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2014 Washington State Budget

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Introduction

The 2014 legislative 60-day short session, convened with anticipation following years of buildup and expectation surrounding key issues, ended rather unremarkably with a *do-no-harm* budget and significant political finger pointing. The majority caucus in the house and senate held their ground throughout the 2014 legislative session, with the usual “no new taxes” vs. “need for rethinking tax breaks and some creative thought on revenue enhancement,” with little significant work being accomplished. The legislators worked on a number of major issues, including amendments to the marijuana statute (Initiative 502) enacted in 2012, oil-transport via rails, gun control, minimum-wage, and gasoline-tax increases for enhancements to the transportation infrastructure, but by the end the only noteworthy accomplishments aside from a minimal supplemental budget was the ample placing of blame on political opponents. During the 2014 session only 225 bills passed both chambers. This figure is well below the 10-year average of 311 bills being passed during the “short sessions” taking place in even-numbered years (Washington State Legislature 2014; Bauman 2014; Washington State Wire 2014).

Two years 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, the senate majority coalition, while possibly weakened, remains intact. Last year, senate Democrats waited in vain for the majority coalition to self-destruct, but the coalition held together throughout a tense legislative session and three 30-day special sessions that ensued (*Seattle Times* Editorial 2012). This year, while the majority coalition remained unbroken, stresses are starting to appear and on a few bills its resolve appeared to weaken.

House leadership remained firmly in Democratic control, as has been the case for the past 16 years. The governor’s office, with Governor Inslee in his second year in office, has been in Democratic hands for the past 29 years. The senate majority coalition and the Democrats battled to a stalemate, with each side eventually working to place a positive spin on the lackluster accomplishments of the 2014 session. The legislative session’s budget work focused almost exclusively on the supplemental budget for the 2013–2015 biennial budget. The supplemental budget

reallocated \$140M and spent an additional \$15M; this is fairly minor enhancement compared to the biennial budget of \$33.6B set in the 2013 legislative session (Bauman 2014; Washington State Wire 2014; Benjamin and Lovrich 2011).

The revenue forecasts, previously made dire by the so-called great recession, continue to appear progressively more positive. Each year since the recession hit in 2008–2009 the Washington state legislature has ended up needing to operate in a budget-cutting and readjustment mode to offset the program spending increases initiated in the early 2000s. The 2013–2015 biennial budget approved during the 2013 legislative session reversed this reduction trend and featured some moderate increases. The 2013 budget forecasts, used to establish the 2013–2015 biennial budget, were determined to still be accurate moving into 2014, so it was decided that no significant budget adjustments were warranted in the 2014 legislative session (Washington State Legislature 2013; Washington Alliance for a Competitive Economy 2014; Washington State Wire 2014).

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 the 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 caseloads, wildfires, natural disasters, etc. During the 2014 legislative session the 2013–2015 biennial supplemental budget was approved (Washington State Legislature 2012; Bauman 2014).

State of the Economy

National economic recovery, since it began five years ago, continues at about the same consistent modest pace somewhat below the prerecession average growth rate. There are, however, elevated threats to economic growth keeping the economic future of the state somewhat unclear. Political discord at the federal level has abated somewhat, but contradictory federal spending and tax policies, weak growth in Europe and slowing Asian growth, continuing violence and armed conflict in the Middle East and Afghanistan, and decline in housing construction all pose some ongoing threat to the nation’s economic recovery.

For Washington State, China continues to influence its economic outlook rather negatively. China, the state’s largest export market, has witnessed a reduced rate of growth in GDP (7.7 percent). The nation’s GDP growth rate has been below 8 percent since the first quarter of 2012. Rising personal income growth in Washington State’s metropolitan areas west of the Cascades, when compared to U.S. trends, is average or above average; however, income growth east of the Cascades is average or lower than that of the nation as a whole. Between 2012 and 2013 personal income increases advanced Washington from the 18th to 13th highest state in the U.S. (Economic and Revenue Forecast Council 2014; Washington Alliance for a Competitive Economy 2014).

