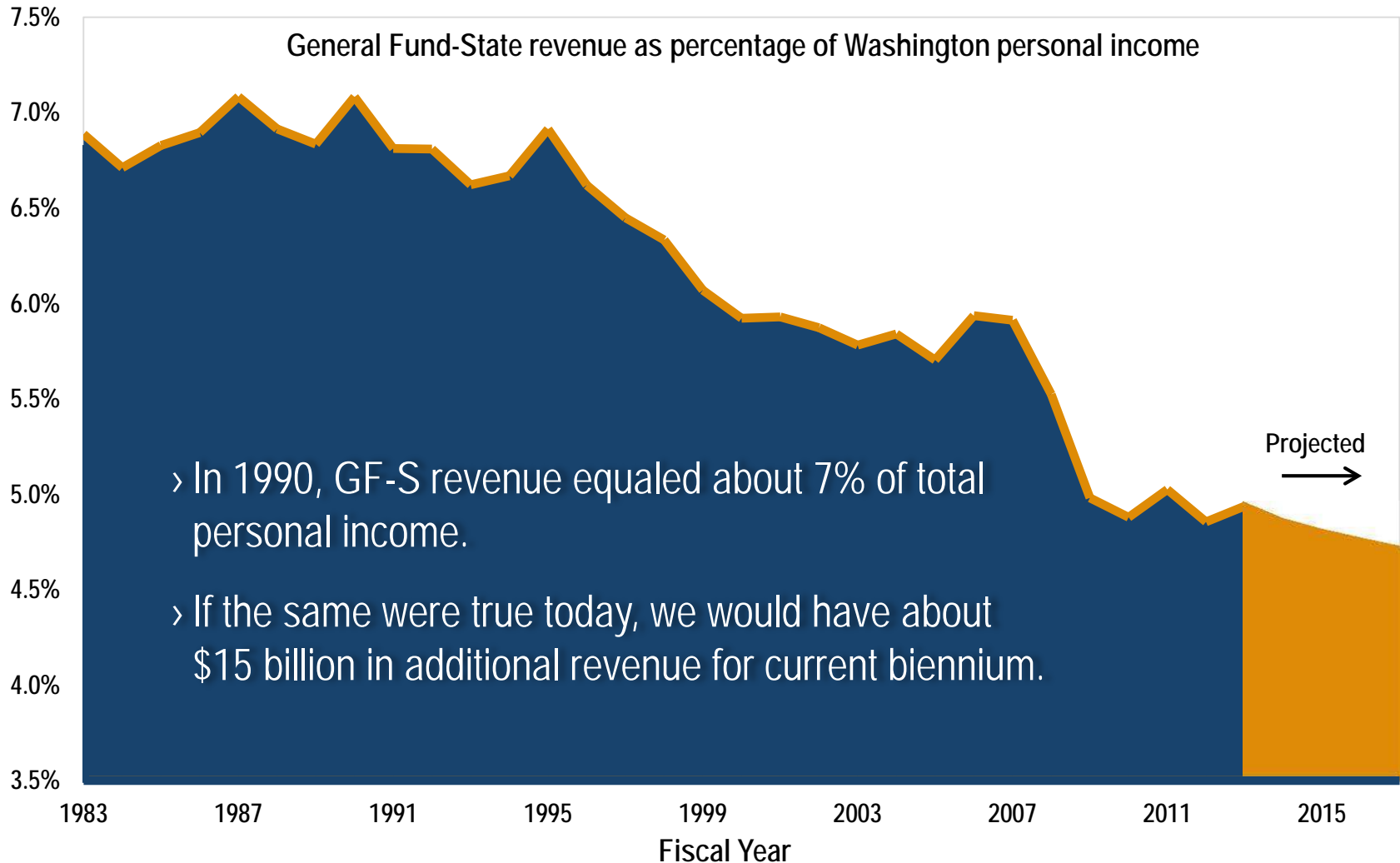


*Some perspective on the
structural problem we face in Washington*

