



Investing in Washington's continuing success

After historic K-12 education funding increases, Gov. Inslee continues education investments while putting unprecedented focus on Washington's behavioral health system, statewide broadband, orca recovery, other vital needs

Washington consistently ranks as a top state for business AND the top state for workers. The state's unemployment rate is at a 42-year low. On a bipartisan basis, we have invested in infrastructure and programs that make it possible for Washington to export more products than nearly every other state, operate world-class research universities and expand access to affordable pathways to college and career-connected learning. We value our diverse and inclusive communities and embrace our responsibilities as stewards of our environment. To sustain and enhance our economic growth across the state, Gov. Jay Inslee believes we must continue to invest in services, programs and projects that move Washington forward.

Over the past five years, Gov. Inslee and the Legislature tackled one of the greatest budget challenges the state has ever faced — meeting our constitutional obligation to fully fund basic education. The state had been falling short on its obligation for decades, and fixing the problem required an enormous infusion of state funding for schools.

Though the state still has work to do in meeting the needs of students and teachers, these funding increases are a significant achievement. Among other things, the higher funding is helping to reduce class sizes in kindergarten through third grade, expand all-day kindergarten to all students, raise teacher compensation and fully cover school district transportation and operating costs.

Just over a decade ago, funding for public schools made up less than 40 percent of overall Near General Fund spending. Now, for the first time since the early 1980s, public schools receive more than 50 percent of that spending.

While solving the school-funding problem has been the primary focus in Olympia, Inslee and the Legislature have moved the state forward on a number of other fronts since 2013. For example:

- The state is preparing to launch the best-in-the-nation [paid family and medical leave program](#).
- The state's new [Department of Children, Youth, and Families](#), which combines early learning, child protection and juvenile rehabilitation services, is helping to ensure better outcomes for children and families.
- As has been the case for decades, the state continues to be a leader nationwide in expanding health care coverage.
- The state in 2015 made the biggest [transportation improvement investment](#) in state history.

The state has worked to hold tuition in check at the public colleges and universities while continuing to expand one of the most generous financial aid systems in the country. Last year the governor launched the Career Connect Washington initiative

to help more students pursue good-paying jobs after high school through career-ready education such as registered apprenticeships and technical training programs. And our state in recent years has made historic investments to alleviate the rising demand in the behavioral health system and serve the growing number of people battling opioid addiction and homelessness.

Although the economic boom here has created enormous opportunity for Washingtonians, it has also exacerbated other challenges as our population has rapidly grown and some parts of the state still struggle with unemployment.

Heading into its next two-year budget, Washington faces major challenges in meeting pent-up needs and new obligations that have grown over the decade.

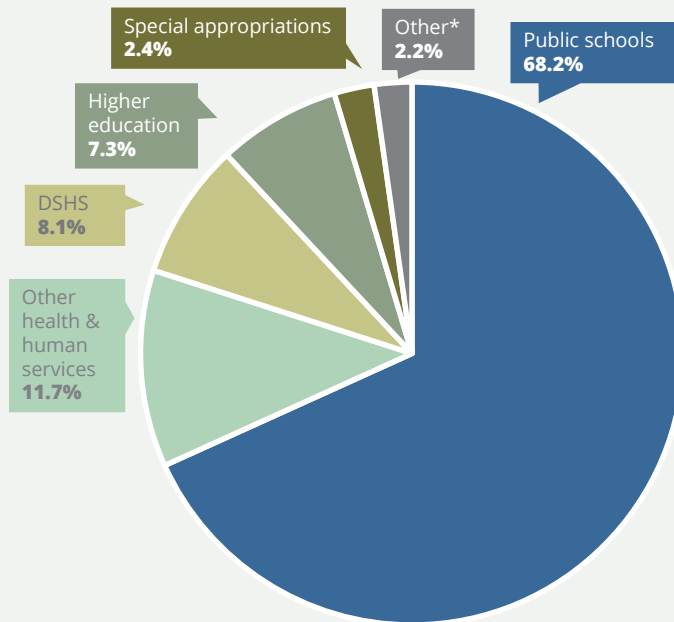
Ten years ago, amid the worst national recession since the Great Depression, the state had to squeeze spending in many areas even as the need for services grew. Then, as the economy recovered, the governor and the Legislature had to steer the bulk of any additional revenue to meeting the state's constitutional education funding obligations. In the past three biennial budgets, Near General Fund-State spending increased about \$13.4 billion. Nearly 70 percent of that new spending — about \$9.2 billion — went to K-12 education.

