



# STATE BUDGET UPDATE

More Big Challenges Ahead

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OFFICE OF

**F**INANCIAL **M**ANAGEMENT



*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

**\$198M**  
debt service

**\$226M**  
I-732  
COLA

**\$236M**  
employee health care

### Policy Enhancements

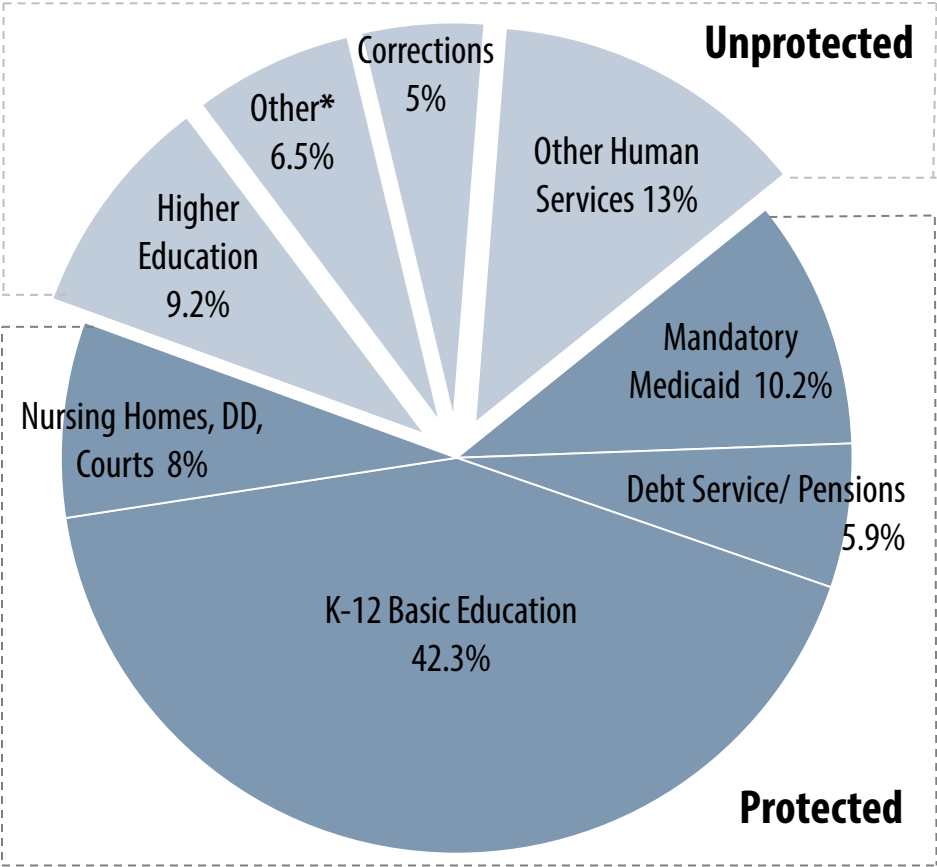
**\$600M** includes:

- early learning
- higher education
- state employee and higher education salaries
- all other policy enhancements

