

Washington: Education, Carbon, and Taxes Oh My!

Erin Richards
Cascadia College

Michael Artime
Pacific Lutheran University

Francis Benjamin
Washington State University

Abstract

As a state that overwhelmingly relies on sales tax revenue, Washington benefitted from a strong economy in 2018. However, that revenue was necessary as the state faced a court ordered deadline to fully fund K-12 education, and a need to address transportation, mental health, and a capital budget held over from the 2017 session. This is all in addition to creating a new Department of Children, Youth and Families. The state government was under unified government for the first time since 2012 which may have contributed to the state completing its work in a supplemental budget year on time and adjourning by the March deadline.

Introduction

The 2018 legislative session in Washington was a short one as Washington alternates between long sessions that involve crafting the budget in odd numbered years, and short legislative sessions that address a supplemental budget in even numbered years. Alternating lengths of session and addressing the budget every other year is done so legislators can quickly finish up their legislative duties and get on with the business of campaigning for election as Washington prohibits incumbent elected officials from actively soliciting funds for campaigns while the legislature is in session. In 2018, the prospect of quickly finishing the work of the legislature and getting on with the midterm election – a highly anticipated election – seemed sufficient enough incentive for the legislature to finish its work on time at the end of March.

The bulk of the work for the legislature centered on addressing a ruling made by the Washington State Supreme Court in 2012 requiring the state to meet its constitutionally stated paramount duty of fully funding education, addressing leftover policy issues related to water rights from the 2017 session, and addressing other pressing issues in the state such as the opioid crisis, homelessness, a suite of environmental issues including a carbon tax favored by the governor, and police reform. The legislature also had to address changes to revenue forecasts through creation of a supplemental budget – a standard practice in Washington in even numbered years.

Washington State Budget Process

The State of Washington is one of fifteen state legislatures that follows a biennial budget process with annual legislative sessions. Each biennial budget is adopted during the odd-numbered legislative session years and the even-numbered legislative session years are used to adjust the biennial budget with minor supplemental budgets. These supplemental budget adjustments are driven principally by unanticipated changes in revenue forecasts and/or deviations in anticipated

spending due to either changing caseload levels or natural disaster expenditures. The operating, transportation, and capital budgets comprise Washington's three distinct budgets. Of the three, the operating budget requires the greatest legislative effort and far exceeds the other two budgets. It is used to fund the day-to-day state government expenditures and the bulk of the agencies and programs. The transportation budget is the next largest budget and provides funding for land and water multi-modal transportation infrastructure. The final and smallest budget is the capital budget which focuses on the state's-built infrastructure (Legislative Evaluation & Accountability Program Committee 2016; Snell 2011).

The governor, in Decembers of even-numbered years, kicks off the budget process by proposing a balanced budget to the legislature. This proposed budget is influenced by the governors' public policy priorities and founded on expected revenue forecasts. The governor also, in December of all years, proposes supplemental budgets. These supplemental budgets are not intended to include allocations for new projects, but instead provide the necessary mid-course biennial budget corrections based on economic changes and adjusted program requirements.

When developing an operating budget, funding is currently necessary to provide for:

- K-12 Education –more than 1,100,000 students
- Early Learning –more than 10,000 students
- Higher Education – more than 280,000 students
- Health Care – approximately 1,900,000 children and low-income adults
- Social Services – children, adults, and families in need of assistance

- Public Safety – more than 17,800 inmates and 17,300 parole/probation under community supervision

Sources: Legislative Evaluation & Accountability Program Committee 2016; Legislative Evaluation & Accountability Program Committee 2017a; Washington State Office of Financial Management 2018a

The Legislature then takes the governor’s proposed budget under consideration as each chamber independently develops its own budgets. The two legislative budgets, after considerable negotiation, are merged into a single budget bill that must be passed by both chambers. This budget bill is sent to the governor for his or her signature. Even with all of the legislative work, the governor, at this juncture, has the option to sign the budget bill, not sign the bill and have it automatically take effect, or use line item veto authority to invalidate individual spending provisions, commonly referred to as “provisos.” The governor’s veto authority is limited to rejecting funding for specific activities, but the governor cannot transfer funds from one appropriation to another, nor is she or he permitted to add funding for an activity for which the Legislature provided no authorized funding (Washington State Legislature 2018).

Political Composition of State Government

In late 2016, Republican Senator Andy Hill, who represented the 45th district comprising Woodinville, Kirkland, Duvall and Sammamish – suburbs of Seattle in King and Snohomish counties – passed away leaving a vacancy in the state Senate. Per state rules, the Republican Party was able to replace Senator Hill without an election and nominated a well-known quantity in state politics, former state senator and gubernatorial candidate, Republican Dino Rossi, to serve as Sen. Hill’s replacement. Rossi served in the legislature for the 2017 legislative session but made it clear that he would not seek the seat in the special election to be held in November

2017. This created an open seat and a highly competitive race between Jinyoung Englund, Republican, and Manka Dhingra, Democrat.

Driving this competitive race an opportunity for the Democratic Party to gain unified control of the state legislature after five years of divided government. Democrats and Republicans, both from within Washington and outside of the state poured millions of dollars into the race causing this special Senate election to be the most expensive in state history (Jenkins 2017). In the end, Dhingra won the election giving the Democrats a one seat advantage in the state Senate and unified control of the state legislature for the first time since 2012. However, while at first glance Washington has unified government, that majority is only by a very small margin. With Dhingra's victory, the Senate had 25 Democrats and 24 Republicans reversing control of the chamber from a majority coalition caucus that had governed for several years to a Democratic majority.

In the House, there are 50 Democrats and 48 Republicans which is enough of a narrow margin to require essentially all democrats to vote for legislation to ensure its passage. However, as has been noted in research done by Voter Science, there have been some moderating forces both in the House and Senate since 2012 so party loyalty has not been assured on all issues. However, Democratic members of the legislature have voted unanimously on many issues that are near and dear to the heart of traditional Democratic party constituents and supporters such as unions (Magendaz 2017).

The governor, Jay Inslee, is also a democrat with, as some speculate, presidential aspirations in 2020. Inslee, a former congressman from both the 1st and 4th congressional districts, is well known as being very focused on issues pertaining to the environment and particularly carbon emissions. This issue has been a centerpiece of his administration since his election in 2012 and that focus became a central part of his agenda for the 2018 legislative session.

Although at first glance Washington appears to be a very blue state, there are two Republicans who serve in statewide elected positions: Kim Wyman, Secretary of State, and Duane Davidson, State Treasurer. Further, the Democratic voters of the state tend to center in the greater Puget Sound area behind what some are now calling the “Emerald curtain.” The rest of the state, with a few exceptions, tends to be more conservative in their ideological leanings but because the population of the state is concentrated in three counties surrounding Seattle – King, Snohomish and Pierce – that has not translated into elected positions. However, as the numbers in the state House and Senate suggest, there is no guarantee that Democrat proposals will be easy for the party in the legislature should any one or two members of the party decide not to support the legislation.

Governor’s Proposed Budget

Governor Inslee proposed a significant, \$950 million, expenditure on the state’s education system in order to meet the funding obligations established in the *McCleary* decision (Washington Office of Financial Management 2018). An investment of this size would likely bring the state into compliance with the Court’s controversial decision and end the \$100,000 per day fine imposed by the State Supreme Court for failure to fully fund the state’s education

system. Even if the Court acts as expected and removes the *McCleary* fines, there is still much work to be done. The Washington Education Association is urging that teachers fight for a 15 percent increase in wages and staff for a 37 percent increase (Camden 2018). It is unsurprising that the dramatic increase in education spending would spark conflict over how to best spend those funds. Likewise, even if the state is compliant in the short-term that does not mean that they will not violate the tenets of *McCleary* in the future. This will be an issue at the heart of budget discussions for quite some time.