The fact is, state revenue is not growing fast enough to cover both the huge new mandated outlays for K-12 education as well as meet rising demands and new obligations in a broad range of areas.

Budget homes in on state's behavioral health system, strategies to fight climate change and protect Southern Resident orcas, and builds up statewide broadband

Gov. Inslee understands additional investments are still needed in our public schools, but believes we can no longer delay the focus on a broader array of urgent needs across the state. Through his 2019–21 operating, capital and transportation budgets, the governor is putting forward coordinated and comprehensive plans for addressing several of the state's most pressing issues.

Proportion of growth of Near General Fund spending 2013–19



Over the last three biennial budgets, more than two-thirds of new Near General Fund-State spending — **nearly \$9.2 billion** — has gone to K-12 schools.

*Other includes governmental operations, judicial, other education, natural resources, legislative and transportation

This spring, the governor announced a five-year plan to transform the state’s **behavioral health system**, including how and where people with acute mental illness are treated. His 2019–21 operating and capital budgets provide significant new resources to launch that transformative effort.

His budgets continue investments to improve patient care and **patient and staff safety** at the state’s psychiatric hospitals and to expand **alternative placement capacity** in the community. Most significantly, the governor proposes adding capacity for treating civil patients in smaller, **community-based facilities** so they can be closer to their loved ones and friends.

Supporting **Southern Resident orca recovery efforts** is another key focus of Inslee’s budgets. His

operating, capital and transportation spending plans include an unprecedented level of investments that will support recovery efforts for the endangered Southern Resident orca population. Besides helping orcas, these investments would have significant benefits for the entire Puget Sound ecosystem.

His budgets also include funding to protect and restore habitat, reduce barriers to salmon migration, boost salmon hatchery production, expand pollution prevention and cleanup efforts and alleviate disturbance and noise from vessel traffic to promote a healthier environment and sufficient food source for orcas.

Continuing in his commitment to make Washington a leader in combating climate change, the governor is putting forward a comprehensive package

to steadily reduce **greenhouse gas emissions** statewide and help the state meet greenhouse gas reduction goals set in law.

The package includes a new initiative to reduce **emissions in the state's building sector**, the second-largest source of emissions. The governor's operating and capital budgets also include funding to promote a wide range of **clean energy projects and research**. And his transportation budget includes funding to expand the number of electric vehicle charging stations and to begin converting the state ferry fleet to electric-hybrid vessels.

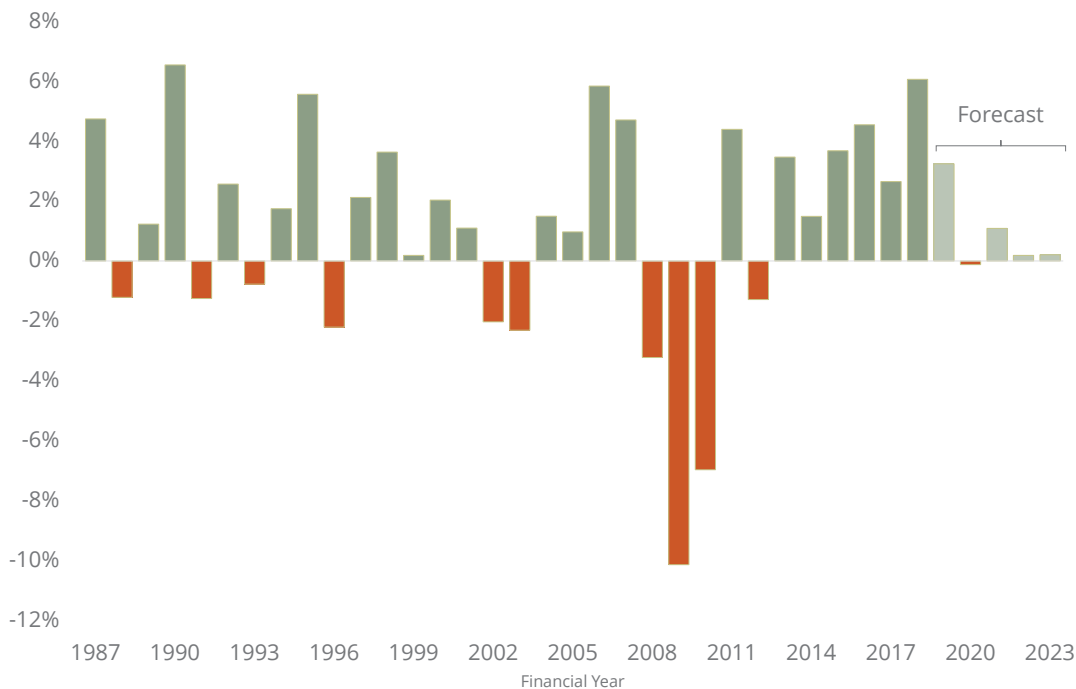
To expand broadband internet access, especially in rural areas of the state, the governor proposes setting up a new **Statewide Broadband Office** to serve as the central planning and coordinating body for public and private efforts to deploy broadband. His budgets also include funding for a competitive grant and loan program to extend broadband services to unserved and underserved people and to remote pockets of the state.

