

Budget Outline 2013-15

In 2013 the Legislature has three big budget problems to address. It may be that there are other issues for the Legislature (gun safety, mental health, transportation...) but as the budget chair I have an odd focus on what I'm responsible for.

1. Balance the 2013-15 budget, plus make sure that the 2015-17 budget is structurally sound. We start with a \$904 million shortfall and have to address the two issues below, plus comply with the strongest 4-year balanced budget requirement in the nation.
2. The Supreme Court's 2012 McCleary decision has major impact on school funding decisions and adds \$1.4 billion to the already difficult problem.
3. The Medicaid expansion called for by the federal Affordable Care Act (ACA) is complex, but provides us with the opportunity to cover hundreds of thousands of Washington citizens and save hundreds of millions. Implementation decisions will be difficult given the campaign rhetoric, but I believe we will get there.

The political situation in the state Senate will make resolution more interesting and create a lot of political theater. I look forward to negotiating a rational solution.

Current Budget Situation

The current economic outlook calls for modest growth, but growth in tax revenue slower than our obligations. Our current projections show a shortfall of \$904 million in the 2013-15 budget.

It's useful to know how we calculate this problem statement and what it includes and what it doesn't.

Included:

- Constitutional requirements like debt service and continuing K-12 basic education funding. For example, we expect 8,170 new students in K12.
- Programs where eligibility is set in law, either state or federal. This includes Medicaid, Temporary Aid to Needy Families (TANF) and programs like food stamps.
- The impact of initiatives like I-732 (teachers cost of living increases.)

	11-13	13-15	15-17
Beginning Balance	\$ (60)	\$ 134	\$ (904)
Resources			
Forecast	\$ 30,935	\$ 33,044	\$ 36,138
Transfer to BSA	\$ (267)	\$ (288)	\$ (317)
Transfers, WCR	\$ 617	-	
Adjustment	\$ (8)		
Total	\$ 31,278	\$ 32,756	\$ 35,821
Spending			
Appropriations	\$ 31,249	\$ 33,793	\$ 35,990
Less Reversions	\$ (166)	-	
Total	\$ 31,083	\$ 33,793	\$ 35,990
NGFS+ Op PW	\$ 134	\$ (904)	\$ (1,072)
BSA	\$ 267	\$ 555	\$ 871
Total Reserves	\$ 401	\$ (349)	\$ (201)

- New Medicaid patients. Coverage for the aged, blind, and disabled populations, as well as specific low-income populations is set by the federal government. We expect there to be more than 100,000 new people to become eligible based on federal rules.
- Pension contributions to keep our pension program stable.
- Funding continuing programs like the college scholarships or our mental health system at the same level as the previous year.

The following are excluded, and would have to be added to the budget if we want to do them, making the problem more difficult.

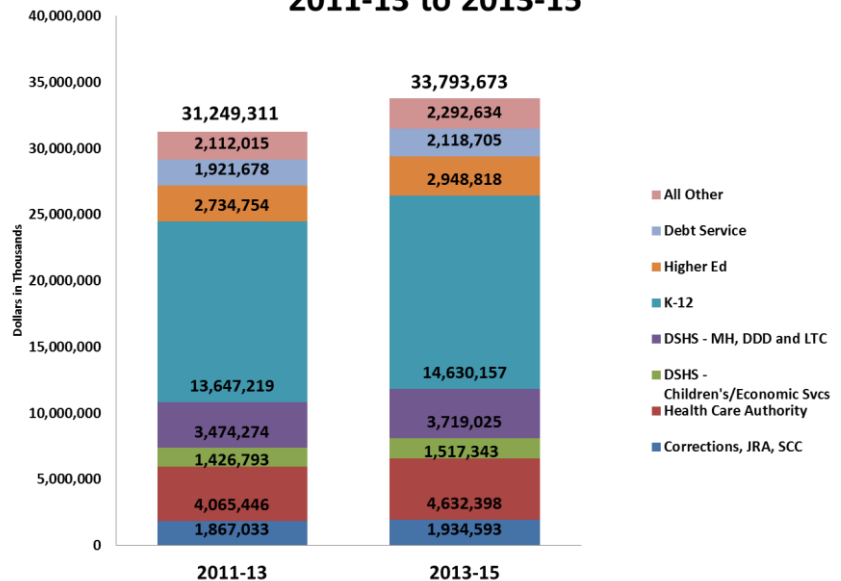
- Any growth in higher education to keep up with population growth or inflation.
- New “slots” for developmentally-disabled citizens to keep up with population growth
- Any changes to employee compensation that must be approved by the legislature.
- Compliance with the McCleary decision on education funding or other lawsuits.

Why Does The Budget Go Up Every Year?

You can see in the very simplistic budget shown above that we’ll have about two and a half billion more in the 13-15 period than we did in the 15-17 period. This begs the question “why isn’t that enough?”

The answer is that costs go up too. It’s worthwhile to look at this in a little more detail. The chart to the right shows the top-level components of the increase, the biggest of which is the K-12 budget, which goes up by \$982,938 million without even addressing the McCleary problem.