A widely cited 2013 economic climate study (Economic and Revenue Forecast Council 2013) evaluated 43 indicators within four principal groupings—those of innovation drivers, business performance, economic growth and competitiveness, and quality of life. Overall, Wash-

ington State's performance trends on these indicators were slightly negative, but when compared to other states the overall changes indicated that the state was "stuck in neutral." In all four areas Washington State, when compared to each of the other states, stayed ranked between sixteenth and eighteenth out of 50. 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 on student-to-teacher ratio.

The unemployment rate for Washington State decreased to 6.2 percent in 2014, down from 7.2 percent in 2013. 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 (U.S. DOL Bureau of Labor Statistics, 2014). Washington State continues to be a popular destination for international and domestic migration, but its status has wavered over the course of the last few years. Three years ago it held the lofty fifth place rank. Last year, however, it dropped to twelfth place, and this past year it regained ground back to seventh place. Overall, the population growth for Washington in 2013 was 1.1 percent, with less than half of the growth coming from domestic migration. This represents a recent change from migration previously being split fairly evenly between domestic and international. This migration growth continues to be higher than the national average (Economic and Revenue Forecast Council 2014).

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 as a result 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 is known as the "Top 2 Primary," and it 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 several laws require an uncommonly 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 state and local government, providing broad access for citizen involvement and press coverage. 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 being broadcast live, and being digitally stored and archived to provide unlimited 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 of the state. It is disproportionately supportive of Democratic Party candidates in most elections. This is in contrast to the east-

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			29 years	1985 John Spellman –R
House	Democrat	55	43	16 years*	1998 Republican majority
Senate	Coalition**	26	23		2003 Rep & 2012 Dem majority

Source: Benjamin and Lovrich 2011, 209-212.

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

** 2013–2014 Two Democrats joined the Republicans to form a coalition majority in the Senate

ern portion of the state, which is much more rural, far less densely populated, and is much more supportive of Republican Party candidates in most circumstances. In addition, the tremendous population growth on the western side of the state compared to the eastern side of the state in recent decades has negatively affected the current and future prospects for Republican Party candidates for statewide elected officials, of which Washington State has many (these include: governor, lieutenant governor, secretary of state, treasurer, auditor, attorney general, superintendent of public instruction, commissioner of public lands, and insurance commissioner.) The effects of growing urbanization density in western Washington compared to eastern Washington also impacts the election of Supreme Court justices resulting in a liberal-tilting composition of the court.

For the past decade, Democrats in Washington State have controlled the political scene despite this split in party support statewide. This 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 senators from the Republican minority and formed a “majority coalition.” The coalition, with two Democratic senators, continued this majority rule during the 2014 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. Between 1999 and 2001, however, Democrats and Republicans were nearly evenly matched in the legislature (Benjamin and Lovrich 2011, 209–12).

The makeup of the Washington State Legislature is not as nearly as diverse as the constituents they represent. As a whole, 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, more than 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 the medium age of state residents over the age of 18 being 45. The population of Washington State is 72 percent white compared to the legislature, which is 90 percent white. In 1999 Washington State lead the nation with 41 percent of the legislative seats being held by women; today Washington State, at 32 percent, is considerably better than the national average of 24 percent, but is still hugely lower than the population split of 50–50 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 gov-

ernment 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. This additional congressional district increased 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 a bipartisan process by design. Until 1983 the state legislature redrew district boundaries. The state's voters, however, 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) completed the redistricting process. Approval of the redistricting plan is required by 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 state 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 area. The final plan was challenged based on an unfair power distribution to select counties. The Washington State Supreme Court unanimously ruled that, due to time constraints, the redistricting plan would stand for the 2012 elections. No further significant challenges have been raised since then (Shannon 2012).

Governor-Legislature Relationship

This year, in contrast to 2013, marked the first full budget year with Governor Inslee in office. The year of 2013 observed a transition within the governor's mansion and the formation of new governor-legislature relationships. Governor Christine Gregoire (D), after serving two terms, was replaced by Governor Jay Inslee (D) to carry on the Democrat-dominant tradition reaching back to the 1985. Jay Inslee became the 23rd governor of state of Washington in 2013, with no prior executive experience in the state, after serving in the Washington State House of Representatives and then U.S. House of Representatives.

