



## OVERVIEW

### Gov. Inslee offers plan for fully funding McCleary obligations in current budget

Last year, Gov. Jay Inslee proposed “a bold plan” to end the state’s decade-old legal dispute over education funding. After nearly six months of deliberation, the Legislature enacted a \$43.7 billion two-year state operating budget that addressed the final pieces of the state’s obligations in the McCleary case related to compensation for educators and levy reform.

Most notably, the 2017–19 budget provided \$1.8 billion in new funding for public schools. Under that budget, K-12 spending will make up about 50 percent of total state General Fund spending, the highest level in more than 30 years. Since 2013, the state has added more than \$5.6 billion in new K-12 spending.

The state Supreme Court ruled recently that while legislation approved earlier this year will meet the state’s constitutional school funding obligations, the plan falls short because it does not fully fund higher salaries for teachers and other school staff until the 2019–20 school year, a year later than the Legislature’s self-imposed and court-mandated deadline.

The governor, as part of his 2018 supplemental budget, proposes a one-time, \$950 million investment to meet the McCleary deadline by fully implementing the state’s new salary allocation in the 2018–19 school year. The court has indicated that doing this will meet the requirements necessary to bring an end to the McCleary case and halt the \$100,000-per-day fine the court has

imposed on the state since 2015 that now total more than \$85 million.

Besides the historic investments in K-12 education, the 2017–19 budget provides critical funding to rebuild Washington’s mental health system and shore up services for our most vulnerable citizens.

It includes more than \$100 million in additional state funding to pay for improvements to the state’s mental health system. This includes money to add staff and make improvements at Western State Hospital, expand community-based mental health bed capacity and boost services for individuals transitioning from state hospitals into the community. Historically inadequate funding of

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our mental health system had severely undermined care for patients, taking our state to the brink of federal decertification of Western State Hospital and the potential loss of millions of dollars in federal funding for services.

Meanwhile, the budget protects — and expands — other parts of the state’s safety net.

For example, in addition to boosting the number of state-funded preschool slots for low-income children, the budget provides funding to create the new Department of Children, Youth, and Families. By combining the state’s early childhood education, child protection and juvenile rehabilitation services under one roof, the new agency will focus on prevention measures for at-risk families and improve outcomes for children and families across the state.

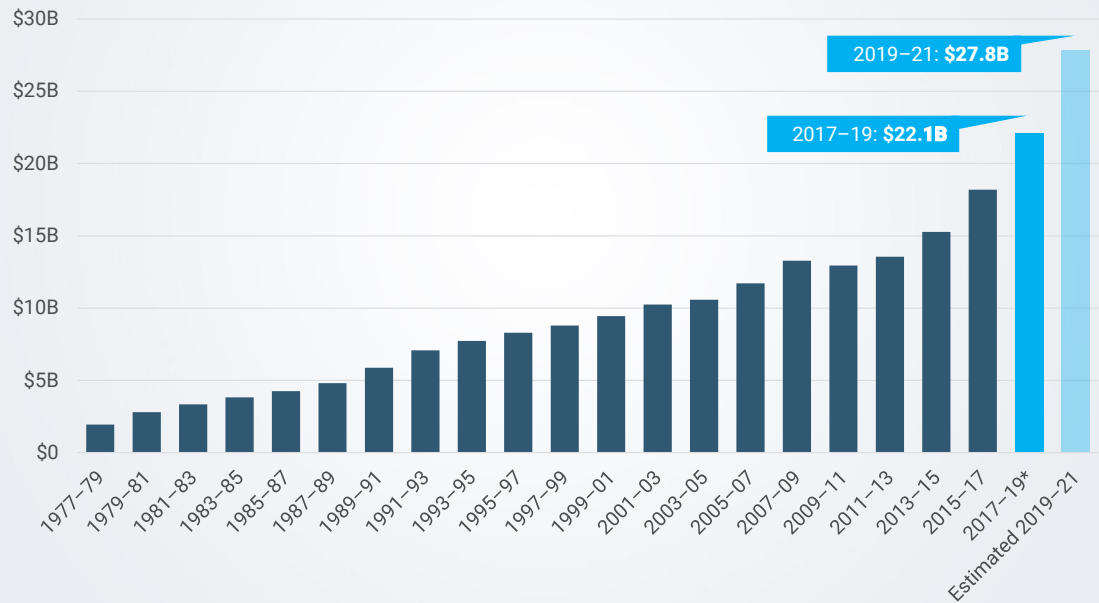
## Covering unanticipated costs, plugging holes in 2017–19 budget

