

The 2015-17 Washington State Budget

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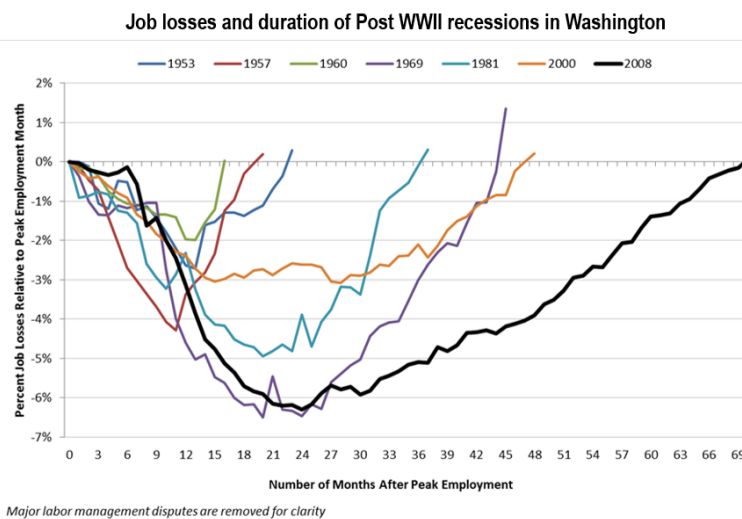
When writing about the budget it's important to share good news as well as bad. First the good: (it's short) the revenue forecast picked up a little bit. The bad is that we face one of the most difficult budget cycles of my time in the Legislature, and perhaps worse than we've seen in many decades.

are done in detail, and we use projections for years three and four to ensure that we are not creating spending or revenue problems in the future.

When we left town the outlook for years three and four (FY 2016 and FY 2017, what we call the

The budget is showing strains from the slow recovery from the recession, we are seeing a slew of court cases that require us to spend significant amounts of money, and we are going to have to make significant progress in meeting our constitutional responsibility to fund public education.

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



2015-17 budget) was that we would have a balance of \$19 million at the end. This rounds to zero in a \$37 billion budget. In other words, it just balanced. These projections (for years three and four) include a set of assumptions about what will happen in that time period. For example, we don't assume that there will be COLAs for state employees as it would perhaps create a self-fulfilling promise.

As we approach writing that budget many of these assumptions seriously understate the problems with the 2015-17 budget.

Last year, just like every other year, the Legislature approved a balanced budget. The federal government hasn't done this since the Clinton administration. I'm pleased we did it, but don't like some of the tradeoffs we made to get to bipartisan agreement. We write a four-year budget, under the strongest balanced budget law in the country. The first two years

- State employees and teachers have not gotten a COLA for 6 years. This has been more than a 15% cut in purchasing power for state employees and we are losing the most effective ones. This would be a bad outcome, just as it is for businesses. We will

need to budget hundreds of millions to cover this cost.

- Higher education faces inflation in the world and needs an increase to keep tuition flat, or at least below the rate of inflation.
- Many services provided by vendors face inflation, including the \$15 minimum wage in Seattle
 - o Home care for 55,000 low-income seniors and the disabled.
 - o Child care for over 50,000 children of low-income families who have to work.
 - o Care for seniors and the disabled in nursing homes, family homes, assisted living, etc.
 - o Services for foster children, often provided by non-profits.
- The cuts in services to get through the lean years are hurting real people, and the courts are enforcing federal or state constitutional guarantees. We will have to budget these costs or the courts will (and in many cases already have) force us to.
 - o Foster care parents won a federal lawsuit demanding adequate financial support.
 - o A settlement with the federal courts over foster care (the Braam settlement) has been languishing and will need to be funded or the courts will take over. Caseloads have increased by about a third since this time last year and our ability to close child abuse cases has reached disastrous levels. (The percentage of cases open more than 90 days has doubled in that time.)
 - o The Supreme Court says that we can't keep mentally ill people in shackles in emergency room hallways. We're responding with about \$100 million in new capacity. We are about to see a similar case with mental patients waiting in jails for room at our mental hospitals, which is less humane than in

emergency rooms and just as unconstitutional.

