

**Date:** June 4, 2010  
**Subject:** National Trends for State Budgets - Forecast for state budgets continues to look bleak

As stakeholders across the country speculate about whether the economy is moving toward recovery, one thing is certain: state budgets across the nation have not recovered and, in fact, face continued stress for the foreseeable future. As a state institution, the University of Washington is closely tied to the fiscal health of Washington State, and while we all benefit from any signs of national economic recovery, the state of Washington's budget is perhaps the most important indicator for the near term future of the UW.

### ***States Facing Worst Fiscal Crisis Since the Great Depression***

The Center on Budget and Policy Priorities (CBPP) has been closely monitoring the incredibly slow (or nonexistent) recovery of state budgets. In their latest update, "[Recession Continues to Batter State Budgets; State Responses Could Slow Recovery](#)," authors Elizabeth McNichol and Nicholas Johnson present the following summary points:

- ❖ As of right now, 48 states had fiscal year 2010 gaps (including mid-year gaps), totaling \$200 billion or 30 percent of state budgets -- the largest ever on record.
- ❖ 46 states have already estimated gaps for fiscal year 2011 totaling \$112 billion, or 17 percent of their budgets. It is estimated that these gaps might grow to over \$180 billion as revenues continue to drop.
- ❖ These gaps are exacerbated by the scheduled loss of massive federal assistance. As CBPP states:

*"The Recovery Act included two primary forms of state fiscal relief: an increase in the federal share of state Medicaid expenditures and a State Fiscal Stabilization Fund (SFSF) targeted mainly at reducing the extent of education cuts. Together, they provided states with nearly \$140 billion over two and a half years. The SFSF dollars alone are funding 284,000 jobs, mostly in education, according to the Department of Education. [2] The increased Medicaid support has also helped protect education programs and jobs by reducing the cost to states of meeting the rise in health care needs — freeing up state funds for education and other purposes."*

The federal government is considering additional actions, such as the [Keep Our Educators Working Act](#) of 2010, introduced by Senator Tom Harkin (D-IA). This bill seeks to extend the State Fiscal Stabilization Funds included in the recovery act, providing a \$23 billion education jobs fund to create and maintain education jobs in each state. While a similar measure was already passed in the House's [Jobs for Main Street Act](#) in December 2009, Harkin's initial efforts in the Senate have not yet been successful. Additionally, there is ongoing discussion of cutting higher education out of these bills and targeting the funds to K-12 only. Without additional federal support, state budgets in 2011 may be as bad if not worse than they were in 2010.

### ***Washington State Budget Forecast Mirrors National Trends***

The [May 2010 Washington State Revenue Forecast](#), prepared by the Economic Revenue and Forecast Council, reports that receipts show year over year growth (2.3%) for the first time since September 2008. However, the forecast also suggests that unemployment in Washington State won't peak until this quarter and reports

that General Fund State Revenues for the April to May period are down almost \$20 million (or 1.8%) from February's forecast. In other words, the deficit continues to grow for Washington State.

Also note that the Superior court recently determined ([McCleary v. State](#)) that Washington State does not adequately fund K-12 education and is not meeting the constitutional requirement that we “amply provide for the education of all students.” The state is considering appealing the decision, while also working toward determining a framework for accommodating this decision and meeting its requirements. It is not yet known how much the state will have to increase spending to be in compliance with this ruling, but it can be assumed that, if the decision stands, it will be a very large sum of money during a time of scarce resources.

Ultimately, Washington’s Office of Financial Management’s (OFM) [four year outlook](#) for the state general fund assumes another \$2.6 billion deficit for the 2011-13 biennium. OFM outlines the following major challenges:

*“Assuming average annual revenue growth in the 2011-13 Biennium of just under 5 percent, plus caseload and inflationary pressures, the main challenges for the next budget period are:*

- ❖ *Likelihood of increased demand for essential state services as revenues slowly recover*
- ❖ *Need to replace one-time federal recovery funding*
- ❖ *Pension obligations*
- ❖ *Statutory requirements related to voter-approved ballot measures which support K-12 class size reductions (Initiative 728) and cost of living increases for teachers (Initiative 732)*
- ❖ *Above average inflationary pressures in medical assistance and other health care programs.”*

Note that these challenges were written before the McCleary v. State court decision.

Ultimately, although the details will become clearer in the coming months, the outlook for state budgets across the nation is quite bleak for at least another two to three years. There is no evidence that Washington State will be an exception given the specific conditions and challenges looming in the state.

*For more information, please contact Office of Planning & Budgeting staff member Jessica Thompson at [jlthomp@uw.edu](mailto:jlthomp@uw.edu) or 202-624-1428.*