In addition to education, the Governor's budget also included over \$100 million to support the state's mental health institutions. In particular, this outlay of funds was designed to prevent Western State Hospital from losing federal certification and the \$53 million in federal funding tied to that certification. Last year, there were 57 "deficiencies" identified by outside inspectors. Likewise, the Trueblood case has led to approximately \$3 million a month in penalties for failure to adequately support those deemed mentally unfit to go to trial (The Seattle Times Editorial Board 2018). Efforts to protect the institution were unsuccessful and, in June 2018, the federal government removed its support for the institution. State Representative Laurie Jenkins from Tacoma has described the legislative approach to handling this issue as "We are wandering around in the middle of the woods" (The Seattle Times Editorial Board 2018.)

The Governor also called for the creation of a new Department of Children, Youth and Families which would merge state efforts in early childhood education, child protection, and juvenile rehabilitation. This organization, designed to better assist at-risk youth, is the product of the Blue

Ribbon Commission on the Delivery of Services to Children and Families from 2016 (About Us).

Finally, the Governor's proposal also addressed areas where the initial budget projects were insufficient to address actual need. For example, the budget for fighting wildfires was short \$42 million and, likewise, Medicaid spending was \$16 million short (Washington State Department of Children 2018).

State of the Economy

In many ways, Washington State has a robust, growing economy. This was highlighted by the fact that, in August, unemployment in Washington reached its lowest recorded level (beginning in 1976). Non-farm employment in the state grew rapidly over the summer adding 24,000 jobs in June, July, and August. This beat, by a large margin, the projected gain of 17,900 jobs as predicted by the Washington Economic and Revenue Forecast Council's (ERFC) June forecast (Washington State Economic and Revenue Forecast Council September 2018). Correspondingly, in August, Washington's unemployment rate was at an all-time low of 4.5 percent. Based on these positive metrics, the nonfarm employment is expected to increase 2.9 percent overall in 2018 (Washington State Department of Children 2018).

The success of Washington State businesses has also been a boon to the state's revenue intake, which was \$147 million higher than originally forecasted. Likewise, the ERFC is predicting even greater revenue in subsequent years as a result of the Supreme Court's ruling in *South Dakota v.*

Wayfair, Inc. allowing the collection of taxes on online sales (Washington State Economic and Revenue Forecast Council September 2018).

The 4.1 percent growth rate in personal income in the state between the second and third quarter was the highest in the country. Correspondingly, this number far exceeded the national average of 2.7 percent growth during the same period. For the year, personal income increased by 4.6 percent - also the highest rate of increase in the country (Washington State Economic and Revenue Forecast Council November 2018).

Additionally, even with the growth of wealth in the state, that wealth is often concentrated and does not alleviate the very real problem of poverty in the state. For example, the Institute for Children, Poverty, and Homelessness reported that homelessness in the state increased by 30 percent between 2012 and 2015. The problem of homelessness was exacerbated by a decline of 8 percent in the amount of federal assistance provided to the state during that same time period. The burden of homeless falls disproportionately on the most vulnerable in the state. For example, 87 percent of Seattle Public School students who are homeless are people of color and 21 percent of homeless children have some form of disability (relative to 12 percent of all children). This is a statewide issue, but it is most visible in King County where 8 percent of the population is homeless (compared to 3.5 percent statewide) (Lloyd 2017; Institute for Children, Poverty & Homelessness 2017).

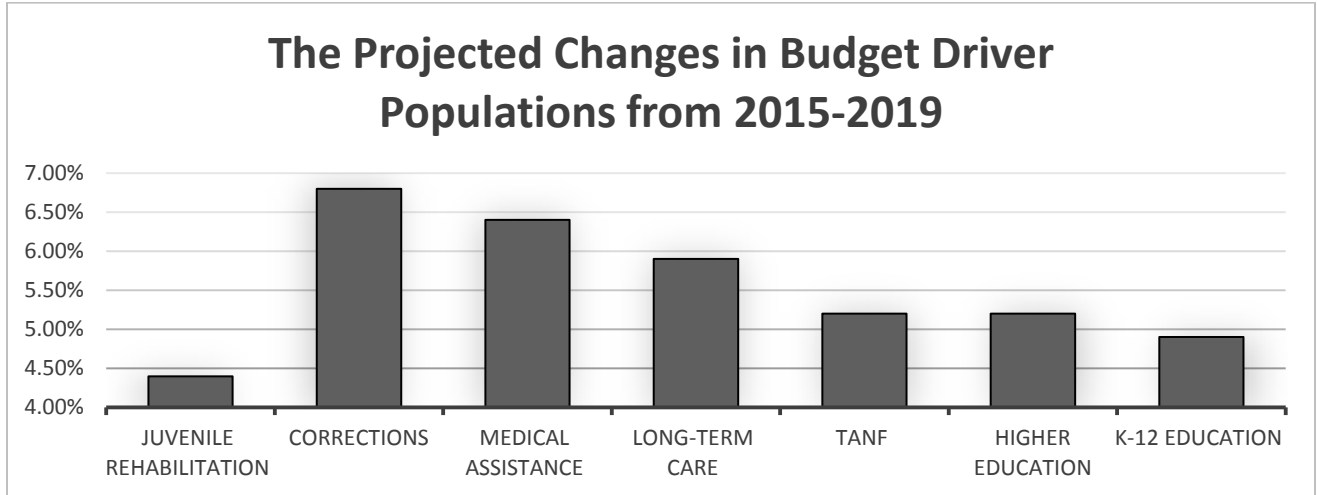
Part of the problem is that cost of living is growing exponentially in the most populous areas—particularly home prices and the cost of rental properties. In fact, home prices in Washington are

growing faster than any other state and Peter Orser, director of the Runstad Center for Real Estate Studies at the University of Washington has said “There’s no reason to believe that this is going to stop anytime soon” (Rosenberg 2016) Home prices in Seattle, for example, have increased 92 percent since the end of 2011 (Washington State Economic and Revenue Forecast Council September 2018). However, there are some signs that we may be reaching a stabilization of home prices. Specifically, in June and July housing prices only rose 0.2 percent and 0.3 percent respectively. This is compared to an average of 13.6 percent growth in the twelve preceding months.

Budget Drivers

Washington state legislators work to craft a budget is primarily constrained by mandatory funding obligations and “budget drivers.” The principle “budget drivers”, which offer little or no funding discretion, focus on the areas of K-12 basic education, debt service, pension contractual obligations, Medicaid obligations, and the safety and health care costs of confined prisoners and juveniles and foster children. These budget drivers are expected to impact costs associated with the majority of programs within the biennial operating budget due to increases in K-12, basic education funding and Medicaid enrollments; decreased higher education enrollments, incarceration levels, per person incarceration costs, juvenile caseloads, and treatment caseloads (see Figures 2-4). Figure 1 highlights the projected changes in 2015-2019 budget driver populations (Washington State Office of Financial Management 2018a).