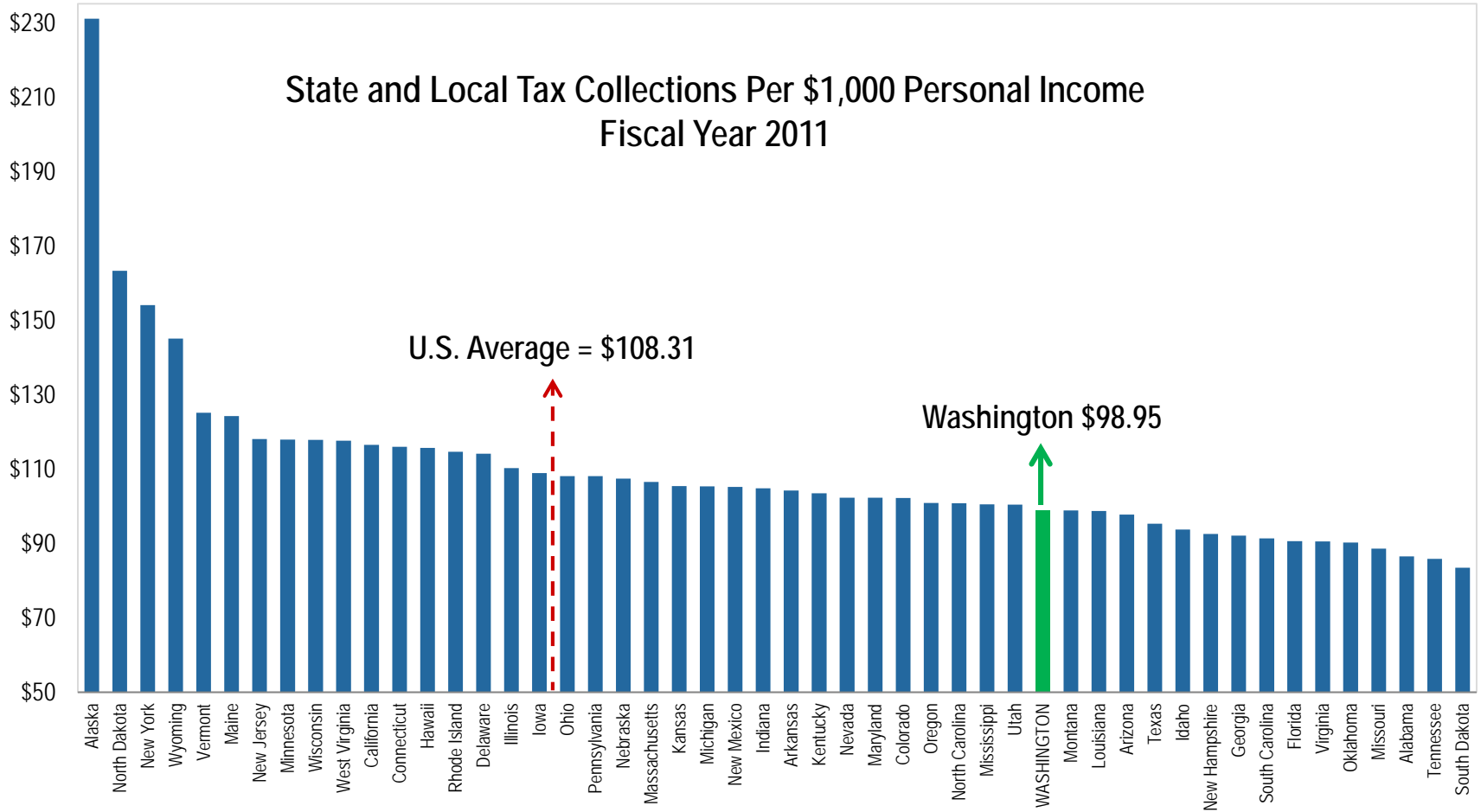
Meeting our basic education obligation — \$5.7 billion needed over next 2 biennia



