



Beyond the pandemic

Building a stronger Washington for working families and businesses

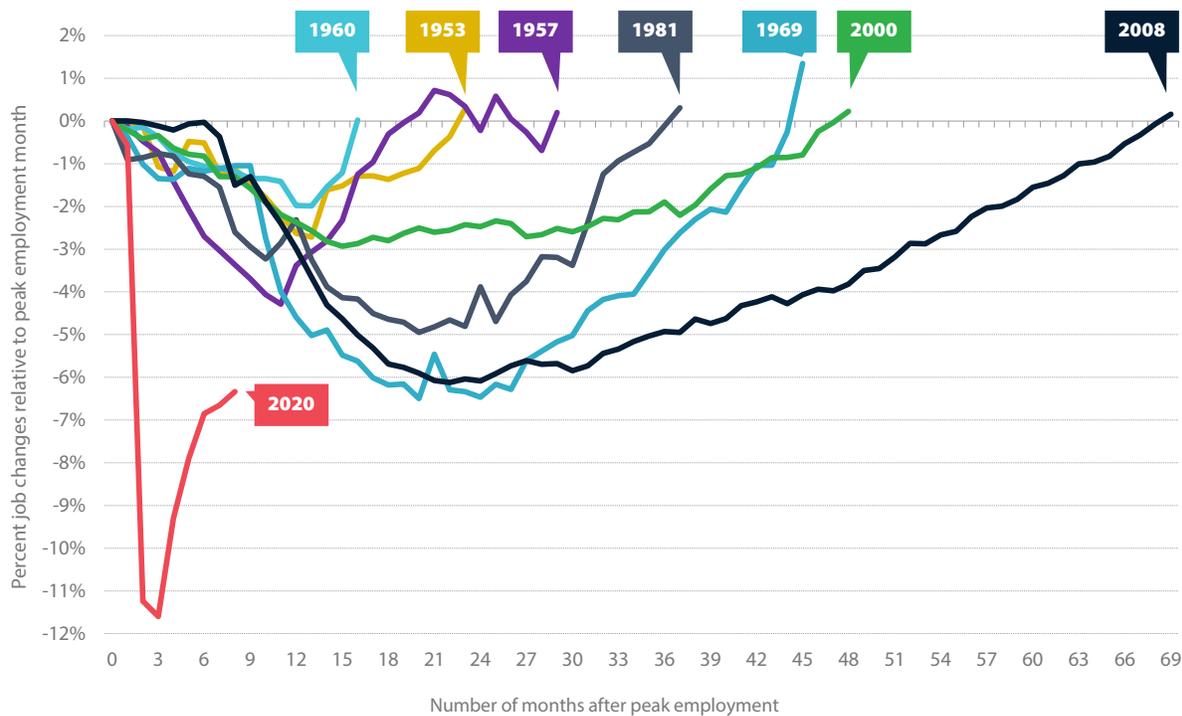
The worst global pandemic in more than a century has had devastating — and often disproportionate — consequences for households, businesses and communities across our state. Gov. Jay Inslee’s 2021–23 operating, capital and transportation budgets will emphasize equity in many forms as we work to defeat COVID-19, rebuild the state’s economy and protect vital services.

When the COVID-19 virus reached Washington, state leaders and public health officials moved aggressively to slow its spread. Meanwhile, medical professionals and caregivers worked tirelessly to treat those infected by the deadly and highly contagious virus.

Those actions — and the many sacrifices everyone made over the past nine months — undoubtedly saved many lives. Still, as of this month, more than 200,000 Washingtonians have been infected and more than 3,000 have died.

Beyond the illness itself, the pandemic has inflicted pain and hardship in virtually every area of our lives.

Job losses and duration of post-WWII recessions in Washington



Source: Washington Employment Security Dept. and Economic and Revenue Forecast Council

In the first months of the pandemic, hundreds of thousands of Washingtonians lost their jobs. Almost no business was left unscathed. Schools were closed, forcing teachers and parents to immediately shift to virtual education. The need for food and rent assistance skyrocketed as families struggled to make ends meet.

The pandemic's blow to the economy also wreaked havoc on the state budget. Almost overnight, the state went from a near-record budget surplus to a projected multibillion-dollar shortfall. The situation gradually improved throughout the summer and early fall. But as of November, the state had about 217,000 fewer jobs than in February, revenue projections for the next three years remained more than \$3.3 billion below pre-pandemic levels, and

the state's economic forecasters warned us of significant fiscal uncertainty for the foreseeable future.

