

Inslee proposes sustainable, responsible, fair budget to "reinvest in Washington"

December 18, 2014

OLYMPIA – Gov. Jay Inslee declared today “it is time to reinvest in Washington” and proposed his 2015–17 budget that makes a bold commitment to education and protects important services hit hard by budget cuts during the recession.

The governor’s budget also cuts current programs and adds new revenue to put Washington on a more sustainable and responsible fiscal path. His revenue plan calls for, among a number of items, revenue from a charge on carbon polluters and a capital gains tax that will increase the share of state revenue paid by the wealthiest Washingtonians. Less than 1 percent of state residents would be subject to the capital gains tax.

“This budget will accomplish these four things: stronger schools, healthier kids, cleaner air and a fairer tax system,” Inslee said.

The budget announcement capped a series of major policy rollouts by the governor this week. He has unveiled the details of his education plan, [a 12-year, \\$12 billion transportation improvement plan](#) and a market-based carbon pollution reduction program.

The governor’s [\\$39 billion, two-year budget includes a new \\$2.3 billion education plan](#) with the [largest-ever state investment in early learning](#), and follows through on the state’s commitment to fully and sustainably fund the Legislature’s commitment to basic education — and does so a year ahead of schedule. His plan also:

- [Reduces kindergarten-through-third grade class sizes to 17 and implements full-day kindergarten statewide.](#)
- [Includes funding to promote student success, raise high school graduation rates and improve educator training and mentoring efforts.](#)
- [Maintains higher education access and affordability by freezing in-state undergraduate tuition rates, boosting funds for financial aid and adding money for math and](#)

Passage of 16-year, \$16 billion transportation plan nearly complete

\$38 billion budget includes \$2.3 billion in new education spending (early learning, K-12 and higher education)

Historic \$95.3 million investment in early learning will allow 1,600 more children access to preschool

Legislature funded K-3 class sizes ranging from 22 to 17 and full-day kindergarten statewide

\$22 million for student success programs, including \$5 million for governor’s teacher mentoring program.

Governor requested a freeze plus expansion of student aid; compromise budget includes a

science programs.

As recently as 2007, public schools accounted for less than 39 percent of state spending. Under the governor’s budget, public schools’ share of state spending would increase to 47 percent.

The governor said he looks forward to talking to lawmakers about his proposal and encouraged others to present plans for a fair, sustainable and responsible budget.

“It is said a budget is the ultimate policy statement,” the governor said at a morning press conference. “But this is the start of a conversation — and I want to stress that I am open to any ideas others may have.”

Inslee’s budget makes investments in a number of other vital areas. For example, the budget includes funding to:

- Increase mental health treatment capacity by adding 145 beds to prevent boarding of psychiatric patients and another 35 beds to shrink wait times for those in jail awaiting evaluation and restoration services.
- Hire more than 100 child protective and child welfare services workers to more rapidly conduct investigations of abuse and neglect, and to ensure foster children are safe and foster parents are supported.
- Add staff and capital investments to enhance operations at State Parks and catch up on a backlog of maintenance work.
- Prevent and respond to oil spills along rail lines and reduce toxics in our waters.
- Provide modest raises for state employees, the first general wage increase since 2008.

Given the size of the state’s budget shortfall, reductions were necessary. The budget includes \$211 million in General Fund spending cuts and, by maximizing federal funds and shifting General Fund costs to other fund sources, saves an additional \$212 million.

The budget relies on \$450 million from reserves and employs tax and revenue changes that will raise a total of about \$1.4 billion

tuition reduction and student aid with Opportunity Scholarships for 4,000 more students and College Bound Scholarships/ State Need Grants for 4,000 more students.

Public school’s share of state spending increased to 47.5 percent

145 additional beds to prevent psychiatric boarding and 90 beds for competency restoration

41 additional child protective and child welfare services employees

Budget includes additional \$22.3 million GF-S for State Park operations to improve park services and provide additional security at campgrounds.

\$8.7 million to implement ESHB 1449 and other measures to prevent and respond to oil spills

Full funding for modest pay raises for state employees and educators

Fortunately, due to stronger than expected economic growth, the

over two years.

Washington's tax system is recognized as the most unfair in the nation. Low- and middle-income households pay a much larger share of their income in taxes than do the wealthy.

Under the governor's proposal, the state would apply a 7 percent tax to capital gains earnings above \$25,000 for individuals and \$50,000 for couples. Less than 1 percent of the state's taxpayers have annual capital gains earnings above those thresholds. Exemptions would be provided to remove any capital gains tax on retirement accounts, homes, farms and forestry. Earned income from salaries and wages are not capital gains and would not be taxed at all.

