



Washington Spending Review: Spending Up 44 Percent Since Pre-Recession Peak

Briefly

Washington's state and local spending increased dramatically coming out of the Great Recession as the state invested primarily in education to address the McCleary education funding lawsuit. With McCleary now in the rear-view mirror, there appears to be an enormous appetite among legislators for new spending on almost everything else. As the spending proposals begin to roll out with the governor's budget, it is instructive to look at the state's recent spending history.

From the pre-recession peak in 2008 through 2019, spending from funds subject to the outlook (NGFO) is budgeted to increase 43.9 percent. Washington's state and local spending per capita has exceeded the national average in most years since 2000 and ranked 15th highest in 2016. From 2016 through 2021 (the end of the second biennium of the current four-year budget window), NGFO spending is projected to increase by 40.3 percent.

NGFO spending on public schools is budgeted to increase by 88.8 percent from 2008 to 2019 (60.5 percent when adjusted for inflation). Public schools spending has also grown as a share of the NGFO budget, from 40.0 percent in 2008 to 52.5 percent in 2019.

Legislators this session will consider the appropriate level of spending for 2019–21 as they write a new biennial budget. A look back at the large spending increases in recent years and the length of the current economic expansion should give policymakers pause and may suggest a cautious approach.

Washington's state and local spending is similar to other states when measured relative to population and personal income. In recent years, state spending has increased substantially, fueled by significant increases in revenues (as we discussed in our recent paper, "[Washington Revenue Review: Revenues Are Still Growing Strong, But for How Long?](#)").

Comparative Spending Over Time

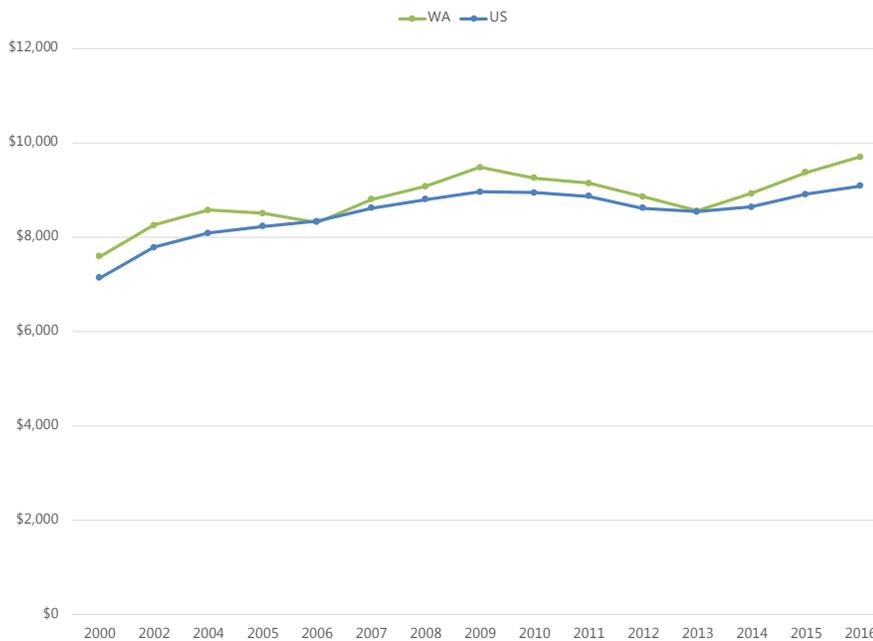
In a time when many states struggled coming out of the Great Recession,

Washington's budget increased significantly. State and local spending per capita has exceeded the national average in most years since 2000.* (See Chart 1 on page 2.) In 2016, Washington spending per capita was \$9,696 and average U.S. spending per capita was \$9,081; Washington ranked 15th in the nation by this measure. (Census n.d.)

Washington's state and local spending as a share of personal income was 18.4 percent in 2016, just below the U.S. aver-

* The comparative spending data is from the Census Bureau's Annual Survey of State and Local Government Finances. It includes state and local government spending on education, social services, transportation, public safety, environment and housing, and governmental administration. It does not include utility, liquor store, or insurance trust expenditures. The most recent data is from 2016.

Chart 1: State and Local Spending Per Capita (2016 Dollars)



age of 18.7 percent. Washington has been below the U.S. average since 2004 by this measure and ranked 30th in the country in 2016. (Census n.d.) Washington’s state and local spending as a share of personal income ranks lower than per capita spending because its personal income per capita is higher than the national average, ranking ninth highest in the country in 2017 (BEA 2018).

