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# **Budgeting in Pandemic Times: Shutdowns, Social Unrest, and Spending in Washington State**

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## **Abstract**

The citizens of State of Washington have, like individuals throughout the country, had to navigate unprecedented personal and economic hardship. The supplemental budget passed by the legislature during the 2021 legislative session represents an attempt to address some of the issues that presented as an outgrowth of the pandemic. However, the legislature also considered significant policy changes with respect to, among other items, the environment, taxation, and education. These policy debates were, at times, rather contentious and are indicative of the partisan fault lines existing throughout the state.

## **Introduction**

In April of 2021, the Washington State legislature passed a budget for the next biennium which was later signed into law by Governor Jay Inslee. The budget passed on a party line vote with Democrats in support of the legislation and Republicans in opposition. These disagreements were with respect to both issues and process. On the issues, there were disputes about taxes and spending. On process, Republicans wanted to reopen the capitol for the session, and Democrats preferred to continue with a virtual session. Ultimately, the political composition of the state meant that Democrats were successful on both fronts. Clearly, the distance between the parties was not just physical but also ideological, with debates illuminating the shape and character of current partisan disputes and those that are just on the horizon (Demkovich 2021).

This budget was passed at an inflection point during which the state was attempting to address the devastation of the pandemic, while also making plans for a more optimistic future. Depending on who you ask, the final budget is either a step in the right direction or an amalgamation of irresponsible financial gambles. In this paper, we will attempt to contextualize as well as explain the 2021-23 biennium budget for Washington State. To do so, we will describe the budget process in the state, the political composition of the legislature, the economic

opportunities and challenges in the state, and the important political developments in the years leading up to the budget process. Next, we will discuss the Governor’s proposed budget as a way of understanding the priorities of the executive branch. Finally, we will present some of the important aspects of the 2021-23 biennium budget—including the budget drivers, revenue streams, and expenditures that constitute the state’s budgetary strategy for the next two years.

## **Washington State Budget Process**

Washington State makes use of a biennial budgetary process which means that on odd-numbered years the Governor and the legislature must come to terms on a complete budget. For even-numbered years, the state relies on supplemental budgets to be responsive to changing conditions in the state that need attention in advance of the next full budgetary process. The use of biennial budgeting puts Washington in the minority as 31 states have annual budgets. This is a marked contrast to the state of play in 1940 when 44 states made use of a biennial system (Snell 2011). There are a variety of opinions with respect to the “correct” approach to budgeting but, one thing is clear—the biennial process serves to heighten the importance of each item in the budget as they are, necessarily, more durable than items approved in an annual budget.

There are three components of the Washington budget: the operating budget, the capital budget, and the transportation budget. The operating budget is at the center of the legislative debate and is the largest segment of the state budget. The operating budget supports the work that government agencies do throughout the state (education, public safety, health care, and various social services). It also contains the big-ticket, controversial items that make headlines and drive partisan debate. The transportation budget sustains the various forms of ground transportation as well as ferry services which are important for travel in the state. The capital budget provides resources to cover a broad range of construction, renovation, rehabilitation, and acquisition projects ranging from state office buildings to K-12 schools to water supply and flood risk reduction infrastructure.

The Governor initiates the budget process by submitting a proposed budget for all three components of the budget described above to the legislative branch. This budget is helpful in providing insight into the Governor’s priorities, and it is a jumping-off point for the budgetary debates that follow the proposal. The House and the Senate each work on their own budgets. The budget must pass with a simple majority in each chamber, and if there are differences between versions of the budget between chambers, reconciliation will occur through a conference committee. Once the same version of the budget has passed, both the House and the Senate it is sent to the Governor. At this point, the Governor can choose to sign the bill as-is or can reject individual line items in the budget. In other words, the Governor is not empowered to reject the entirety of the budget as passed by both chambers of the legislature.

