

# 2013-15 Budget: A New Paradigm for Olympia

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# The Never Ending Session . . .

- Took a LONG time to get budget done (June 28<sup>th</sup>)
- But end result is something Washingtonians can take pride in
  - *And represents a stark contrast to D.C. budgeting & process*

# 4 key budget accomplishments

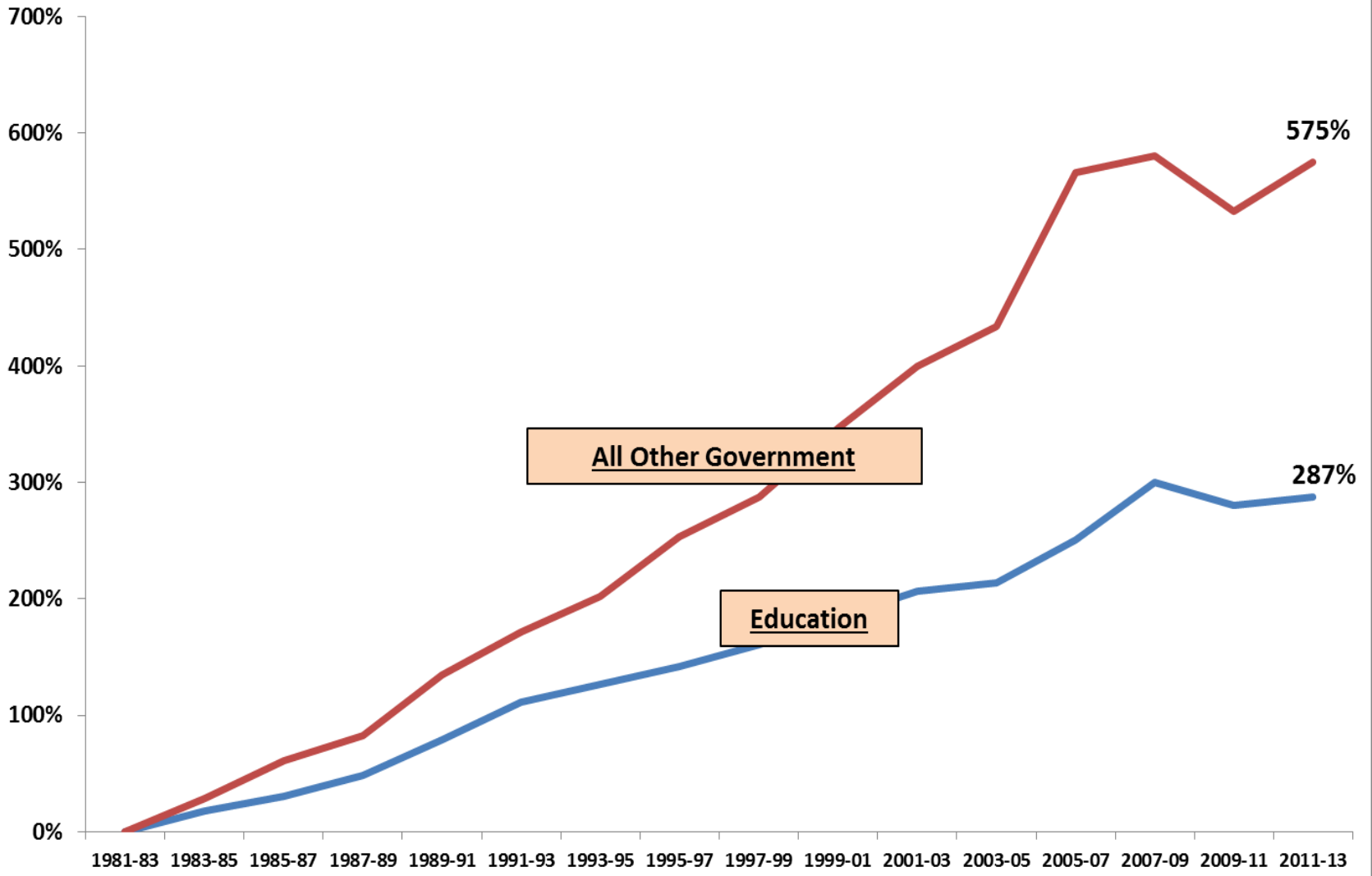
- Reprioritized Spending
  - Placed education first, reversing 30 year trend
- Lived within the State's Means
  - Protected rainy day fund, kept promises on temporary taxes
- Long Term Sustainability
  - Projected to be balanced through 2017
- Bipartisan
  - 89% of legislators voted yes on final budget

