



# GOV. JAY INSLEE'S PROPOSED 2017-19 BUDGET

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OFFICE OF

**F**INANCIAL **M**ANAGEMENT

# Fundamental goals

## Fully fund K-12 schools in next biennium

- Solve fundamental state budget challenge
- Increase school funding in all districts; honor local control and decision making

## Launch major overhaul of mental health system

Continue efforts to prevent and reduce homelessness

Continue progress on clean energy, environment

## Preserve safety net for vital services

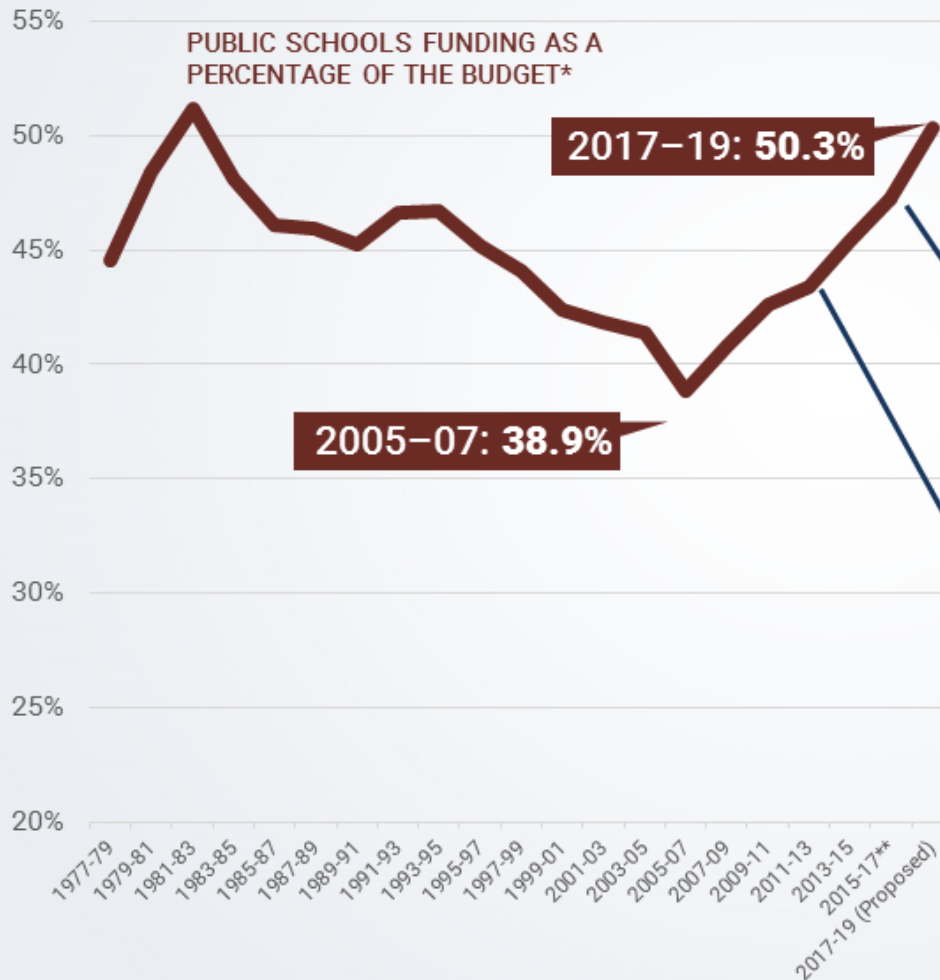
- We cannot cut our way to success to meet major challenges

# Fully funding K-12 education

- Meets court order to fully, sustainably fund basic education
- \$2.7 billion to pay state's full share of teacher compensation
- Includes salary increase for beginning teachers
- Every district will receive more money from state
- Local school taxes reduced by at least \$250 million per year
- No increase in state property tax
- Alleviates decades-long funding disparities among districts
- Budget includes another \$1 billion to:
  - Continue shrinking early elementary class sizes
  - Boost teacher mentoring and other proven strategies
  - Address opportunity gaps

