



STATE BUDGET UPDATE

More Big Challenges Ahead

September 2014

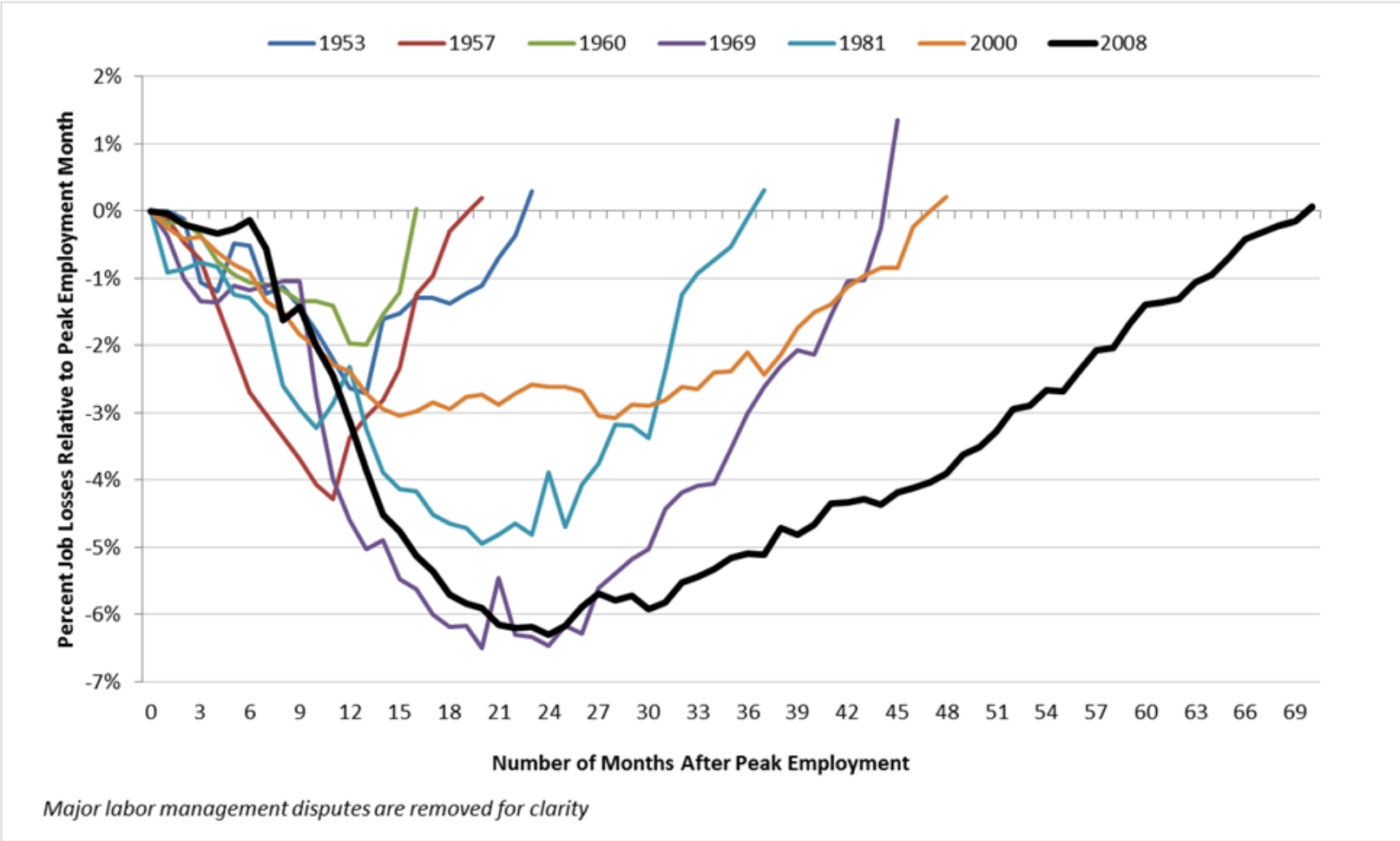
OFFICE OF

FINANCIAL **M**ANAGEMENT

*Washington's economy is rebounding ...
