Washington Research Council

Policy Brief

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Delaying Budget Action Would Deepen the Pain

Briefly

The Office of Program Research, in an unofficial budget outlook, estimates that the unrestricted ending balance of funds subject to the outlook will be negative $3.403 billion in 2019–21 and negative $8.465 billion in 2021–23. Despite these dire projections, Gov. Inslee says he has no plans to call the Legislature into a special session.

Depending on how many budget areas are subject to spending cuts, we estimate that necessary cuts could be from 8.8 percent to 28.2 percent if the Legislature waits until the regular session to address the shortfall. Had the Legislature acted in June, the necessary reductions would have ranged from 2.9 percent to 9.4 percent. The same concept applies to tax increases: To reach a target level of collections, a tax rate would need to be higher if applied over a shorter period.

Gov. Inslee and legislative leaders appear poised to use all available one-time funding sources to patch together the current biennial budget without regard for the significant looming shortfalls in subsequent biennia. The Legislature should act sooner than later to enact a new budget that is sustainable within current resources and that balances over four years.

The Office of Program Research (OPR), in an unofficial budget outlook, estimates that the unrestricted ending balance of funds subject to the outlook will be *negative* $3.403 billion in 2019–21 and *negative* $8.465 billion in 2021–23 (OPR 2020). Despite these dire projections, Gov. Inslee says he has no plans to call the Legislature into a special session to address the shortfall.

> *We do not need a special session right now, and the reason is that we have enough financial wherewithal to get to January where we can have a regular session . . . [i]f the Congress acts, together with our reserve account, those decisions may be relatively easy for this biennium come January. But it is not necessary to have a session right now.* (Inslee 2020d)

On the contrary, the longer the state waits to address the shortfall, the more painful it will be.

NGFO

Legislative fiscal committee staffs base 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, the opportunity pathways account, and the workforce education investment account, because they believe that it better reflects the entire budget situation. This roll-up is 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 both the current and following biennium on an NGFO basis.)

Outlook

The unofficial outlook produced by OPR is based on the June revenue forecast and the enacted 2020 supplemental budget. It includes the governor's budget vetoes, but it does not include several other state and federal actions that improve the balance sheet. These are:

- A freeze on hiring, non-essential personal services contracts, and equipment purchases, effective May 18. There is not an estimate of how much this will save. (Inslee 2020a)
- Furloughs for employees of agencies under the governor's authority and a cancellation of the FY 2021 general wage increase for certain non-represented employees (Inslee 2020b). This is expected to save $55 million in FY 2021; if higher education institutions, the Legislature, courts, and other elected officials follow suit, another $91 million could be saved (Inslee 2020c).

- The enhanced federal match for Medicaid that was included in a federal COVID-19 relief bill. These additional federal funds for Medicaid mean state funds can be used elsewhere. The Office of Financial Management (OFM) estimates that Washington will receive $131 million per quarter while the enhanced match is in effect. The higher match expires "on the last day of the calendar quarter in which the last day of" the public health emergency occurs, as determined by the Secretary of Health and Human Services.

Table 1: NGFO Balance Sheet (Dollars in Millions)

	FY 2021
Beginning Balance	833
Revenue	
June 2020 Revenue Forecast	23,323
July Collections Report	**261**
Total Revenue	*23,584*
Other Resource Changes	
Transfer to Budget Stabilization Account	(224)
Other Enacted Fund Transfers	106
Prior Period Adjustments	20
Total Other Resource Changes	*(98)*
Total Resources	*24,319*
Spending	
Enacted 2019-21 Appropriations	27,695
Actual/Assumed Reversions	(233)
June Caseload Forecast	**161**
Furloughs	**(55)**
Enhanced Federal Medicaid Match	**(524)**
Total Spending	*27,044*
Unrestricted Ending Fund Balance	(2,725)
Budget Stabilization Account Balance	1,682
Transfers from GFS and Interest Earnings	234
Projected BSA Ending Fund Balance	1,916
Total Reserves	*(809)*

Sources: OPR, ERFC, OFM

The recent report from the Economic and Revenue Forecast Council (ERFC) that general fund–state revenue collections for the June 11–July 10 period came in $260.7 million above the forecast is another improvement (ERFC 2020).

Making things worse, however, OFM estimates that higher caseloads will increase spending in 2019–21 by $161 million.

The balance sheet in Table 1 modifies the OPR balance sheet to account for these items. (We assume that the enhanced federal Medicaid match will be in effect through the end of FY 2021, reducing state spending by $524 million.) The net effect is to improve the unrestricted ending fund balance in FY 2021 from *negative* $3.403 billion to *negative* $2.725 billion.

Consequences of Waiting to Address the Shortfall

The longer the Legislature waits to address the shortfall, the harder it will be. Table 2 illustrates this. Assuming no resource changes and that the Legislature uses the funds in the budget stabilization account (BSA, or the rainy day fund), appropriations would have to be cut by

Table 2: Percent Spending Reductions Needed to Close FY 2021 Without a Shortfall

	Effective Date of Cuts:			
If Cuts Are Made To:	Jul. 1, 2020	Sept. 1, 2020	Dec. 1, 2020	Mar. 1, 2021
All Budget Areas	-2.9%	-3.5%	-5.0%	-8.8%
All Budget Areas Except Basic Education, Debt Service, Contributions to Retirement Systems	-6.2%	-7.4%	-10.6%	-18.6%
All Budget Areas Except Those Protected According to OFM	-9.4%	-11.3%	-16.1%	-28.2%

Note: This analysis assumes that spending is distributed evenly among the months.

$809 million to get the FY 2021 ending fund balance up to zero. (This would not be enough to balance the budget over four years.)

As we discussed in a recent policy brief, some budget areas are more difficult to cut than others, for constitutional, legal, or political reasons. When former Gov. Gregoire implemented across-the-board cuts in response to a shortfall in 2010, she exempted basic education, debt service, and contributions to retirement systems. (This definition represents 53 percent of the FY 2021 budget.) More recently, OFM has taken a more expansive view, suggesting that various health and social services are also protected. (This definition represents about 70 percent of the FY 2021 budget.) (WRC 2020)

If the Legislature had addressed the projected shortfalls in June, it would have been able to spread these cuts over 12 months, meaning that the budget areas deemed unprotected by former Gov. Gregoire would have been cut by 6.2 percent. If the cuts are spread over a shorter period, they must be deeper. For example, if the Legislature meets in a special session in August and enacts cuts that are effective Sept. 1 (i.e., for 10 months), cuts to those budget areas would need to be 7.4 percent. Cuts to those budget areas would need to be 18.6 percent if the Legislature waits until the regular session to make changes.

If the Legislature exempts budget areas deemed protected by OFM, the cuts would need to be 11.3 percent if effective Sept. 1 and 28.2 percent if the Legislature waits until the regular session.

The Legislature may opt to increase revenues in addition to making spending cuts. The same analysis applies to tax increases: To reach a target level of collections, a tax rate would need to be higher if applied over a shorter period.

Comment

Waiting to address the budget shortfall not only delays inevitable difficult decisions, it also makes them more painful. The rainy day fund and any federal relief funds should be used to help solve the problem, but those are one-time funds that only delay eventual challenges. Any spending reductions in 2019–21, on the other hand, would also help to reduce the looming shortfall in the 2021–23 biennium. The Legislature should act sooner than later to enact a new budget that is sustainable within current resources over four years.

References

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