

## **2013 Washington State Budget—Between a Rock and a Hard Place: Recession and Basic Education as a Constitutional Paramount Duty**

Francis Benjamin  
*Washington State University*  
Maria Chávez  
*Pacific Lutheran University*  
Nicholas Lovrich  
*Washington State University*

### **Introduction**

A year after three Democrats shocked their Senate colleagues by uniting with Republicans to engineer a floor takeover by means of the “9th order” of legislative business, attention continues to remain fixed on the *majority coalition*. Senate Democrats waited in vain for the majority coalition to self-destruct, but the coalition held together throughout a tense legislative session. Each majority caucus in the House and Senate held their ground throughout the 2013 105-day regular legislative session, which predictably ended in a standstill with no budget agreements being reached.

The political maneuvering and power plays that plagued the regular legislative session continued through two 30-day special sessions, right up to the point where only two days remained before a state government shutdown loomed and lay-off notices to state workers were set to go into effect. A budget deal was finally struck just short of a state shutdown (*Seattle Times* Editorial 2012).

At the heart of the 2013 session budget impasse was *not* the longstanding issue of reduced revenues stemming from a weak global/national/state-level economy; those conditions prevailed for the previous four legislative sessions, leading legislators to trim budgets and sweep dedicated funds in the face of a prolonged recession. In 2013 at long last Washington State was experiencing, along with the nation, a slow recovery from the recession and state revenues were back on the rise. The state’s lawmakers nonetheless had a profound budgetary issue with which to deal. The Washington Supreme Court’s *McCleary* decision issued in 2012 declared that the state was in serious violation of its *paramount duty* to fund basic education, finding that the legislature failed to “make good” on prior legislative promises enacted into law to address inadequate levels of investment in K-12 “basic education”—clearly designated in the constitution as Washington’s top priority in Article IX, section 1.

Depending on varying interpretations of costs and sources of school revenue, the total package necessary to meet the constitutional requirement of “ample” funding of basic education (the meaning assigned to paramount duty by the state’s High Court) is expected to require additional K-12 funding between \$3.3 billion and \$4.5 billion per biennium up to 2018 (in the context of a

\$60 billion biennial budget). Built into achieving these levels is a ramp up process. Once again, depending on the caucus involved in many estimates, the biennial ramp up would be in the range \$1–\$1.4 billion for 2013–2015 period, and then grow to \$3.3–\$4.5 billion for the 2017–2019 period (Justice et al. 2013).

The Democratic majority in the House of Representatives took the stance that tax increases would be needed to simultaneously maintain noneducation levels of service, fund basic education, and accomplish a balanced budget. The Senate majority coalition maintained that governmental overreach should first be addressed through reforms that would accomplish the savings necessary to fund the first ramp up of basic education funding and reach a balanced budget. With neither side willing to budge, a stalemate ensued and the regular session ended without a budget agreement.

Two special sessions finally led to an installment of approximately \$1 billion in additional funding for basic education, and budget agreements were finally reached. A third special session held in November was called in order to enact tax incentives designed to retain the Boeing Company in Washington State as a new generation of long distance commercial aircraft is set to come on line. During 2013 only 373 bills passed both chambers, the fewest bills passed in an odd-numbered year in over three decades. On average, 472 bills are passed in odd-numbered years. (Washington State Legislature 2013a).

The Washington State legislature meets annually each winter to accomplish its legislative directive of budget enactment and policy determination. It is considered a *semi-professional, three-quarter-time* legislature in state legislative research literature (Benjamin and Lovrich 2011, 209–12). The state of Washington follows a biennial budget process, with the biennial budget commencing July 1 of each odd-numbered year and ending on June 30 the following odd-numbered year. The biennial budget is approved during the odd-numbered year legislative session (the “long session”), and a supplemental budget to that initial biennial budget is approved during the even-numbered year legislative sessions (the “short session”). The supplemental budget represents a budget adjustment taking into account changes in revenues and spending driven by case-loads, wildfires, natural disasters, etc. During the 2013 legislative session the 2013–2015 biennial budget was approved (Washington State Legislature 2012, Washington State Legislature 2013c).

## **State of the Economy**

National economic recovery, since it began four years ago, continues at about the same modest pace. There are, however, significant threats to economic growth keeping the economic future somewhat uncertain. The threats of continued political gridlock at the federal level producing the sequester, uncertainty about healthcare reform and market instability, continuing discord in the Middle East on the heels of the *Arab Spring*, declining housing affordability, and reduced overseas economic growth in Europe and Asia all pose some ongoing threat to the recovery.

For Washington State the economic slowdown in China, the state’s largest export market outside of North America, has had a noteworthy negative effect on growth. Income growth in Washington State’s metropolitan areas west of the Cascades, when compared to US trends, is average or above average. Income growth east of the Cascades is average or lower than that of the nation as a whole (Economic and Revenue Forecast Council 2013b).

