



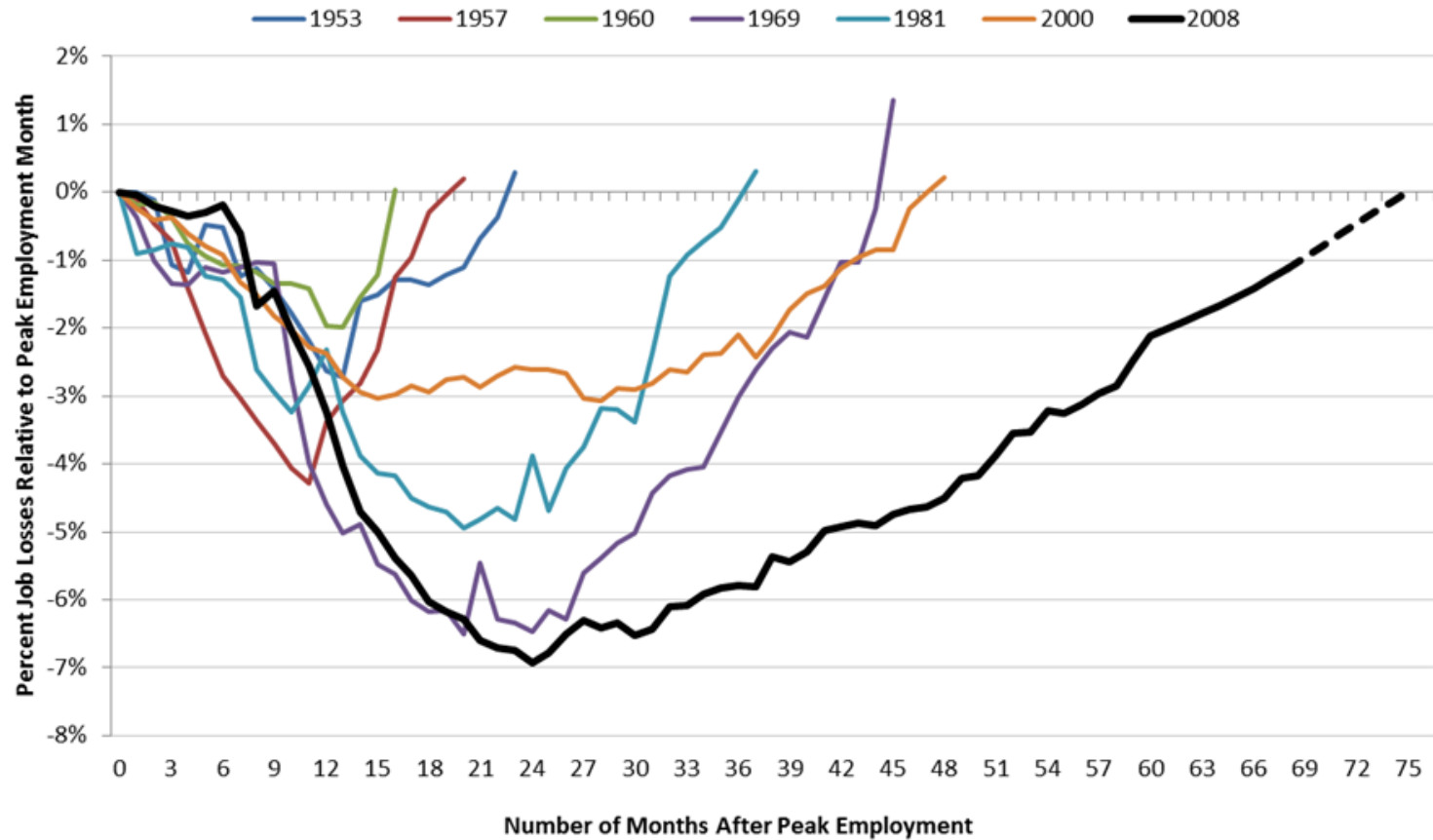
2014 SUPPLEMENTAL BUDGET

Big Challenges Ahead

