June 2020

The 2021-23 Budget Story

Washington’s current budget situation and what’s next
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?

Even after using all of its reserves, including its rainy day account, the state would still face a $6 billion shortfall.
$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

6/30/2020
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

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<thead>
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<th>2001 Recession</th>
<th>Great Recession</th>
<th>COVID-19*</th>
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<tr>
<td>2001 $-60</td>
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*Estimated based on Center on Budget and Policy Priorities calculations
Source: Pre 2014: CBPP survey; 2020 and following: CBPP calculations
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

- Mental health – adult and children: $269 million
- Support for developmental disabled: $531 million
- Prisons/community supervision of offenders: $736 million
- Care for low-income elderly: $868 million
- Economic support for to low-income families: $41 million
- K-12 non-basic education funding: $1.5 billion
- Higher education (including financial assistance: $1.2 billion
- Juvenile rehabilitation: $9.7 million
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
FOR MORE INFORMATION:

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