**\$1.5 billion – \$2 billion**  
McCleary



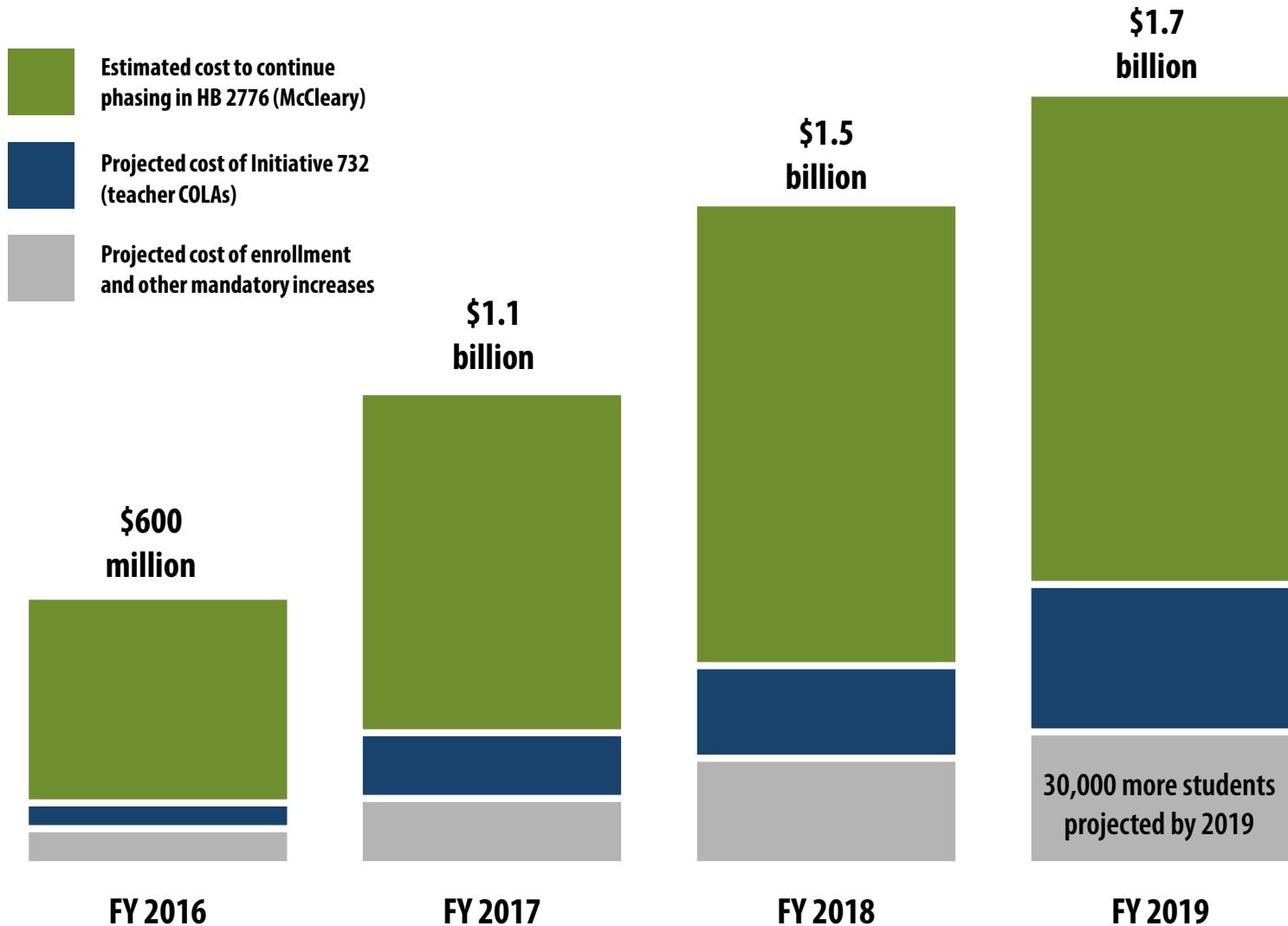
# Two-thirds of the budget is tied to constitutional and federal requirements



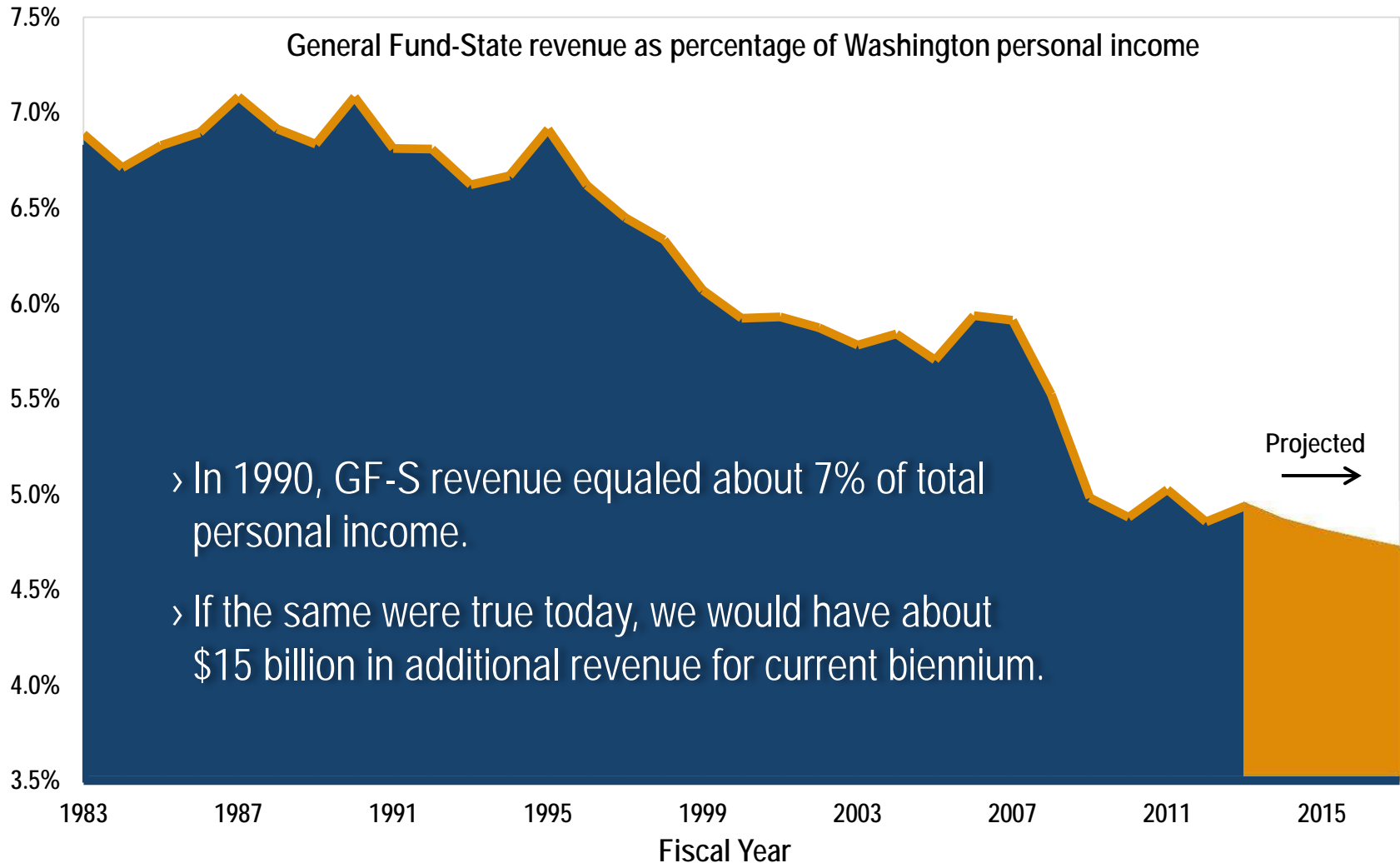
\*Other includes balance of K-12, legislative agencies, governmental operations, natural resources, transportation, other education, other appropriations