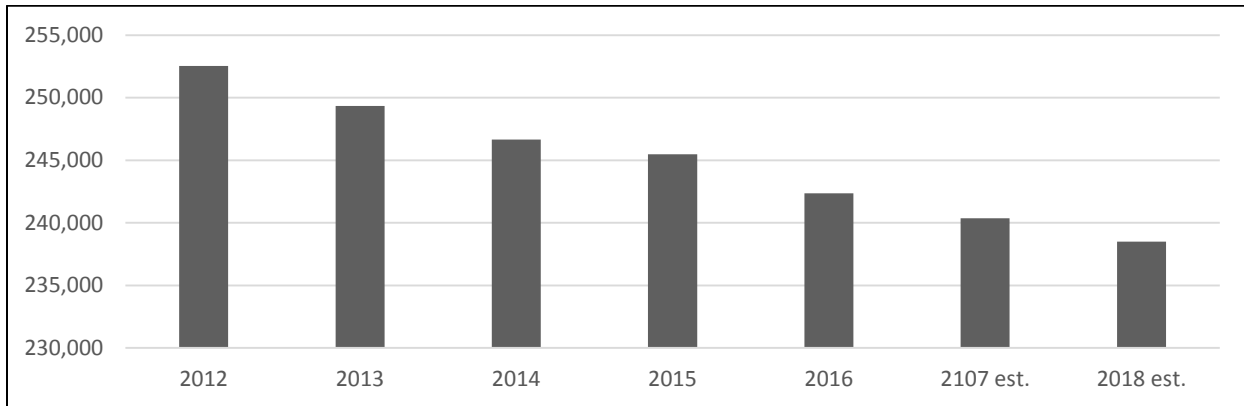
Figure 1. Projected Changes in Budget Drivers



Source: Washington State Office of Financial Management 2018a

Figure 2 highlights the decreasing trend of higher education enrollment since Washington emerged from the recession and employment become more prevalent (Legislative Evaluation & Accountability Program Committee 2018).

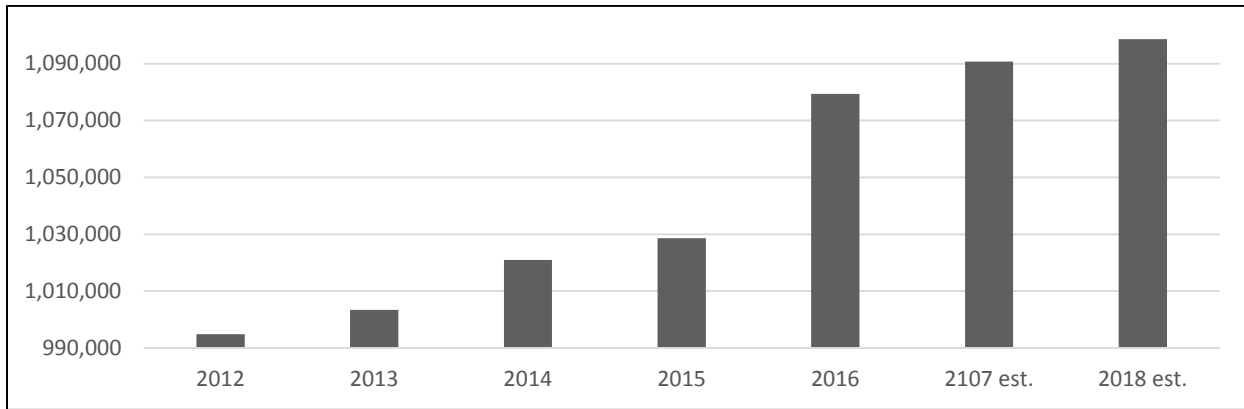
Figure 2. Public Higher Education: Enrollment



Source: Legislative Evaluation & Accountability Program Committee 2018

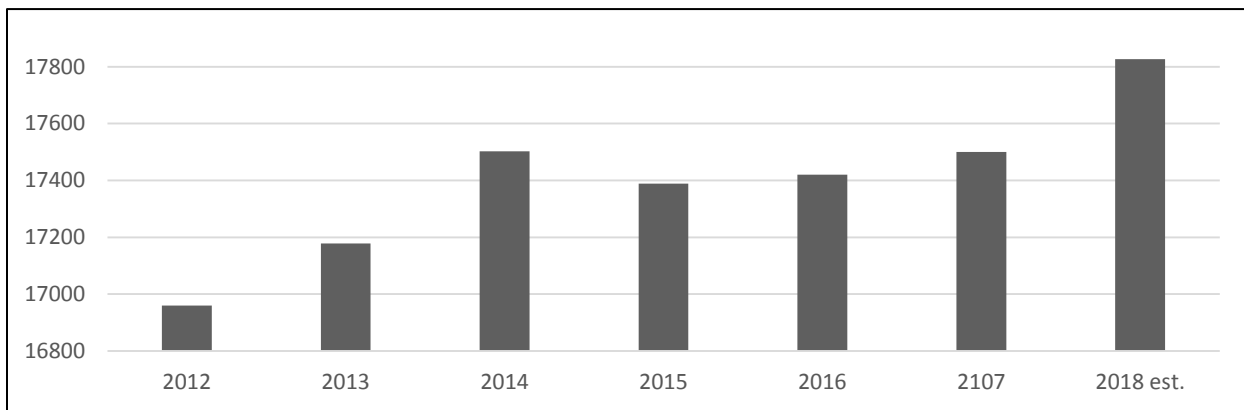
Figures 3 and 4 highlight the increasing trend of K-12 enrollment and the prison inmate population. (Legislative Evaluation & Accountability Program Committee 2018).

Figure 3. FTE Enrollment at K-12 Public Schools



Source: Legislative Evaluation & Accountability Program Committee 2018

Figure 4. Corrections: Prison Inmate Population



Source: Legislative Evaluation & Accountability Program Committee 2018

Budget Issues

Education, Carbon and Property Taxes

At the end of the 2017 legislative session, the legislature submitted to the court their funding plan for K-12 education in order to comply with the 2012 *McCleary* decision in which the court ruled that the state was not meeting its constitutional paramount duty to fund basic K-12 education. After review, the court ruled that the state was now in compliance with the Supreme Court decision and the funding, which now constitutes just under 50 percent of Washington State's budget, is sufficient (*McCleary et. al v. State of Washington* 2017). However, because full funding would not kick in until the start of the 2019 school year, the court still found that the legislature is in contempt of court in the decision and continued to fine the legislature \$100,000 per day the body remained in contempt (*McCleary et. al v. State of Washington* 2017). Deciding whether or not to respond to this fine and making additional changes to funding – particularly as it related to paying for higher salaries for teachers – took much of the legislature's time in the 2018 short session.

Part of the resolution for *McCleary* involved the state engaging in what has been come to be known as a “levy swap.” In the *McCleary* decision, the court ruled that the state was overly reliant on local levies to fund education leading to discrepancies in the quality of education being provided across the state – in direct violation of the constitution's statement that education must be provided “...without distinction or preference.” The court also ruled that “...local levies are not a regular and dependable funding source since levies are temporary, subject to approval by the voters, and highly variable” (Washington State Legislature 2017a).

The levy swap was approved by the governor in 2017 leading to an anticipated increase of approximately \$7.3 billion in revenue over the next 4 years for K-12 education (O'Sullivan 2017). However, the levy swap does not come fully into effect until the 2019 calendar year meaning that many homeowners got quite a shock when opening their property tax statements for 2018. Property taxes statewide are higher as homeowners pay their local levies at the old, higher rates in addition to paying the new, higher state property tax rate. Although there had been speculation that should Dhingra win the special election in the 45th district that the state would attempt to reverse the levy swap (a proposal not favored by democrats in the 2017 session), that repeal did not come to fruition. As a result, homeowners continued to pay higher property taxes in 2018, and in 2019, property taxes will go down as the new maximum local levy rate of 1.5 percent kicks in.