but at a very slow pace*

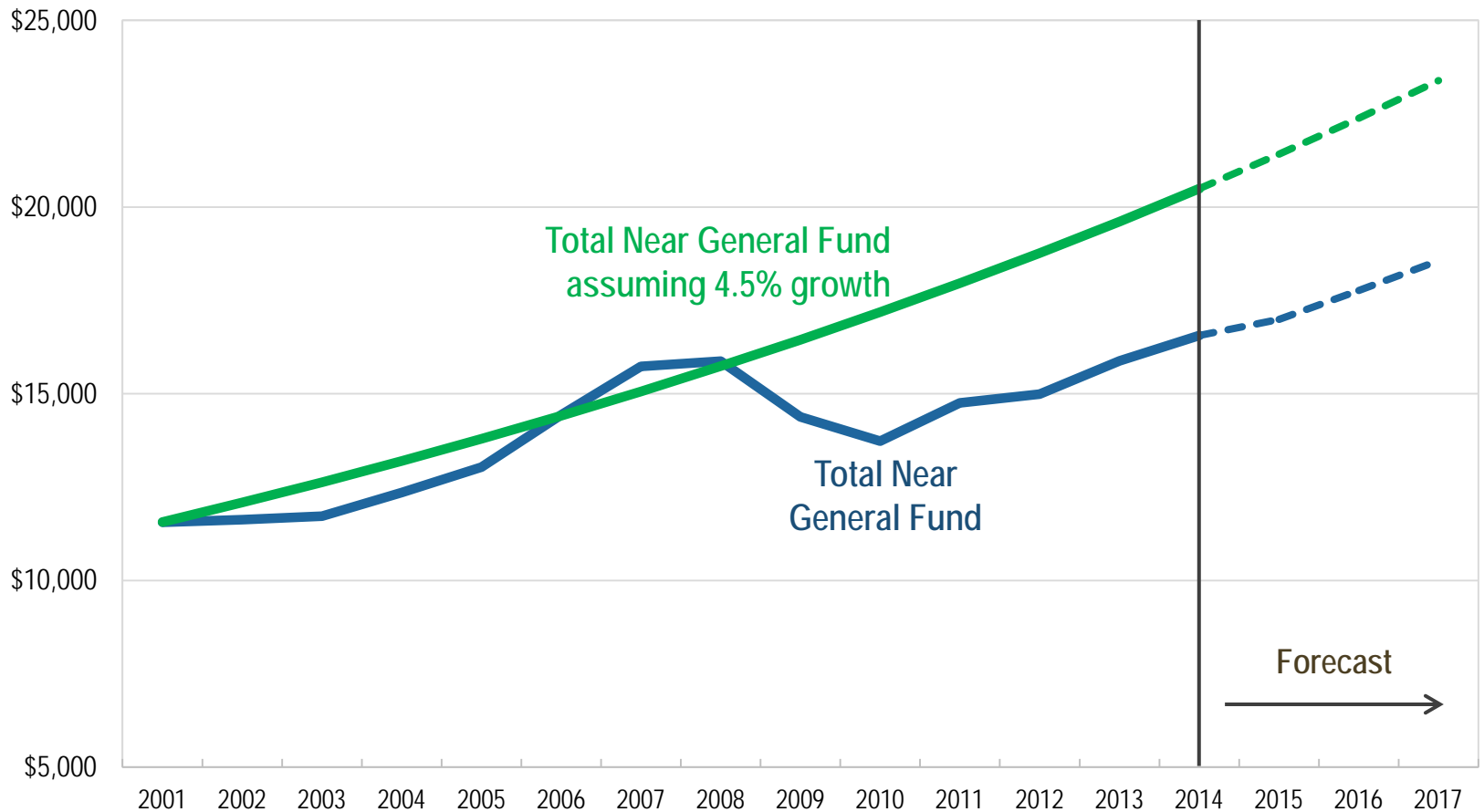
It took more than 5 years to recover all the jobs lost during the Great Recession

