



June 2020

The 2021-23 Budget Story

Washington's current budget situation and what's next

OFM

OFFICE OF FINANCIAL MANAGEMENT

OVERVIEW

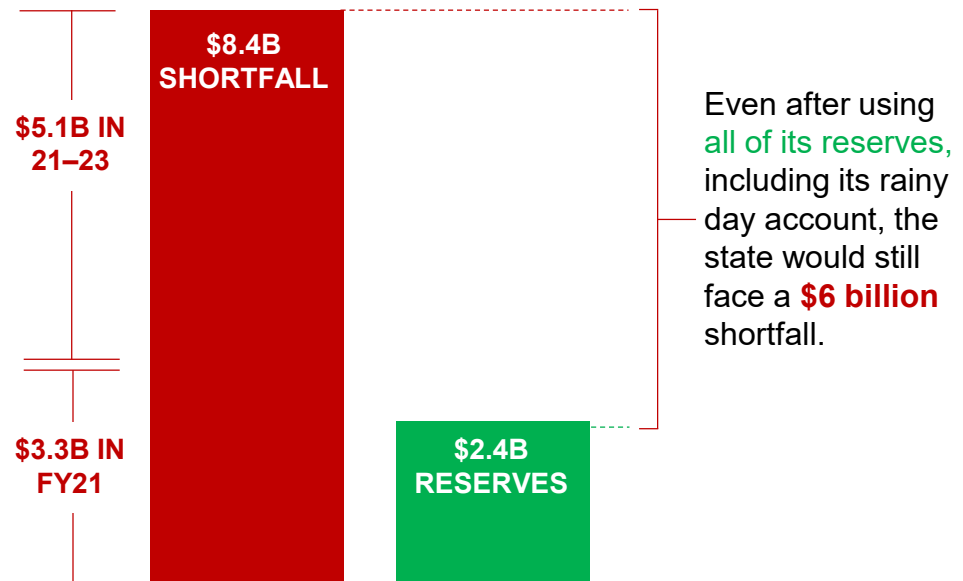
Over past 3½ months, Washington has seen its largest drop in revenue in recent memory

Revenue projections for the next 3 years have fallen by nearly \$9 billion

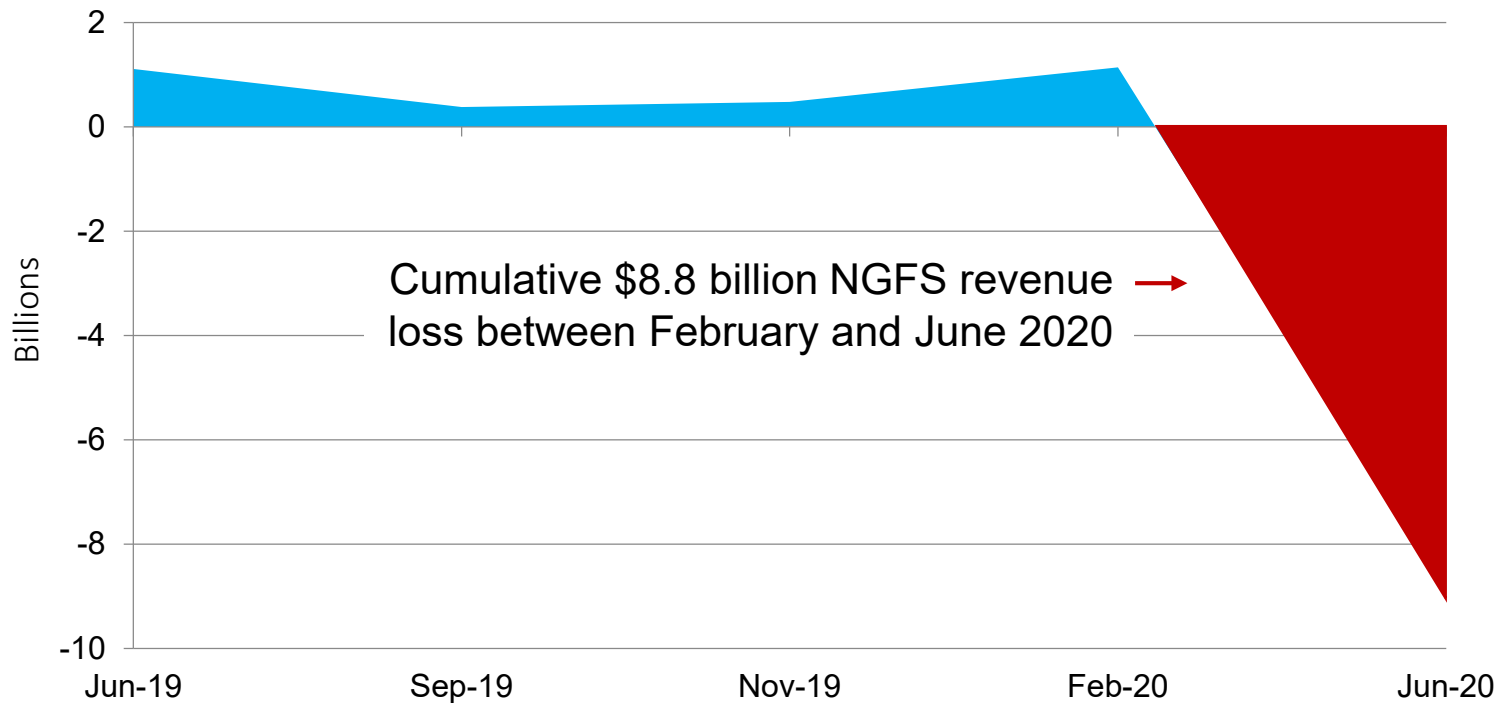
- \$4.5 billion for 2019-21
- \$4.3 billion for 2021-23