January 2014

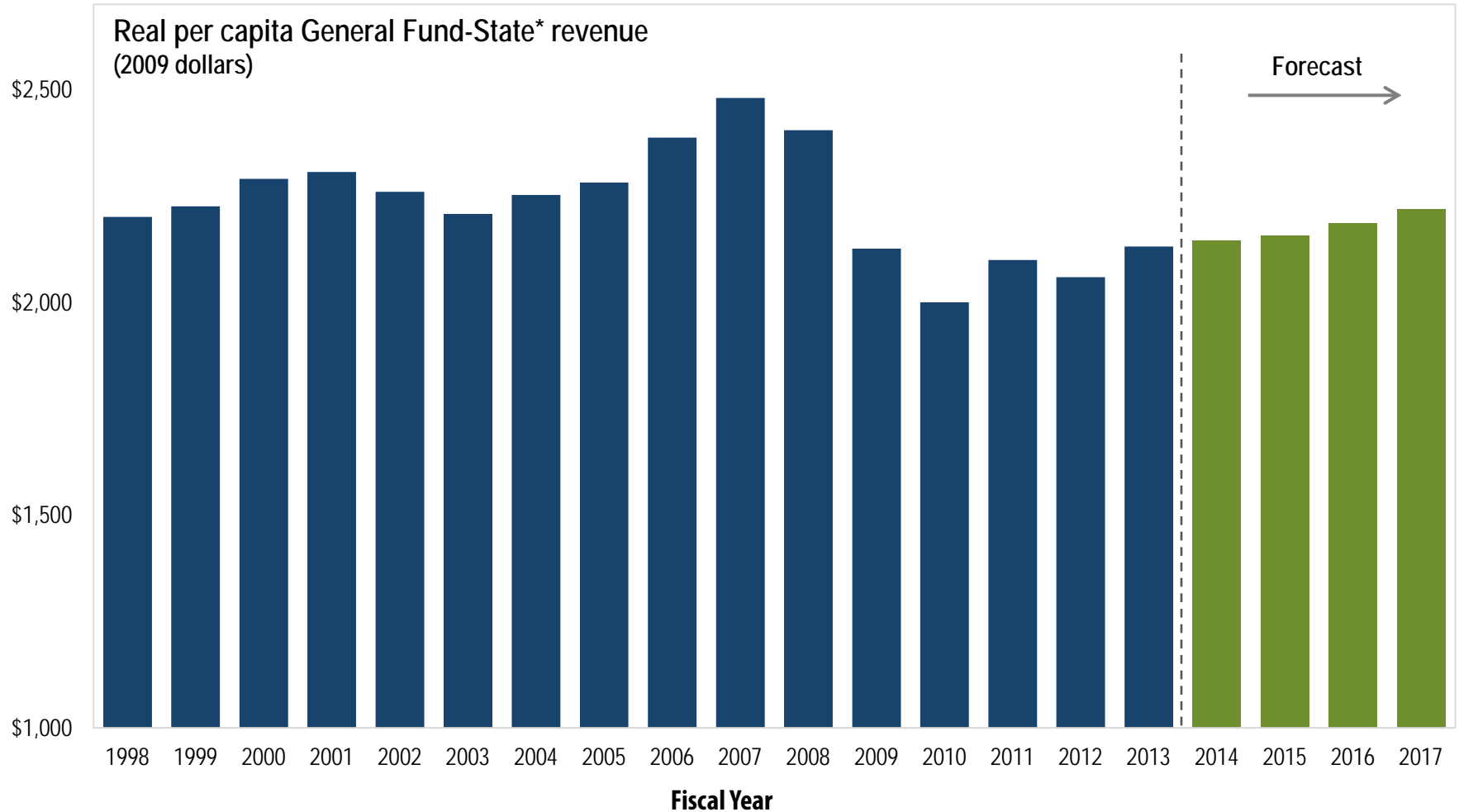
Our economy is rebounding, but at very slow pace