# 2013: Built upon Recent Reforms

- While Majority Coalition Caucus formed in 2013, its origins date back to 2011
- 2011 – ‘Reform before Revenue’
  - 1<sup>st</sup> contracting out & consolidation of state agencies (SB 5931); TANF reform/fraud (saved \$600 M over 4 years); Eliminate GAU-cash; Const. amendment requiring extraordinary revenue growth go to rainy day fund; Workers’ comp reform
- 2012 – 9<sup>th</sup> order budget
  - 4 year balanced budget requirement (strongest in nation); Pare back taxpayer subsidized early retirement

# I. Prioritizing Education

# Non-education spending dominated budget growth over the past 30 years



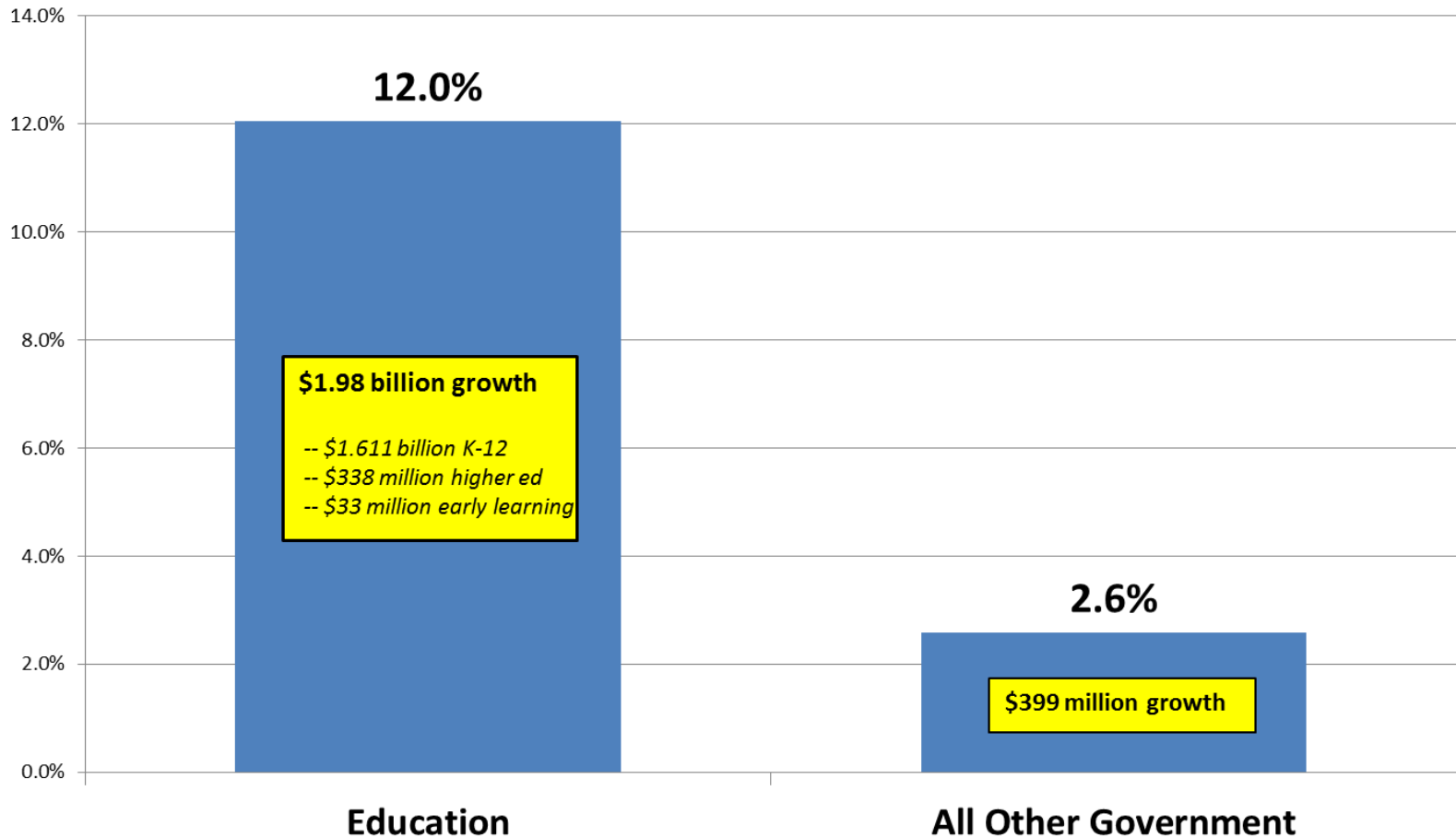
Funds: NGFS + Opp. Pathways + Hosp. Assessment -- 1981-83 to 2011-13; Education = K-12, Higher Ed, & Dept. Early Learning