The state has incurred expenses that were not anticipated when the Legislature passed the underlying budget. The budget contains several significant holes that have to be filled, such as savings assumptions that are unlikely to be achieved.

Gov. Inslee is proposing adjustments to plug those holes in the 2017–19 budget, cover unanticipated costs and pay for emergencies and other pressing needs.

## State spending on K-12 education over the past 40 years

Near General Fund and Opportunity Pathways operating expenditures



\* Including Gov. Inslee’s proposed 2018 supplemental budget

Source: Office of Financial Management, Dec. 2017

The first order of business for any supplemental budget is to provide funding to continue delivering services at current levels. Beyond that, the governor’s proposal covers other unanticipated expenses that have crept up in a number of areas.

For example, the state’s costs for fighting wildfires this year totaled nearly \$67 million — about \$42 million more than was provided in the 2017–19 budget. That shortfall is covered in the governor’s proposed supplemental budget.

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The governor's supplemental budget includes nearly \$162 million to cover anticipated shortfalls in the state's Medicaid program, which provides health care to more than 1.8 million Washingtonians. The bulk of this amount is due to savings assumptions in the underlying budget that were unrealistic and cannot be absorbed without making significant cuts to services.

The budget also includes about \$106 million to cover higher operating costs at the state's psychiatric hospitals and to make changes to maintain federal funding for Western State Hospital.

It includes supplemental funding for a small number of new school investments to better prepare students for college and the workplace. For example, the governor is proposing statewide initiatives to bolster science education and to promote youth apprenticeships.

And the governor is proposing modest increases to cover costs for an array of issues, such as combating opioid addiction, boosting earthquake and tsunami preparedness and launching an initiative to protect Puget Sound's struggling Southern Resident killer whale population.

Projected increases in state revenue collections will cover much of the new spending the governor is proposing this biennium. His budget would leave more than \$2.1 billion in total reserves at the end of the biennium, including about \$1.4 billion in the state's rainy day fund.

The governor's budget also looks toward the next biennium. While state revenue collections have been inching upward, current projections indicate the state would need to spend much of its reserves to cover increasing costs in the next biennium (2019–21). Assuming the state's economy and revenue collections continue to grow, the need for spending reserves would diminish.

While it will be necessary to use reserves to sustain critical education and social service safety net funding, the state cannot prudently use one-time reserves for ongoing expenditures for long. So, to the extent it is necessary to protect vital services and maintain modest budget reserve levels, Gov. Inslee proposes a temporary infusion of revenue from a carbon pollution tax that he will propose to the Legislature in January.

### ***Governor proposes full 2017–19 capital budget, small changes in transportation***

For the first time in modern history, this year the Legislature adjourned without passing a new two-year capital budget, putting hundreds of projects on hold statewide. Gov. Inslee is submitting a full 2017–19 capital budget and urging lawmakers to take action on it as soon as possible.

The \$4.5 billion capital budget would support more than 19,000 jobs across the state. Among other actions, the budget includes more than

\$1 billion to fund over 100 school construction projects as well as funding for essential improvements at the state's psychiatric hospitals, cleanup projects at brownfield sites to encourage new housing to alleviate homelessness, and repairs and new projects at numerous state college and university facilities.

The governor is also proposing minor changes to the 2017–19 transportation budget, making spending adjustments to balance funds in the current biennium and refining the state's 16-year Connecting Washington transportation improvement package.