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

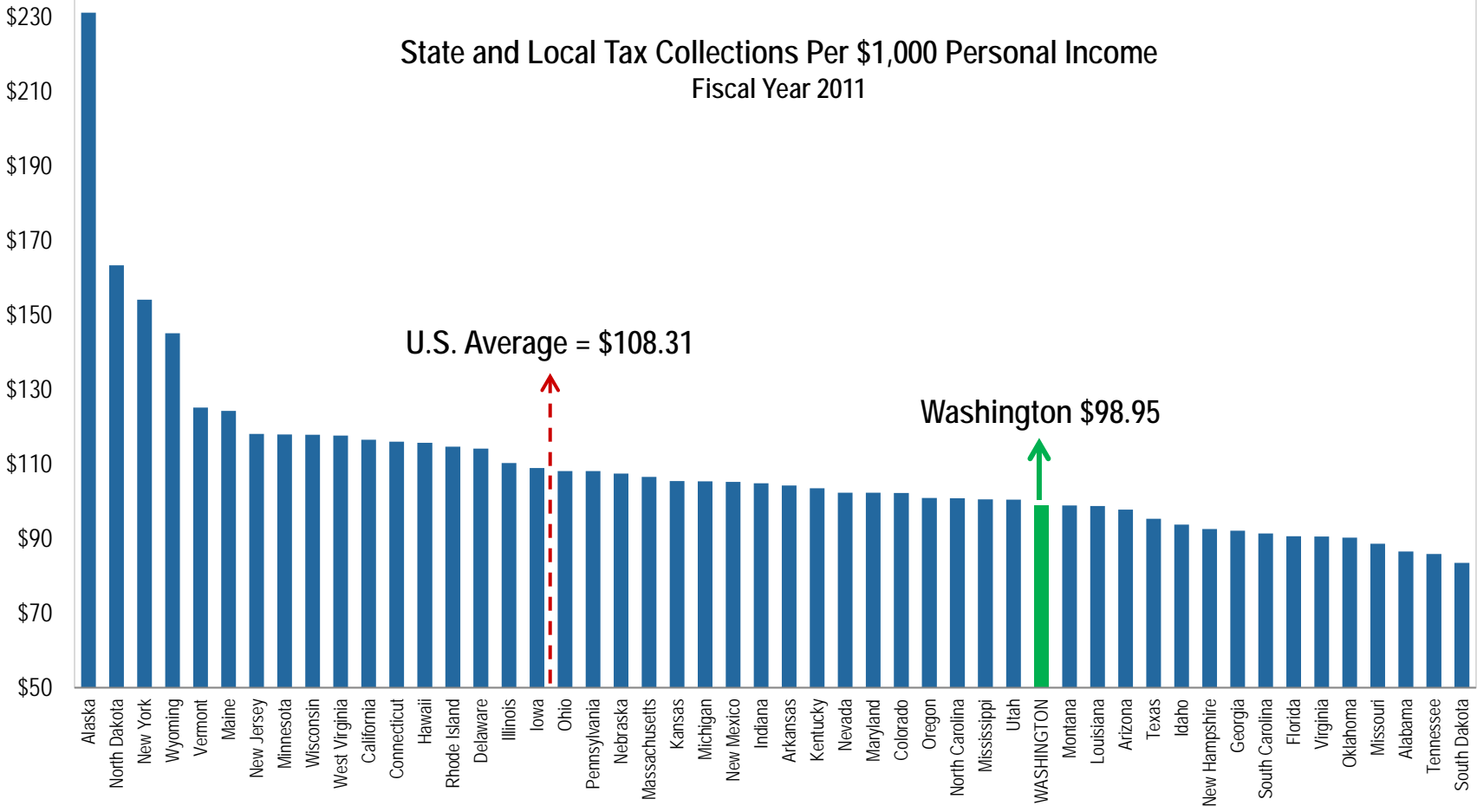
# *Meeting our basic education obligation — nearly \$5 billion needed over next 4 years*



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



# Washington ranks low in state and local tax collections



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