# Trend has had real life consequences

- Very few high school freshmen go on to graduate from college – *Only 18 of 100. We rank 31<sup>st</sup> in country on this measure.*
- Majority entering college require remediation – *More than 57% of students enroll in remedial course, generally math.*
- Tuition is amongst highest in nation – *Tuition at each of Washington's public institutions ranks in the top 15 of nation (2 yr, 4 yr regional, and 4 year research)*

# 2013-15 Budget Put Education 1st

**Prioritizing Education:**  
*Education spending grew over 4 times faster than rest of the state budget*





# What did 12% education growth enable?

- K-12
  - State funding per pupil increase of almost \$1,000
    - *Reduced K-1 class sizes; expanded full day K; big increase in funding for high-poverty schools; and relieved local levy obligation for transportation.*
- Higher Education
  - 1<sup>st</sup> tuition freeze since 1986-87
    - *Expanded slots in high demand STEM*
- Early Learning
  - *Expanded slots for low-income kids by 20%*

## II. Living within State's Means

# Big Pressure for Tax Increases

- Forecast entering session was for \$2.1 billion in new money, equivalent to 7% revenue growth
- Gov. Inslee & House Democrats both proposed over 10% budget growth
  - Paid for by:
    - » \$1.3 billion in tax increases
    - » Raiding the state's const. rainy day fund