A widely cited 2013 economic climate study (Economic and Revenue Forecast Council 2013a) evaluated 43 indicators within four principal groupings—those of *innovation drivers*,

*business performance, economic growth and competitiveness, and quality of life.* Overall, Washington State's performance trends on these indicators were slightly negative, but compared to other states the overall changes indicated the state was "stuck in neutral." In all four areas Washington State, when compared to each of the other 50 states, ranked between 16th and 18th. Washington State is one of the top five states in the specific indicators of electrical costs (low), foreign exports (high), per capita industry research and development spending (high), and drinking water (high quality). About half of Washington State exports are related to transportation equipment, a category in which the Boeing Company plays a clearly dominant role. On the negative side, Washington State is among the lowest five states on state arts expenditures and student-teacher ratio.

The unemployment rate for Washington State decreased to 8.2 percent in 2013, down from 9.2 percent in 2012. However, the unemployment figures were less favorable for the nearly 30 percent of Washington's racial and ethnic residents. Specifically, according to the Bureau of Labor Statistics, data on unemployment rates for African Americans in Washington averaged 14.2 percent and for Latinos 8.8 percent (US DOL Bureau of Labor Statistics 2013). Washington State continues to be a popular destination for international and domestic migration, although in the last year it has dropped in rank from a lofty fifth to thirteenth place. Population growth for Washington in 2012 was 1.1 percent, with half of the growth coming from domestic migration. This somewhat reduced rate of growth continues to be higher than the national average (Economic and Revenue Forecast Council 2013a).

## **Political Composition of State Government**

The "political privacy" of voters is a key heritage of Washington State. In 1922 voters repealed the practice of partisan registration, and the state does not register voters by party. Given this fact, Washington State primaries do not automatically advance opposing party representatives to the general election as is the case in most states. Instead, the two candidates, regardless of party affiliation, receiving the most primary votes advance to the general election. This process, known as a "Top 2 Primary," occasionally results in two candidates from the same party squaring off against each other in the general election (Washington State Office of Secretary of State 2012b; Clayton and Lovrich 2011, 23–24).

While Washington State considers the privacy of individual voters a key value, the state constitution and laws require a high degree of openness in government and personal disclosure for its elected officials and persons in public service. Washington State prides itself in having a highly transparent system of government, providing broad access for citizen involvement. This openness results in the Washington State budget process being one of the more visible and public state budget processes in the country, with all legislative committee sessions and chamber activities broadcast live and digitally stored to provide future access (TVW 2012).

Political party support for Democrats and Republicans in Washington State is principally split geographically by the Cascade mountain range (LeLoup and Herzog 2004, 189–206). The western portion of the state, which includes the Seattle-Tacoma Metropolitan area, is highly urbanized and much more densely populated than the eastern side. It usually disproportionately supports Democratic Party candidates. The eastern portion of the state is much more rural, far less densely populated, and is usually more supportive of Republican Party candidates. For the past decade, Democrats in Washington State have controlled the political scene despite this split in party support statewide. Control changed not through the election process, but during the 2012

regular legislative session when three senators from the Democratic majority crossed over and aligned with the Republican minority to form a “majority coalition.” The coalition, with two Democratic senators, continued this majority during the 2013 session. Prior to this the state’s Democrats had maintained control of the Senate for nine years. The Democrats have maintained control of the House of Representatives for 15 years, and the governor’s office for 28 years. (See Table 1.) Between 1999 and 2001, Democrats and Republicans were nearly evenly matched in the legislature (Benjamin and Lovrich 2011, 209–12).

Washington State’s legislators are not as diverse as the constituents they represent. The legislators have a higher household income, are older, and are more likely to be Caucasian and male than the state’s population. While the Washington State legislature, based on its schedule, is considered a part-time citizen legislature, over one fourth of the legislators hold no outside job. Washington State’s legislative salary of \$42,106 has remained unchanged since 2008. Almost 50 percent of state lawmakers have annual household incomes over \$100,000. This figure compares to only one-fourth of households statewide enjoying that level of annual income.

The median age of Washington legislators is 53 compared to 45 for state residents over the age of 18. The population of Washington State is 72 percent white; the legislature is 90 percent white. In 1999 Washington State led the nation with 41 percent of the legislative seats held by women. Today, Washington State at 32 percent is better than the national average of 24 percent but still lower than the population split of 55 by gender (Garber et al. 2014).

The United States Constitution mandates that an official federal census entailing a total household enumeration be conducted every 10 years. This headcount is used by the federal government to apportion congressional districts, and by the *Washington State Redistricting Commission* to redraw state legislative and congressional district boundaries. The 2010 census count numbers released in the spring of 2011 designated the state’s official population count to be 6.7 million people. The consequence of this increase of nearly one million residents since 2000 resulted in Washington State receiving one additional congressional district, increasing Washington State’s allotted congressional districts from nine to ten (Washington State Redistricting Commission 2012).

While the redistricting process of redrawing congressional and legislative boundaries in most states is highly partisan, in Washington it is bipartisan by design. Until 1983 the state legislature drew district boundaries. Voters came to view the process as unfair and approved a constitutional amendment transferring redistricting authority to an independent, bipartisan Redistricting Commission. In 1991 the first Redistricting Commission was comprised of five members, two from each of the majority parties, and a nonpartisan, nonvoting chair. Approval of the redistricting plan requires three of the four voting commission members. The legislature must approve the plan by at least a two-thirds supermajority of each chamber, and legislatively modified district boundary lines can affect no more than two percent of a district’s population. By statute, the governor cannot veto the redistricting plan (Washington State Redistricting Commission 2012).