In mid-February 2018, the state Office of Financial Management gave the legislature some good news when it predicted that the state would generate significantly more revenue – about \$1.3 billion – than had been originally anticipated when creating the budget in the 2017 session (Orenstein 2018b). This anticipated windfall over the course of the next four years gave the legislature some much needed breathing room and matters for debate as legislators attempted to decide how to spend the funds. Many legislators, responding to constituent complaints about higher property tax bills in 2018, proposed a one-time refund to property owners to ease the burden of the higher property taxes. Republican Senator John Braun of Centralia proposed a \$0.81 per \$1000 of assessed value rebate to homeowners, while legislators on the other side of the aisle proposed a more conservative \$0.31 rebate which passed the legislature and will go into

effect in late 2018 or early 2019, in effect not giving relief to homeowners for the 2018 calendar year at all (Orenstein 2018c).

Complicating all of these matters was the debate in the legislature over whether, when and how to comply with the requirement of the Supreme Court to fully fund *McCleary* beginning with the 2018-19 academic year rather than the 2019-20 school year as the legislature planned for in the budget approved in 2017. The sticking point was that the plan submitted by the legislature at the end of the 2017 session was approved by the court as being in full compliance with the *McCleary* ruling. Yet the court mandated that that funding must begin in 2018-19 which the legislature had not budgeted for (*McCleary et. al v. State of Washington* 2017). This would require the legislature to come up with an additional \$1 billion to move up implementation of *McCleary*. However, the session in 2018 is a supplemental budgeting session and there was simply no further revenue available to meet this requirement without either significantly cutting other programs that had already taken a significant hit in 2017 to comply with *McCleary* or finding a new source of revenue.

The governor did precisely that in proposing the implementation of a carbon tax during the 2018 session. This was not Gov. Inslee's first attempt to impose a carbon tax; environmental protection and taxing carbon has been on the governor's agenda since his election in 2012 and environmental issues, including carbon, were a cornerstone of his work when he served in Congress. The governor's proposal would tax natural gas and gas at \$20 per ton and the per ton rate would be allowed to increase annually with no cap (Bernton and O'Sullivan 2018). This was predicted to cause the cost of natural gas to rise by 10 percent, gas to rise six to nine percent, and

electricity four to five percent, with further increases coming as the per ton rate increased. Further, the increase in energy costs would have a trickle-down effect causing prices on other goods to rise – including food – as producers and those responsible for transporting goods to market would have to raise prices to cover the cost of the new tax.

While the plan stated that some of the revenue would be used to help offset the increased cost of electricity for low income families, it was also noted that approximately \$950 million of the anticipated \$3.3 billion in new revenue would be used to replenish state financial reserves being used to comply with *McCleary* (Greenhut 2018). This led many Republicans to oppose the tax both because of its regressive nature, and the fact that it would not set out to do what the governor wanted – reduce carbon. This tax was framed by Republicans as simply that – a tax – without a broader policy purpose. Further, if the tax was intended to be an incentive to reduce consumption of carbon, there was concern about how programs would be funded if carbon consumption did in fact decrease causing the revenue anticipated from the new tax to decrease as well. Ultimately, while a modified version of the governor’s proposed carbon tax - \$10 a ton – did pass out of the Senate Energy, Environment, and Telecommunications Committee on a party line vote, the bill, SB 6203, was not brought to the floor of the Senate for a debate let alone a vote (Washington State Legislature 2017b).

The additional revenue predicted by the Office of Financial Management may have been part of the reason that the legislature did not take up the carbon bill more seriously as the predicted \$1.3 billion dollars in anticipated revenue gave the legislature much needed money to fund the additional year of *McCleary* without having to find additional sources of revenue through the

creation of new taxes. However, the legislature did use a creative accounting move to channel excess revenue – normally required by law to go into the state’s rainy day fund – into funding *McCleary*, a point that was hotly contested between the two parties (O’Sullivan 2018).

Hirst/Capital Budget

In the 2017 legislative session the legislature failed to pass a capital budget due to a standoff on the issue of rural water rights stemming from a case known as the *Hirst* decision made by the Washington State Supreme Court in 2016. Coming into the 2018 legislative session, the legislature was under a great deal of pressure to pass the 2017 capital budget as quickly as possible which drew both sides of the aisle to the negotiation table and a resolution was reached on how to fix the *Hirst* decision within the first month of session – just in time for the legislature to consider the 2018 supplemental capital budget. The challenge was that due to the delay in passage of the capital budget, costs for some projects had increased which meant that more money had to be found in the 2017 and 2018 supplemental capital budgets to cover those cost increases (Orenstein 2018a).

Tax Fatigue

Voters in King County, the state’s most populous county, and Seattle in particular, have been faced with numerous tax increases over the course of the past few years. Increases in property and sales taxes to support everything from a regional transportation package to funding free early childhood education to free community college to addressing the homeless crisis have been passed both by the voters and imposed by the government units that represent those voters leading to a sense of tax fatigue (Kroman 2018). When added to the increased property taxes

home owners are paying in 2018, exacerbated by the significant rise in home values in the greater Puget Sound area, many voters in the King County metro area are fatigued leading to reticence in paying more in taxes. The significant fight during the 2017 and 2018 legislative sessions to address ST3, a regional motor vehicle excise tax levied in King county to fund a light rail system, suggests that voters in the state's most populous county are becoming tired of the "penny here penny there" taxation scheme in that county. As King county is the most populous county in the state and thus has significant representation in the legislature, their enthusiasm for or resistance to additional taxes will impact what the state is able to do in the quest to raise more money. This quest will be further complicated by the east-west split in the state with more rural areas that are predominantly Republican being resistant to additional taxes.

Opioid and Homeless Crises

Like the rest of the country, Washington faces the crisis of opioid use and abuse. The discussion of how to best address this crisis, and more importantly, the money required to fund those programs, has been a regular topic of discussion. Similarly, the greater Puget Sound is experiencing a homeless crisis so significant that in 2015, Seattle declared a state of emergency, and there is significant contention about who has responsibility and how to best solve the issue.

Balanced Budget Requirement

Like most states, Washington requires that the state balance its budget. This provision, adopted in 2012 for the 2013-15 biennium requires that the state adopt an operating budget that leaves a positive balance in the general fund account at the end of the budget cycle. The project

maintenance cost of the budget must not exceed available fiscal resources in the next biennium (Washington State Office of Financial Management 2016; Washington State Legislature 2017).