# Fully funding education

In Gov. Inslee's budget, K-12 tops 50% of state spending for the first time in more than 30 years



## 2017-19

- Fully fund competitive wages for teachers and school staff, along with educator training
- Fully fund K-3 class size reduction
- Increase school support staff (guidance counselors, nurses, social workers, more)

## 2015-17

- Met state obligation to cover materials, supplies and operating costs
- Fully funded statewide all-day kindergarten
- Began reducing K-3 class sizes

## 2013-15

- Fully funded pupil transportation

\*Near General Fund and Opportunity Pathways operating expenditures

\*\*Including 2017 proposed supplemental budget

# Additional education investments

Higher education costs remain significant burden for middle-class students and families. The governor's budget:

- Freezes tuition for next two years, offsets costs to colleges and universities
- Includes \$146 million for financial aid to 14,000 more students

**Builds on recent historic investments in early childhood education:**

- Funds 2,700 more ECEAP slots
- Increases ECEAP rates by more than 6%

# Rebuilding state's mental health system

- Overhaul informed by recommendations from outside experts
- Includes \$300 million to significantly expand, improve services in the community and at state hospitals
- Funds first of nine new 16-bed regional behavioral health hospitals (all nine will be online by 2023)
- Adds 180 psychiatric staff positions at hospitals
- Funds more than 1,000 new beds system wide
- Continues state's health care integration initiative

# Combating homelessness

The governor proposes combating homelessness with a multipronged approach centered on three main strategies:

- Build, preserve stock of affordable housing available
- Strengthen partnerships with private sector to increase availability of housing
- Create targeted housing for specific populations such as homeless youth and people discharging from our state psychiatric hospitals