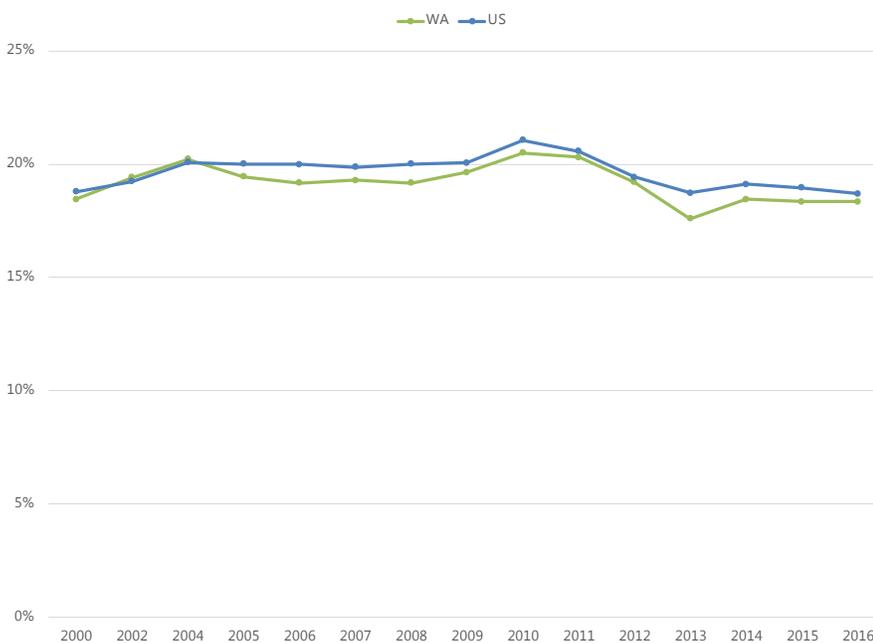
Washington will likely gain in the rankings of state and local spending as more recent data is reported. With the continued phase-in of large state spending increases related to the Supreme Court’s McCleary decision, spending from funds subject to the outlook (NGFO) is currently budgeted to increase by 27.9 percent from 2016 to 2019.

Washington spending has increased 16.9 percent from 2015–17 to 2017–19 and 37.2 percent from 2007–09 (the pre-recession peak) to 2017–19. (See Chart 3 on page 3.)

For purposes of the state’s four-year balanced budget requirement, the Economic and Revenue Forecast Council (ERFC) projects current spending into the next two biennia (the cost of continuing current services, adjusted for caseload, school enrollment, and inflation changes). According to the ERFC projections, the 2017–19 budget increases to \$50.753 billion in 2019–21 and to \$54.603 billion in 2021–23. The 2019–21 figure represents a 55.9 percent increase over 2007–09.

Before considering policy changes, ERFC projects spending will increase by 13.6 percent from 2017–19 to 2019–21. One reason the maintenance level increases

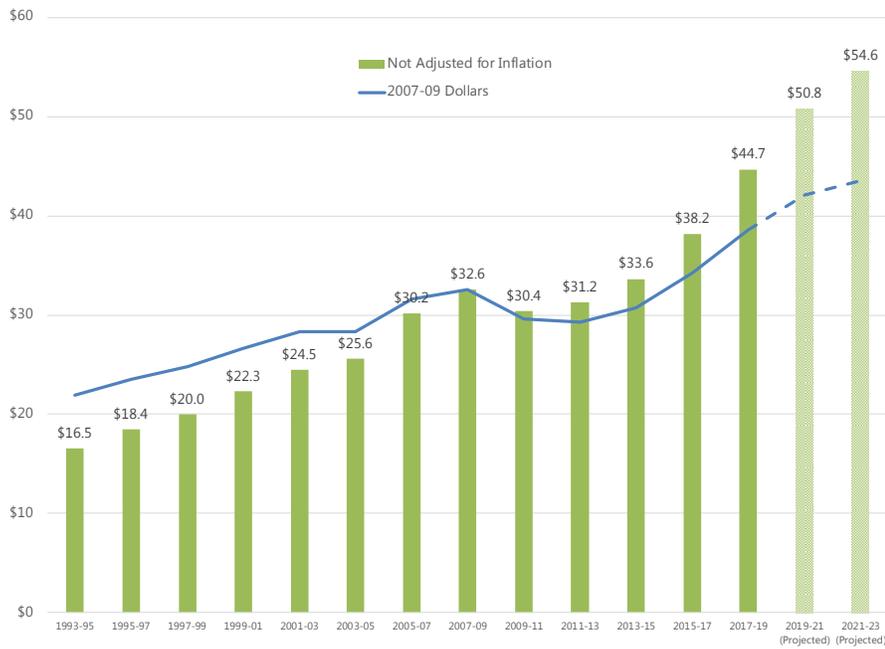
Chart 2: State and Local Spending as a Share of Personal Income



