

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!*

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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)

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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

2019-21 Omnibus Operating Budget									
Senate Log View thru MI, only									
Funds Subject to Outlets									
(\$ in Millions)									
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Beginning Balance	1,140	2,111	3,620	5,030	5,979	6,416	674	701	616
Current Revenues	21,140	23,617	26,799	28,443	29,316	30,002	29,729	27,812	24,428
Revenue 2020 Revenue Forecast	21,140	23,617	26,799	28,443	29,316	30,002	29,729	27,812	24,428
Public Revenue Based on a 5% Growth Rate	0	0	0	0	0	0	0	0	0
Other Revenue Changes	178	468	468	118	124	476	128	124	167
SP & Transfer to WA (2%)	(114)	(211)	(476)	(468)	(476)	(476)	(476)	(476)	(476)
SP & Supplementary Revenue to WA	0	1,257	1,257	0	0	0	0	0	0
Administrative Revenue from MI to SP &	0	1,076	1,076	0	0	0	0	0	0
SAIF Adjustments	0	0	0	0	0	0	0	0	0
Other Period Adjustments	81	20	111	20	20	41	20	20	41
Grant Transfers	100	400	400	0	0	0	0	0	0
Welfare Monthly Accounts	(207)	(107)	(107)	0	0	0	0	0	0
Total Revenues and Resources	13,284	21,271	40,341	38,914	38,465	31,146	37,886	37,818	34,709
Budget Appropriations	11,978	13,618	24,981	21,059	19,634	19,001	17,813	14,089	11,211
Employment/Personnel Adjustments	0	0	0	0,007	0	0,000	418	424	841
Multi-Year Contract Total	0	144	114	823	1,888	1,709	1,889	1,111	1,819
Contingencies	11	(44)	(14)	(11)	(11)	(14)	(11)	(11)	(11)
Netted Appropriations	11,989	13,618	24,967	21,879	21,434	18,991	19,791	17,499	14,831
Projected Ending Balance	1,295	7,653	15,374	17,035	17,031	12,155	18,095	20,319	19,878
Budget Modification Account Ending Balance	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Total Revenues	14,284	24,271	41,341	39,914	39,465	32,146	38,886	38,818	35,709

Projected Ending Balance	2,111	3,620	5,030	5,979	6,416	674	701	616	295	510	510
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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*

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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 (\$240 M)
 - Tie portion of performance to national metrics (\$120 M)
 - Conform sales tax law with U.S. Supreme Court "Wayfair" decision (\$310 M)
 - Continue program that utilizes federal dollars for portion of hospital payments (\$290 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!*

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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

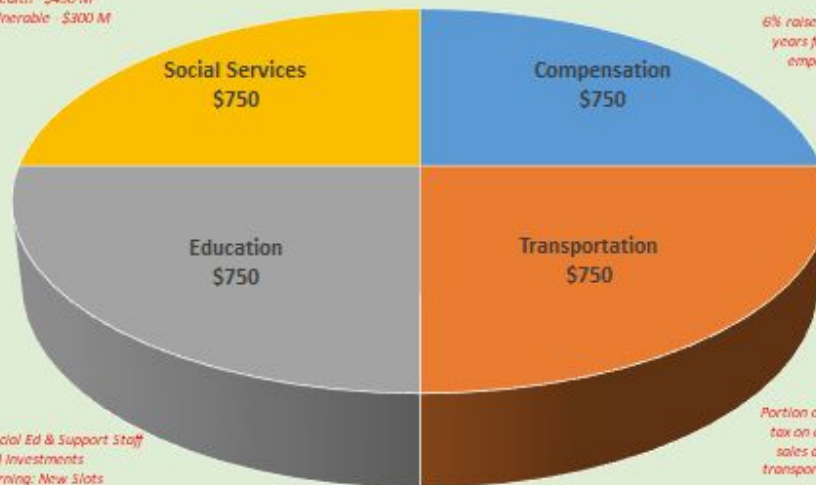


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One Approach to \$3 Billion Surplus

(Dollars reflect policy add costs over 4 years)

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



6% raise over two years for public employees

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

Portion of existing sales tax on car & vehicle sales dedicated to transportation budget

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Footnotes

- Slide 3
 - 45% budget growth from 2013-19 (\$31.2 B in 2011-13 to \$45.2 B in 2017-19) <http://fiscal.wa.gov/SpendHistFund.aspx>
 - 22% median household income growth (\$56,444 in 2012 to \$68,591 in 2018) OFM population division (3/11/19 email)
 - K-12: Nearly \$15,000 per pupil (OSPI Multi-Year Tool: \$13,670 per pupil state & local for SY 18-19, plus \$974 federal)
 - Higher Ed: Financial Aid \$750 M direct state appropriations, \$230 M tuition waivers, \$140 M institutional aid (Senate W&M staff)
 - Mental Health: WSH increased from \$300 M in 2011-13 to over \$600 M in 2017-19 (Senate W&M staff)
 - Public Assistance: Washington state government spends \$6,375 on public welfare spending (Medicaid, TANF, 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 Evaluation & Accountability Program, includes higher education (FY 2018)
 - K-12 Teacher Salary: 5,275 personnel data from OSPI, compiled by LEAP. 2018-19 SY preliminary data.
- Slide 4
 - Budget Outlook Table (Senate W&M Staff, January 14, 2019 view of maintenance level) – Note: \$510 million surplus at end of four years reflects unrestricted reserve. The constitutional rainy day fund is projected to have \$2.9 billion balance at end of four years.
- Slide 5
 - Revenue: <https://erfc.wa.gov/sites/default/files/public/documents/publications/mar19.pdf> (\$245 million minus \$37 million timing issue)
 - Caseload: Senate W&M staff (3/10/19)
- Slide 6
 - Four year estimates from Senate W&M staff

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*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?”*