Even though Governor Inslee and Governor Gregoire align with the same political party, they differed considerably in their respective priorities, expectations, and understanding of state government processes and in understanding of how political players behave differently under different circumstances. Due to these differences, much of the first part of 2013 was spent with the governor and legislators developing an understanding of these differences. While 2013 was a year for the governor and legislature to get to know each other, 2014 turned out not to be a year to advance the development and deepening of relationships. Governor Inslee's work process is

far different from the previous governor, and his direct influence on the legislative process is broadly viewed as weaker.

In contrast to former Governor Gregoire, who had the skills and inclinations to fulfill the role of arbiter, bringing together conflicting parties and with persistence hammering out an agreement, Governor Inslee is viewed as not being able to set aside partisanship and act in an independent mediating role. For example Governor Inslee continues to be an outspoken champion for environmental and clean energy issues despite the dedicated opposition pronounced by the majority coalition (Governor Jay Inslee For Washington 2014; Project Vote Smart 2014; *Washington Post* 2013; Washington State Office of the Governor 2014), and tepid support from the Democratic caucuses in both chambers.

Relationships between the Budget and Major Current Issues

The 2014 budget is best characterized as a minor component of the 2013–2015 biennial budget, incorporated as new statute in the format of a supplemental budget. In 2013 the 2013–2015 budget process was influenced by a number of noteworthy issues, the most significant being the formation of the senate majority coalition, the Washington State Supreme Court’s *McCleary* ruling, rising costs of government, and potential revenue shortfalls. This scenario is in contrast to the prior decade, which was focused on pilot testing new programs and advancing future implementation plans formulated by Democratic leaders controlling the legislative and executive branch.

Those types of proactive problem-solving discussions of advancements in public investments were not in the forefront this year. For the first time since recession hit in 2008–2009, lawmakers did not have to focus on falling revenue projections. The recovering economy, and all the previous legislative financial readjustments had finally brought budgets back into balance. Since this year involved a supplemental budget, there was little new money over which to fight. At the same time, the majority coalition, now in its second year of control, did not show any indication of disbanding. For these reasons lawmakers, from the start, were more focused on the end of session and reelection campaigns than on plowing much new legislative ground. The most controversial legislation was dead the moment it was proposed and sent to committees, and the debates and strategies at play focused on small steps that could be taken on the margins to advance incumbent reelection.

Major 2014 Issue #1: *McCleary* Decision—K-12 Basic Education

The “paramount duty” provisions of the Washington State Constitution remained the virtual elephant in the room. 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 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 basic education investments, as noted above there is not agreement in 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.

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 the process of 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).

Major 2014 Issue #2: Capital Budget

In addition to the supplemental operating budget, the legislature typically passes a supplemental capital budget and a supplemental transportation budget. The capital budget provides a foundation for infrastructure and public works investments across the state. This year, for the first time since 1996, the legislature chose not to pass a supplemental capital budget. Historically, individual legislators, in an effort to bring home the pork, will promote specific district-centric projects, but the capital budget tends to stay out of the partisan fray, and legislative leaders came to the collective judgment that because of some issues in dispute and because of the recent recession and the slow recovery under way it would be to everyone's short-term advantage to show caution in capital investments at this time.

The senate introduced a package of authorization bills to form its Supplemental Capital Budget. Their package included: the 2014 Supplemental Capital Budget (SB 6020); a study of financing options for water-related projects (SB 6516); and two new grant programs for K–12 facilities (SB 6081). The house's 2014 Supplemental Capital Budget proposal (HB 2224) was also limited in scope, but part of a larger budget package. Accompanying the supplemental capital budget was HB 2797, intended to provide \$700 million toward the facilities necessary to comply with all-day kindergarten and early elementary class-size reduction requirements arising from the *McCleary* decision.

Illustrative of how easily disagreements this year have derailed bill passage, the apparent dispute did not focus on the funding level, funding source, or project list as a whole. Negotiations failed principally because of a major disagreement over a project involving the new state patrol headquarters. In the end, the chambers were unable to come to agreement. An additional proposed project affected by this legislative inaction was an urgent request by TVW (the state's version of C-SPAN) for upgrades to its failing camera system that provides live coverage of the legislature and public hearings (Mercier 2014).