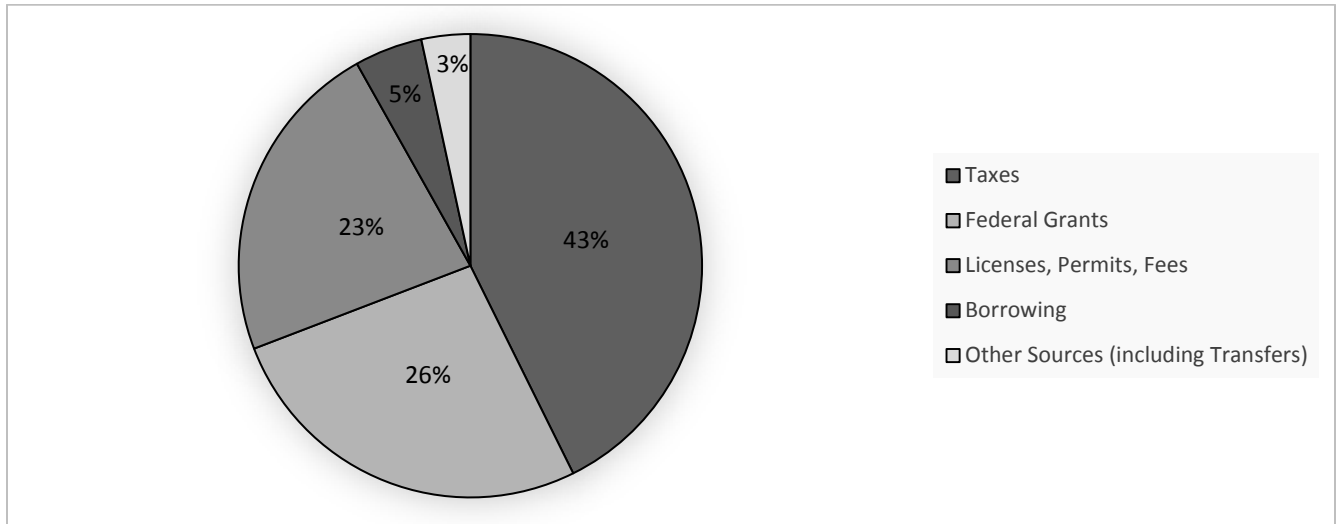
Revenues

The 2017-19 Washington biennial budget was based on the state raising \$44.5 billion in total revenue from personal and business taxes as well as through various other minor revenue streams. The expected new revenue for the biennial budget included \$1.614 billion through changing the property tax rates (O’Sullivan 2017; WashingtonVotes.org 2017), state sales tax on bottled water, the elimination of a use tax exemption on fuel used in the process of extracting fuel, the extension of “economic nexus” which determines a company’s jurisdiction, for tax purposes, on its market as opposed to its physical location (Hanson 2017), eliminating payments to local areas working within the 2007 Streamlined Sales and Use Tax Agreement, and changing the date of distribution for public utility tax privileges (Legislative Evaluation & Accountability Program Committee 2017a).

Overall, to fund the activities approved in 2017-19 biennial budget, the state anticipates taxing its citizens and businesses \$41.4 billion, procuring federal and other grants of \$25.7 billion, collecting fees and assessing license and permit charges of \$22 billion, and borrowing \$4.6 billion (see Figure 5 and Table 4). Minor sources, including transfers, account for about \$3.3 billion.

In 2018, the projected tax revenues for the 2017-19 biennial budget had grown by \$2.3 billion. This welcomed increase provided the legislature breathing room to fully fund public schools, address shortcomings in mental health services and increase disaster relief.

Figure 5. 2017-2019 Budgeted Fund Revenue Streams



Source: Washington State Fiscal Information 2018

Table 1. 2017-2019 Biennium – Sources of State Revenue

Category	Dollars in Billions	% of Revenues
Taxes	41.4	42.7%
Federal Grants	25.7	26.5%
Licenses, Permits, Fees	22.0	22.7%
Borrowing	4.6	4.7%
Other Sources (including Transfers)	3.3	3.4%
Total	97.0	100%

Source: Washington State Fiscal Information 2018

Table 1 illustrates Washington state’s wide ranging shifts in revenue collection, from a low of 1.7 percent to a high of 15.8 percent. Federal grants have helped moderate these changes.

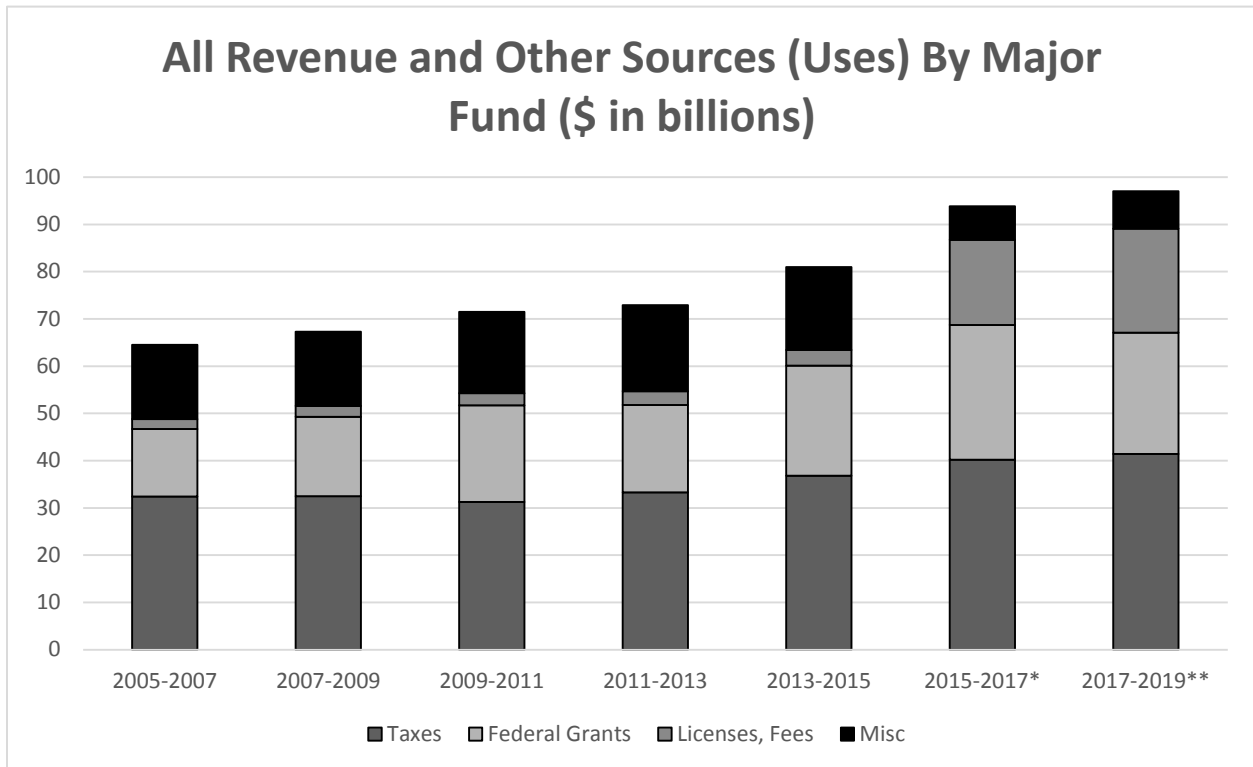
Removing the federal grants, the changes become even more dramatic, ranging from a low of .6 percent to a high of 19.5 percent. Table 1 also highlights the increasing dependence Washington state has on federal grants.