The Washington State Redistricting Commission on January 1, 2012 unanimously approved the latest Washington State Redistricting Plan. The legislature made only technical corrections to the plan, and on February 7, 2012 Engrossed House Concurrent Resolution 4409 approving the final redistricting plan was signed into law. The final plan did not result in the new congressional district encompassing an initially proposed minority congressional district, but instead the new 10th congressional district boundaries encompass the Shelton, Olympia, and Puyallup region of the densely populated South Puget Sound. The final plan was challenged based on an unfair power distribution to select counties. The Washington State Supreme Court unanimously ruled

**Table 1. Historical Party Control of Governor and Legislature**

Position	Majority	Dem Split	Rep Split	Length of Control	When the Current Minority Party was Last in Power
Governor	Democrat			28 years	1985 John Spellman –R
House	Democrat	55	43	15 years*	1998 Republican majority
Senate	Coalition**	26	23		2003 Rep & 2012 Dem majority

*Source:* Benjamin and Lovrich 2011, 209–12.

\* 1999–2001 the House was evenly split 49 Democrats and 49 Republicans

\*\* 2013 Two Democrats joined the Republicans to form a coalition majority

that, due to time constraints, the redistricting plan would stand for the 2012 elections (Shannon 2012).

### **Governor-Legislature Relationship**

The year of 2013 witnessed a transition in the governor’s mansion and the formation of new governor-legislature relationships. Governor Christine Gregoire (D), after serving two terms, decided not to stand for reelection and Governor Jay Inslee (D), after two previously unsuccessful gubernatorial campaigns, was elected to carry on the Democrat-dominant tradition reaching back to 1985. Governor Gregoire reached the office of governor after spending four years as the director of the Department of Ecology and another eight years as the state attorney general. Jay Inslee became the 23rd governor of state of Washington in 2013 with no prior executive experience. He was born February 9, 1951 in Seattle and is a fifth-generation Washingtonian. After law school he worked as a deputy prosecutor and then was elected to the Washington State House of Representatives, serving two terms—1988–1992.

He next was elected to the US House of Representatives in 1992 and in 1998–2012. He considers himself an expert in the areas of clean energy and the environment, and has authored a book on the subject. Even though Inslee and Gregoire are both Democrats, they differed considerably in their priorities, expectations, and work processes. Due to these differences, much of the first part of 2013 was spent with the governor and legislators developing an understanding of the differences (Ballotpedia 2013; Governor Jay Inslee for Washington 2013; On the Issue 2013; Project Vote Smart 2013; Washington Post 2013; Washington State Office of the Governor 2013a).

### **Relationships between the Budget and Major Current Issues**

The 2013–2015 budget process was influenced by a number of noteworthy issues, the senate majority coalition caucus dynamics, the Washington State Supreme Court’s *McCleary* ruling, rising costs of government, selective revenue shortfalls, and further projected shortfalls in the years to come. This set of issues contrasted sharply with the primary topics of discussion during the prior decade, which tended to focus on which new programs to pilot test and what plans for the future to implement. Those types of discussions were not heard this year; instead, the princi-

pal focus was on how to achieve the *McCleary* requirements, what could be cut, and which special interest groups would be least likely to prevent reductions to their favored programs.

The challenge to the legislature was that, in light of prevailing economic conditions, citizens were turning in droves to the state for some form of public assistance. Caseloads had risen dramatically, with many Washingtonians requiring assistance with health care, temporary housing, social services and public education for their children. The use of unemployment benefits, WIC and food stamp benefits, public assistance and Medicaid also increased greatly. Due to the state's relatively liberal eligibility rules and generous assistance benefits, there had been a net migration of citizens from less progressive states in search of more adequate public services. Additional budgetary issues include increased pension costs and exhaustion of the state's federal stimulus funds.

### **MAJOR CURRENT ISSUE #1: *McCleary* Decision—K-12 Basic Education**

While the majority coalition in the Senate received great attention in relationship to the legislative process, the major external factor that affected the state budgetary process related to the "paramount duty" provisions of the Washington State Constitution. On January 5, 2012 the Washington State Supreme Court released its decision regarding the *McCleary* case (Washington State Courts 2012), finding that the Washington State Legislature was not meeting its principal obligation, as declared in unambiguous language in the state constitution, to *amply provide* for basic (K-12) education. The court held that the legislature is indeed making progress in the right direction with recently enacted reforms, but that it only has until 2018 to ensure that public schools are funded at the level required for constitutional compliance. Due to this decision, no direct cuts to K-12 programs were made during the 2012 legislative session (Reading 2012).