Major 2014 Issue #3: Transportation Funding Package

The collective Washington State budget is separated into the operating, capital, and transportation budgets. The transportation budget focuses on highway maintenance, state ferry operations, and the Washington State Patrol. The transportation budget, however, does not provide significant investment into new transportation project funding. The last state transportation project investments were the “Nickel” package in 2003 and the Transportation Partnership Act of 2005. Most of these funded transportation projects are now coming to completion and were debt-financed over a 25-year period. Since the debt is still being paid back, if the state desires to tackle any further projects new funding is required.

In early 2012, in response to increased transportation concerns, Governor Gregoire convened the *Connecting Washington Task Force* to identify state transportation needs. The task force identified \$50 billion in state transportation needs and recommended, over the next 10 years, an investment be made of \$21 billion. To put this figure into broader perspective, between 2009 and 2011, U.S. states collectively spent \$20.4 billion annually to build new or expand capacity of existing roadways, and \$16.5 billion annually for road repair and preservation. In 2011, 21 percent of America’s roads were rated in poor condition, and the percentage of road in good condition had declined to 37 percent. From 2008 to 2011, the percent of Washington State’s roads listed in good condition declined from 48 percent to 23 percent. During this same time period, the percent of Washington State’s roads listed in poor condition increased from 12 percent to 27 percent. A significant factor in the decline in investment is the decline in revenue. The historical funding structure of a gas-tax, greatly negatively impacted by more fuel-efficient vehicles and more electric cars, is no longer sustainable.

The *Connecting Washington Task Force* recommendations provided the catalyst for the next installment of transportation package discussions, and 2014 is the second year legislators have tried to craft an agreement. While no agreement was accomplished in 2014, the most favored was an \$8 billion transportation package that would have raised fuel taxes by 11.5 cents over the next three years and contained projects distributed throughout the state. House Democrats passed the proposed gas tax to fund the transportation funding package, but the senate Republicans chose not to pass the gas tax and instead to use the votes to their partisan advantage in the fall 2014 elections. Senate Republicans claimed that Democrats were being unreasonable in their unwillingness to accept State Department of Transportation process reforms. Senate Democrats messaged that their Republican colleagues never even scheduled a committee hearing on their package (Camden 2014a; Slone 2014; Smart Growth America 2014).

Major 2014 Issue #4: No Child Left Behind Waiver

Due to legislative inaction during the 2014 legislative session, Washington State became the first state to have its “No Child Left Behind” waiver revoked. Prior to revocation, Washington State operated under a waiver that provided flexibility over federal Title I funds intended to serve low-income students. One of the principal requirements of the waiver agreement was the requirement of state test scores use as one of the multiple measures of student growth in teacher performance evaluations.

Current state law instructs districts that they “can” (not “shall”) use state tests in teacher evaluations. The Washington State system does not provide required consistency, and hence it does not meet federally mandated requirements. A bill to fix this language was supported by Governor Inslee, Superintendent Dorn, and many local district superintendents, but was vocally

opposed by the state's teachers union. At the heart of the dispute is the long-running war between teachers unions and the federal government over standardized testing, and growing student "test fatigue." In the end, the majority of Democratic legislators were unwilling to go against the teachers unions, and the bill fixing the mandate requirement was not passed.

The waiver loss places Washington schools under all requirements of the 2001 "No Child Left Behind" law, including requirements of mandatory parental notification if schools fail to meet certain test score targets, loss of control over how school districts spend part of their share of about \$40 million in federal funding, and in certain circumstances the ability for parents to transfer their children to more successful schools (Bauman 2014; Shaw 2014).

Major 2014 Issue #5: Marijuana

Washington State, with the legalization of medical marijuana in 1998 and recreational marijuana in 2012, has demonstrated a long history supporting marijuana use. Recreational marijuana use, passing with a 56 percent vote, was approved by citizen initiative (I-502) in the 2012 general election. Initiative 502 licensed and regulated marijuana production, distribution, and possession for persons over 21, removed state-law criminal and civil penalties for initiative-approved marijuana activities, and established a new tax associated with marijuana-related sales.