Early efforts to control virus, provide relief, minimize budget crisis

Last March, soon after coronavirus cases began spiking across the state, Inslee announced his Stay Home, Stay Healthy order. This required Washingtonians to stay home except for essential activities, and it banned large gatherings and closed nonessential business.

Over the course of the spring and summer, the governor issued numerous orders and related guidance aimed at stopping the virus. From the start, Inslee took steps to make sure people

would have a place to live and food on their table, such as placing a moratorium on evicting renters and joining nonprofit organizations to raise money for food banks. His office worked with the Legislature to distribute more than \$2.1 billion in federal funds to cover the fast-rising cost of response efforts and provide assistance for households, workers and businesses hardest hit by the pandemic.

The Inslee administration also worked from the start to confront the state's pandemic-related budget crisis. Acting decisively after the 2020 legislative session, the governor used his veto pen to make budget cuts that will save the state more than \$440 million over three years. He directed state agencies under his authority to cancel a scheduled 3% wage increase for many government employees and begin furloughs for most state employees. He also placed a freeze on hiring, personal service contracts and equipment purchases (with limited exemptions).

The furloughs, canceled pay raises and freezes will save tens of millions of dollars in the current two-year budget. Meanwhile, state employees stepped up by agreeing to new collective bargaining agreements for the next two-year budget that provide no general wage increases and call for monthly one-day furloughs for most workers.

Governor puts forward plans to boost response and recovery efforts

The large infusion of federal coronavirus relief and other stimulus money proved vital in helping Washington mount a strong response to the pandemic and weather the initial economic storm. But some of those funds have run out and it's unclear whether the federal government will come through with more support for state and local governments.

The governor will urge the Legislature in January to quickly pass legislation approving an additional \$100 million in grants to assist struggling businesses and an additional \$100 million in rental assistance to help both tenants and landlords.

Still, the state will have a lot of work to do with its response and recovery efforts, which guided Inslee as he prepared his 2021–23 operating, capital and transportation budgets. The governor's budgets will enable the state to:

- Continue its aggressive response to the ongoing pandemic and build more capacity for tackling future public health crises.
- Rebuild the state's economy and continue efforts to support households, students, workers and businesses impacted by the pandemic.
- Protect previous investments in areas such as education, child care and early learning, climate action, behavioral health reform, combating homelessness and access to health care.
- Address racial and economic inequity.



The governor is putting forward a broad range of budget and policy proposals to help the state build back stronger and provide ongoing support to households, workers and businesses still struggling due to the pandemic.

For example, the governor’s budget includes funding to shore up the state’s unemployment system, which was put under enormous strain due to staggering job losses, especially during the first months of the pandemic. The governor is proposing legislation that would, among other things, ease unemployment insurance rate increases on businesses and increase minimum weekly benefit amounts for unemployed workers.

The governor is also proposing major new investments in our state and local public health systems. We need a large part of those investments now to help finish defeating COVID-19. This includes funding for personal protective equipment and testing supplies, and making sure we have the resources we need to distribute the vaccine that just became available. He is also proposing new, ongoing revenue to bolster our state’s chronically underfunded public health system.

The number of unsheltered homeless individuals was already on the rise in Washington and the economic fallout from the pandemic intensified the crisis. With tens of thousands of Washingtonians still struggling to pay their rent or mortgage, the governor is proposing significant new funding for rent and foreclosure assistance and other measures to keep people from homelessness.

The pandemic caused major disruptions for our public school system and more than 1.1 million students statewide. The governor proposes significant new investments to expand learning

opportunities to help get children back on track. His budget also focuses on equitable student supports, such as new funding to provide broadband connections for families who cannot afford internet services.

Child care providers have also been particularly hard hit by the COVID-19 pandemic. Besides struggling with the increased costs of meeting state and federal health guidelines, their revenues were reduced due to the smaller class sizes they created to keep children and staff safe.