"This is a fair way to raise needed revenue," Inslee said. "It avoids an additional burden on the vast majority of Washington taxpayers. This is not intended to show a lack of respect for those who would pay. We honor success in Washington, but we also always strive for fairness."

In addition to that move to make our tax system fairer, in 2016, 450,000 Washingtonians would start getting a check from the Working Family Tax Credit, funded by the Carbon Pollution Accountability Act under legislation proposed by Inslee.

The governor's revenue plan also proposes raising the state cigarette tax and taxing e-cigarettes and vapor products. He is once again calling on the Legislature to **close outdated tax loopholes worth about \$282 million** in the next biennium. The budget also includes \$380 million in new revenue that will be generated by the governor's market-based carbon pollution reduction plan when it begins in 2016.

The governor today also proposed a \$3.8 billion capital budget for state construction projects, grant and loan programs for local governments, and to build and improve K-12 schools and higher education facilities.

Inslee's budget will be considered by the state Legislature when it convenes Jan. 12, 2015, in Olympia.

need for additional revenue diminished significantly by the time legislators adopted a budget in June 2015. But the added revenue and additional resources used in the final budget roughly match the \$1.4 billion the governor called for in December.

Washington's unfair tax system and income inequity remains an issue. The governor will continue to be discussing these issues.

Budget includes more than \$220 million from closing tax loopholes and increasing compliance with existing taxes

\$3.9 billion capital budget

Five Corner Budget Meeting -- Governor Framework
April 9, 2015

Welcome. First, I want to compliment you on the good work you've done so far on the budgets. We all know your budgets are different, but they are clear and there is much to work with.

I believe that we can finish in 105 days but it's up to the people in this room today.

I wanted it to be clear what I need to see in a budget that comes to my desk if you expect me to sign it.

Nothing here is new. It's what I've told you all many times. What I expect to see:

- 1) **In K-12, we need \$1.3B or more this biennium, and we need to fund HB 2776.** It's time to step up here and solve this problem so we can move on to our other K-12 issues. Levy reform and compensation among them. But first things first and that means 2776. I'd like to get this done for the schools and the court next biennium. If we have to phase into 17-19, we have to a rock solid funding in place.
- 2) **Fully fund the collective bargaining agreements.** These are modest increases for our own workers and I expect this to be taken care of.
- 3) **Fund our teachers' salaries. Fully fund 732 and the additional amount to align them with state employees.**
- 4) I'd like a bit more in places where we've already made some good bipartisan progress. **Early learning and mental health.** You received a letter of my major concerns yesterday from OFM.

\$1.3 billion for K-12/HB 2776

Full funding for collective bargaining agreement

Funding for I-732 plus additional funding to bring teacher COLAs in line with state employees for 2015-17.

Historic \$95.3 million investment in early learning

145 additional beds to prevent psychiatric boarding + 90 beds for competency restoration

What I won't accept

- 1) I will simply not accept new "Lean" cuts, back of the budget or so called efficiency savings. If there are cuts to be proposed they need to be specified. There are other proposals that result in cuts in agencies. Again, we must be clear with everyone what the consequences of any reductions are.

- 2) I want to move to a sustainable budget. That means not relying on using bond money to finance the operating budget.
- 3) I have no interest in signing any tax cut until these other requirements are met.

I also have a few smaller requirements:

- 1) I want full funding of medical education in Spokane. That means both the new WSU medical school and the UW WAMI program.
- 2) I want to see money for my teacher mentoring program in the budget.
- 3) I want the Senate to add money to Parks. This is a legacy for our kids and grand kids and we are falling short.
- 4) We need funding for droughts. I understand this is a combination of operating and capital, but let's get it done.
- 5) We need to pass and fund the JRI bill.

I think we all understand this will require additional revenue. You all know that my preference is for a Carbon solution or a Capital Gains tax. But I'm not here to tell you how to raise the money needed.

There are many other difficult items to negotiate and I'm happy to convene discussion right here at this table. But this framework is what I expect. I will be giving similar direction to your members on Transportation, Capital and Carbon in the days to come. I will help in any way I can.

Thank you coming in today.