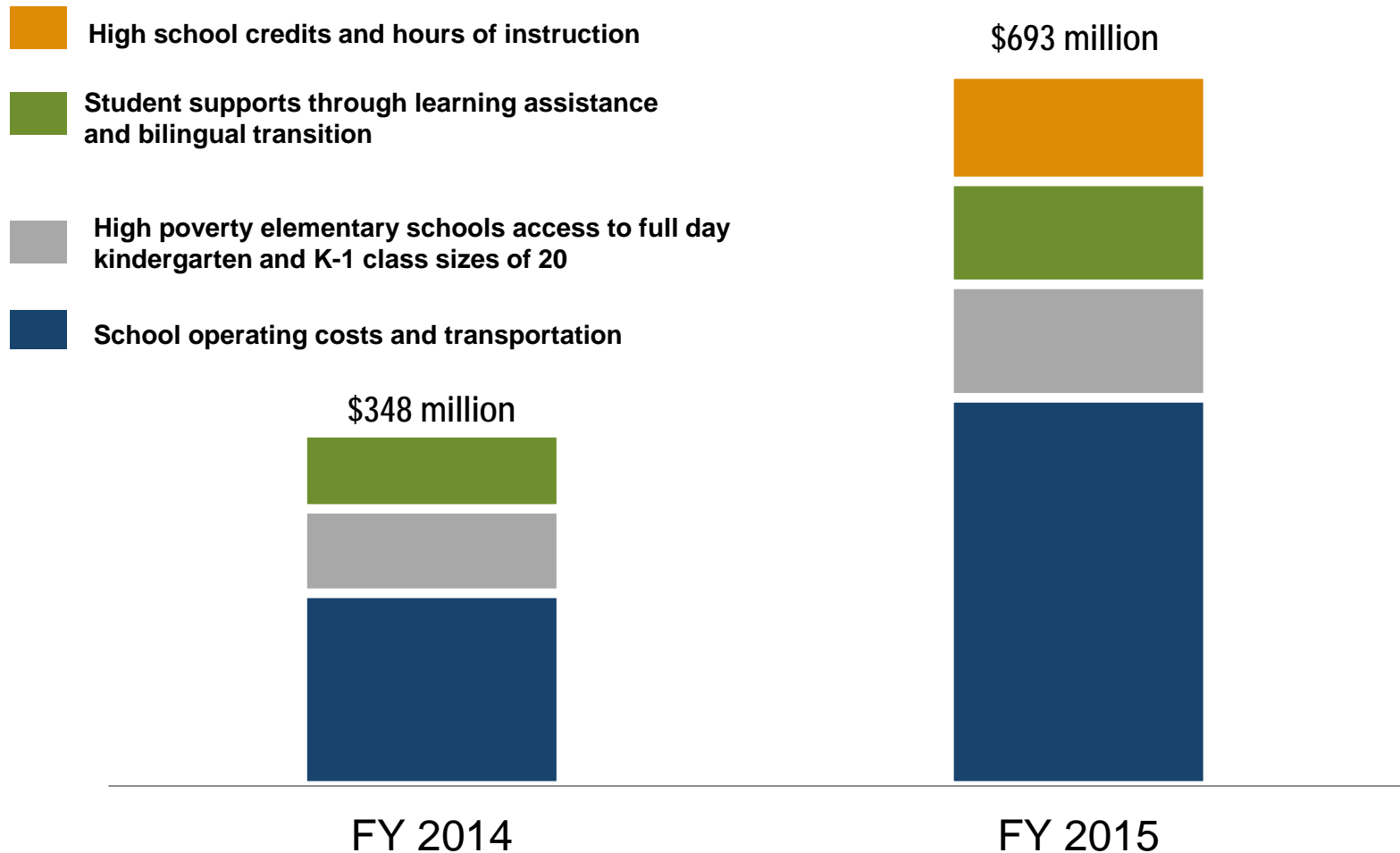
Revenue collections are at historically low levels when compared to overall economy



In 1995, Washington ranked 11th in state and local tax collections ... By 2011, we ranked 35th



In 2013-15, basic education investments targeted high schools, supporting students, and school operations



2015-17 estimates assume linear phase-in of HB 2776