Funds Subject to the Outlook (NGFO)

In recent years, legislative fiscal committee staffs have based budget presentations on a synthetic “account” that rolls up the general fund–state (the state’s primary budget account) with the education legacy trust account and the opportunity pathways account, because they believe that it better reflects the entire budget situation. Previously called the near general fund–state plus opportunity pathways (NGFS+), it is now more simply called “funds subject to the outlook” or the near general fund–outlook (NGFO). (Under the four-year balanced budget requirement, a positive ending balance is required in the current biennium on an NGFO basis.)

Chart 3: NGFO Spending (Dollars in Billions)



are so large in 2019–21 is due to the school salary allocation increases adopted in 2017 and 2018. The full increase was funded for school year 2018–19 (in the middle of the 2017–19 biennium), but the full biennial impact of this policy will first be felt in 2019–21.

In this case, the four-year balanced budget law worked as intended. The law requires legislators to consider the long-term impacts of legislation (WRC 2012). It thus helps prevent unsustainable spending from programs that phase in over time. The 2017–19 budget (including the 2018 supplemental) balances over four years.

Spending Areas

In 2019, NGFO spending is budgeted to be \$23.626 billion, an increase of \$2.590 billion (or 12.3 percent) over 2018. Public schools spending accounts for 80.5 percent of that increase and will reach \$12.394 billion in 2019, an increase of 20.2 percent over 2018 and 31.8 percent over 2017. Net NGFO spending on the Department of Social and Health Services (DSHS) and the Health Care Authority (HCA) is expected to drop slightly in 2019, to \$5.475 billion (a decrease of 2.3 percent). NGFO spending on higher education is budgeted to be \$1.902 billion in 2019 (an increase of 5.0 percent). All other NGFO spending will total \$3.855 billion (an increase of 16.5 percent).

Growth in state spending on public schools started to increase faster than other areas in 2014, which marked the beginning of the state funding increases related to the McCleary decision. From 2008 to 2019, total NGFO spending is budgeted to increase by 43.9 percent. Over that time period, NGFO spending on public schools is budgeted to increase by 88.8 percent. (See Chart 5 on page 4.)

Meanwhile, from 2008 to 2019, NGFO spending for DSHS and HCA is budgeted to increase by 7.9 percent. NGFO spending on higher education is budgeted to

Chart 4: NGFO Spending (Dollars in Billions, Not Adjusted for Inflation)