Job losses and duration of Post WWII recessions in Washington



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

State revenue remains well below historic growth trend



*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*

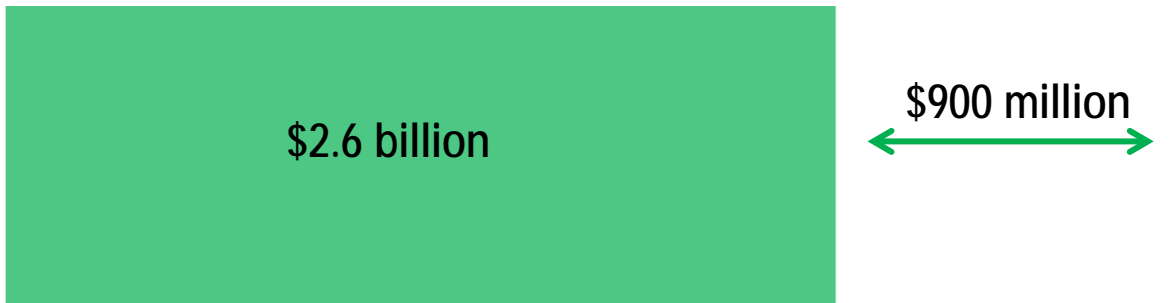
*State revenue collections are expected
to grow by more than \$2.5 billion ...*

What's the problem?

