

# Windows Into The Budget

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*Greetings, and welcome to the inaugural "Windows into the Budget," a series designed to inform and engage the public about critical budget issues in Olympia. The series is intended to be objective, factual, and hopefully bring clarity to complicated public policy.*

## ***Window #1: A profound change of course***

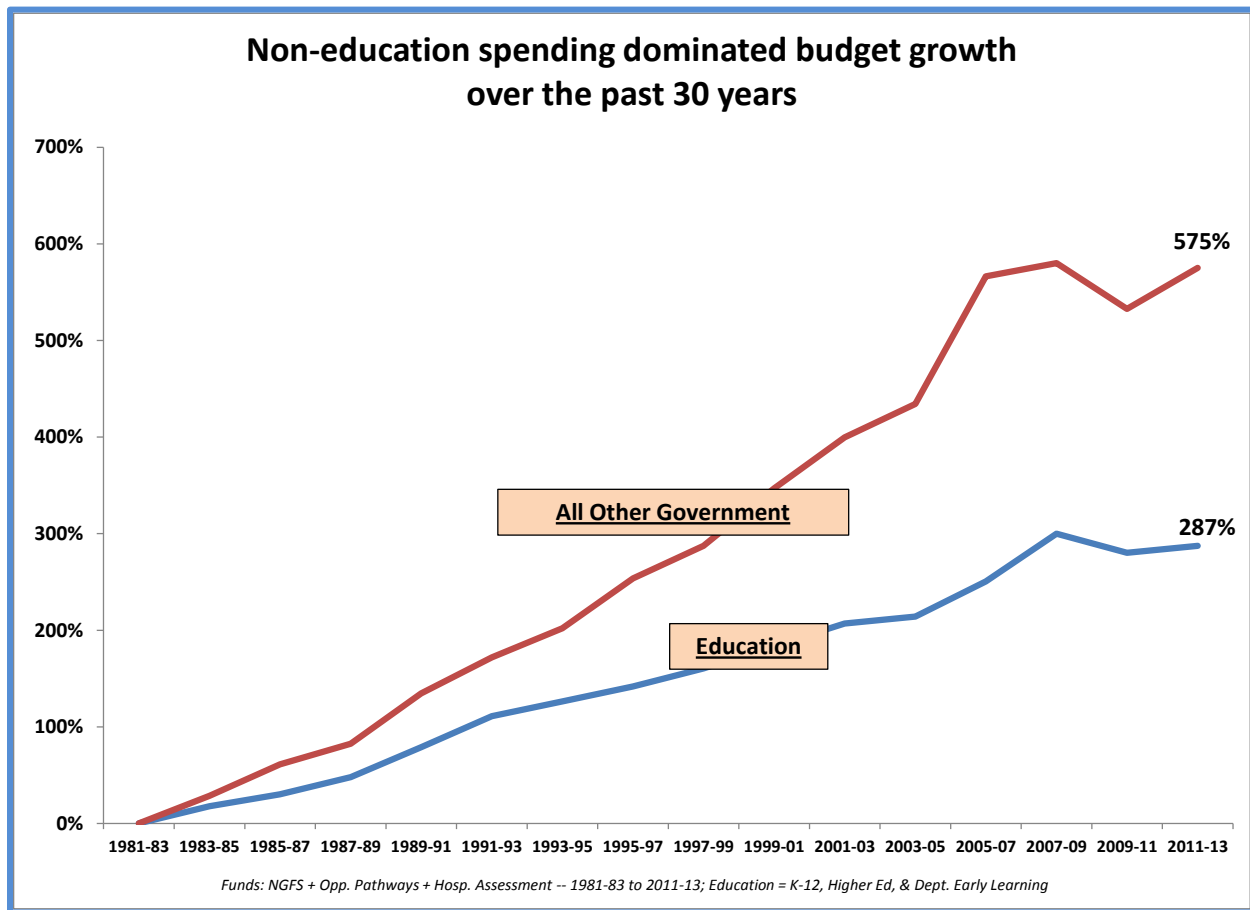
This first edition will review the 2013-15 operating budget adopted earlier this year. While not perfect, the budget was a profound change of course for Olympia, representing a step forward in four key ways:

1. Prioritizing education;
2. Living within the state's means;
3. Long-term sustainability; and
4. Bipartisan support.

While the journey was long, the end result was something of which citizens can be proud – and a stark contrast to recent events in Washington, D.C.