WSU Medical School funded at \$2.5 million + \$9 million for WWAMI continuation and expansion

\$5 million for governor's teacher mentoring program

Legislature agreed to \$22.3 million, up from \$5 million in original Senate budget

\$14 million for drought relief

Thanks to steady economic growth, revenue forecasts increased by \$680 million since December and our caseloads have decreased by \$201 million. In addition, the federal government extended the Children's Health Insurance Program, which will increase federal funding to the state by \$115 million. In all, that's about \$1 billion more than we had to work with in December.

That was very good news for everyone, but still it wasn't quite enough.

To close the remaining gap, legislators used about \$178 million in fund transfers and raised \$220 million in additional revenue, largely by closing several tax breaks.

Media avail – talking points

June 19, 2015

In December when I proposed my budget I said we needed additional revenue to make necessary investments in early learning, K-12, higher education, and certainly in mental health.

We know Washington needs to make progress on funding education for our children, transportation system and approve a policy to fight carbon pollution.

Negotiations on the operating budget have not gotten us to where we should be today – 11 days from facing a shutdown of state government.

I have worked to bring both parties to the middle, and as part of that mediator role I have withheld any substantive comment on the negotiations.

But I have met with legislative leaders and budget writers almost daily since June 1. We have met all together. I have had a series of one-on-one meetings with leaders and then with budget writers. We've talked with both the majorities and the minorities, which I should say have been helpful in this process. I want to note that people have come to the table in good faith, and progress has been made. But we are at the hardest spot. It's a small gap in the parties' positions, measured by dollars.

But negotiations are about more than just dollars. You need to know that the negotiations are not about a capital gains tax.

It's not a fight about any new tax.

That is in large part because the economy has helped us. Since I proposed by budget in December we have gotten nearly \$700 million more in revenue, caseload savings and good news from the federal government.

These developments have greatly reduced our needs for new revenue which would be necessary to accomplish the policies of both sides to be accomplished.

Lawmakers understand that.

Final budget includes nearly \$1 billion in additional revenue than what was forecasted in December 2014 and \$4.4 billion more in spending than previous biennium.

\$680 million in additional forecasted revenue; \$201 million forecasted caseload savings; \$115 million federal funding

The House has made significant moves on its spending levels and on revenue.

When I told negotiators that the additional revenue meant we could produce a responsible budget without capital gains, the House agreed.

House negotiators took capital gains off table on June 13, 2015.

There is no fight over capital gains.

The Senate has made a modest move on spending, but has yet to be open to revenue that would be needed to fund priorities of both sides.

Again, I think negotiators have worked in good faith and I appreciate that they're committed to the process.

But it is time to broaden this conversation. It is time for the public to see what I believe is a common sense way to close this final gap and allow both sides to make the policy investments they think are important.

I believe lawmakers can do this by closing some tax loopholes.

Lawmakers passed ~\$450 million in tax loopholes and changes over next four years

This will allow us to invest in some college financial aid and tuition cuts, accomplish parity for teachers and COLAs, more significant funding for early learning and mental health and necessary social services.

That is what is keeping us from an agreement. Out of a \$38 billion, two-year operating budget we have yet to settle differences on a handful of policy investments that both sides have proposed.

I think somewhere around \$300 to \$350 million would give both sides big policy wins and produce a responsible, sustainable budget.

I am not dictating the list of loopholes that would be necessary to accomplish this. We could do this with closing loopholes that you've heard me talk about before, things like the extracted fuel tax loophole that was never intended to help oil companies that are benefitting by it and the non-resident sales tax exemption.

What I am proposing is a moderate and sensible approach. This

is, truly, a middle ground.

If we don't do this, we won't have the resources for these important priorities that both sides have brought to the table.

I am concerned that absent this mutual success we won't be able to produce the transportation revenue package that we so sorely need in this state.

This is similar to what was agreed to in 2013. At that time, there was bipartisan compromise to close some loopholes, invest in education, balance the budget, and avoid a government shutdown.

I hope we can see that same willingness this year.

Yesterday I met with the Washington Roundtable and in the coming days I will have more meetings to talk about this middle ground approach.

We need to get this done. And we need to see it soon.

Today, 35,000 families across Washington are getting notification that there won't be daycare for their children in 11 days.

On Tuesday, about 25,000 state workers in every community in Washington will get a temporary lay-off notice.

I don't see how we can have final action on a budget in time to avoid those anxiety-producing notices.

But there is no reason – zero – why we can't have a budget done in one week.

Legislative leaders were in this morning and said they will be working this weekend to continue their efforts. I hope the parties will use this framework as a way to move to the middle ground, to finish their work, and to move this state forward.