- Fire costs have been astronomical this year. I'm concerned that our typical response is like the federal government's – rob Peter to pay Paul and take money from the prevention fund to fight today's fires, setting up more fires in the future.
- The budget projection model doesn't include having an ending fund balance, which is necessary for responsible budgeting. I would want at least 1% of the budget in this balance, or \$370 million.

When you take all these factors into consideration, David Schumacher, the OFM director, estimates that we will need somewhere between three-quarters of a billion and a billion in either additional revenue or program reductions to balance the 2015-17 budget, not counting our education funding obligations.

Why does this happen? Shouldn't the budget move forward without significant adjustments from year to year? The way we built last year's budget used hundreds of millions in one-time savings or shifts of funds from other accounts made up part of the revenue story for last year's budget. These savings and shifts are not ongoing solutions, and we don't see anything of similar size in the future to create a structurally sustainable budget.

- The Affordable Care Act allowed us to get federal support for some programs that the state was paying for, saving over \$300 million.
- A set of tax resources were set up several decades ago to provide a stream of funds for cities and counties to build local infrastructure. At the insistence of the Senate Republicans these funds have been semi-permanently diverted to the operating

budget. This puts cities in a tough spot doing economic development work.

- Model Toxics Control Act (an initiative that creates funds for cleanup of toxic sites) funds have been shifted to cover operating expenses for Ecology.
- Some of the one-time adjustments to revenue are expiring, making resources not be available this year.

K-12 Education Funding - McCleary

In addition to the problems above, the McCleary decision puts strategic pressure on the budget that cannot be resolved by the typical changes we make from year to year.

In this section I'm going to use numbers from two sources: the National Education Association's research arm (NEA Research, 2014) and an annual report called "Quality Counts" from Education Week magazine (Swanson, 2014). The NEA numbers are reliable, and are available more quickly than from other sources. Education Week adjusts its cost figures for regional cost differences, so they correct for the fact that costs are higher here than in Mississippi.

Using the NEA Research numbers, Washington per-pupil expenditures from all sources (state, local, and federal) are about \$1,200 less than the national average in absolute dollars. Their estimate for the 2013-14 school year is \$10,175 and the national average is \$11,373. Because we are a high-cost region Education Week's estimates are \$2,600 per pupil less than the national average in expenditures¹, with a 2011-12 per-pupil cost estimate of \$9,262 and a national average of \$11,864.

Estimates for the cost of the McCleary additions vary, but the only structured numerical analysis of the cost from legislative committees comes from a study done by the Joint Task Force on Education Funding in 2011.²

Current estimates of the policy specified in that report suggest that there will need to be about \$2.5 billion per biennium in additional funding

Enhancement	FY 2016	FY 2017	FY 2018	FY 2019
Full Day Kindergarten	37	88	153	174
K-3 Class Size	110	282	515	573
MSOC	320	407	418	428
Guidance Counselors, Parent Involvement, Transitional Bilingual	25	57	106	117
Subtotal	492	835	1,191	1,292
Biennial Total	1,327		2,483	

to comply with laws the legislature passed in 2009 and 2010. This will pay for all-day Kindergarten, lowered class size in Kindergarten through third grade (the ages when research shows it makes a difference) and some support services students need to meet the increased

¹ (Swanson, 2014)

² (WA State Legislature, 2012)

graduation requirements that were a part of the 2009-10 proposal.

This \$2.5 billion translates into about \$1250 per student, per year. Added to the \$10,175 we spend per student per year (combined state, local, and federal, estimates for 2013-14 school year)³ this would get us to about \$11,425 per

used to pay for basic education. Most of this is used to pay “TRI-pay,” a locally bargained adjustment to salary that is mainly a regional cost of living adjustment. This is another \$3.5 billion that will need to be funded at the state level, but most likely can be handled with some reasonably revenue-neutral shifts of property tax responsibility.

Expenditure	FY 2016	FY 2017	FY 2018	FY 2019
Compensation Adjustment	305	813	1,450	1,614
Health Benefits	161	208	220	224
Subtotal	466	1,021	1,670	1,838
Biennial Total		1,487		3,508

None of this analysis includes the costs of I-1351, the class-size initiative.

student, or a tiny bit over the national average that year of \$11,373⁴.