In 2009 the Washington State Legislature passed ESHB 2261 and SHB 2776 defining the key term *basic education*. In the *McCleary* decision the court held that an adequate level of education funding meeting the required ample provision constitutional requirement would include the following (Washington State Office of Superintendent of Public Instruction 2014):

1. All day kindergarten
2. K-3 class size reduction to approximately 17 students per class
3. Increased support of transportation
4. Increase in MSOC (materials, supplies, and operational costs)

While there is general agreement among the four legislative caucuses over what is required to meet the constitutionally required education investments, there is no agreement on what it will cost the state to achieve these requirements. There is also some disagreement as to whether these requirements are adequate to meet the needs of Washington's youth.

### **MAJOR CURRENT ISSUE # 2: Two-Thirds Legislative Supermajority Requirement**

Legislators have contrasting views when it comes to budget solutions. Some legislators view the budget solution to Washington State's current economic condition to rest not solely on budget reform and program cuts, but on increasing revenue through new taxes. These legislators feel unduly hampered by the two-thirds legislative supermajority vote requirement established by citizen initiative in 2012 via I-185. Since 1993, citizen initiatives establishing a two-thirds vote requirement in both houses for any new taxes have been enacted and reenacted.

The reason for the continual re-enactment of these initiatives is that after two years the legislature, by a majority vote, can modify an initiative. Some members of the legislature challenged

whether an initiative by the people can impose such requirements on the legislative process in the courts. On May 31, 2012 King County Superior Court Judge Bruce Heller ruled that the state constitution precludes this type of supermajority vote requirement. The judge ruled that even though Washington voters have approved the supermajority rule four times since 1993, at issue is whether the initiative process can be used to impose additional requirements on the legislature without amending the constitution. Judge Heller ruled that no law can supersede the constitution and the enactment of an initiative holds the same status as a law enacted by the legislature (Smith 2012b; Washington State Office of Secretary of State 2012a). On February 28, 2013 the State Supreme Court upheld Judge Heller’s ruling that citizen initiatives cannot bind the legislature to a two-thirds vote requirement.

### **Rainy Day Fund**

The state has a “rainy day fund” known as the *Budget Stabilization Account*. The fund is based on the provisions of a constitutional amendment whereby one percent of general state revenues are automatically deposited to this account. Dispersion of the Budget Stabilization Account funds requires a majority vote of the legislature provided either of the following conditions obtain: (1) annual employment growth in the state is forecast to be less than one percent; or (2) the governor declares an emergency resulting from a catastrophic event that requires government action to protect life or public safety. Other withdrawals from the Budget Stabilization Account may be accomplished only upon a three-fifths vote of the legislature.

## **Washington State Budget Process**

Washington is one of 20 states that operate on a two-year, biennial budget cycle; each biennium consists of two fiscal years running from July 1st of one year through June 30th of the following year (Snell 2010). This is referred to as the *fiscal biennium*. In odd numbered years, the two-year budget is adopted, and in even-numbered years a “supplemental budget” is adopted. The exclusive task of the supplemental budget process is to make adjustments to the two-year budget plan.

The state operates with three distinct, fairly autonomous budgets—*operating*, *transportation*, and *capital*. The operating budget is the largest of the three; it is used for the day-to-day functions of state government and usually receives the most attention because education and most social programs are funded out of this budget. The transportation budget is the second largest and funds transportation throughout the state such as public transit (including ferries in the Puget Sound) and designing and maintaining roads and bikeways. Its principal source of revenue is the gasoline tax and federal transfers, and it is overseen by House and Senate committees featuring broad membership and an *established legacy of bipartisan cooperation*. The smallest of the three, the capital budget, is used to maintain the state’s built infrastructure, including the acquisition and maintenance of state buildings, public schools, higher education buildings, public lands and parks, and related land and built environment assets (Washington State Legislature 2011). The state’s bonding assets are combined with federal transfers and other sources in this budget, and party leaders on both sides of the legislative aisle tightly control this budget.

The overall biennial budget cycle schedule takes the following form:

<b>August 2012</b>	Agencies Submit Budget Requests
<b>Fall 2012</b>	Office of Financial Management Review & Governor’s Decisions

<b>December 2012</b>	Governor Proposes Supplemental and Biennial Budget to Legislature
<b>January 2013</b>	Legislature Convenes (2nd Monday of January) (105 days)*
<b>April/May 2013</b>	Legislature Passes Budget*
<b>May/June 2013</b>	Governor Signs Budget*
<b>July 1, 2013</b>	Biennial Budget Takes Effect
<b>December 2013</b>	Governor Proposes Supplemental Budget to Legislature
<b>January 2014</b>	Legislature Convenes (2nd Monday of January) (60 days)*
<b>March 2014</b>	Legislature Passes Supplemental Budget*
<b>March/April 2014</b>	Governor Signs Supplemental Budget*
<b>July 1, 2014</b>	Supplemental Budget Takes Effect

\* If the legislature does not complete its work during the regular session it can be called back to finish its work in one or more month-long special sessions.