The intent of Initiative 502 is to stop treating adult marijuana use as a crime and try a new approach that:

1. Allows law enforcement resources to be refocused on violent and property crimes
2. Generates a new revenue source for education, health care, research, and substance abuse prevention
3. Removes marijuana control from illegal drug organizations and brings it under a tightly regulated, state-licensed system similar to that for controlled hard alcohol
4. Establishes the Liquor Control Board as the regulating agency
5. Sets a new threshold for driving under the influence of marijuana. Under Washington law, anyone driving with a THC blood content of five nanograms per milliliter or higher is considered *per se* impaired.

The initiative created a three-phase marijuana industry of producer (grower), processor, and retailer. The initiative also created three new excise taxes known as 25–25–25 and included a 25 percent excise tax on sales between licensed producers and licensed processors, a 25 percent excise tax on sales between licensed processor and licensed retailers, and a 25 percent excise tax on retail sales.

The legalization of recreational marijuana passed on November 6, 2012 and went into law on December 6 of the same year. The Liquor Control Board, tasked with regulating recreational marijuana, adopted administrative rules in October 2013, granted the first producer license March 2014, granted retailer licenses April 2014, and the first retail store opened in July of 2014. The February 2014 revenue forecast released by the Economic and Revenue Forecast Council shows that the industry is expected to bring in more than \$765 million in state revenue through the middle of 2019.

Washington's adult-use, highly regulated and heavily taxed recreational marijuana sales, authorized by Initiative 502, are in direct competition with the nonregulated, untaxed or much-lesser-taxed sales at medical dispensaries, and as long as the medical shops remain unregulated there's little incentive for people using them for recreational purposes to shift to the more expensive legal-pot system.

The 2014 legislative session found legislators working on two main aspects of the Washington State marijuana industry: consolidation of the recreational and medical systems, and determining how the revenue from marijuana sales would be distributed. In the process, lawmakers sought ways to overhaul the marijuana system, merge possession limits, eliminate collective gardens, establish a patient registry, and identify potential tax revenue sharing with local governments. Despite a last-minute push from Governor Inslee, the legislature adjourned prior to arriving at any agreement on these issues. (Bauman 2014; Economic and Revenue Forecast Council 2014; Washington State Liquor Control Board 2014)

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 1 of one year through June 30 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 the 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 is used for transportation purposes throughout the state such as public transit (including ferries on Puget Sound) and designing and maintaining roads and bikeways. Its principal source of revenue is the gasoline tax and federal transfers. It is overseen by house and senate committees featuring broad membership and a legacy of bipartisan cooperation. The smallest of the three, the capital budget, is used to maintain the state’s built environment 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; party leadership on both sides of the legislative aisle tightly control this budget.

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 is the main reason for the 105-day session in odd numbered years, and the 60-day session in even numbered years. The governor then works during the legislative session to urge legislators to act on his recommended legislation and to craft a budget to the governor’s 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

Table 2. Biennial Budget Cycle

Date	Budget Events
August 2012	Agencies Submit Budget Requests
Fall 2012	Office of Financial Management Review & Governor’s Decisions
December 2012	Governor Proposes Supplemental and Biennial Budget to Legislature
January 2013	Legislature Convenes (2nd Monday of January)(105 days)*
April/May 2013	Legislature Passes Budget*
May/June 2013	Governor Signs Budget*
July 1, 2013	Biennial Budget Takes Effect
December 2013	Governor Proposes Supplemental Budget to Legislature
January 2014	Legislature Convenes (2nd Monday of January)(60 days)*
March 2014	Legislature Passes Supplemental Budget*
March/April 2014	Governor Signs Supplemental Budget*
July 1, 2014	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.

Source: Washington State Legislative Evaluation & Accountability Program

members and committee staffs to craft a budget that will secure enough votes to pass both houses. The transportation portions of the budget are drafted by separate committees in the house and senate.