\$2.5 Billion in Increased Costs from 2011-13 to 2013-15



- We made temporary reductions in the 2011-13 budget to teacher salaries. Restoring them costs \$166 million.
- We made some one-time cuts in spending. Restoring them costs \$126 million.
- Pension rate increases cost \$233m (this pays for the old pension system closed in 1977)
- Teacher salary increases from I-732 cost \$264m
- 8,170 more students drive additional costs.
- This amount does NOT include McCleary funding.

There are similar increases in other parts of the budget. Even without doing the Medicaid expansion there are 106,295 new people eligible for healthcare based on rules set by the federal government. As you might imagine this will be profoundly expensive. Our debt service obligation increases for currently funded projects by \$197 million. This does not include debt service on any new investments like school construction for all-day kindergarten, new college buildings, etc.) we might make, which we typically do.

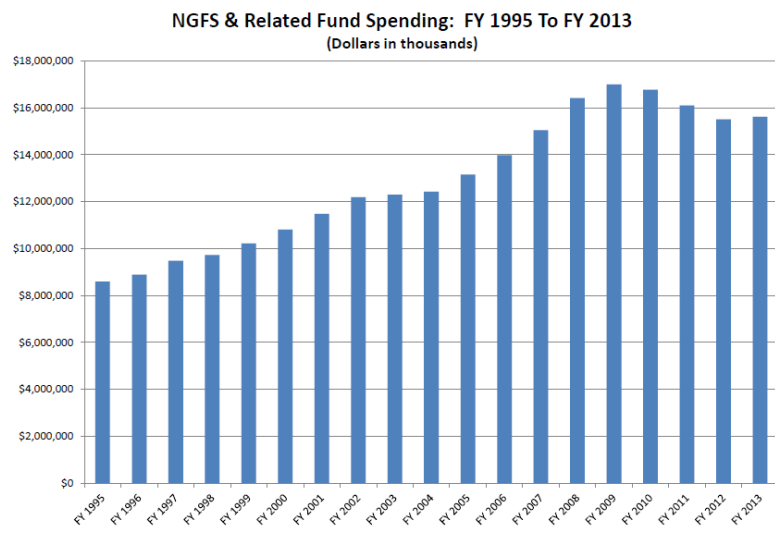
Looking at some of the things not included in our budget growth model is also interesting. In higher education we do not automatically assume any increases in enrollment, even though population growth continues, nor do we assume any increases in scholarships to keep up with tuition increases the universities are planning. In addition, the “College Bound Scholarship” program has created a promise for low-income kids that we are not (yet) projecting.

Some History and Background

The chart to the right shows state spending from 1995 to 2013. You can see the big spike in 2009 and the shrinkage since. Even in the bad recession in the beginning of the last decade we didn’t see an actual decline in state spending.

This doesn’t tell the whole story. Washington has added over 2 million residents since 1990, and they all need driver’s licenses and other state services.

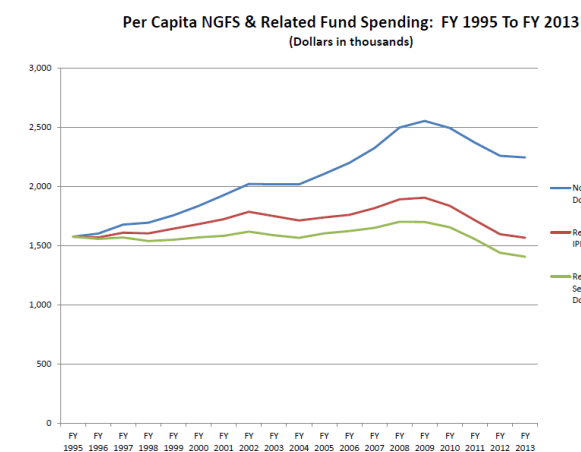
The blue (top) line in the chart below shows state spending per state resident since 1995. The red (middle) line shows that same



August 2012

House Office of Program Research

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August 2012

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spending adjusted for inflation, using the “implicit price deflator,” (IPD) an inflation adjustment often used in government work. The green (bottom) line shows the same data using the consumer price index for the Seattle metropolitan area.

Using the inflation-adjusted (“real”) numbers, we are spending less today per state resident than we were in 1995.

McCleary – Supreme Court Decision on School Funding

Last year the Washington State Supreme Court found that Washington is not funding our education system at anything close to the level the constitution requires. Just before the holidays the court opined again, saying that

“the overall level of funding remains below the levels that have been declared constitutionally inadequate.” (Washington State Supreme Court, 2012)

The table below is from the Final Report of the Joint Task Force on Education Funding, yet another committee created by the legislature to figure out the details of this obligation. (Joint Task Force on Education Funding, 2012)

Table 1: Spending Plan

dollars in millions	2013-15 Biennium	2015-17 Biennium	2017-19 Biennium
Fully fund revised transportation formula	\$141.6	\$225.1	\$232.8
Materials, Supplies, & Operating Costs (MSOC)	597.1	1,410.9	1,554.7
Reduce K-3 class sizes to 17 pupils/teacher	219.2	662.8	1,150.6
Implement full-day kindergarten statewide	89.3	227.4	348.7
Implement Career & College Ready plan	140.4	327.6	473.4
Classified & administrative salary allocations	169.8	450.2	681.5
Accountability, Evaluation, & Common Core	66.5	44.5	42.0
Total	\$1,423.9	\$3,348.5	\$4,483.7

Note: Amounts may vary depending on the phase-in of the components.