The governor, in December of each year, proposes a balanced budget to the legislature, one shaped by the governor’s policy priorities and reflecting revenue forecasts. In odd-numbered years, two budgets are proposed; the first is a new full budget and the other is a second supplemental budget to do last-minute adjustments to the fiscal biennium that closes June 30, which is typically passed along with the full budget. In even-numbered years, only the supplemental budget is proposed. The supplemental budget represents a mid-course correction to the two-year spending plan and is based on changes in the economy of the state, expected biennial revenue and program spending direction or needs. That’s the main reason for the 105-day session in odd numbered years, and the 60-day session in even numbered years. The governor works during the legislative session to urge legislators to act on his recommended legislation and craft a budget to his liking.

After receiving the governor’s budget proposal, the legislature takes it under consideration as it formulates its own budget during the legislative session, beginning in early January. While the governor is required to propose a balanced budget, the legislature is not required to pass a balanced budget; balanced budgets are nonetheless the norm. The chairs of the Senate Ways and Means Committee and House Ways and Means Committee work with their respective legislative members and committee staffs to craft a budget that will secure enough votes to pass both houses. Separate committees in the House and Senate draft the transportation portions of the budget. By tradition, the first legislative budget draft alternates between chambers each biennium. After the Senate and House of Representative have passed their version of the budget, the differences between the two chambers must be reconciled in a budget conference process. Normally, a group of six representatives from both chambers and drawn from both political parties meet as a conference committee to prepare the final legislative budget submitted to the full legislature for final passage and sent to the governor for his or her signature.

The governor may sign the bill, not sign the bill and have it automatically take effect, or use a robust line item veto authority to nullify individual spending provisions, commonly referred to as “provisos.” The governor may use a veto to eliminate funding for certain activities; however, the governor cannot add money for an activity for which the legislature provides no funding. Once a

budget is enacted, the governor's administrative duties include supervising agency expenditures and ensuring that legislative policy directives are achieved through ongoing supervision of the Office of Financial Management.

## Budget Funds

Recent budgets have differed considerably. From 1999 until 2009 the total budget grew on average 11.3% each biennium (see Figure 1 and Table 2). From 2009 up until 2013, the average growth was only 4%. The 2013–2015 biennial budgets saw a return to the previous level of growth. The three sub budgets, however, did not follow the same trend as that of the operation fund budget. The operating budget for these two groups of biennia grew 10.7% and 3.3%, respectively. The Capital budget showed an even greater decline, from +13.8% to -16.3% for these two of biennia. The transportation budget, due to federal stimulus funds, had an average growth rate of 16.8% to 21.6% for these two biennia.

## Agency Budgets

State operating expenditures are grouped into seven broad categories of services (see Table 3):

**Human Services:** mental health and other institutions, public assistance, health care, and correctional facilities.

**K-12 Schools:** state support for K-12 education.

**Higher Education:** public universities and community colleges

**Natural Resources:** environmental protection and recreation.

**Transportation:** highway maintenance, state ferry operations, and the Washington State Patrol.

**General Government:** administrative, judicial, and legislative agencies.

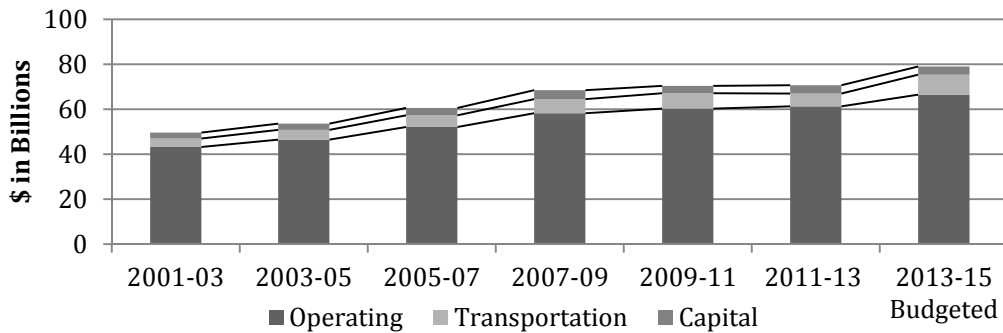
**Other:** (miscellaneous) expenses, such as the payment of debt service and pension contributions for local law enforcement, firefighters, and judges.

Agency budgets have followed the same biennial trends as the overall budgets (see Table 4). From 1999 to 2009 agency budgets grew on average by 11.4%, and then from 2009 to 2013 on average by the much lower rate of 4%. Removing the transportation agency budgets from consideration, given the influx of one-time federal stimulus funds, results in an average agency budget growth for the 2009–2013 period of 2.3% each biennium. From 1999 to 2009, agencies averaged a fairly consistent biennial budget growth ranging from 10.3% to 16.6%. The Other category grew the least at 10.3%, and Transportation grew the most at 16.6%. From 2009 to 2013 Transportation grew the most at 26.3%, the Other category the second most at 8.7%, and Higher Education the least at 0.2%. The 2013–2015 biennial budget brought some degree of growth to every category except for general government.

Most of the funds Washington State uses to pay for services come from tax revenues. Washington State's major tax sources include sales tax, property tax, and Business and Occupation (B&O). (See Table 5.) Washington is one of only seven states that do *not* receive revenues through a personal income tax.