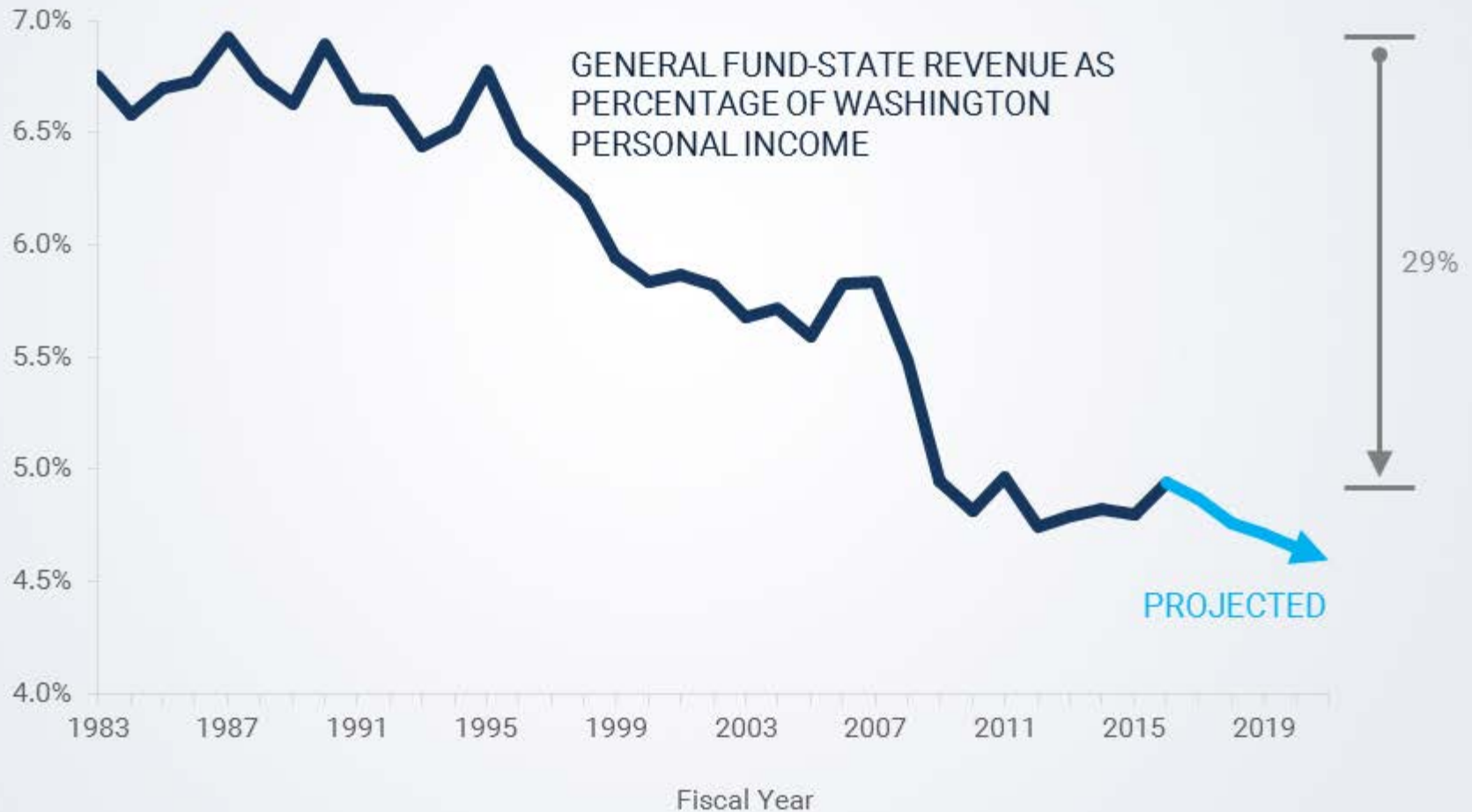
# Additional budget highlights

- Continues funding to support state parks services
- Increases parks maintenance and preservation funding
- Boosts salmon habitat protection and fishing opportunities
- Invests in local public health systems modernization efforts
- Funds 25 more records staff at DOC to ensure offenders are confined, released as ordered
- Expands Hepatitis C treatment to 6,000 Medicaid clients
- Expands Veterans Conservation Corps internship program



# Creating a more sustainable revenue system

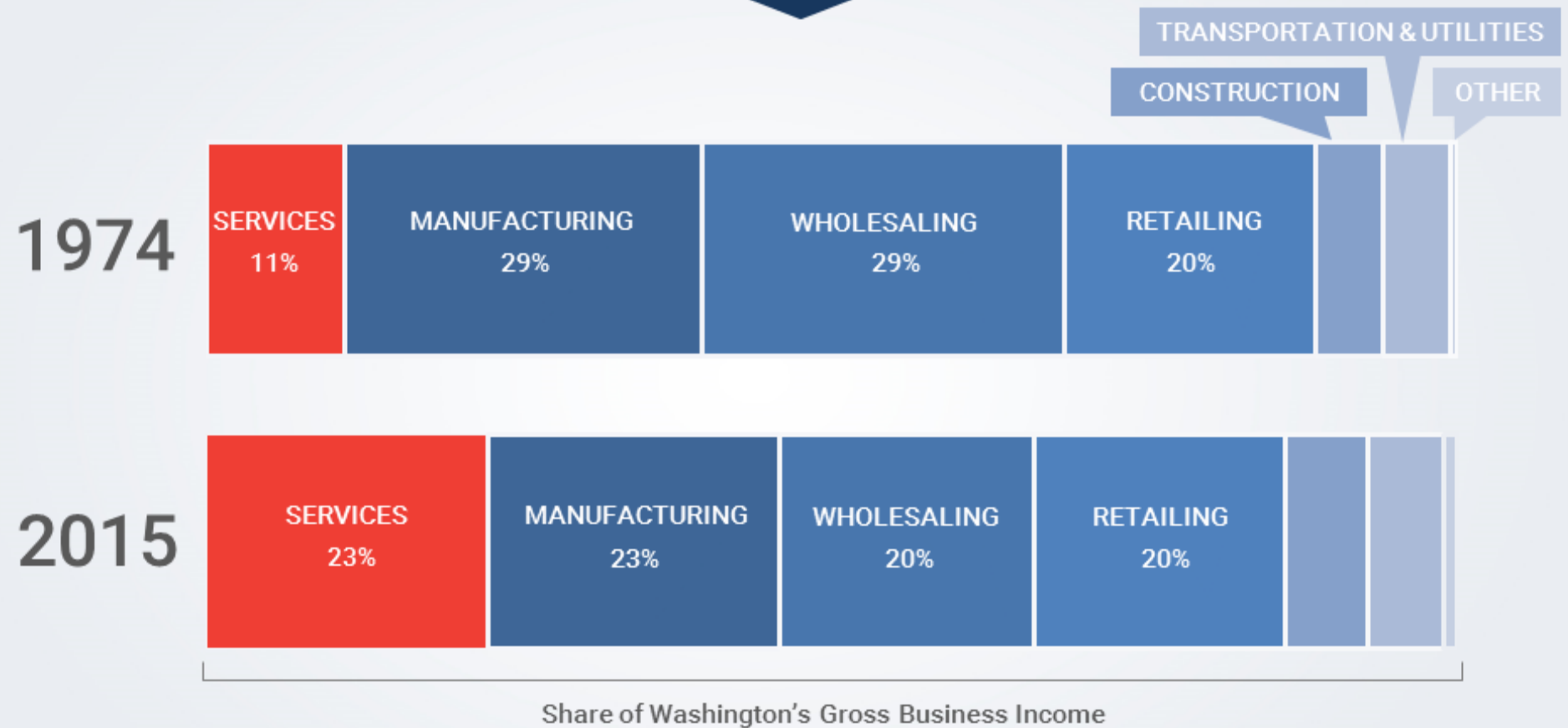
# Over the past 30 years, state revenue collections as a share of the economy have fallen by nearly 30%