Table 2. All Revenue and Other Sources (Uses) By Major Fund (\$ in billions)

Category	2005- 2007	2007- 2009	2009- 2011	2011- 2013	2013- 2015	2015- 2017*	2017- 2019**
Taxes	32.4	32.5	31.3	33.3	36.8	40.2	41.4
Federal Grants	14.3	16.8	20.4	18.5	23.3	28.5	25.7
Licenses, Fees	2.1	2.3	2.6	2.9	3.3	18.0	22.0
Misc	15.7	15.7	17.2	18.2	17.6	7.1	7.9
Total	64.5	67.3	71.5	72.9	81.0	93.8	97
Total % Change	15.3%	4.3%	6.5%	1.7%	11.1%	15.8%	3.4%
(Total w/o Federal Grants) % Change	19.5%	0.6%	1.6%	6%	6%	13.1%	9.2%

Source: Washington State Fiscal Information 2018

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



Sources: Washington State Office of Financial Management 2018b, Legislative Evaluation & Accountability Program 2017b, and Washington State Fiscal Information 2018

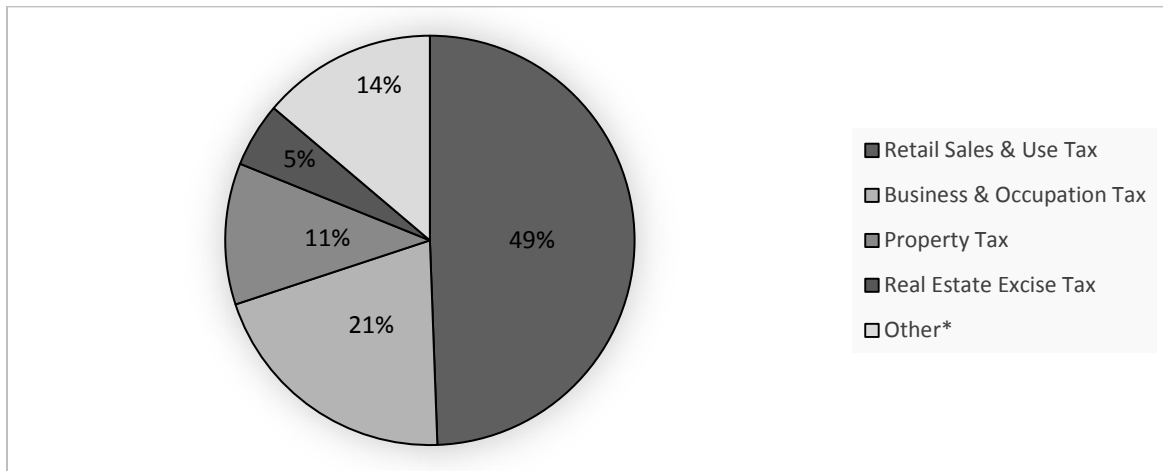
*Note: 2015-2017 data are from LEAP

**Note: 2017-2019 data are from Washington State Fiscal Information

Washington state’s three major tax sources include sales tax, property tax, and a business and occupation (B&O) tax (see Figure 7 and Table 3). Washington’s B&O tax is unique when compared to other states in that it is a tax on gross receipts rather than on either profit or income. Washington is also atypical in that it is one of only a handful of states that do not levy a personal income tax. This, however, is not always representative of some state-to-state tax

burden comparisons that include B&O taxes paid by solo proprietor businesses in the personal income tax column.

Figure 7. Projected 2017-2019 General Fund Revenue Streams



Source: Washington State Fiscal Information 2018

Table 3. 2017–19 Biennium Top General Fund Estimates-

Category	Dollars in Millions	Percent (%)
Retail Sales & Use Tax	\$18,404	49.4
Business & Occupation Tax	\$7,641	20.5
Property Tax	\$4,161	11.2
Real Estate Excise Tax	\$1,893	5.1
Other*	\$5,144	13.8
Total	\$37,243	

*The Other category includes revenue from liquor sales, tobacco taxes, insurance premiums, etc.

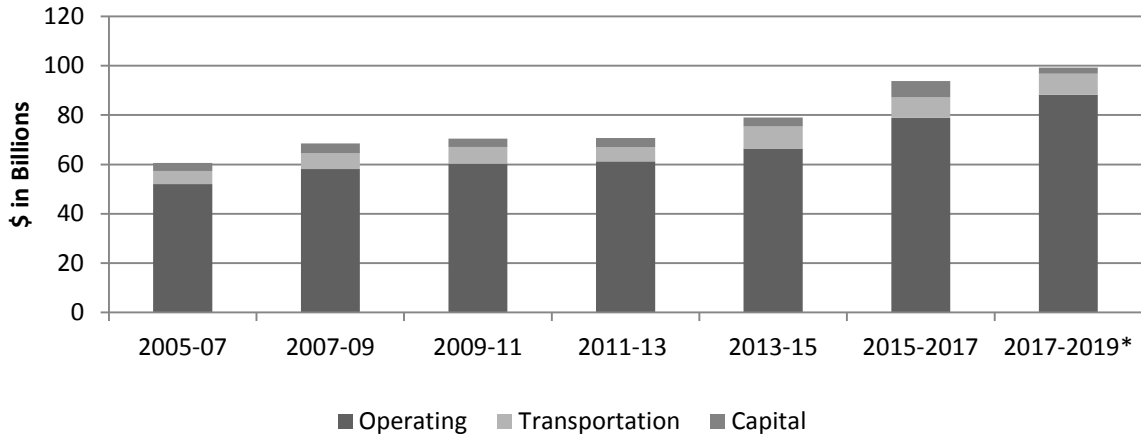
Source: Washington State Fiscal Information 2018

Expenditures

The 2017-19 biennial budget, approved in 2017, allocated \$43.7 billion for services with spending increases including \$1.8 billion in public school spending and \$7.3 billion over the course of the next four years, \$618 million expenditure for state employees, \$116.1 million for mental health services, \$75 million for higher education, and \$73 million for Long-Term Care and Developmental Disabilities.

Based on the 2018 projected \$2.3 billion tax revenue increase for the 2017-19 biennial budget, the 2018 supplemental budget added \$1.2 billion to the operating budget by adding \$775 million for school employee raises, \$105 million for court penalties, \$27 million for special education, \$29 million for school employee benefit programs, \$23.5 million for college grants and scholarships, \$165 million for mental health and \$83 million for wildfire and disaster response. The remaining \$1.1 billion of extra revenue was sent to the Budget Stabilization Account, also known as the Rainy Day Fund. The supplemental budget also projected that \$1.2 billion of 2017-19 biennial budget will not be spent on the various programs covered by the budget (Camden 2018a).

Figure 8. Washington State Spending History



Sources: Washington State Office of Financial Management 2018b, Legislative Evaluation & Accountability Program 2017b, and Washington State Fiscal Information 2018

Table 4. Biennial Budget Totals, Washington State (\$ in Billions)

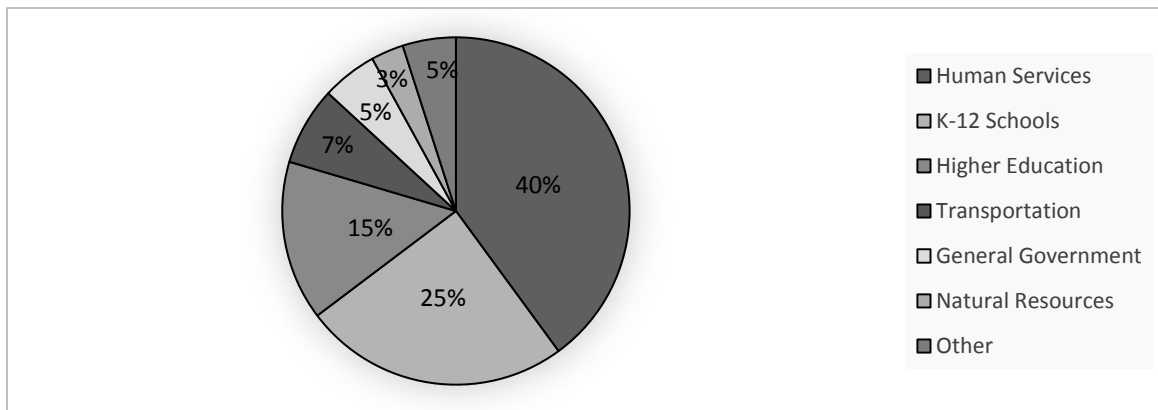
Budget	2005- 2007	2007- 2009	2009- 2011	2011- 2013	2013- 2015	2015- 2017	2017- 2019
Operating	52.1	58.2	60.3	61.3	66.5	78.9	88.3
Transportation	5.2	6.3	6.8	5.7	8.9	8.3	8.6
Capital	3.3	4	3.3	3.7	3.6	6.6	2.5*
Total	60.6	68.5	70.4	70.7	79.0	93.7	99.4*
% Growth	13%	13%	2.7%	0.4%	11.7%	18.7%	*