Washington State has seen extreme shifts in revenue collection during recent biennia. Over the period 2003–2007 revenues grew by almost fourteen percent each biennium (see Table 6). Since 2007, the biennial revenue growth has only averaged around five percent. While tax reve

**Figure 1. Washington State Spending History  
Budgeted State, Local, and Federal Funds**



Source: Washington State Legislative Evaluation & Accountability Program.

**Table 2. Biennial Budget Totals, Washington State (\$ in Billions)**

Budget	2001-2003	2003-2005	2005-2007	2007-2009	2009-2011	2011-2013	2013-2015
Operating	43.2	46.5	52.1	58.2	60.3	61.3	66.5
Transportation	3.8	4.3	5.2	6.3	6.8	5.7	8.9
Capital	2.6	2.8	3.3	4	3.3	3.7	3.6
Total	49.5	53.6	60.6	68.5	70.7	70.7	79.0

Source: Washington State Legislative Evaluation & Accountability Program.

**Table 3. 2013–2015 Biennium Budgeted Expenditure**

Category	Dollars in Billions	% of Budget
Human Services	28.8	36.4
K-12 Schools	17.7	22.4
Higher Education	12.8	16.3
Natural Resources	3.0	3.8
Transportation	7.8	9.8
General Government	4.4	5.5
Other	4.6	5.8

Source: Washington State Legislative Evaluation & Accountability Program

**Table 4. Expenditure History of Total Budgeted (\$ in Billions)**

<b>Agency</b>	<b>2001- 2003</b>	<b>2003- 2005</b>	<b>2005- 2007</b>	<b>2007- 2009</b>	<b>2009- 2011</b>	<b>2011- 2013</b>	<b>2013- 2015</b>
Human Services	18.5	19.9	21.4	24.7	25.6	25.8	28.8
K-12 Schools	11.8	12.4	13.7	15.9	16.1	16.4	17.7
Higher Education	8.2	9.2	10.3	11.7	12.4	11.7	12.8
Natural Resources	1.6	1.7	2.0	2.3	2.1	2.7	3.0
Transportation	3.6	4.1	5.0	5.9	6.1	5.9	7.8
General Govern- ment	3.4	3.6	4.1	4.8	4.7	4.7	4.4
Other	2.3	2.6	4.0	3.3	3.6	3.5	4.6
<b>Total</b>	<b>49.5</b>	<b>53.5</b>	<b>60.5</b>	<b>68.5</b>	<b>70.7</b>	<b>70.7</b>	<b>79.0</b>

*Source:* Washington State Legislative Evaluation & Accountability Program.

**Table 5. 2011–2013 Biennium—Sources of State Revenue**

<b>Category</b>	<b>Dollars in Billions</b>	<b>% of Revenues</b>
Taxes	33.3	45.7
Federal Grants	18.5	25.3
Licenses, Permits, Fees	2.9	4.0
Charges and Miscellaneous	18.2	25.0

*Source:* State of Washington Office of financial Management 2013 Data Book.

**Table 6. All Revenue and Other Sources (Uses) By Major Fund (\$ in billions)**

<b>Category</b>	<b>2001- 2003</b>	<b>2003- 2005</b>	<b>2005- 2007</b>	<b>2007- 2009</b>	<b>2009- 2011</b>	<b>2011- 2013</b>
Taxes	24.3	27.3	32.4	32.5	31.3	33.3
Federal Grants	12.5	13.9	14.3	16.8	20.4	18.5
Licenses, Fees	1.5	1.8	2.1	2.3	2.6	2.9
Misc	11.4	12.9	15.7	15.7	17.2	18.2
<b>Total</b>	<b>49.7</b>	<b>55.9</b>	<b>64.5</b>	<b>67.3</b>	<b>71.5</b>	<b>72.9</b>

*Source:* State of Washington Office of financial Management 2013 Data Book

nue dropped almost four percent from 2007–2009 to 2009–2011, tax revenue is predicted to rebound during this biennium.

### **2011-2013 Supplemental Budget Process**

The 2013 legislature's first budget focus was expected to be that of completing supplemental budgets to permit appropriate adjustment the 2011–2013 biennial budgets. With the governor's office in transition between the Gregoire and Inslee administrative teams, the well-established supplemental budget process is designed to involve both governors. Governor Gregoire, prior to the end of her term submitted her budget proposal and Governor Inslee submitted a second gubernatorial budget proposal once he took office. Gregoire had served for the previous eight years, including the Great Recession and had seen existing and projected spending reduced by more than \$11 billion. During this period budgets were balanced through pension and debt service reforms, statewide hiring and travel freezes, the elimination of dozens of state boards and commissions, closing six state institutions, agency consolidations, and state employee furloughs and pay cuts.