Preliminary 2015–17 Operating Budget Outlook

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

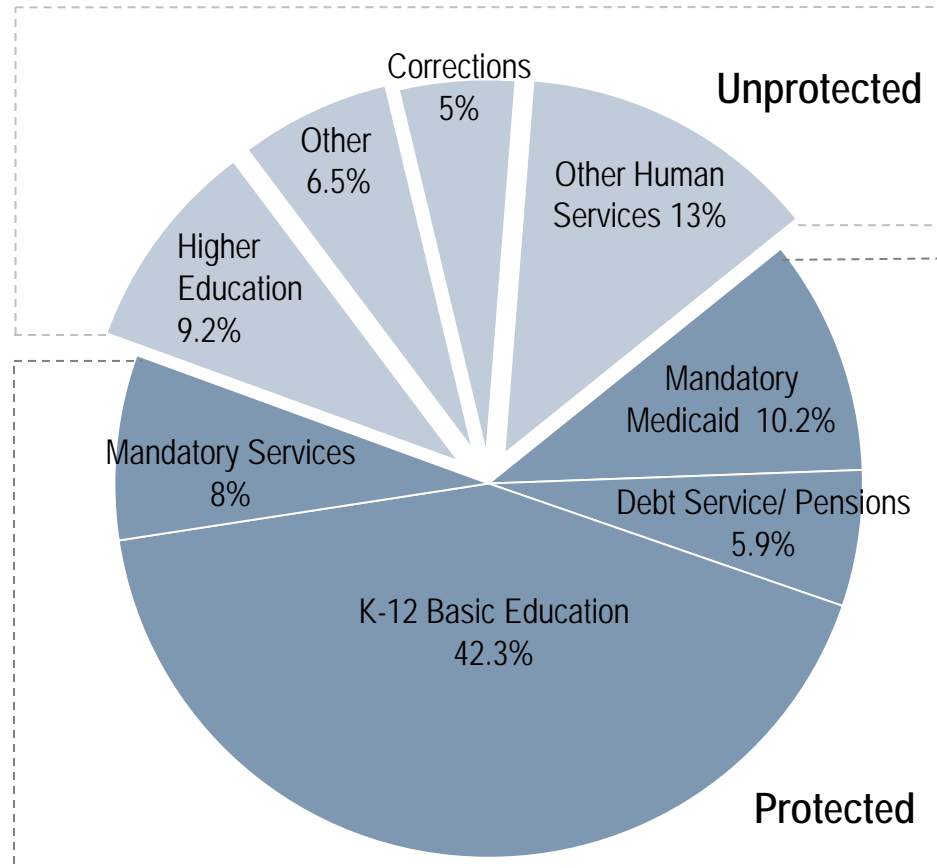
Projected Additional Revenue



Projected Additional Spending Needs

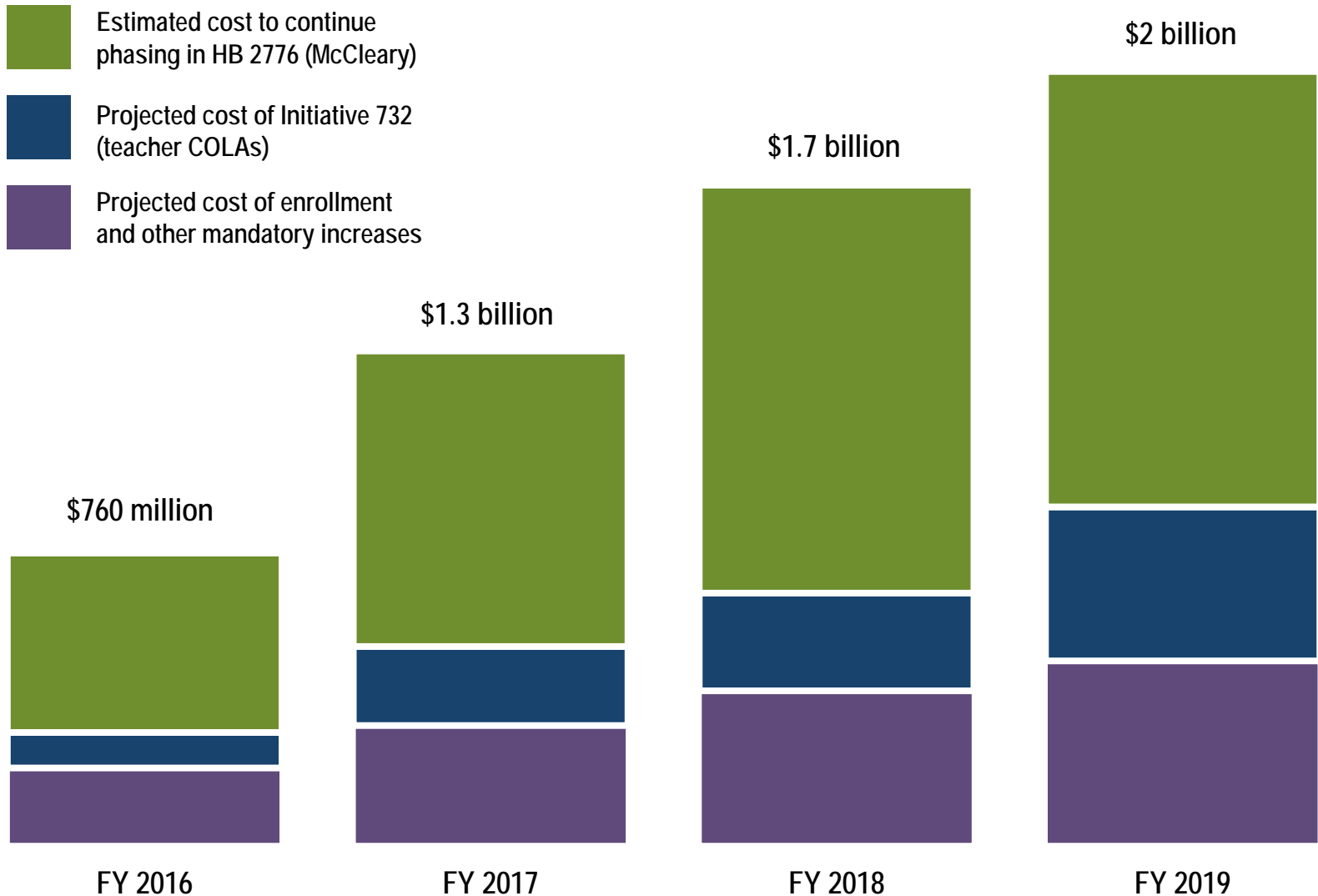
<p>Maintenance & Carry Forward Estimated \$1.8 billion</p> <p>Includes \$647M to continue FY 2015 appropriation level. Maintenance level estimate includes:</p> <ul style="list-style-type: none"> •\$175M low-income health care •\$215M K-12 education •\$150M mental health, DD, long-term care 	<p>\$273M pension costs</p>	<p>\$200M debt service</p>	<p>\$302M employee health care</p>	<p>\$321M I-732 COLA</p>	<p>Other obligations & policy options \$600M includes:</p> <ul style="list-style-type: none"> • lawsuits • early learning & higher education • state employee & 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