## **Political Composition of the State Government**

Washington continued its trend as a blue state, with Democrats increasing their majority in the House and Senate in the 2020 elections. In the House, the Democrats hold a very comfortable 57 to 41 margin over the Republicans, and that margin is echoed in the Senate where Democrats have a 29 to 20 majority although one Democratic Senator, Tim Sheldon, caucuses with the

Republicans. Sheldon and a Democratic colleague joined with the GOP caucus in 2012 as part of a power-sharing agreement that elevated them into the majority and Sheldon into the position of Senate president pro tempore. Combined with the presence of a Democrat – Jay Inslee – in the Governor’s mansion, the Democrats had the opportunity to push many of their pet proposals through in the 2021 legislative session.

While many winners in the 2020 legislative races won by substantial margins, there were a few that were narrowly decided including the race for State Senator in the 5<sup>th</sup> legislative district. In this race, the incumbent, Democrat Mark Mullet, was challenged by progressive Democrat Ingrid Anderson who was endorsed by Governor Jay Inslee. Washington state has a top-two primary system, where the two primary candidates with the greatest votes, regardless of party affiliation, advance to the general election. Mullet was ultimately successful in winning the election, with a margin of 57 votes in this suburban Seattle district. Other close races were in the 10<sup>th</sup> legislative district, north of Seattle in Snohomish, Skagit, and Island counties, where Greg Gilday, Republican, and Dave Paul, Democrat, were each victorious in races that were decided by less than 900 votes. That both a Republican and Democrat were victorious indicates the competitive nature of this district where a Republican, Ron Muzzall, won the race for senator with only a 1774 vote margin. Democrat T’wina Nobles also beat Republican incumbent Steve O’Ban in the 28<sup>th</sup> legislative district in the South Puget Sound by only 1009 votes. It should be noted that Washington State is one of a small handful of states that make use of multiple member districts—electing multiple representatives from the same district.

These races are indicative of a trend in Western Washington where fewer and fewer districts are competitive between the two political parties, and the districts that are competitive between the two parties often have races decided by razor-thin margins with Republicans in the legislature mostly coming from districts in Eastern Washington, Southwestern Washington, and the Bellingham area. The electoral strength of the state’s Democratic coalition coupled with the progressive shift to the left of many legislators from the Seattle area did have substantial impacts this legislative session on the legislation introduced and passed. Danny Westneat, a columnist for the *Seattle Times*, even went so far as to write an opinion piece titled “It’s Seattle’s state now in politics, and everybody else is living in it” (Westneat). While this was a bit of a tongue-in-cheek comment on the progressive nature of bills passed during the legislative session, it does capture much of the outside The Greater Puget Sound area’s feelings about the Seattle/Democrat domination of the state legislature – tension which permeated the debate on a wide variety of issues during the session.

Washington State also has many women who serve in the legislature, 41.5%, ranking Washington 10<sup>th</sup> nationally. The fact that Washington only ranks 10<sup>th</sup> is a telling sign that, despite the continued underrepresentation of women, the presence of women in state legislatures nationwide is growing. In Washington, both the Senate and the House are led by women as Karen Keiser serves as President Pro Tempore in the Senate, and Laurie Jinkins replaced 20-year veteran Frank Chopp as Speaker of the House. Additionally, the Speaker Pro Tempore is female, the House majority and minority floor leaders are women, and in the Senate, the Republican floor leader is female. Women occupy other positions in leadership in both chambers as well.

Finally, the Governor, Democrat Jay Inslee, who sought the presidential nomination in 2020, was elected to a relatively unprecedented third term in office as Washington has no term limits for Governors.<sup>1</sup> Inslee has been well known in Washington for his almost singular focus on issues pertaining to the environment and, particularly, carbon emissions. This focus became the centerpiece of his legislative agenda in the 2021 session, which the democratic majorities in both chambers helped to pass.