Over the previous four years, the general government workforce was reduced by 12.5 percent, bringing the number of state workers to its lowest level since the mid-1990s. Within this context and the start of the revenue leveling Gregoire's supplemental budget proposal held no significant changes to the existing budget. When Governor Inslee took office he chose to not submit his own 2011–2013 biennium supplemental budget proposals. The state legislature's leaders did not introduce any sweeping changes in the supplemental budget as is sometimes done, but did choose to wait and pass the supplemental budgets concurrent with the passage of the 2013–2015 biennial budgets. (Washington State Office of the Governor 2012)

### **2013–2015 Biennial Budget Process**

While not as drastic as previous economic forecasts during the Great Recession, the Washington State Economic and Revenue Forecast Council in 2012 projected a \$900 million budget shortfall for the 2013–15 biennium. This bleak outlook represented the base state operating budget and did not include any additional spending to meet basic education requirements identified by the state Supreme Court's *McCleary* decision. Based on projections, Washington State revenue collections are not expected to return to 2008 levels until 2014.

Just as with the supplemental budget, since the governor's office was in transition, the 2013–2015 biennial budget process is designed to involve both governors. In December of 2012, prior to the start of the 105-day 2013 legislative session, Governor Gregoire released her proposed 2013–2015 Biennium Budget. The proposed budget addressed the projected \$900 million shortfall as well as provided an initial \$1 billion initial investment to fulfill *McCleary* requirements. Her proposed budget relied on a mix of new revenue and the extension of taxes set to expire. To achieve the necessary savings, the budget proposal suspended teacher cost-of-living pay raises, delayed implementation of the state's paid family leave law, and trimmed or cut dozens of state and local programs. Her budget did not include any new taxes, but did propose repealing certain tax exemptions. (Washington State Office of the Governor 2013c)

After the out-going governor submits a biennial proposed budget, the incoming governor presents his or her proposed budget. Upon that action the legislature starts its deliberative pro-

cess. Just as he broke with tradition with the supplemental budget process, Governor Inslee did not follow the historical process with the biennial budget. When it was time for him to submit his budget, he announced he would not submit a budget as expected. The legislature started their work and, unexpectedly, two months into the legislative process, Inslee announced his biennial budget.

His long-delayed budget focused on priorities he thought necessary to revitalize Washington's economy and build a 21st century workforce. Central to this priority list was the fulfillment of the *McCleary* requirements that, in his surprise budget, set the initial biennial investment at \$1.2 billion. Similar to Gregoire's proposed budget, Inslee's budget did not include any new taxes, but did propose repealing certain tax exemptions ("loopholes" and special interest tax breaks in his terminology). Future revenues, however, did not bode well. Since the time of Gregoire's proposed budget release the projected budget shortfall had increased by \$300 million to \$1.2 billion. Due to how late in the budget process Inslee released his budget and the fact that it was too late to start the budget process again, his budget proposals did not have much traction (Washington State Office of the Governor 2013d).

During the legislative budget process, the Democratic majority in the House expressed concern over the level of cuts necessary in nonbasic education programs in order to achieve a no-tax increase balanced budget. Out of this concern, they called for sufficient tax increases to maintain levels of service and accomplish a balanced budget. In contrast, the Senate's majority coalition, due to longstanding concerns regarding governmental overreach, took a stance that there are unnecessary programs being funded and through reforms the necessary savings would be achieved to reach a balanced budget without any tax increases. With neither side willing to budge, a stalemate ensued and the regular session ended without a budget agreement.

### **1st Special Session Spring 2013: May 13, 2013—June 11, 2013**

The Washington constitution grants the governor the power to call a special session. Once called, the special session may last up to 30 days; while the governor has the power to call a special session, the governor cannot end one. The governor can state a purpose for a special session, but the legislature is not restricted to this agenda and has complete latitude in the issues they choose to take up. Historically in calling this type of special session, with a budget failing to pass, the special session would have the single focus of completing a budget. However, Governor Inslee was quite expansive in what he hoped to achieve. In addition to the legislature hammering out the budgets for the 2013–2015 biennium, he also tasked them with passing a transportation revenue package, the Reproductive Parity Act, the DREAM Act; strengthening the state's DUI laws, and enacting universal background checks/firearms registry. The list proved to be entirely unrealistic, and the legislature chose to limit its scope to the budget. The Senate and House continued to hold their respective positions on tax increases, and with the budget stalemate continuing the first special legislative session ended without a budget agreement (Scheer 2013).

### **2nd Special Session Spring 2013: June 12, 2013—June 28, 2013**

Even before the first 30-day special session ended, Governor Inslee called for second special session to start as soon as the first one ended. Of concern was the requirement of a budget for state government. The then-current budget was set to end June 30, and without a 2013–2015 budget enacted by July 1 state government would be shut down. The budget negotiations contin-

ued at their habitual slow pace, the only movement being the Senate expressing a willingness to accept a specific tax in exchange for the House accepting a specific reform.

As each side waited for the other to blink the deadline drew near. Without a budget only *essential government services* would continue, but since Washington State has always successfully passed a budget what actually constituted essential government services had never been defined. The closest the state had ever come to a government shutdown was in 1991 when then-Governor Booth Gardner signed a budget at 11:58 p.m. on June 30. As the stalemate continued Governor Inslee, trying to exert pressure and influence in the process, cancelled a planned trade mission of the state aerospace delegation he was to lead to the International Paris Air Show to promote the state's principal export commodity of transportation equipment.