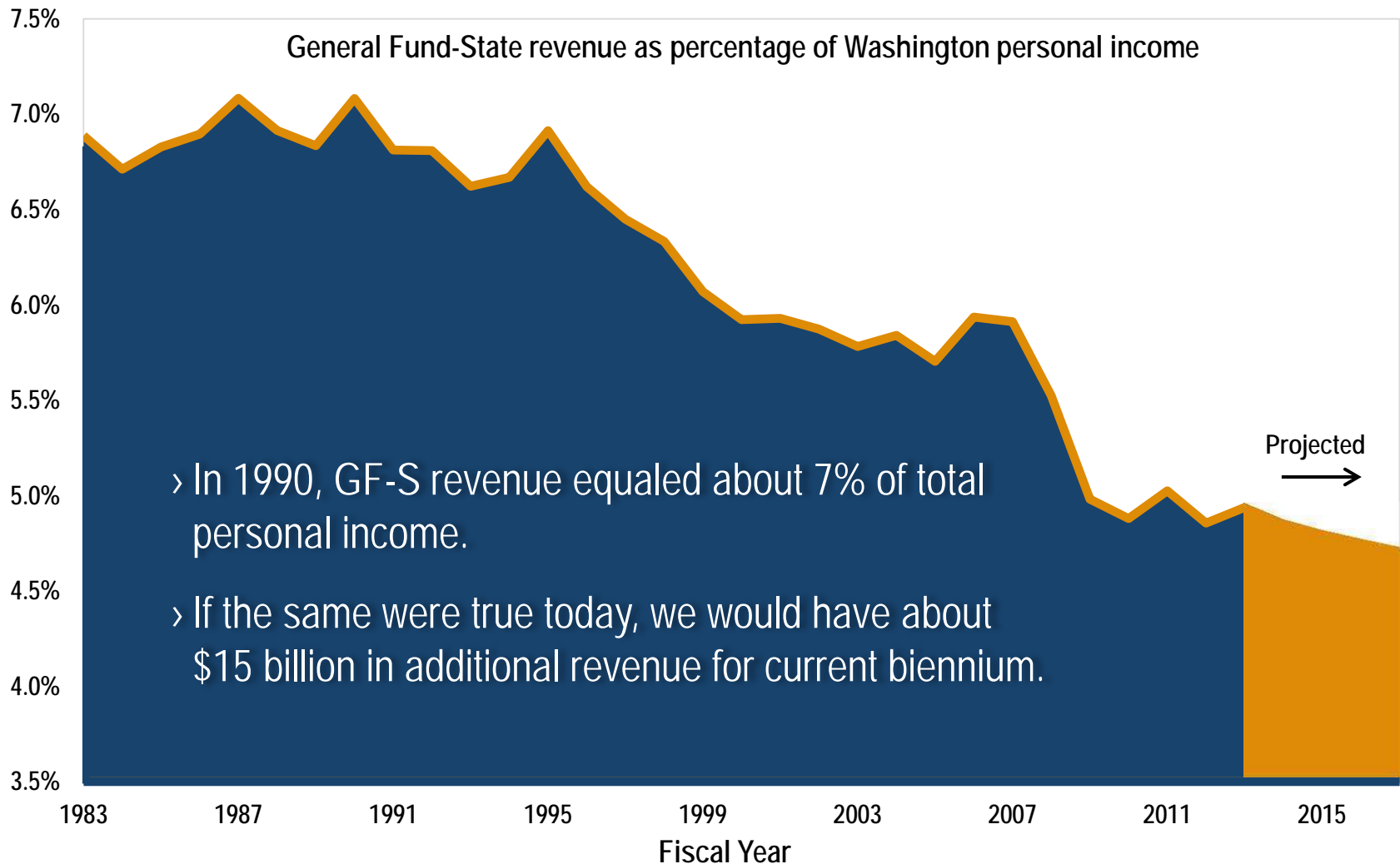


*Some perspective on the
structural problem we face in Washington*

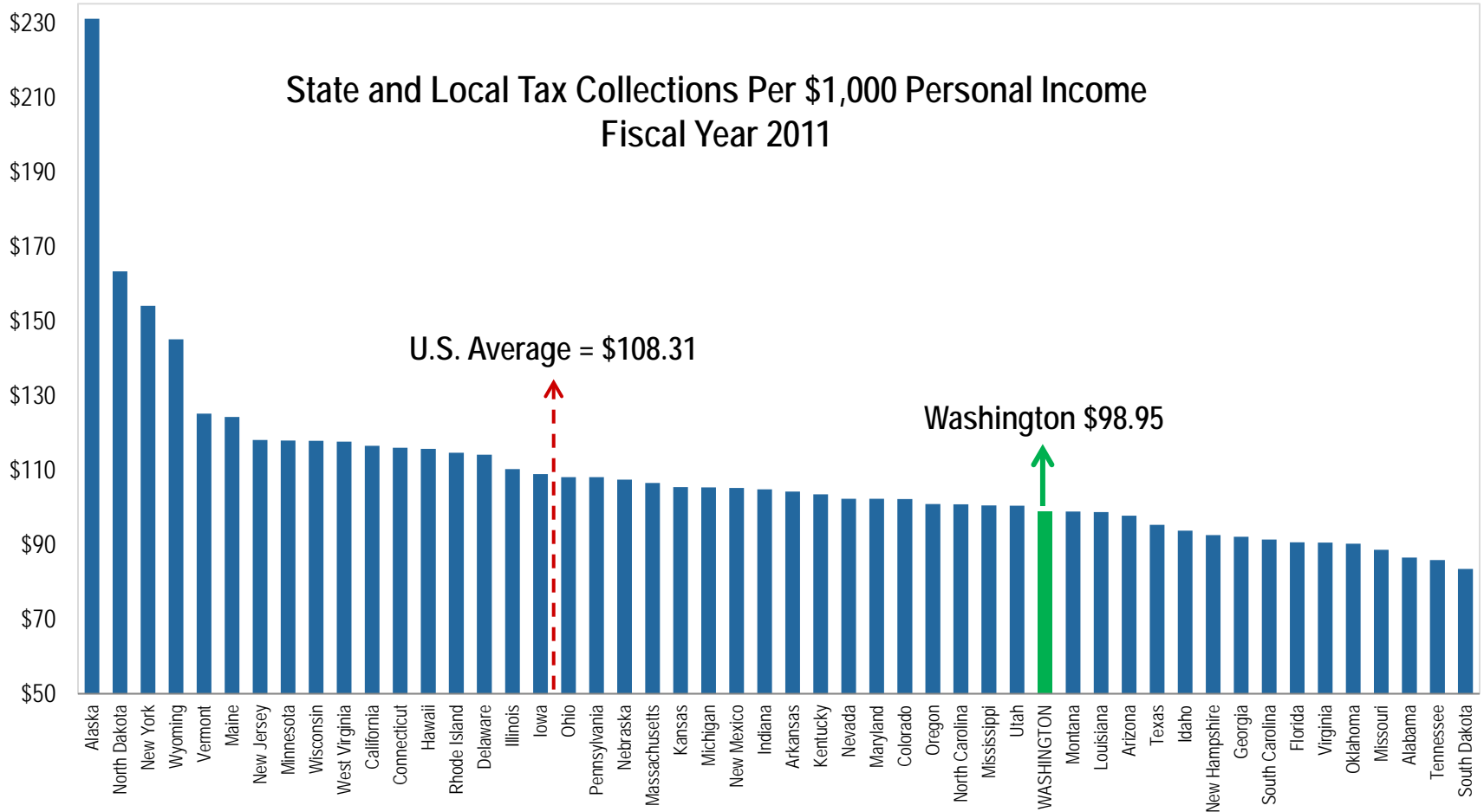
Meeting our statutory education obligations — \$5.7 billion needed over next 2 biennia



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



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