Possible solutions

- Use \$2.4 billion “rainy day fund” and all reserves
- Significant budget cuts
- Hope for federal funds
- Additional revenue?



\$8.4 BILLION PROBLEM



- GF-S revenue collections risen since the second half of 2009 and had been stable for much of the past year.
- In the June forecast we began seeing the economic fallout of the COVID-19 pandemic and the “Stay Home, Stay Healthy” order issued in March.
- The steep forecasted revenue decline is the key factor driving the projected budget shortfall.

EARLY ACTIONS FOR SAVINGS

April

- Governor vetoed \$445 million of new spending: \$235 million in the 2020 supplemental budget; saves \$210 million next biennium
- Asked agencies to think about saving – where they can make reductions now in preparation for next steps

May

- Freezes on hiring, contracts and equipment
- Agency 15% reduction exercise

June

Furloughs for most employees; no July wage increase for many employees, mostly in management

Special session?

\$8.4 BILLION BUDGET SHORTFALL EXPECTED

Revenues dropping

- \$8.8 billion: June 2020 forecast
- ~\$200-\$300 million: Lawsuit WA bankers Assn. vs. State
- Unknown: Next forecast September 2020

Costs rising, issues emerging

- \$162 million: Estimated caseload cost impact June 2020
 - Many caseload-related costs are tied to COVID-19 – some of the larger impacts are due to K-12 Basic Education, Corrections, Working Connections Child Care and Medical Assistance related caseloads.
- \$375 million: Agency COVID-related response costs to date

WHAT SHOULD WE EXPECT?

Economic and revenue uncertainty persists

According to state Economic and Revenue Forecast Council:

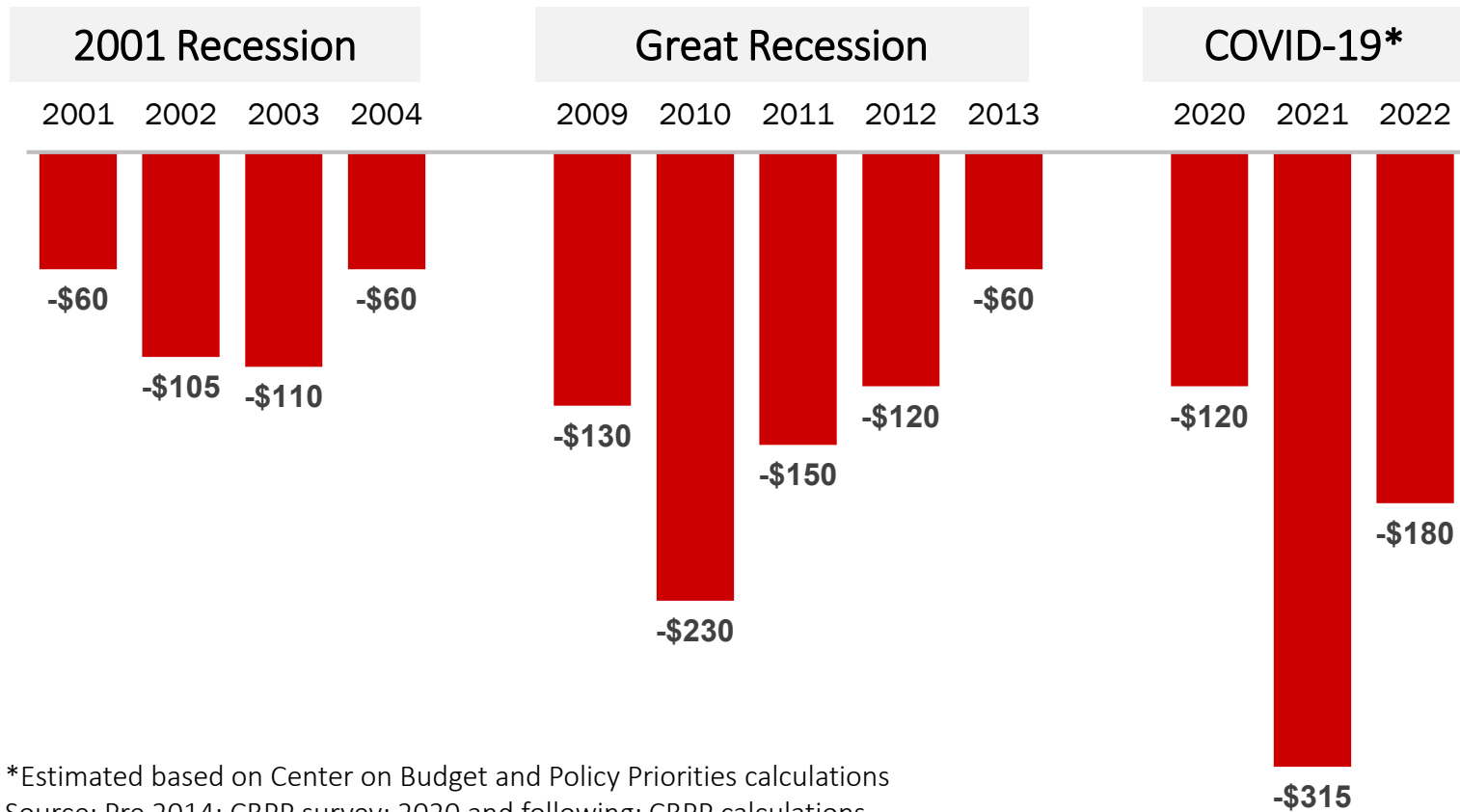
The impact of lost economic activity from the COVID crisis will extend for many years.

