Windows Into The Budget

Senator Andy Hill

2015 Budget Preview:

The Deficit Myth

Budget 101 on the State's Fiscal Situation.

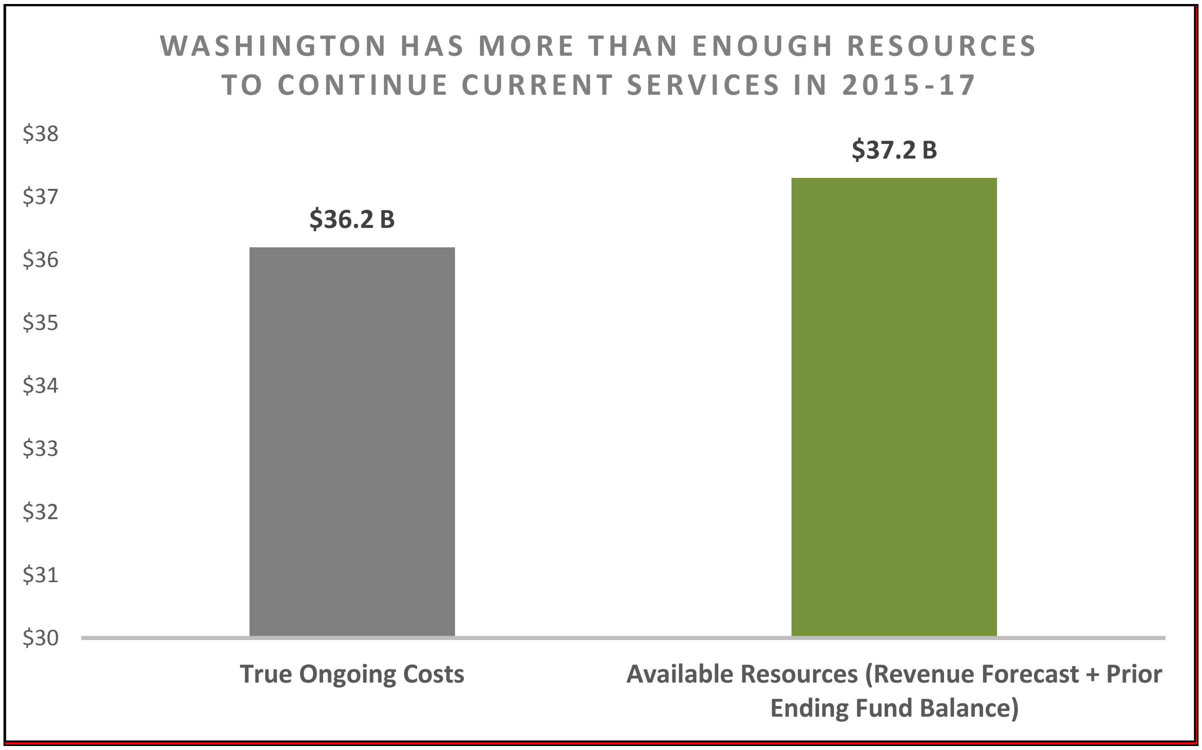
"Everyone is entitled to their own opinions, not their own facts."
-- Daniel Patrick Moynihan (U.S. Senator - D, N.Y)

There is a myth, propagated by the Governor and others, that Washington faces a massive budget deficit, meaning that the state has insufficient revenues to continue existing services. This myth began in the summer with a Governor-initiated exercise asking agencies to propose 15% budget cuts, continued in the fall with a presentation around the state by the Governor's budget director, and was repeated during the Governor's December budget release.

This deficit assertion is meant to mislead, directing people to the erroneous conclusion that Washington has insufficient revenues to continue its current service levels and that significant cuts (see the Governor's 15% reduction exercise) or tax increases (see the Governor's actual budget) are needed.

Let's look at the facts, rather than misleading hyperbole:

Fact #1: Washington can afford to continue all existing services, including increased caseloads and related costs, plus fund required enhancements that emerged since enactment of the previous budget.



A. True Ongoing Costs

The current state budget is $33.8 billion. The cost of continuing all of these services forward into the next biennia is the "true ongoing, or maintenance, cost" and is forecast to cost $36.2 billion, after accounting for all increased caseloads (e.g. additional people qualifying for guaranteed government services), inflationary costs, additional pension costs for public employees, additional debt service costs for past authorized debt, and approximately $180 million of required costs that have arisen since the last budget was approved, notably forest fires, mental health enhancements stemming from a Supreme Court decision, and a required higher-cost treatment for Hepatitis C.[1]

B. Available Resources

The available forecasted resources will be $37.2 billion.

The state's revenue growth for the biennia is just shy of $3 billion, representing 8.6% growth. This provides $36.65 billion in available revenue for the 2015-17 biennia ($37 billion forecast less the 1% of revenue required to be put in the constitutional rainy day fund).[2]

In addition to these 2015-17 revenues, the state is expected to end the current 2013-15 biennia with a significant surplus, due to higher than expected revenues since the end of session. The projection, even after paying for unexpected costs that have arisen since the end of session, is for a roughly $550 million unrestricted surplus heading into the 2015-17 biennia.[3]

C. Conclusion

So, let's re-iterate this again so that the point is fully understood:

The state is expected to have $1 billion in revenue left-over after paying for:

- All the activities it currently does, including accounting for the increased caseloads and costs in providing those services for the next two years; and
- All known required costs that have popped up since the end of last session, primarily pertaining to mental health enhancements, fighting wildfires, and federally-mandated new drug treatment for low-income individuals.

(The policy wonk in me has to mention that two of the biggest drivers in "ongoing or maintenance" level costs are increased debt service payments and higher pension costs for public employees. Together, debt service and pension contributions for active public employees will cost taxpayers over $4 billion in the upcoming budget cycle, a $650 million, or nearly 20%, increase from current funding.)