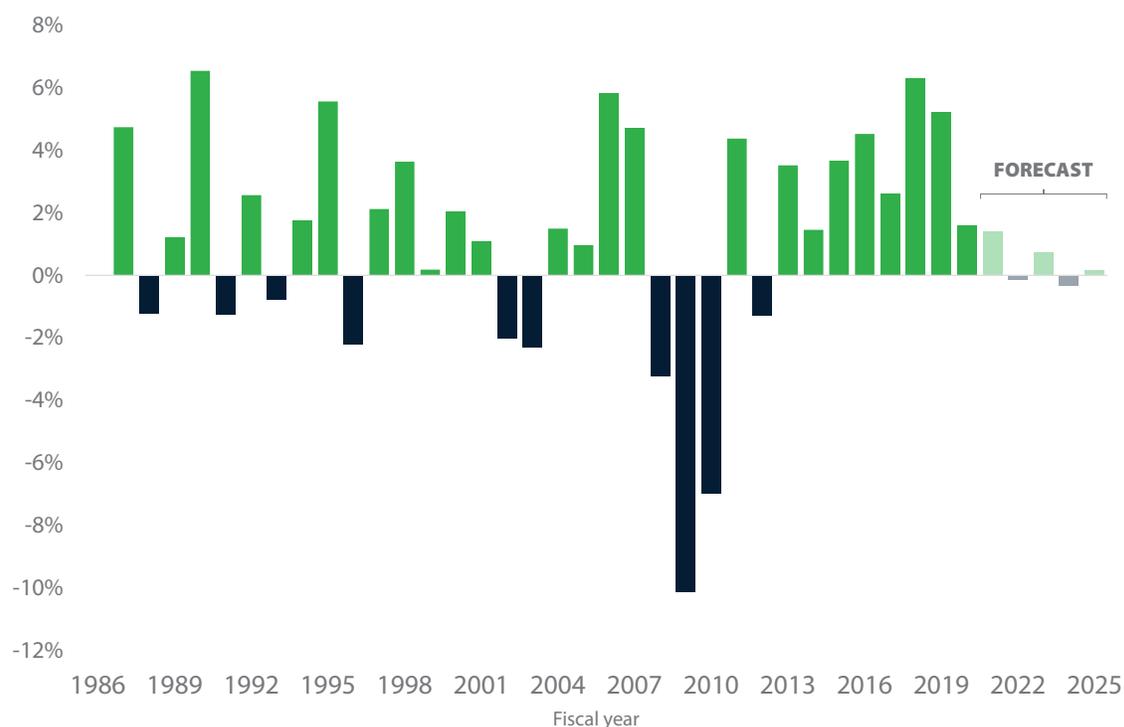
Since spring, the governor approved using nearly \$191 million in federal CARES Act funding to support child care businesses and help low-income families afford child care. His 2021-23 budget continues those efforts.

From the start of the 2021–23 budget development process, the governor made a commitment to focus on equity. In its instructions last summer to state agencies, the governor’s budget office directed agencies to consider how their budget requests will affect marginalized communities. Agencies were told to address the following questions in preparing their budget requests:

“How is your proposal impacting equity in the state? Which communities are impacted by this proposal? Include both demographic and geographic communities. How are disparities in communities impacted?”

The governor’s budgets demonstrate his commitment to equity and inclusion by funding programs and policies that work to eliminate racial disparities. These include funding an equity office as a tool to root out racism and discrimination. His budget also includes funds to establish an office that investigates police

Annual percentage change of real per-capita state revenue



Includes General Fund-State, ELTA, OPA and WEIA revenue

Source: Economic and Revenue Forecast Council, Nov. 2020

using excessive force, eliminate contracting disparities, and introduce an equitable financial literacy plan to help communities of color.

New revenue needed to support recovery efforts, protect vital services

Since last spring, after state revenue projections began a steep dive, Inslee resisted calls for immediate funding cuts to state services. He argued such cuts would harm many of the people already hardest hit by the pandemic and hamper recovery efforts.

While Washington's budget picture has improved since spring, the state still faces significant fiscal challenges.

Besides dipping into reserves, the governor's budget relies on savings in a number of areas.

For example, projected education funding needs (for the current budget and the first year of the next budget) have fallen by an estimated \$831 million, largely due to lower school enrollments and pupil transportation costs amid the pandemic. The governor proposes reinvesting some of that savings to meet critical needs, while using the rest to help balance the budget.

But the state needs additional revenue to continue and strengthen the state's pandemic response and recovery effort while also protecting previous investments in other state services.

As he has in the past, Inslee proposes a new capital gains tax on the sale of stocks, bonds and other assets. This would not apply to sole proprietor businesses, retirement accounts,

homes, farms and forestry. Earned income from salaries and wages are not capital gains and would not be taxed at all. The proposed tax change — which will not go into effect until the second year of the 2021–23 biennium — would raise more than \$3.5 billion over the next four years.