Let’s say that again – the McCleary investment gets Washington State to about the national average as of the 2013-14 school year. It’s not a crazy large increase, and people wonder why the court is so upset about where we are today.

OFM estimates are for \$2 billion in 2015-17 and \$4.77 billion in 2017-19. This estimate does not include the local component of compensation, something that will need to have been solved by then, adding another 25% or so to the price tag. Total expenditures per student would go up \$2,500 to \$3,000 per student per year, ranking #13 in absolute spending per student and lower in regional-cost-adjusted spending.

In addition, 31% of the \$10,175 today comes from local taxpayers, and the court has clearly stated¹ that local taxpayer money cannot be

What’s the Solution?

The problem above can be summarized as follows:

Every dime of new revenue for the next biennium is already dedicated to existing programs, and there are about a billion dollars of expenditures that will need to be made in addition to that in the 2015-17 budget, plus we have to make a \$1.2 to \$2 billion new investment in K-12 education.

There are two basic ways to go about addressing the problem: 1) raise new sustainable revenue or 2) reduce other programs to make it possible to spend money

on K-12 education. There are many possible solution spaces in the place between these two extremes.

³ (NEA Research, 2014)

⁴ (NEA Research, 2014)

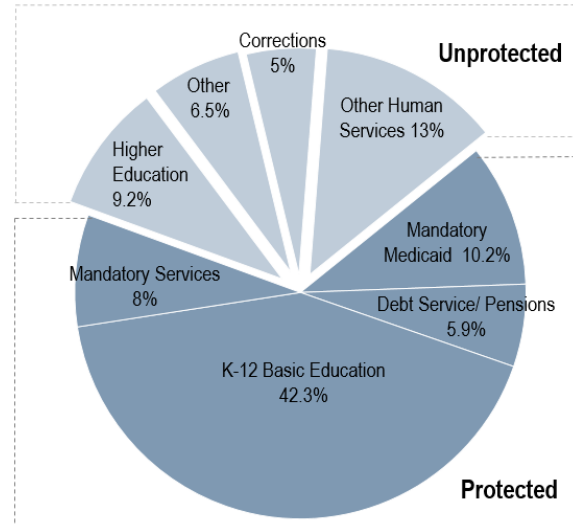
After six years of reductions made to balance the budget in hard economic times it will be difficult to make reductions in existing programs that do not affect levels of service. (This is what people mean when they want you to improve “efficiency”.) Washington has about the same number of employees in general government as we did a decade ago, but the population has increased 15% since then, and all those new people need to get driver’s licenses.

So, if you are going to make significant reductions in expenditures in existing programs you have to say what services are going to be reduced. There are constraints, of course.

Most Medicaid spending is controlled by Federal requirements and can’t be reduced at the state level.

There are some requirements in our state constitution beyond K-12 that limit our ability to reduce specific expenditures. For example, we need to have a functioning court system, veterans homes, hospitals for mentally ill and the physically disabled, etc. They don’t have to be lavishly funded (and aren’t) but they need to be functional or we just create more lawsuits.

About 2/3 of the budget is protected this way, forcing budget writers to look in other places for those reductions.



The pie chart above (Washington State Office of Financial Management, 2014) shows what is protected and what isn’t. Each percentage point in the chart corresponds to about \$370 million. To solve the budget problem with cuts you have to cut \$2 billion (or about 5.5%) from things other than K-12 and that are not protected.

Some of the categories in this chart would be difficult to reduce. Cutting any significant money in corrections will require closing a prison, as we believe we are at the minimum level of staffing necessary for safe operation. “Other” is largely the courts, shifts to local government, etc. Most legislators are not interested in eliminating higher education investments, nor would it be good economic policy.

A large part of “Other Human Services” is our mental health system, most of which is off-limits to cuts given the recent state supreme court decision about emergency room boarding. Much of the care we provide for at-risk children in Child Protective Services and the foster care system is equally off-limits due to a series of federal court decisions.

It's a fantasy to believe that we can fulfil our obligation to fund K-12 education without making cuts to the rest of the budget that will be unacceptable to large parts of the population and both federal and state courts. People who wish to propose doing this will need to propose the specifics of what they would reduce so that the Legislature, and the public can decide if that's what they want to do.

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