Affordable Care Act (Obamacare)

The third major decision the Legislature faces this year is how to respond to the federal Affordable Care Act (ACA) and a potential Medicaid expansion to cover about another 400,000 people, paid for largely with federal dollars.

The table to the right lays out the changes we expect in the medical

assistance area. There will be impacts in other parts of the budget, but this is the biggest. **The bottom line is that if we adopt the Medicaid expansion we will save about \$96 million in 2013-15 and another \$105 million between 2016 and 2021.**

	2013-15			Fiscal Years 2016-2021		
	State	Federal	# of Clients by FY 15	State	Federal	# of Clients by FY 21
“Welcome Mat”	\$62.8	\$126.1	44,500	\$358.2	\$435.3	62,400
Medicaid Expansion						
--Current Clients	(\$144.9)	183.6	40,800	(\$578.4)	\$778.2	42,000
--New Clients	\$48.4	\$770.7	195,900	\$472.9	\$4,301.0	280,200
Expansion Total	(\$96.5)	\$954.2	236,700	(\$105.5)	\$5,079.1	322,200
Total ACA Impact	(\$33.7)	\$1,080.4	281,200	\$252.7	\$5,514.4	384,600

Final Problem Outline

	(Dollars in Millions)
Budget Outlook	\$904
McCleary Costs	\$1,424
ACA Expansion	(\$96.5)
Ending Fund Balance	\$350
Total Shortfall	\$2,582

The final problem definition looks like this. It is possible to image scenarios that do not involve additional revenue, but difficult.

The Budget Stabilization Account requires a 60% vote to use, and we should probably leave it as a rainy day fund.

*There will be \$555 million in the Budget Stabilization Account, which requires a 60% vote.

Action Plan

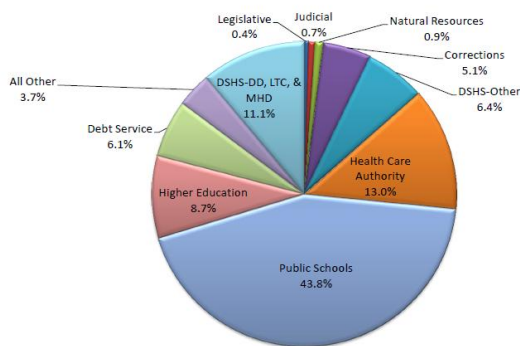
The response to the budget problem can be looked at with some simple options.

1. Reduce spending.
2. Raise new revenue.
3. Do some combination of the two.

Cutting expenses (but not the stuff that matters to the person proposing it) is always a popular option in the abstract. The reality of it is a little more difficult. The chart to the left shows the distribution of spending in the current budget. There are constraints on spending reduction that come from the state

constitution and federal law that we have to think about when we consider this option.

Where is the Money Spent?



The "Public Schools" slice cannot legally be reduced. There is broad desire to not reduce our investment in higher education.

To reduce our corrections expense we would have to release enough existing offenders to close a prison and/or end our parole operation.

The "Health Care Authority" and "DSHS-DD, LTC, and MHD" expense are controlled largely by the federal government's Medicaid rules. Very little can be reduced.

2011-13 Operating Budget As Passed Legislature
Near General Fund-State + Opp. Pathways

Debt service cannot be reduced. The constitution requires us to pay debts legally incurred.

My recommendation will be to choose option 3 – a mix of spending reductions and new revenue. Some reductions are poor choices for the state. For example reducing higher education results in less opportunity for Washington State children and fewer potential employees for businesses. Reducing mental health funding creates obvious additional risk to the public.

I'll write more as we move through the session on the specific spending reduction options in each area of the budget and possible revenue sources.

Useful References

Economic and Revenue Forecast Council. (2012, November 1). *Economic and Revenue Forecast Council November 2012 Economic Forecast Meeting Notebook*. Retrieved from Economic and Revenue Forecast Council: <http://www.erfc.wa.gov/forecast/documents/ec20121101.pdf>

Joint Task Force on Education Funding. (2012, December 31). *Joint Task Force on Education Funding Final Report*. Retrieved from [http://www.leg.wa.gov/JointCommittees/EFTF/Documents/JTFEF%20Final%20Report%20-%20combined%20\(2\).pdf](http://www.leg.wa.gov/JointCommittees/EFTF/Documents/JTFEF%20Final%20Report%20-%20combined%20(2).pdf)

Washington State Supreme Court. (2012, December 20). *Supreme Court Order re: McCleary, et al. v. State with dissent by Justice J.M. Johnson*. Retrieved from Washington State Supreme Court: <http://www.courts.wa.gov/content/publicUpload/Supreme%20Court%20News/84362-7%20-%20McCleary,%20et%20al.%20v.%20State%2012-20-12%20order%20with%20dissent.pdf>

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