Figure 1: Job Losses and Duration of Post WW2 Recessions in Washington



Major labor management disputes are removed for clarity

Slow economic recovery is reflected in projected revenue growth



*Reflects General Fund and related funds for fiscal years 1995–2009; General Fund, new definition for fiscal years 2010–17
Washington State Economic and Revenue Forecast Council

State budget stabilizes, but challenges loom

- » For first time in 6 years, we are not talking about making hundreds of millions of dollars in program cuts.
- » Revenue collections growing, but probably not fast enough to keep pace with rising mandatory costs and ever-increasing number of people the state serves.
- » We will face significant new obligations and spending pressures in the 2015–17 budget.

2014 supplemental budget outlook

- » Gov. Inslee initially proposed modest adjustments to the 2013–15 operating budget
- » But the new Supreme Court order in McCleary calls for “immediate, concrete action”
- » The state has a plan for addressing McCleary and the Governor proposes getting started on the next step now
- » He will soon put forward a proposal to make another sizable K-12 investment this session, primarily targeting:
 - › School operating costs
 - › Voter mandated I-732 teacher COLAs

What's in the Governor's proposed 2014 supplemental budget

Includes \$149 million in GF-S “maintenance-level” spending to cover mandatory cost increases and continue services at current levels; and \$103 million in net policy enhancements and increases

Large portion of mandatory cost increases are driven by rising school enrollment and program caseloads. For example:

- » We expect 10,200 more K-12 students than initially projected and 900 more students than previously forecast who will qualify for College Bound Scholarship program.
- » The state's prison system — already at capacity —projected to serve 336 more inmates than were forecast when the budget was adopted.

What's in the Governor's proposed 2014 supplemental budget

Includes several other key items:

- » \$6.6 million to address prison capacity problem, most of which will be used to open a medium-security unit at the Washington State Penitentiary
- » \$8.2 million to begin complying with legal settlement requiring the state to expand mental health services for children
- » \$10 million to fund a collectively bargained rate increase for child care providers
- » \$13 million for critical IT upgrades, including funding to continue building the state's Business One-Stop portal

What's in the Governor's proposed 2014 supplemental budget

Makes other important investments in education:

- » \$3 million for a new teacher mentoring program.
- » \$300,000 to develop new career and technical education curricula to provide students multiple paths to meet math and science graduation requirements
- » \$250,000 for an early warning dropout prevention program
- » \$3.2 million in STEM education enhancements

Funds key state aerospace investments that helped secure final assembly of Boeing's next-generation 777X.

What's in the Governor's proposed 2014 supplemental budget

A new strategy on high tech R&D investment:

- » Extend by one year 2 tax preferences to encourage private sector investment in high tech R&D, which reduces revenue by \$26 million this biennium and \$32 million next biennium
- » Develop strategies for future tax incentives and/or ways to invest directly in building high tech workforce

Increase the B&O tax filing threshold:

- » Increase filing threshold from \$28,000 per year gross income to \$50,000, which reduces revenue by \$3.4 million
- » Means about 20,000 additional businesses will not have to file B&O tax returns

Finding a more sustainable approach

Last year, we solved the 2013–15 budget shortfall and made a down payment on our basic education obligation by relying on several one-time fixes, unspecified reductions and assumed savings.

This approach is unsustainable. Barring an unforeseen dramatic rise in economic activity and revenue collections, we will face another sizable shortfall when we begin work on the 2015–17 budget.

What's looming in the next budget

Besides addressing the normal increases in caseloads, enrollments and other mandatory costs, the 2015–17 budget will have to:

- » Make another big investment — \$1 billion to \$2 billion — toward meeting our basic education obligations
- » Make additional investments in early learning and higher education
- » Fill holes left by one-time fixes in the 2013–15 budget
- » Address a backlog of compensation issues for teachers and state employees



For more information, visit www.ofm.wa.gov