On June 28, a budget deal was struck. The biannual budgets were passed by the legislature and signed by the governor, and even though the second special session could last until July 11 and Governor Inslee wanted the negotiations to continue on the transportation revenue package, the legislature recessed and left the transportation revenue package on the table (Garber 2013, Washington State Office of the Governor 2013e)

### **3rd Special Session: November 2013 November 7, 2013—November 9, 2013**

Throughout the summer and fall rumors spread of potential breakthroughs in caucus negotiations and a special session that would be called to pass a transportation revenue package. The transportation revenue package did not materialize in the end, but the special session did become reality. With only two days advance notice, Inslee summoned the legislature to a special session to provide tax incentives for the Boeing Company to build its new line of commercial airliners primarily in Washington.

The urgency for the enactment of tax incentives came from Boeing's nationwide search for a location to build their new 777X model. With other states in the running and the potential of Boeing not choosing Washington for its new production line facility, state officials were eager to find a way to keep Boeing in the state and retain the high-paying jobs of machinist union members. The high value-added products of the aerospace industry are Washington's principal export.

The state constitution, however, looks rather poorly on the state providing funds to private business. "Article VIII, sections 5 and 7, along with Article XII, section 9, prohibit the state and local governments from: (1) making gifts or loans of public funds to private individuals or corporations; (2) investing in private corporations (subject to specified exceptions); or (3) otherwise lending public credit to private individuals or corporations. These prohibitions apply equally to for-profit and non-profit corporations operating in the state. Article VII, section 1 requires tax revenues be spent only for public purposes" (Washington State Legislature 2013b).

The legislature is able to get around these constitutional restrictions only so long as they do not provide benefit solely for an individual business, but provide benefit for all businesses operating in a given industry deemed important to the state's general welfare. The legislature and governor accomplished this by extending commercial airplane tax incentives until 2040 and creating tax exemptions on the construction of buildings to manufacture commercial airplanes and on the products of the suppliers of wings and fuselages—all contingent on the commitment of the Boeing Corporation to assemble the 777X in Washington. They also expanded state investment in education and workforce development in aerospace-related fields and streamlined state permitting actions to speed up development and expansion of facilities of all large manufacturing sites (Washington State Office of the Governor 2013b).

## Final Budget

After six months of negotiations, a 105-day regular session, and three special sessions, the legislature concluded its work for 2013. Their effort resulted in 373 bills passed, the fewest new laws enacted in over 30 years, tax incentives to retain the Boeing Corporation's primary new line of aircraft construction activities in Washington State, and the 2013–2015 biennial budgets. The legislature left the work of crafting a transportation revenue package for further negotiation and crafting of a bipartisan agreement. After two biennial budget cycles of flat budgets with little to no increases, the 2013–2015 biennial budget featuring an increase of 12 percent over the previous biennium reflects the potential of a return to a pattern of incremental budget increases in the years ahead.

Balancing the budget was accomplished through a combination of revenue increases, spending cuts, and movement of fund balances. Revenue increases included changes in the estate and telephone tax laws and charges to state employees who smoke and include spouses on their insurance when other insurance is available. Savings were accomplished through the implementation of lean management practices, an efficiency effort on which Inslee had campaigned, suspending cost of living increases for school employees, delaying the opening of a medium security prison unit, implementing the affordable health care law, an increase in federal money, and sweeping the local government Public Works Trust Fund intended for local infrastructure funding and half of the local government funds historically designated for municipalities and counties from liquor taxes. The budget included very little spending on new items other than for the first time in several years not increasing higher education tuition, and a \$1 billion investment in basic education called for by the *McCleary* decision (Baker 2013; Washington State Legislative Evaluation & Accountability Program Committee 2014).

## Summary/Conclusion

The Washington State budget is between a rock and a hard place as it is challenged by a slowly recovering economy and the Washington State Supreme Court's *McCleary* decision. The legislature required time beyond the normal session to finally accomplish a budget agreement for the 2013–2015 biennium, but the budget difficulties tackled in that biennium are expected to continue for years to come. The state legislature budgeted a \$1 billion “down payment” toward fulfilling their constitutional duty of funding basic education, but it remains to be seen whether the State Supreme Court accepts this amount as adequate and remains satisfied with the slow rate of progress being made to fashion a new sustainable revenue foundation in law for the ample provision of basic education.

There are also questions concerning how the legislature will find the necessary revenues to increase the commitment from \$1 billion this biennium to \$3.3–\$4.5 billion in the 2017–2019 biennium. Washington State, over the years, has trimmed budgets through the “priorities of government” process, the adoption of lean management processes, and the selective use of privatization. It is likely now at a point where few significant cost savings are left to be found. If current levels of service are to be maintained, the state must look toward revenue increases.

At this time Washington's economic hopes rest on tax increases, economic recovery, especially in the area of aerospace, and the potential of new revenue from the regulated production and sale of recreational marijuana made possible through the passage of I-502 in 2012. In 2014, when the initiative allows for legalized sales to occur, the state will begin receiving revenue from

sales. While revenue estimates have yet to be determined, there is a clear potential that it will be more than just “smoke” and could provide a major new source of revenue to address state needs (Washington State Liquor Control Board 2014).

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