### ***1. Prioritizing Education***

Over the past 30 years, education has been a declining priority of the state budget. During this time, non-education spending grew twice as fast as education spending.



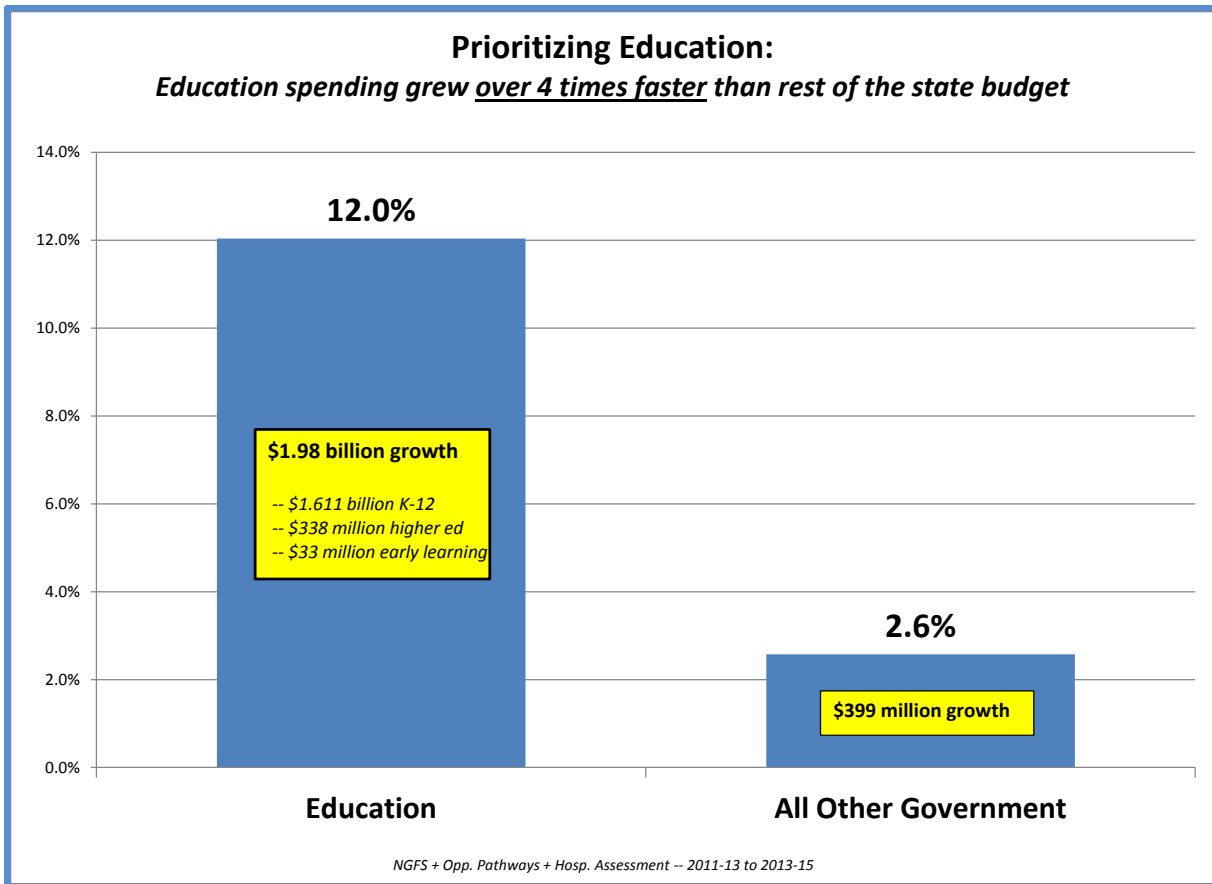
This 30-year trend diverted billions of dollars away from state government’s paramount duty under Washington’s constitution, which is to provide for basic education. Not surprisingly, this has had real life consequences:

- **Very few high-school freshmen go on to graduate from college** – Only 18 of 100 Washington students entering 9th grade ultimately graduate from college. Our state ranks 31st in the country on this measure.<sup>1</sup>
- **The majority of those entering college require remediation** – More than 57% of high school students directly entering college enrolled in a remedial course, generally mathematics.<sup>2</sup>
- **Tuition is among the highest in the nation** -- In the four years preceding the current school year, tuition at the University of Washington increased by 79%, the 2nd highest increase of any public flagship institution in the nation. Altogether, Washington's tuition at each of its categories of public institutions ranks in the top 15 in the nation.<sup>3</sup>

**A new paradigm was clearly needed in Olympia.**

Rather than paying the traditional lip service to education but funneling dollars elsewhere, my goal – and a goal of our bipartisan coalition – was to change course, reverse the 30-year trend, and direct most of the natural revenue growth to education.