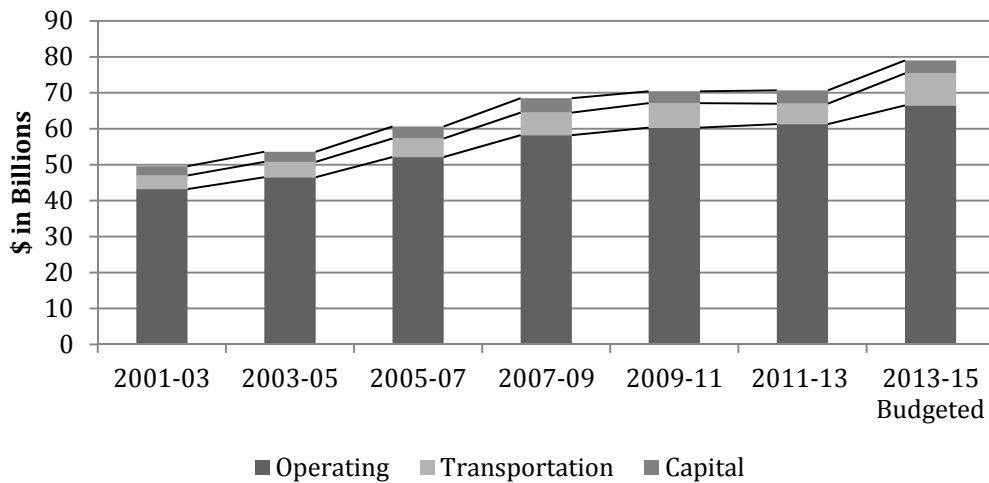
By tradition, the first legislative budget draft alternates between chambers each biennium. After the senate and house of representative have passed their version of the budget, the differences between the two chambers must be reconciled in the budget conference process. Normally, a group of six representatives 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 then sent to the governor in the form of a bill requiring his or her signature.

The governor may sign the bill, not sign the bill and have it automatically take effect, or use a relatively 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 provided 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

The recent budgets of Washington State have differed considerably; from 1999 until 2009 the total budget grew on average 11.3 percent each biennium (see Table 3). From 2009 until 2013 the average growth was only four percent. 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 the operating fund budget. The operating budget for these two groups of biennia grew 10.7 percent

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



Source: Washington State Legislative Evaluation & Accountability Program

Table 3. 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

and 3.3 percent, respectively. The capital budget showed an even greater amount of decline, going from +13.8 percent to -16.3 percent for these two groups of biennia. The transportation budget, due to federal stimulus funds, however, had an average growth rate of 16.8 percent to 21.6 percent for these two groups of biennia.

Agency budgets have followed the same biennial trends as the overall budgets (see Table 5). From 1999 to 2009 agency budgets grew on average by 11.4 percent, and then from 2009 to 2013 on average by the much lower rate of 4 percent. 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 percent each biennium. From 1999 to 2009, agencies averaged a fairly consistent biennial budget growth ranging from 10.3 percent to 16.6 percent. The Other category grew the least at 10.3 percent, and transportation grew the most at 16.6 percent. From 2009 to 2013 transportation grew the most at 26.3 percent, the Other category the second most at 8.7 percent, and higher education the least at 0.2 percent. The 2013–

Table 4. 2013–2015 Biennium Budgeted Expenditure

Category	Dollars in Billions	Percent 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 5. Expenditure History of Total Budgeted (\$ in Billions)

Agency	2001- 2003	2003- 2005	2005- 2007	2007- 2009	2009- 2011	2011- 2013	2013- 2015
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 Government	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
Total	49.5	53.5	60.5	68.5	70.7	70.7	79.0

Source: Washington State Legislative Evaluation & Accountability Program

2015 biennial budget brought some degree of growth to every category except for general government.

Agency Budgets

State operating expenditures are grouped into seven broad categories of services:

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.

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

Washington State has also seen extreme shifts in revenue collection during recent biennia. Over the period 2003–2007 revenues grew by almost 14 percent each biennium (see Table 7). Since 2007, the biennial revenue growth has only averaged around five percent. While tax revenue dropped almost four percent from 2007–2009 to 2009–2011, tax revenue is predicted to rebound during this biennium.