With the tax geared to very large capital gains, only a tiny fraction of the state’s wealthiest taxpayers would be affected. In that regard, it won’t worsen Washington’s dubious distinction of having the nation’s most regressive state tax system — an upside down tax system that disproportionately impacts people at the lower end of the economic scale and allows the very wealthiest individuals and most prosperous businesses to pay relatively less in taxes.

The governor also proposes narrowing the “bad debt” tax loophole the state currently allows businesses to claim when customers fail to pay. And, to help fund his proposed investments in public health services, the governor is proposing a new per member/per month assessment on health insurance carriers.

The new revenue will help the state maintain its healthy reserves. Heading into the next biennium, the state is projected to have about \$2.5 billion in total reserves. Under Inslee’s proposal, the state would still have about \$1 billion in total reserves at the end of the biennium.

Governor uses budgets to back bold ‘climate commitment’

The governor is again making climate action a top priority in his operating, capital and transportation budgets.

The operating budget provides funding to

begin implementing the governor’s proposed Climate Commitment Act. This act is a comprehensive climate program to help us meet statutory greenhouse gas limits, increase climate resilience, and reduce the impacts of climate change on communities and ecosystems.

The capital budget invests in programs and projects to support the transition to cleaner buildings. It also puts money into the state’s Clean Energy Fund to support the clean energy efforts, such as electric grid modernization projects and research into new and emerging clean energy technologies.

Meanwhile, the transportation budget provides major new investments to support clean transportation efforts, which includes funding to electrify our state ferry and transit systems. And more funding will continue our work with Oregon and British Columbia on plans for an ultra-high-speed rail corridor across Western Washington.

Transportation budget steps up removal of fish passage barriers

Under the governor’s 21–23 transportation budget, the state will make major progress toward meeting a federal court injunction to remove culverts that block habitat for migrating salmon and steelhead. The budget provides \$724 million that will help the department design 136 barrier-removal projects and construct an additional 114 projects.

The transportation budget also includes \$400 million for preservation work on our state’s transportation infrastructure, including roadways, railways, ferries and bridges. And it continues the state’s efforts to reduce greenhouse gas emissions by investing in clean transportation.

Governor proposes large capital budget to boost economy, speed up key projects

The COVID-19 pandemic has had widespread impacts to Washington's economy. To help offset those impacts, Inslee is proposing an extra-large capital budget for the next two years that will stimulate economic growth while also addressing key infrastructure needs in communities across the state.

Due to the extraordinary impacts of COVID-19 on communities and households, the governor proposes tapping future bond capacity now to help stimulate the economy and retain construction jobs. The governor's proposal increases the state's total bond capacity by \$1.25 billion, to nearly \$4.7 billion for the 2021–23 capital budget. Including other state and federal fund sources, the governor's capital budget for the next two years totals nearly \$6.2 billion.

In essence, the governor is proposing to start work sooner on numerous projects statewide — at a time when interest rates are low and the state needs economic stimulus. The budget will support an estimated 36,000 jobs per year statewide over the course of the biennium.

Under the governor's budget, the state will jump-start work on a backlog of infrastructure needs on college and university campuses. Besides providing immediate economic stimulus, it will put the state's economy on better footing long term by building capacity while preserving assets in our higher education system. For example, the budget includes \$360 million for modernizing and building more instructional space at 10 community and technical colleges. And the budget includes funding for new engineering buildings at Western Washington University and the University of Washington, and new science buildings at Washington State University and

Eastern Washington University.

To help address the state's homelessness crisis, which has been compounded by the pandemic, the budget includes nearly \$400 million to build more affordable housing units and preserve the state's existing housing stock.

The budget sends \$150 million to the state's Public Works Assistance Program, which provides low- or no-interest loans that local governments can use to repair everything from bridges and roads to water and sewer systems.

The capital budget also includes:

- Over \$800 million for 80 school projects statewide.
- \$45 million to expand broadband access for underserved homes and businesses.
- \$39 million to construct the new Nisqually State Park and fund major improvement projects at three other parks.
- \$51 million to fund design work and site demolition for a new 350-bed forensic psychiatric hospital on the Western State Hospital campus.
- Nearly \$120 million to design and construct a new 120-bed nursing facility to care for clients with intellectual and physical disabilities.
- Nearly \$27 million to improve the health of 58,000 acres of Washington forests to reduce wildfire risk and severity and develop healthy, resilient forests for the future.

For detailed capital budget information, see the sections on Human Services, Education, General Government and Natural Resources.