***That's what we accomplished: Education spending grew 4 times faster than non-education.***



**What did this 12% increase in education spending make possible?**

- **State funding per K-12 pupil increased by almost \$1,000 over two years, up to \$7,646 per pupil in the 2014-15 school year.**<sup>4</sup>
  - The majority of K-12 spending increases were enhancements to basic education, including reducing kindergarten & 1st grade class sizes, a 63% increase in funding for a program targeted at high-poverty schools, expanding full-day kindergarten, and relieving local school districts from paying for transportation with local levy dollars.
  - While popularly portrayed as a \$1 billion enhancement to basic education (with the other \$600 million in new K-12 spending being primarily caseload-driven), this actually understates the ongoing commitment to K-12 in this budget. Put simply, because the budget spends more on K-12 enhancements in the 2nd year than in the 1st year, ongoing "basic education enhancements" obligates future biennial budgets to \$1.4 billion, not \$1 billion.

- **No tuition increase for first time in over 25 years.**
  - The \$338 million of increased higher education spending paved the way for the first tuition freeze since 1986-87.<sup>5</sup>
  - Additionally, \$18 million went to expand enrollment slots in high demand STEM (science, technology, engineering & math) fields.<sup>7</sup> According to a recent study commissioned by the Washington Roundtable, generating more STEM graduates is one of the best ways to drive economic growth and create new jobs in our state.
- **Increased investment and accountability for early learning.**
  - The state budget increased early learning slots for low-income children by 20%. And, to ensure this money is well-spent, the budget included a study by the well-respected Washington State Institute of Public Policy to conduct an evaluation of the state's early learning program and make recommendations for program improvements.<sup>8</sup>

## 2. *Living within the State's Means*

Entering the 2013 session, state revenues were projected to grow by \$2.1 billion, a 7% increase from the prior budget.<sup>9</sup> Despite this, naysayers claimed that tax increases would be necessary.

And, indeed, the weight of the legislative process tilted toward much greater spending and taxes, with both the House Democrats and Gov. Inslee proposing spending increases in excess of 10%.<sup>10</sup>

### **How were these increases proposed to be paid for by the House Democrats and Gov. Inslee?**

- Tax increases of over \$1.3 billion; and
- Raiding the state's constitutional rainy day fund.<sup>11</sup>

### **There are three key points to make in regard to these proposals:**

1. **This is not a rainy day.** Revenue growth of 7%, equivalent to an increase of \$2.1 billion of new money coming into the state, does not constitute a situation that warrants raiding our rainy day fund. The Legislature created this fund to provide needed reserves when the economy hits a downturn or there is a true emergency. Voters intended that this fund be kept intact until a time that revenues are actually in decline.
2. **Voters expect promises to be kept.**
  - Candidate Inslee said less than one month prior to his election in November 2012 that: *"I would veto anything that heads the wrong direction and the wrong direction is new*

*taxes in the state of Washington.*"<sup>12</sup> Gov. Inslee reaffirmed that commitment upon taking office in January.<sup>13</sup> Yet, less than 100 days into office with no change in the state's financial picture, his budget proposed over \$1 billion in new taxes. It's that sort of bait and switch that causes a deep distrust in government and elected officials.

- Likewise, the House Democrats proposed breaking a commitment. In 2010, Democrat legislators passed two "temporary" tax increases: a \$530 million hike on service businesses and a nearly 200% increase in state taxes on beer.<sup>14</sup> Both were promised to expire in 2013. Yet, the House Democrats proposed making those taxes permanent.

3. **The proposed increase in spending was not for education.** Despite claims that the Democrats' proposed tax increases were needed for "education," a close review of the proposals shows an entirely different picture:

- When looking at the increased spending above the level proposed in the initial bipartisan Senate budget, 2/3rds of the House's went to non-education and 3/4ths of Gov. Inslee's went to non-education.<sup>15</sup>
- Furthermore, once negotiations commenced, the first spending reductions proposed by Gov. Inslee and the House Democrats were in K-12 education, with the Senate ultimately having the highest funding level and fighting for that level to not be cut.