2013–2015 Supplemental Budget Process

The 2014 legislature's budget focus was that of completing supplemental budgets to permit appropriate adjustment the 2013–2015 biennial budgets. Governor Inslee, having completed his first year in the governor's mansion, released in December 2013 a modest supplemental budget proposal that included small, targeted investments aimed at continuing his *Working Washington* agenda designed to revitalize the state's economy, create jobs, and train workers. In releasing his budget proposal. Governor Inslee noted that a minimal supplemental budget would better position the state to tackle the looming 2015–17 biennium fiscal challenges.

In January 2014, however, Governor Inslee's tone changed markedly. As part of his first State of the State Address, the governor called on the legislature to boost education investments by at least \$200 million, pass the stalled statewide transportation package, raise the minimum wage, and close enough tax breaks to fund the voter-approved teacher COLAs that have been suspended for the past six years.

Final Budget

The 60-day 2014 regular session gaveled to a close seven minutes early and for the first time since 2009 the governor did not choose to call a special session. Their effort resulted in 225 bills passing both chambers. As noted earlier, this is well below the 10-year average of 311 bills being passed during even-numbered years.

In contrast to the previous two biennial budget cycles, which maintained flat budgets with little to no increases, the 2013–2015 biennial budgets passed in 2013 featured an increase of 12 percent over the previous biennium. With revenue projects continuing on their projected positive course, the 2014 supplemental budget did not make any noteworthy adjustments.

The 2014 legislative session's budget work focused on the supplemental budget of the 2013–2015 biennial budget. The 2014 session's supplemental budget, which reallocated \$140M and spent an additional \$15M, is broadly viewed as a fairly minor adjustment to the biennial budget of \$33.6B set back in 2013 as the state began to recover from the so-called great recession.

Summary/Conclusion

Improved forecasting technics and the reduced volatility of Washington's economy resulted in improved accuracy in crafting the initial budget of the 2013–2015 biennial budget. For this

Table 6. 2011–2013 Biennium—Sources of State Revenue

Category	Dollars in Billions	Percent of Revenues
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 7. All Revenue and Other Sources (Uses) by Major Fund (\$ in billions)

Category	2001- 2003	2003- 2005	2005- 2007	2007- 2009	2009- 2011	2011- 2013
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
Total	49.7	55.9	64.5	67.3	71.5	72.9

Source: State of Washington Office of Financial Management 2013 Data Book

reason, there were only slight modifications and little money in play as the legislators developed the 2014 supplemental budget. The looming 2014 general election, involving the election of all legislative house of representative seats and one-half of the legislative senate seats, along with the diminished supplemental budget gave ample reason for the legislators to finish within their 60-day allotted time and not return for any special sessions.

The 2014 legislative session, convened with anticipation following years of buildup and expectation surrounding key issues and ended rather unremarkably with a do-no-harm budget and significant political finger pointing. As Washington’s legislators look to the future, the three principle areas that will shape their upcoming work include political balance of power, Washington state’s economy, and the political ideological grapple between “no new taxes” and the “need for rethinking tax breaks and some creative thought on revenue enhancement.”

The future is unclear for the Senate majority coalition. While the Senate majority coalition remains unbroken, stresses are starting to appear, and on a few bills its resolve appeared to weaken. The 2014 general election has the potential to shift power in the senate, but not for the long-term Democratic control of the house of representatives. Governor Inslee’s work process is far different from the previous governor, and his direct influence on the legislative process is broadly viewed as weaker. In 2015, Governor Inslee will be past the mid-point of his first term and his relationship with the legislature firmly established.

The revenue forecasts, previously made dire by the so-called great recession, continue to appear progressively more positive, although recovery is focused strongest in the western metro-

politan areas of the state. Washington State's economy, due to trade dependence, continues to be tied to Asian markets. The "paramount duty" provisions of the Washington State Constitution remain the virtual elephant in the room. To fulfill *McCleary* and the "paramount duty" of basic education legislators must increase funding for basic education on the biennial ramp up in the range \$1–\$1.4 billion for the 2013–2015 period, and then grow to \$3.3–\$4.5 billion for the 2017–2019 period.

At the end of the 2014 session, legislators left a number of issues on the table including amendments to the marijuana statute (Initiative 502) enacted in 2012, oil-transport via rails, gun control, minimum-wage, loss of the No Child Left Behind waiver, and gasoline-tax increases for enhancements to the transportation infrastructure.

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