# Creating a more sustainable revenue system

- Calls for balanced mix of revenue changes to address short-term and long-term needs, obligations
- Majority of \$4.4 billion in new revenue dedicated to education
- Revenue proposal rooted in fairness for working families
- Proposed revenue changes are not new

# Since 1974, **services** as a share of Washington's economy have doubled



Source: Washington State Department of Revenue, Nov. 2016

Washington's tax system was founded on a goods-based economy – we don't tax services to the extent we tax goods and commodities. As our economy shifts, **our tax system fails to keep pace with economic growth.**

# Revenue package elements: B&O on services

- Increases state B&O tax on services from 1.5% to 2.5%
- Applies to broad range of personal, professional services
- More than doubles filing threshold to \$100,000
- Increases small business tax credit to \$125 per month
- Estimated 38,000 more small businesses would receive some tax relief
- Generates \$2.3 billion next biennium

# Revenue package elements: capital gains tax

- 7.9% capital gains tax on sale of stocks, bonds, other assets
- Applies to earnings above \$25,000 for individuals, \$50,000 for joint filers
- Affects only a tiny fraction of the state's wealthiest taxpayers
- Exempts retirement accounts, homes, farms, forestry
- Earned income from salaries/wages are not capital gains and would not be taxed
- Creates reserve fund to protect against volatility
- Generates \$821 million next biennium

# Revenue package elements: carbon pollution tax

- Tax on emissions from production, consumption of fossil fuels
- Emissions taxed at \$25 per ton, starting May 2018
- Tax increases 3.5 percent annually, plus inflation
- Generates nearly \$2 billion per year at the outset
- Half of revenue to fund education needs
- Remainder to be reinvested
  - Fund clean energy and transportation projects
  - Build water infrastructure
  - Improve forest health
  - Offset carbon tax impacts on business, low-income households

# Revenue package elements: closing loopholes

- Repeal sales tax exemption on bottled water – \$57 million
- Refund state portion of sales tax to nonresidents – \$49 million
- Repeal use tax exemption for extracted fuel – \$52 million
- Repeal sales tax exemption for trade-ins valued over \$10,000 – \$91 million
- Limit REET exemption on foreclosure sales by lenders – \$59 million



# Operating budget highlights

- Fully funds basic education
- Invests in high-quality teachers, closing the opportunity gap
- Implements expert recommendations to overhaul mental health system
- Freezes college/university tuition and expands financial aid
- Begins transformative restructuring of services for children and families
- Combats homelessness and opioid crisis
- Protects safety net for vital services