Fact #2: After continuing current services, the state is projected to have enough revenues to fully finance the next statutorily required McCleary enhancement, plus a salary increase for K-12 staff.

While state costs are $36.2 billion to continue all existing services (and resources are $37.2 billion), there are two policy **enhancements** in K-12 that are statutorily required to be funded as well. They are:

- Initiative 732 salary increase for all K-12 staff -- $235 million, equating to slightly over a 3% across-the-board salary increase over the next two years

- Increasing state funding for districts' materials & supplies costs -- $752 million, representing a $1,214 per student payment to districts for materials & supplies – up from the present $848 state funding level. While the $1,214 per pupil amount was intended to represent the amount necessary to pay districts' full costs in this area, it is worth noting that the most recent data indicates this funding level would be $244 million above districts' actual expenditures.[4]

Assuming neither of these statutes requiring these enhancements are changed, what would a budget look like that continued all current services plus put this additional $1 billion into K-12?

Continuing All Current Services,
Plus a $1 Billion Policy Enhancement for Public Schools

	13-15 to 15-17 Spending Increase ($000's)	% Change
Public Schools	**$2,147,818**	**14.1%**
DSHS	**$343,773**	**6.0%**
Other Human Services	**$282,965**	**4.6%**
Higher Education	**$147,372**	**4.8%**
Governmental Operations	**$75,217**	**8.9%**
Natural Resources	**$16,618**	**6.1%**
Other Education	**$9,366**	**4.6%**
Debt Service/All Other	**$441,982**	**20.6%**
Statewide Total	**$3,465,111**	**10.3%[5]**

That's right: K-12 spending would be increased by over $2 billion, representing a 14.1% increase from current spending levels. To give a breakout:

- $689 million carryforward (existing costs)
- $245 million in additional enrollments
- $211 million in higher pension costs for K-12 staff
- $235 million for salary increases for K-12 staff
- $752 million in higher payments to school districts for materials & supplies

Now, I'm not suggesting that such a budget would be wise – after all, it just reflects rote continuation of everything the state currently does, plus a $1 billion policy addition to K-12. Citizens expect more from their legislators – namely, that we should review every program for its efficacy and whether taxpayer dollars are truly being spent in the best possible manner.

Yet, it does put in perspective exactly the state's fiscal situation, which is a far cry from what a citizen would consider to be a deficit.

Fact #3: Further policy enhancements, with the exception of I-1351, are not required by law and, if pursued, need to be evaluated and prioritized with existing expenditures

There are five primary types of other policy enhancements that will be under consideration:

- I-1351 – The Legislature will have to address this initiative, which costs $4 billion at full implementation yet came without a funding source. Gov. Inslee chose to not fund the initiative in his budget.[6]

- Collective Bargaining Agreements Negotiated with the Governor – Both state employees and some non-state employee groups negotiated salary & benefit increases with the Governor, costing almost half a billion dollars, contingent upon legislative approval. These costs are on top of the nearly $300 million in new funds the state is required (under the maintenance budget) to put forward to pay for increased employee pension costs, largely due to longer projected life spans of employees.[7]

- Additional McCleary – The McCleary ruling's statutory components derive from HB 2776 (2010) which required funding enhancements in four areas by the 2017-18 school year: transportation (completed in 13-15), MSOC (required to be done in 15-17), and all-day kindergarten and K-3 class size reduction (required to be done in the 17-19 biennia). Governor Inslee proposed completing the all-day kindergarten and K-3 class size components in the upcoming biennia, rather than the 17-19 biennia. This enhancement cost $556 million in his budget.[8]

- Mental Health – This is an area in which the Legislature made concerted investments in the 2014 budget, yet more investments are likely warranted, even beyond addressing the Supreme Court boarding issue as required – and reflected – in the prior analysis. Gov. Inslee made $50 million worth of policy enhancements in this area.

- All Other – In virtually every area of state government, there will be proposals for the creation of new programs or enhanced spending. Some will have merit, others not, and this is the area that traditionally involves negotiation between the House, Senate and Governor to come to an agreed-upon solution.

Window's Reflection

With $3 billion in additional revenue and a sizable surplus heading into the upcoming biennia, the state has sufficient revenue to cover all existing costs, make the next required enhancement to McCleary, and increase the K-12 budget by the highest dollar amount in history.

Indeed, the focus of this session should not be on higher taxes or revenue, but rather advancing the best policies to enhance student learning and ensuring that every tax dollar is being spent efficiently and effectively.

Footnotes

1. Senate Ways & Means analysis ($33.8 billion enacted budget plus $1.3 billion carryforward plus $1.1 billion in other maintenance level adjustments, after accounting for 2015 supplemental budget items included in Gov. Inslee's budget.)
2. Economic & Revenue Forecast, Nov. 2014 (NGFS+Opp.Pathways)
3. Senate Ways & Means analysis (projected $523 million unrestricted fund balance, plus $41 million in prior enacted transfers carryingforward to 2015-17)
4. Senate Ways & Means analysis
5. LEAP Maintenance Level NGFS+Opp.Pathways, including I-732 COLA and K-12 Materials & Supplies enhancement
6. Despite not funding the initiative in his budget, the Governor inexplicably leaves the $4 billion cost in the subsequent 17-19 budget untouched, thus leaving a huge financial bogey for the future.
7. See Governor's Labor Relations Office summary of fiscal impact of 2015-17 CBAs. For pension costs, the 15-17 increase represents a phase-in of the full long-term impacts from longer life spans.
8. See Gov. Inslee's Budget Proposal ($448 M K-3 class size enhancement and $108 M all-day kindergarten enhancement, all in the second year of the biennia).