***In the end, the rainy day fund was kept whole, past promises regarding taxes were honored, and education was the top spending priority.***

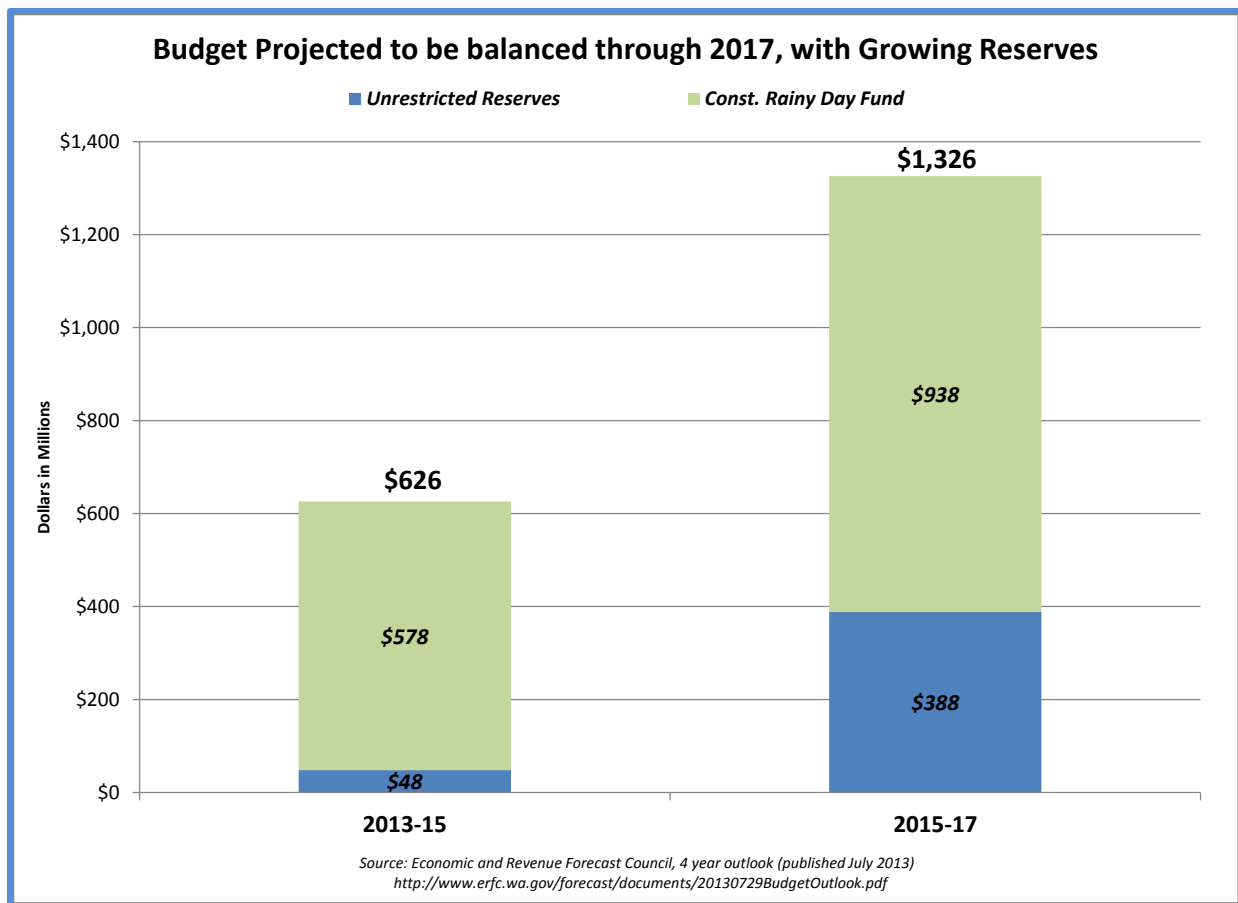
The final budget that was adopted largely rejected the approach employed in the initial House Democrat and Gov. Inslee proposals. Namely, it:

- Preserved the rainy day fund for a rainy day;
- Rejected the call for \$1 billion-plus in tax increases, and maintained the commitment to let \$630 million of taxes on service businesses and beer expire, as originally promised in 2010;
- Clamped down on requests for new non-education spending.

The budget does what people at home do: lives within its means, puts a portion away for bad times, and prioritizes spending on the most important items.

