Economic Sense - Twenty-Fourth Edition

The Best Budget Situation of the 21st Century

A look at the 2019-21 budget picture, and why tax increases are simply not necessary

In the interests of accuracy, let me update you regarding this latest edition of Economic Sense ("The Best Budget Situation of the 21st Century"), now that we have information from the new state revenue forecast adopted today (March 20) -- which projects a much larger increase.

The Economic Sense piece details how, without making any cuts to existing services or raising taxes, legislators have an unprecedented $3 billion surplus available to finance policy adds while not depleting the state’s rainy day fund.

Based on today’s revenue forecast, that figure should be $3.75 billion.

That’s right: the Best Budget Situation of the 21st Century just got even better, as state revenues and the economy continue to expand at historic levels.

Sincerely,

John Braun

Bottom line up front:

The 2019 Legislature is facing the most favorable budget picture of the 21st century, with a sizable surplus at its disposal.
Smart investments should be made prioritizing those tax dollars, rather than seeking more of Washingtonians’ hard-earned money.

Big Picture

- As will be seen, the 2019 Legislature is facing the most favorable budget picture of the 21st century
  - A budget already projected to be in balance over the next four years, without any cuts to state services
  - Since release of the Governor’s budget, rising revenues & declining caseloads have improved the budget picture even further
  - With smart policies that improve efficiencies and don’t cut services or raise taxes, the budget balance grows to $3 billion at the end of four years – enabling over $1.5 billion a biennium in policy adds!
Context for Upcoming Budget: A Look at Recent Growth

• State Budget -- Up by $14 billion, or 45%, from 2013-19
  • By contrast, median household income is up by only 22% over last 6 years

Key Spending Facts by Major Area

• K-12: Avg. District Per Pupil Spending Now Nearly $15,000
• Higher Ed: 1st Tuition Cut in History, Financial Aid Tops $1 B
• Mental Health: Western State Hospital funding doubled (2013-19)
• Public Assistance: Wash. exceeds Cal. in amount spent per low income person

• Avg. State Employee Salary = $69,300
• Avg. K-12 Teacher Salary = $79,600 ($72,800 state)

The Upcoming Budget

• No Deficit Projected

• Over $4 billion projected revenue growth + largest reserves in history =

• Can continue all existing services, legal obligations, and K-12 McCleary commitments, plus have over $500M surplus after four years
Since Session Began, 
Budget Picture Further Improved

• Nearly $1 B more in fiscal good news since January

  • Revenues exceed projections ($208 M in last four months)
  • Caseloads are lower than forecasted ($704 M in lower costs)

• Brings Surplus to over $1.4 billion

  • May be even higher when 2019’s first revenue forecast comes out March 20

Smart Policies that don’t cut services or raise taxes get you to $3 B surplus

• Four Year Estimates
  • Align agency appropriations with actual spending patterns ($480 M)
  • Managed Care Organization Reforms ($360 M)
    • Increase program integrity staff in accordance with federal recommendations ($140 M)
    • Tie portion of performance to national metrics ($120 M)
  • Conform sales tax law with U.S. Supreme Court “Wayfair” decision ($330 M)
  • Continue program that utilizes federal dollars for portion of hospital payments ($280 M)
  • Do not make payment to enhance LEOFF 2 benefits ($100 M)
  • Recoup state-funded Behavioral Health Organization reserves ($80 M)
  • Additional Fund Balances Throughout State Government ($140 M)

• With smart policies that improve efficiencies and don’t cut services or raise taxes, the budget surplus grows to $3 billion at the end of four years—enabling over $1.5 billion a biennium in policy adds!
Tax Increases are Simply Indulgent

- With no service cuts needed & the ability to add $1.5 billion a biennia on new spending policies, there’s no need to raise taxes

- Prioritize Money People Have Given

One Approach to $3 Billion Surplus
(Dollars reflect policy objectives over 4 years)

- Social Services $750
- Compensation $750
- Education $750
- Transportation $750

- Mental Health $450M
- Other Vulnerable $300M

K-12: Special Ed & Support Staff
Higher Ed Investments
Early Learning: New Seats

6% raise over two years for public employees

Portion of existing sales tax on car & vehicle sales dedicated to transportation budget
The question for lawmakers this year should not be
“Which taxes should be raised, and by how much?”

The question can and should be:
“How can we make the best use of the $3 billion available from natural revenue growth to significantly enhance programs and services while leaving taxes as they are?”

Footnotes

• Slide 3
  • 22% median household income growth ($56,444 in 2012 to $68,591 in 2018) OPM population division (1/12/19 email)
  • K-12: Nearly $55,000 per pupil (OSPI Multi-Year Tool: $53,670 per pupil state & local for SY 18-19, plus $972 federal)
  • Higher Ed: Financial Aid $750 M direct state appropriations, $230 M tuition waivers, $140 M institutional aid (Senate W&B staff)
  • Mental Health: Was increased from $300 M in 2011-13 to over $600 M in 2017-19 [Senate W&B staff]
  • Public Assistance: Washington state government spends $6,375 on public welfare spending (Medicaid, TRA, SSI) per low-income person in the state, defined as the population under 200% federal poverty level. California spends $6,154. Source: Urban Institute Tax Policy Center.
  • State Employee Salary: Legislative Evaluations & Accountability Program, includes higher education (FY 2018)
  • K-12 Teacher Salary: $ 275 personnel data from OSPI, compiled by LEAP. 2018-19 SY preliminary data.

• Slide 4
  • Budget outlook table (senate W&B staff, January 14, 2019 view of maintenance level) —note: $310 million surplus at end of 4 years reflects unrestricted reserve. The constitutional rainy day fund is projected to have $2.8 billion balance at end of four years.

• Slide 5
  • Revenue: [http://wdfi.wa.gov/prices/2012/10/whats_new/2012_0112_revenue.pdf] ($245 million minus $27 million timing issue)
  • Caseload: Senate W&B staff (1/10/19)

• Slide 6
  • Four year estimates from Senate W&B staff