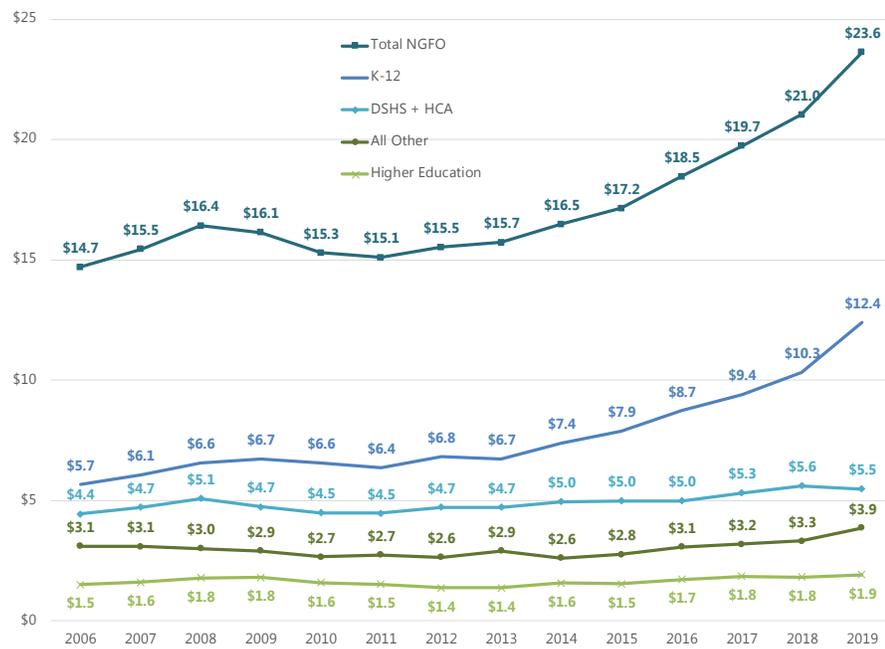


Chart 5: NGFO Spending Growth Since 2008

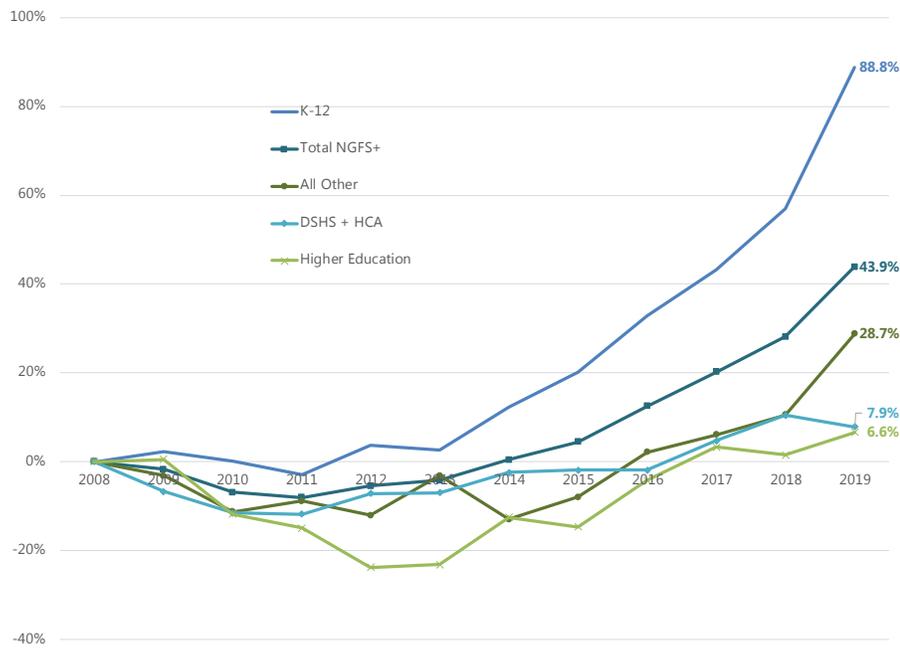
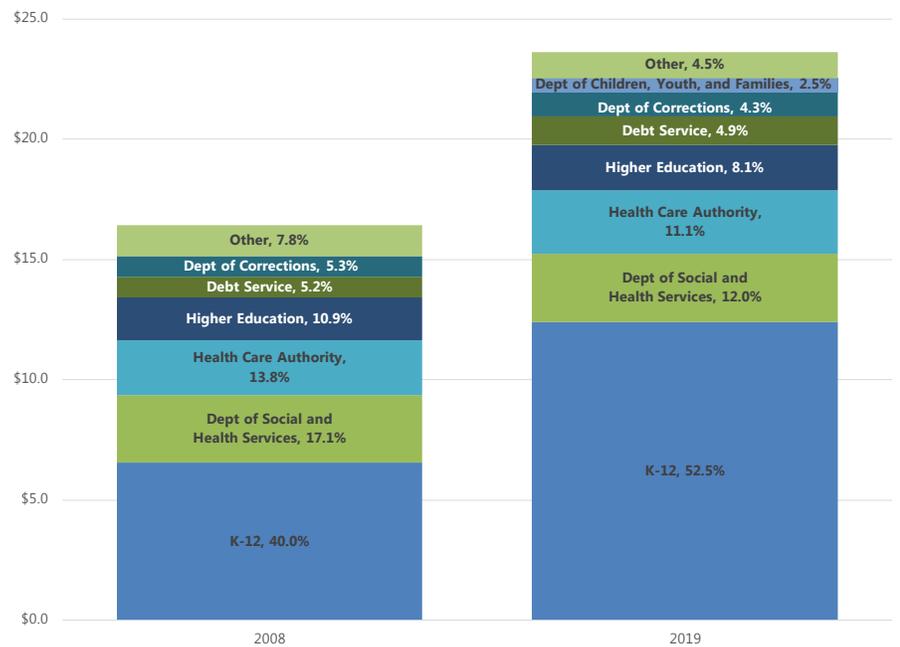


Chart 6: NGFO Spending (Percent of Total NGFO, Dollars in Billions)



increase by 6.6 percent.