What we know so far:

- Forecasted Near GF-S revenue for the next 3 years have fallen \$8.8 billion.
- Business shutdowns and reduced economic activity due to the pandemic have had a major negative impact on state revenue.
- Total nonfarm payroll employment fell 417,600 (seasonally adjusted) in the five-months since the February forecast.
- Washington's unemployment rate soared to 16.3% in April from 3.8% in February before declining to 15.1% in May.

COVID-19 STATE BUDGET SHORTFALLS COULD BE LARGEST ON RECORD

Total state budget shortfall in each fiscal year, in billions of 2020 dollars



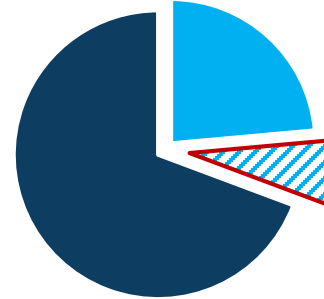
*Estimated based on Center on Budget and Policy Priorities calculations
Source: Pre 2014: CBPP survey; 2020 and following: CBPP calculations

MAJORITY OF BUDGET IS PROTECTED

About **70%** of the budget is protected by law.



That means we can only cut from the other **30%** (about **\$25 billion**).



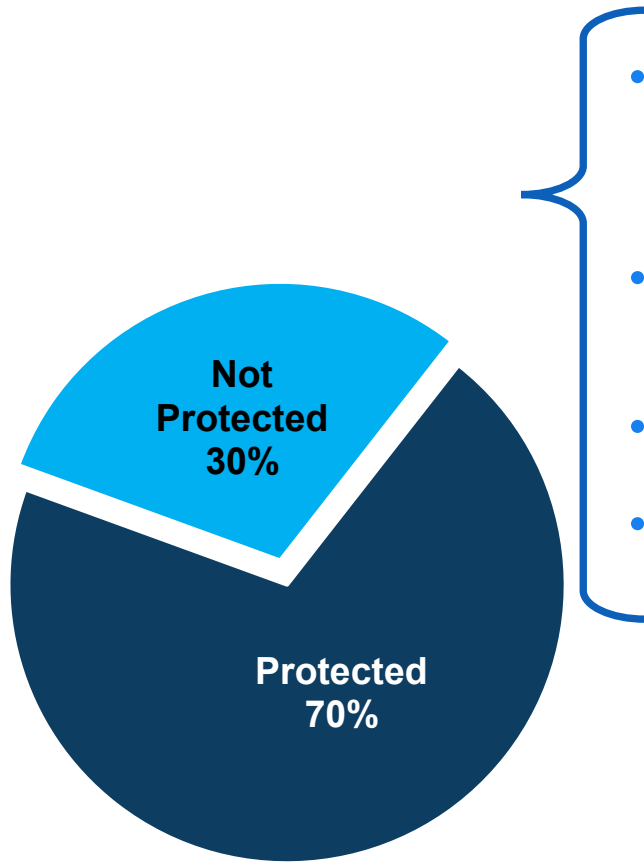
Cutting **\$6B** from **\$25B** is about a **24%** cut from unprotected services.