* Capital Budget: New Appropriation have yet to be passed by the legislature

Sources: Washington State Office of Financial Management 2018b, Legislative Evaluation & Accountability Program 2017b, and Washington State Fiscal Information 2018

Budget allocations based on agency illustrate that the top three funded agencies, Human Services, Public Schools (K-12), and Higher Education, combine to receive over three-fourths of the total budget (see Figure 9 and Table 5). While Human Services has the largest budget, it provides a variety of social, income, and medical assistance programs to citizens in need. The largest single state program is that of the Public Schools, which provides state support for K-12 education allocations to the state’s 295 local school districts.

Figure 9. 2017-2019 Budget Allocation by Agency



Source: Washington State Fiscal Information 2018

Table 5. 2017-2019 Biennium Budgeted Expenditure

Category	Dollars in Billions	% of Budget
Human Services	39.5	39.2
K-12 Schools	24.5	24.7
Higher Education	14.7	14.8
Transportation	7.2	7.2
General Government	5.1	5.1
Natural Resources	3.0	3.0
Other	4.9	5.9

Source: Washington State Fiscal Information 2018

Agency budgets continue to follow the same biennial trends as the overall budgets (see Table 6). From 2005 to 2009 agency budgets grew more rapidly than from 2009 to 2013. From 2013 to 2017 the overall biennial budgets saw a growth in almost every category. Transportation is an outlier during this time due to the one-time federal stimulus funds. The 2017-2019 budget's focus on K-12 education is easily observed.

Table 6. Expenditure History of Total Budgeted (\$ in Billions)

Agency	2005- 2007	2007- 2009	2009- 2011	2011- 2013	2013- 2015	2015- 2017	2017- 2019*
Human Services	21.4	24.7	25.6	25.8	28.8	35.5	38.9
K-12 Schools	13.7	15.9	16.1	16.4	17.7	21.3	24.5
Higher Education	10.3	11.7	12.4	11.7	12.8	14.9	14.7
Natural Resources	2.0	2.3	2.1	2.7	3.0	4.1	3.0
Transportation	5.0	5.9	6.1	5.9	7.8	6.9	7.2
General Government	4.1	4.8	4.7	4.7	4.4	5.9	5.1
Other	4.0	3.3	3.6	3.5	4.6	5.1	5.9
Total	60.5	68.5	70.7	70.7	79.0	93.7	99.3

Sources: Legislative Evaluation & Accountability Program 2017b, and Washington State Fiscal Information 2018

*Note: 2017-2019 data are from Washington State Fiscal Information

Conclusion

The short legislative session and subsequent supplemental budget saw the state address several important issues leftover from the 2017 legislative session including education and the 2017 capital budget. The state was facing increasing revenue, which certainly eased the burden on elected officials to make hard decisions about how to generate more revenue in order to comply with the State Supreme Court's continued implementation of a fine. However, divided

government did play a role in how issues such as property taxes, motor vehicle excise taxes in the ST3 district and carbon were handled.

While the 2018 legislative session was buoyed by a forecasted increase in revenue, and subsequent revenue predictions have suggested that the state will continue to have an excess of funds available to spend, the issues raised during the 2018 legislative session suggest that there will be ample competition for using those funds moving forward (Washington State Office of Financial Management 2018c). The state has been determined to comply with the 2012 *McCleary* ruling issued by the State Supreme Court, but significant outstanding issues in K-12 education – including funding for special education, teacher salaries, and school districts that lost revenue due to the new property tax funding formula – will be an issue moving forward. Further, the state still has to address funding for Western State hospital – the state’s flagship mental health facility – as well as the opioid and homeless crises that continue to be significant problems not only for Seattle but for the state as a whole.

Washington state, like many states, also faces a divide ideologically and, to some extent, economically, between its rural and urban areas. These divides, and the perception by more conservative areas of the state that their economic and social wellbeing is being sacrificed for the interest of the greater Seattle area had impacts both on the 2018 session and will continue to have impacts on future legislative sessions. 2019 will be a budget year for the legislature; given the economic and ideological divides between the Seattle area and the rest of the state, chances are that the session will be long as the legislators attempt to deal with significant competing

demands and Republican legislators, in particular, will be under pressure to stand up to unified Democratic control of the legislature resulting from the 2018 midterm election.

REFERENCES

“About Us: Department of Children, Youth and Families.” Washington State Department of Children, accessed May 23, 2018 . <https://www.dcyf.wa.gov/about/about-us>

Bernton, Hal and Joseph O’Sullivan. 2018. “Washington state \$10-a-ton carbon-tax proposal takes key step in Legislature.” 2 February. The Seattle Times. Accessed November 16, 2018 at <<https://www.seattletimes.com/seattle-news/politics/washington-state-10-a-ton-carbon-tax-xproposal-takes-key-step-in-legislature/>>.

Camden, Jim. 2018a. “Washington lawmakers send Inslee \$1.2 billion supplemental budget”. 9 March. The Spokesman-Review. Accessed November 1, 2018 at <<http://www.spokesman.com/stories/2018/mar/09/washington-lawmakers-send-inslee-12-billion-supple/>>.

Camden, Jim. 2018b. “Washington school districts, teachers prep for summer salary talks.” 29 April. The Seattle Times. Accessed May 23, 2018 at <<https://www.seattletimes.com/seattle-news/education/washington-school-districts-teachers-prep-for-summer-of-salary-talks/>>.

“Governor Inslee offers plan for fully funding McCleary obligations in current budget.” Washington Office of Financial Management, accessed May 23, 2018. https://www.ofm.wa.gov/sites/default/files/public/budget/statebudget/18supp/highlights/budget18/01_Overview.pdf

Greenhut, Steven. 2018. "Inslee's carbon-tax plan is about revenue – not climate change." 23 January. The Hill. Accessed November 16, 2018 at < <https://thehill.com/opinion/energy-environment/370306-inslees-carbon-tax-plan-is-about-revenue-not-climate-change>>.

Hanson, Joyce .2017. "Destination-Based Sales Tax." 5 July. Washington State Department of Revenue. Accessed August 10, 2017 at <<http://dor.wa.gov/Content/FindTaxesAndRates/RetailSalesTax/DestinationBased/MoreSST.aspx>>.

Jenkins, Austin. 2017. "Washington State Senate Race Breaks Spending Record." 18 October. Northwest News Network. Accessed November 16, 2018 at <http://www.nwnewsnetwork.org/post/washington-state-senate-race-breaks-spending-record>.

Kroman, David. 2018. "Tax Fatigue? Durkan unveils education levy." 18 April. Crosscut. Accessed November 16 at < <https://crosscut.com/2018/04/tax-fatigue-durkan-unveils-education-levy>>.