In addition to significant growth in absolute terms, public schools spending has grown as a share of the NGFO budget. Spending on public schools represents 52.5 percent of the budget in 2019, compared to 40.0 percent of the budget in 2008.

Spending from All Funds

A number of activities of state government are funded outside of the NGFO, either via dedicated state funds, or from federal or local funds. Spending from all funds reached \$93.637 billion in the 2017–19 budget. (See Chart 7 on page 5.) During the Great Recession, federal stimulus funds propped up state spending. As a result, the recession-era peak spending from all funds occurred in 2009–11. From 2009–11 to 2017–19, all funds spending is up 47.3 percent.

K–12 is the largest area of the all funds budget, as it is in the NGFO budget, making up 26.5 percent of the all funds budget in 2017–19.

In addition to the substantial increase in NGFO spending over the past few biennia, the amount of federal funding to Washington has increased, largely due to the expansion of Medicaid that was part of the Affordable Care Act (ACA). (See Chart 8 on page 5.) Indeed, the HCA, which administers Medicaid, accounts for 20.5 percent of the all funds budget in 2017–19, compared to just 15.9 percent in 2009–11. Normally, the federal government pays for half of Medicaid spending in Washington. However, for the population that became newly eligible for Medicaid under the ACA, the federal government has paid a higher percentage. The federal share began at 100 percent in calendar year 2014 and has been stepping down: It is 94 percent in CY 2018 and will be 93 percent in CY 2019 and 90 percent thereafter.

Chart 7: All Funds Spending (Dollars in Billions, Percent of Nominal Spending)



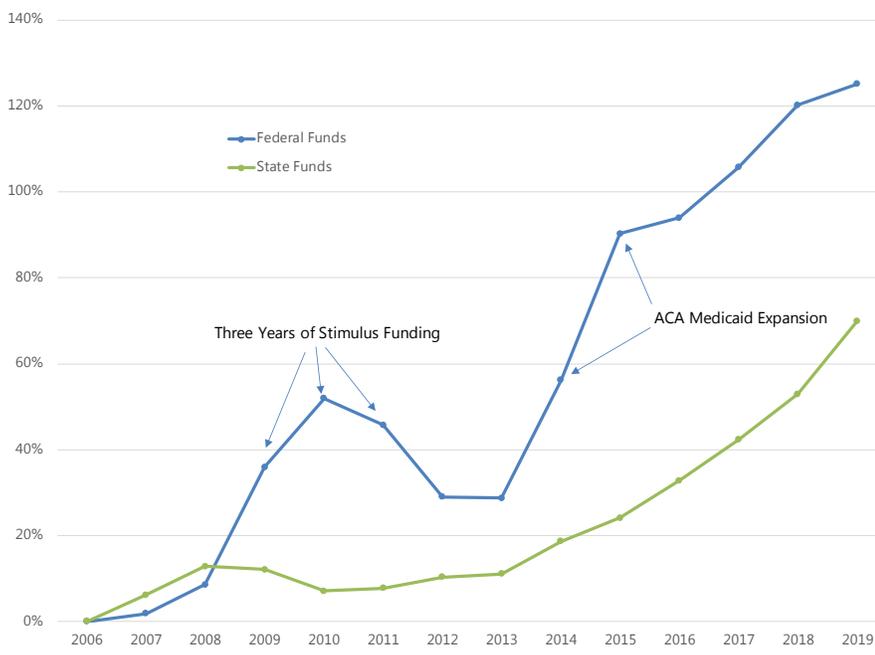
Comment

The spending story of the decade has been the state’s response to the McCleary decision. The related increases in state spending began in 2013–15, but the full impact of the school funding increases won’t be felt until the upcoming 2019–21 biennium. Still, the effort appears to be showing up in the national data: Washington’s state and local spending per capita was about the same as the national average in 2013, after which Washington’s spending started to outpace the nation.

Legislators will face pressure in the coming session to increase spending for budget areas that have taken a backseat during the McCleary spending ramp-up. David Schumacher, the director of the Office of Financial Management, has indicated as much. To agency directors developing their 2019–21 operating budget requests, he wrote, “As the state phased in McCleary funding over the past six years, demand grew for new and expanded programs in other areas. With so many pent-up needs, competition will be fierce for 2019–21 and 2021–23 resources in virtually every part of the budget” (Schumacher 2018).

The recent revenue forecast will tempt legislators too. But an economic downturn looms sometime in the future. After so many years of strong revenues and the spending to match, a cautious approach is warranted.

Chart 8: Growth in Total Operating Expenditures



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