Examples of protected spending: K-12 basic education, mandatory Medicaid, nursing homes, development disability services, constitutionally protected court activities, debt service.

Examples of non-protected spending: Higher education (except for Washington College Grant), corrections, many human services (including state-only funded health care programs), natural resources.

EXAMPLES -- NOT ENOUGH TO FILL GAP

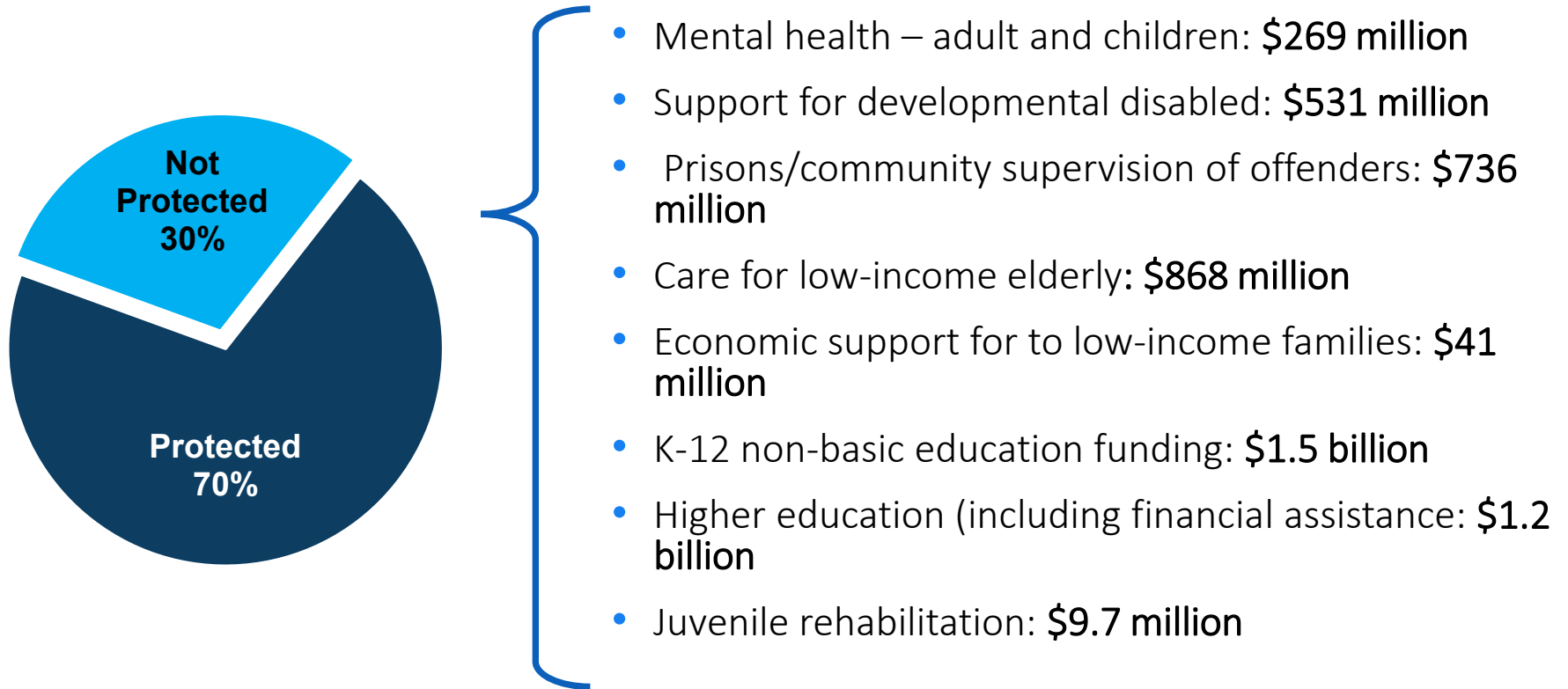
Non-Protected Budget



- Eliminating all state-funded environmental and natural resource protection, and all recreation and parks programs : **\$515 million.**
- Eliminating all of the legislative and judicial branches of state government : **\$551 million.**
- Eliminating all early learning programs: **\$642 million.**
- Eliminating 25 of smallest general fund funded agencies: **~\$53 million**

POSSIBLE AREAS FOR MORE CUTS

Non-Protected Budget



BUDGET TIMELINE

- Mid-September: Budget requests due
- November: Revenue forecast
- Mid-December: Governor's proposed 2021-23 budget release
- March: Revenue forecast
- January - April: legislative session



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