Legislative Evaluation & Accountability Program Committee (2016). "House Operation Budget Briefing Book." Accessed December 10, 2016 at <<http://leap.leg.wa.gov/leap/default.asp>>.

Legislative Evaluation & Accountability Program Committee. 2017a. "Proposed 2017-19 and 2017 Supplemental Operating Budgets Pssb 5883 Agency Detail." 30 June. Washington State

Office of Program Research Accessed August 1 2107 at
<http://leap.leg.wa.gov/leap/Budget/Detail/2017/hoAgyDetail_0630.pdf>.

Legislative Evaluation & Accountability Program Committee. 2017b. "Proposed 2017-19 and 2017 Supplemental Operating Budgets Pssb 5883 Summary." 30 June. Washington State Office of Program Research Accessed August 1 2107 at
<http://leap.leg.wa.gov/leap/Budget/Detail/2017/hoSummary_0630.pdf>.

Legislative Evaluation & Accountability Program Committee. 2018. "Caseload and Workload Data." Accessed November 1, 2018 at < <http://leap.leg.wa.gov/index.html>>.

Lloyd, Sarah Anne. 2017. "Washington State has one of the highest homeless student populations in the US." 31 July. Curbed Seattle. Accessed May 23, 2018 at
<<https://seattle.curbed.com/2017/7/31/16072102/washington-state-homeless-student-population>>.

Magendaz, Chad. 2017. "Analyzing the WA Political Spectrum." 11 April. Voter Science Accessed November 16 2018 at <https://blog.voter-science.com/2017/04/11/analyzing-the-wa-political-spectrum/>.>

McCleary et. al v. State of Washington. 2017. Washington State Supreme Court. Supreme Court Order No. 84362-7. 24 October. Accessed November 15, 2018 at <
<https://www.courts.wa.gov/content/publicUpload/McCleary/McClearyOrder11152017.pdf>>.

McCleary et. al v. State of Washington. 2018. Washington State Supreme Court. Supreme Court Order No. 84362-7. 7 June. Accessed November 15, 2018 at <
<https://www.courts.wa.gov/content/publicUpload/McCleary/843627PublicOrderOther06072018.pdf>>.

Orenstein, Walker. 2018a. “Legislature Passes \$4 billion construction budget, water rights bill.” 18 January. The News Tribune. Accessed November 16, 2018 at <
<https://www.thenewstribune.com/news/politics-government/article195346784.html>>.

Orenstein, Walker. 2018b. “Property-tax relief could be on the way thanks to unexpected cash, state leaders say.” 15 February. The News Tribune. Accessed November 16, 2018 at <
<https://www.thenewstribune.com/news/politics-government/article200396249.html>>.

Orenstein, Walker. 2018c. “The Legislature may give you a property tax cut – but no until 2019.” 7 March. The News Tribune. Accessed November 16, 2018 at <
<https://www.thenewstribune.com/news/politics-government/article204033719.html>>.

O’Sullivan, Joseph and Brunner, Jim. 2015. “School funding back on table as court fines state \$100,000 a day.” The Seattle Times. 13 August. Accessed December 10, 2016 at
<<http://www.seattletimes.com/seattle-news/education/supreme-court-orders-100000-per-day-fines-in-mccleary-case/>>.

O'Sullivan, Joseph. 2017. "Crunching the Numbers over Washington State's Complicated Property Taxes to Fund Schools." The Seattle Times. 6 July. Accessed August 2, 2017 at <<http://www.seattletimes.com/seattle-news/politics/crunching-the-numbers-over-state-property-taxes-complicated/>>.

O'Sullivan, Joseph. 2018. "Relief from Soaring Property Taxes – in 2019 – proposed in Washington state budget agreement." The Seattle Times. 7 March. Accessed November 16, 2018 at <<https://www.seattletimes.com/seattle-news/politics/washington-budget-agreement-boosts-school-funding-cuts-soaring-property-taxes/>>.

Rosenberg, Mike. 2016. "Home prices rising faster in Washington than in any other state." The Seattle Times. 23 June. Accessed May 23, 2018 at <<https://www.seattletimes.com/business/home-prices-rising-faster-in-washington-than-in-any-other-state/>>.

The Seattle Times Editorial Board. 2018. "Western State Hospital's inexcusable inefficiency." The Seattle Times. 27 March. Accessed May 23, 2018 at <<https://www.seattletimes.com/opinion/editorials/western-state-hospitals-inexcusable-inefficiency/>>.

Snell, Ron. 2011. "State experiences with annual and biennial budgeting." National Conference of State Legislatures. April. Accessed August 20, 2017 at <<http://www.ncsl.org/research/fiscal-policy/state-experiences-with-annual-and-biennial-budgeti.aspx>>.

“Washington’s Homeless Student Population Grew by 30 percent in 3 years.” Institute for Children, Poverty & Homelessness, last modified July 26, 2017.

<https://www.icphusa.org/reports/washingtons-homeless-student-population-grew-30-3-years/>

Washington State Economic and Revenue Forecast Council, “Economic Forecast” last modified November 2018. <https://erfc.wa.gov/forecasts/economic-forecast>

Washington State Economic and Revenue Forecast Council, “Washington State Economic and Revenue Forecast Volume XLI, No. 3” last modified September 2018.

<https://erfc.wa.gov/sites/default/files/public/documents/publications/sep18pub.pdf>

Washington State Fiscal Information. 2018. “Washington State Fiscal Information.” Accessed November 1, 2018 at <<http://fiscal.wa.gov>>.

Washington State Legislature. 2017. “Legislative balanced budget requirement.” Accessed August 1, 2017 at <<http://apps.leg.wa.gov/RCW/default.aspx?cite=43.88.055>>.

Washington State Legislature. 2017a. Senate. Senate Bill Report E2SSB 6195. Accessed Jul 24, 2017 at <<http://lawfilesexternal.wa.gov/biennium/2015-16/Pdf/Bill%20Reports/Senate/6195-S2.E%20SBR%20FBR%2016%20E1.pdf>>.

Washington State Legislature. 2017b. SB 6203-2017-18: Reducing carbon pollution by moving to a clean energy economy.

<http://apps2.leg.wa.gov/billsummary?BillNumber=6203&Year=2017&BillNumber=6203&Year=2017>

Washington State Legislature. 2018. "Washington State Legislature." Accessed November 1, 2018 at <<http://www.leg.wa.gov>>.

Washington State Office of Financial Management. 2016. "A Guide to the Washington State Budget Process." Accessed Dec. 10, 2016 at <<http://www.ofm.wa.gov/reports/budgetprocess.pdf>>.

Washington State Office of Financial Management. 2018a. "Washington Data & Research." Accessed November 1, 2018 at < <https://www.ofm.wa.gov/washington-data-research> >.

Washington State Office of Financial Management. 2018b. "Washington State 2017 Data Book." Accessed November 1, 2018 at <<http://www.ofm.wa.gov/databook/>>.

Washington State Office of Financial Management. 2018c. "State Revenue Projection for 2017-9 increased by \$348 million." Accessed November 16, 2018 at <<https://www.ofm.wa.gov/about/news/2018/09/state-revenue-projection-2017-19-increased-348-million>>.

WashingtonVotes.org. 2017. "How They Voted: Highlights of 2nd and 3rd Special Sessions." 4 Aug. SC News Accessed August 4, 2017 at < http://www.scnews.com/news/article_078241e8-793f-11e7-8456-8b97a156d3ce.html>.