

STATE FISCAL

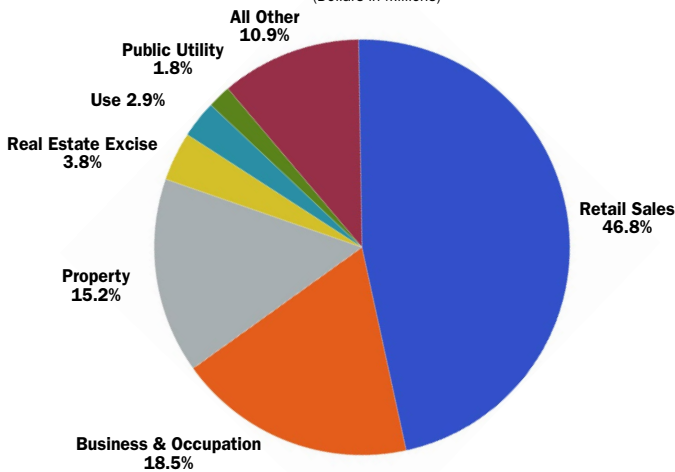


The Legislature concluded its deliberations on a supplemental \$52.5 billion spending plan in early March. The budget, which is in effect through June 2021, was predicated on the Feb-

ruary economic and revenue forecast that showed continued growth in economic activity and state revenues.

Sources of State Revenue

Washington State Revenue Forecast - March 2019
2019-2021 Near General Fund-State + Opportunity Pathways Account
REVENUES BY SOURCE
(Dollars in Millions)



Washington’s operating budget is funded through a variety of taxes, with more than 80% coming from the retail sales tax, business and occupation tax and property taxes.

Beginning in mid-March, national and state economies have been in free-fall due to the curtailments imposed to prevent the spread of COVID-19.

In response, Governor Inslee vetoed more than \$200 million in new spending in the supplemental spending plan and another \$200 million in planned spending in the next biennium. Washington had about \$3 billion in emergency reserves available at the time the budget was adopted.

Under Washington’s Constitution, the Legislature and Governor must adopt and implement a balanced budget over a biennium.

Use of State Revenue

More than 53% of state expenditures are for K-12 education. About 60% of the state’s budget is protected from reductions (K-12 education, debt retirement, Medicare and corrections). The protected level could be as high as 70% under OFM criteria that includes additional health care and social service costs.

The following link shows the state operating budget with a sense of scale for each element of state spending.

<http://leg.wa.gov/Senate/Committees/WM/Documents/Publications/BudgetGuides/2020/Budget%20Universe%20Web%202020.pdf>

Washington Economic and Revenue Forecast Council

The independent Washington Economic and Revenue Forecast Council is tasked with preparing quarterly forecasts of state revenue collections. These forecasts provide the legal basis for fiscal decisions by the Legislature and Governor.

On June 17th, the Council unveiled their first forecast since the COVID-19 disruptions. The forecast estimates:

- A \$4.5 billion revenue shortfall in the current biennium (through June 2021)
- An additional \$4.2 billion revenue shortfall in the 2021-2023 biennium

The Council's September forecast showed that state revenues rebounded as the economy slowly began re-opening. The current biennium shortfall is now projected at \$2.5 billion and the 2021-2023 shortfall is updated to \$1.9 billion (a total of \$4.4 billion over the next three years). The Council noted, however, that much of the rebound may be the result of the federal stimulus programs, hence may not be sustained. Additionally, it is also noted that Washington's tax collections continue to grow, but the rate of growth is slower than the 2019 projections.

The Governor has limited authority to balance the budget once it is signed into law. He can impose equal and across the board reductions to agencies and programs. However, he cannot eliminate programs, delay programs, or change salary adjustments without the approval of the Legislature.

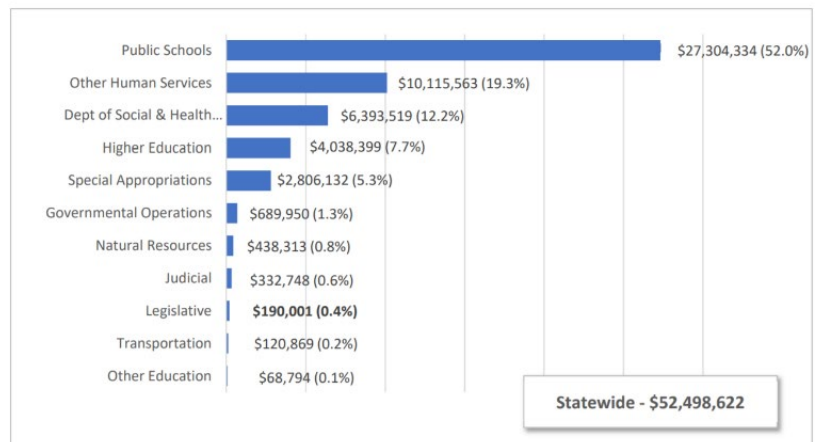
Finally, although Washington had about \$3 billion in emergency reserves in March, use of some emergency reserves requires a two-thirds vote of the Legislature.

The WVCC urges the Governor and Legislature to convene in special session quickly to make spending adjustments that can be implemented over as much time as possible. Waiting to address the budget shortfall only delays inevitable difficult decisions and makes them more painful. The impact of deferring decisions is demonstrated to the right:

2019-21 Operating Budget STATEWIDE & LEGISLATIVE AGENCIES

Near General Fund - Outlook

Dollars in Thousands with Percent of Total



Percent Spending Reductions Needed to Close FY 2021 Without a Shortfall

If Cuts Are Made To:	Effective Date of Cuts:			
	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.



Guiding Principles

- » The Chamber supports prioritizing investments that assist in economic and business recovery.
- » The Chamber supports balanced spending within existing resources and income streams.
- » The Chamber supports eliminating barriers on employers' ability to hire employees
- » The Chamber supports assisting local governments in recovering from COVID-19.
- » The Chamber supports avoiding the diversion of revenue streams from local taxes that invest in economic recovery to backfill other needs.