With the state's new children's agency up and running, the governor is calling for bold new investments in the state's early learning system. His budgets include funding to provide **newborn screening assessments and home visiting services** for all Washington families, expand and improve **preschool opportunities**, create a **statewide referral system** to connect families with early learning services and build more **early learning facilities**.

The budgets will make major funding and service improvements throughout our public education system.

The governor proposes new funding to support **special education** efforts and for more school counselors, nurses and social workers to support student needs. The governor also proposes protecting the ability of local communities to invest more **local levy funding** to enhance K-12 programs and services, with voter approval.

Annual percentage change of real per-capita revenue



Source: Economic and Revenue Forecast Council, Nov. 2018

Washington has long been a leader in providing **financial aid** for higher education students. The governor builds on that success by fully funding the Washington College Promise (formerly State Need Grant), which by the 2021–22 school year will guarantee financial aid for all students who qualify for it.

Among other things, the budgets will also increase funding for the **Career Connect Washington** initiative, boost efforts to combat homelessness and opioid abuse, enhance services for people with developmental disabilities and improve our state park system.

The governor is also proposing modest **pay increases** for most state employees, largely to help the state meet the challenge of attracting and retaining workers in a strong economy.

Improving Washington's outdated tax structure

By every measure, the state's economy is doing well. In Washington, however, economic growth does not necessarily translate to equivalent growth in state revenues. That's because we have an outdated state tax system that fails to keep pace with economic growth.

The bulk of Washington's tax system was put in place in the 1930s, when our economy was largely goods based. Today, however, we spend a smaller share of our disposable income on goods and a larger share on services. The bottom line: We do not tax services to the extent we tax goods.

More than half our revenue comes from retail sales taxes, which disproportionately impact people at the lower end of the economic scale and allow the very wealthiest individuals and most prosperous businesses to pay relatively less in taxes.

The state has invested enormously in building up one of the most skilled workforces in the country, designing and maintaining an infrastructure

that enables businesses to transport a growing volume of goods and products, and in preserving the beautiful spaces that companies tout when recruiting employees. When companies and individuals do well, everyone benefits when they help pay it forward so the state can continue investing in the things that ensure the same opportunities for all Washingtonians.

To pay for the investments laid out in his budget, the governor proposes using a portion of the state's budget reserves in combination with revenue from one new tax and changes to two current state taxes:

- A new capital gains tax on the sale of stocks, bonds and other assets. With the tax geared to very large capital gains, only a tiny fraction of the state's wealthiest taxpayers would be affected. Exemptions are provided for retirement accounts, homes, farms and forestry. Earned income from salaries and wages are not capital gains and would not be taxed at all.
- Increasing the state business and occupation tax on services, such as those provided by accountants, architects, attorneys, consultants and real estate agents.
- Changing the state's real estate excise tax from a regressive flat rate to a progressive graduated rate that would lower the tax on sales of lower-value properties and increase it for sales of properties valued at \$1 million or more. Additional revenue generated by the change will help fund the removal of fish passage barriers, or culverts, across the state.

The proposed tax changes would raise nearly \$4 billion in the next biennium. Even with the revenue increases the governor is proposing, Washington's tax collections as a share of the economy will remain below the national average. Heading into the next biennium, the state is projected to have about \$3 billion in total reserves. Under Inslee's proposal, the state would still have about \$2.8 billion in total reserves at the end of the biennium.