# Problems with Democrats' Proposals

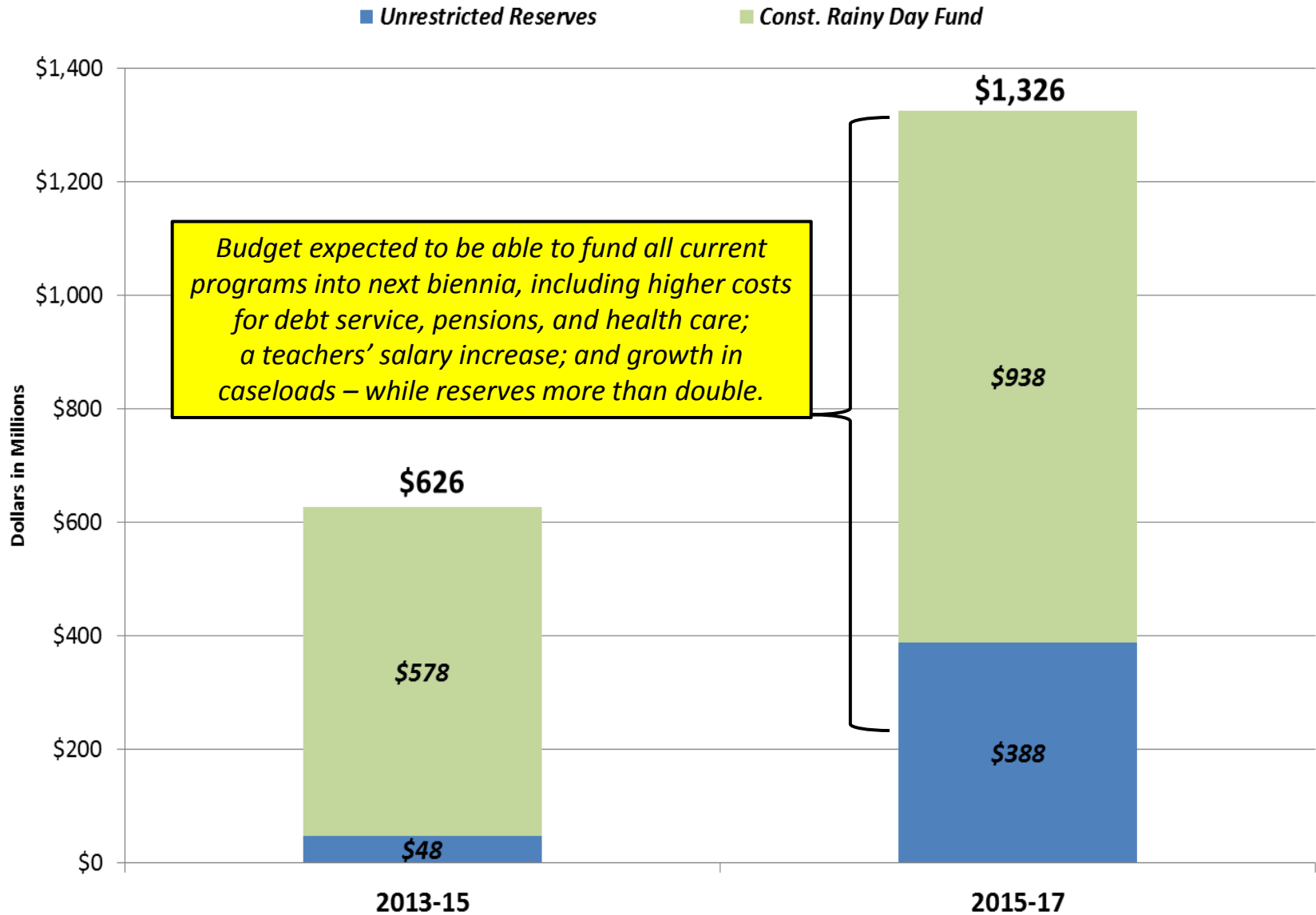
1. This was not a rainy day. *Important to preserve account for economic downturn.*
2. Voters expect promises to be kept. *Gov. reversed course on campaign pledge regarding taxes, and House D's broke commitment regarding temporary B&O and beer taxes enacted in 2010.*
3. Increased spending was not for education. *Despite claims, the vast majority of add'l spending above Senate budget went to non-education.*

# In end, MCC prevailed on structure

- Preserved rainy day fund, rejected call for \$1 B plus in new taxes and kept commitment to let temporary B&O and beer taxes expire, and clamped down on requests for new non-education spending.
  - Budget did what people at home do:
    - Lived within its means,
    - Put a portion away for bad times, and
    - Prioritized spending on most important items

### III. Long Term Sustainability

# Budget Projected to be balanced through 2017, with Growing Reserves



Source: Economic and Revenue Forecast Council, 4 year outlook (published July 2013)  
<http://www.erc.wa.gov/forecast/documents/20130729BudgetOutlook.pdf>

# Credit: 4 Year Balanced Budget Law

- The requirement forced fiscal discipline on the Legislature by essentially prohibiting:
  - *Balancing budget through short-time one time gimmicks, such as borrowing against tobacco settlement money, skipping pension payments, or accounting tricks such as the 25<sup>th</sup> month*
  - *Enacting costly new programs or tax cuts that only took effect outside the current budget cycle*
- Big departure from past – Such tricks were large contributor to perpetual deficit claims heard from Olympia, despite growing revenue



# State's Credit Rating Improved

- Finally, the state's creditors took notice of our new fiscal policies.
- In July, two rating agencies upgraded Washington's credit outlook from "negative" to "stable," citing our balanced budget as one reason for increased confidence.

# One challenge remains

- Budget structurally sound – Pay for all current obligations into next biennium.
- Issue: Financing future McCleary payments

# IV. Bipartisan

# Stark Contrast to D.C.

Final Budget:

»Senate: 44-4

»House: 81-11

# Conclusion

- The 2013-15 budget represents a new paradigm:
  1. *Spending prioritized to education, reversing 30 year trend.*
  2. *Olympia lived within its means, kept its commitment with regard to temporary taxes, and saved for a rainy day.*
  3. *Budget projected to balance through 2017.*
  4. *Showed parties could work together.*

# Appendix

# Operating Budget in 21st Century

■ State (NGFS+Opp. Path+Hosp. Assessment Accounts)    ■ Total Budgeted