### ***3. Long-Term Sustainability***

After years of persistent budget deficits facing the Legislature every time it started a session in Olympia, this budget is projected to balance for four years, with reserves estimated to double.



One of the most significant reforms in terms of fiscal management was the passage of the four-year balanced budget requirement in 2012. The legislation required that the state operating budget be projected to be balanced not only through the current fiscal cycle, but also the next.

While forecasts are always subject to change, the requirement forced fiscal discipline on the Legislature by essentially prohibiting (a) balancing the budget through a series of short one-time solutions, such as borrowing against our tobacco-settlement money, skipping pension payments, or so-called “felony gimmicks” such as punting a school district payment into the next budget (effectively creating a 13<sup>th</sup> fiscal month in a 12-month year); and (b) enacting costly new programs or tax cuts that only took effect outside the current budget cycle.

Budgets that employ either of those measures are not truly balanced, and represent a shirking of the current Legislature's duty by passing a problem into the future. Unfortunately, such budgeting was all too common in the past decade and was a large contributor to the perpetual deficit claims heard from Olympia, despite growing revenue.

**This year's budget represents a new way of doing business in Olympia.**

The four-year balanced-budget projection adopted in a bipartisan manner by the state’s Economic and Revenue Forecast Council shows the budget is projected to be able to continue all current programs into the next biennia, after accounting for such known cost increases as higher pension costs, higher debt service, a required teachers' salary increase, higher health care costs and caseloads,

loss of one-time transfers, and the increases known as “bow wave” costs - including the \$1 billion basic education enhancement growing to a \$1.4 billion cost.

It is also worth noting that this projection is based on the June forecast. In September, the revenue forecast was adjusted upward by \$246 million, thus increasing projected reserves even further.<sup>16</sup>

A few final points on budget sustainability:

- First, an explanation of how the four-year balanced budget requirement came into play. Rather than revert to a typical one-time fund raid of other accounts, budget writers agreed to move \$350 million worth of existing taxes that were being deposited in the capital budget and redirect them to the operating budget's Education Legacy Trust account to pay for basic education enhancements. I would have preferred the redirection to be permanent, but final negotiations yielded a six year agreement. The four-year balanced budget requirement served as a “forcing function” to require both longer-term thinking as well as a re-evaluation of priorities in terms of where existing tax dollars should be dedicated.
- Second, the underlying budget is on solid fiscal footing, expected to be able to pay all its current obligations into the future. The “fiscal challenge,” to the extent one is present, has to do with how to make future McCleary/basic education enhancements. This will be an issue that future legislatures will have to confront, and I was disappointed that a long-term solution wasn't adopted in this past session – although to be fair the only proposal put forth to do so came from the Majority Coalition Caucus. That was Senate Bill 5895, “The Education Investment and Prioritization Act,” which would have controlled non-education spending growth at the rate of population plus inflation.<sup>17</sup> In so doing, the legislation would have ensured billions in policy additions could flow to education (K-12, higher ed, and early learning) over the remainder of the decade. The proposal passed the Senate, but was not addressed by the House.
  - Frankly, one of the biggest challenges confronting financing further enhancements to basic education is constraining the amount of new policy adds in non-education. For education advocates, this will be something that bears close watching.
- Finally, the state’s creditors took notice of our new fiscal policies: in July two rating agencies upgraded Washington’s credit outlook from “negative” to “stable,” citing our balanced budget as one reason for increased confidence.

## 4. Bipartisan Support

Finally, and especially noteworthy given the times, the final budget was approved with overwhelming bipartisan support: 44-4 in the Senate, and 81-11 in the House.<sup>18</sup>

Yes, it took far longer than necessary to reach agreement, but in the end both sides compromised, without compromising their principles. That led to an agreement that 89% of the lawmakers voting could support. This budget received more votes than any other budget in the last 20 years, and is a stark contrast to the usual budget votes that are along party lines.

When comparing and contrasting to the debacle that is Washington, D.C., Washingtonians should feel proud knowing that their legislators were able to work together in the end.

## ***The Window's Reflection***

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*The 2013-15 budget represented a profound change of course for Olympia.*

*Spending was prioritized to education, reversing a 30-year trend. Olympia kept its commitment with regard to “temporary” taxes, lived within its means, and continued saving for a rainy day. It adopted a budget that projects to remain balanced through 2017. And it showed that parties could work together, with the final budget being approved with overwhelming bipartisan support.*



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