Washington is one of a handful of states nationwide that has many independently elected statewide executives – there are eight statewide elected officials in Washington in addition to the Governor. Only the Superintendent of Public Instruction is elected in a non-partisan race and six of the other seven statewide elected executives are Democrats. Only the Secretary of State, Kim Wyman, is a Republican and is currently the only statewide elected Republican on the west coast.<sup>2</sup>

## **State of the Economy**

The state continues to recover from the historic economic downturn due to the pandemic. In April of 2020, the unemployment rate was at an all-time high of 16.3%. As of May of 2021, the unemployment rate was 5.5%. This was a marked improvement and is strong relative to the rest of the country which has 6.1% unemployment (Economic & Revenue Update 2021). However, unemployment is just one metric that can be used to assess the strength of a state's economy.

One oft-discussed trend in Washington State is the ever-increasing cost of housing in the state. Throughout the pandemic, housing prices continued to grow undeterred by high unemployment and business shutdowns/closures. One metric, housing construction, is particularly notable. The number of housing units permitted during the first quarter of 2021 (63,700) was the most since 1978. In terms of home buying, housing prices have continued to soar. The average home price in Washington State as of April was \$497,180 which was a year-over-year increase of 14.9%. Over the course of five years this is up from an average of \$301,000 (a 60% increase) (Economic & Revenue Update 2021).

While housing can be a good indicator of economic health, it also means that finding affordable housing is more difficult than ever. One consequence of this is increasing homelessness which affects 30 out of every 10,000 persons in the state. Between 2019 and 2020, there was a 6.2% increase in homelessness (Kurlle 2021). Seattle/King County ranks third in the country, among urban city centers for total persons experiencing homelessness. As we consider issues of racial justice, it is important to note that persons of color are disproportionately represented in the homeless population.

The Washington State Economic and Revenue Forecast Council projects economic growth moving forward. Specifically, their June 2021 forecast posits that the state will see a 2.3%

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<sup>1</sup> The last and only other three term Governor in Washington State's history was Dan Evans who served as Governor from 1965-1977.

<sup>2</sup> It should be noted that Wyman resigned her position as Secretary of State on November 22, 2021 to take a job in the Biden administration working in election security. She was replaced by State Senator Steve Hobbs, a Democrat. All statewide elected executives in Washington are now Democrats.

increase in employment and a 6.1% increase in personal income growth. However, one potential warning sign is that some of this growth is attributable to the temporary stimulus provided to the state and individuals because of the pandemic. It is this factor that causes the council to project a more modest growth in personal income of 1.7% in 2022 (September 2021 Preliminary Economic Forecast 2021). Also, as discussed above, some of this economic growth is making affordable living impossible for a sizeable segment of the state's population.

## **Political and Economic Developments Prior to the Budget Process**

In this section, we will detail some of the important legislative actions taken prior to the budget process and the way that they presented both opportunities and constraints on the budgetary decisions made for the new biennium.

### **COVID, Temporary Economic Declines and Taxes**

Governor Jay Inslee declared a state of emergency in response to the COVID pandemic on February 29, 2020-which was the same day the first death from COVID was recorded in Washington State. The Revised Code of Washington (RCW) grants the Governor broad emergency powers for up to thirty days under section 43.06.220; under these powers, the Governor can prohibit certain acts and waive or suspend existing laws and regulations as necessary to deal with the emergency. At the end of the thirty-day period, the legislature can approve waivers that allow those emergency powers to continue. If the legislature is out of session at the time the thirty days conclude, leaders from both parties of the House of Representatives and Senate must unanimously agree to extensions. However, this is the extent to which the legislature has any influence over the Governor's emergency powers, as the statute granting these powers does not specify the conditions under which those emergency powers end.

While legislative leaders agreed to the extension of gubernatorial powers at the outset, Republican leaders argued that the time had come for the powers to end. The Democratic Speaker of the House and Senate Majority leader – also a Democrat – felt that continuing the Governor's emergency powers was the sensible thing to make given the circumstances. Several pieces of legislation were introduced during the 2021 legislative session to limit the Governor's powers all of which were defeated on a party line vote.

As did all states, Washington initially faced a significant economic downturn when the pandemic hit, especially since Washington relies heavily on sales tax as a revenue source. The complete shutdown of essentially all economic activity beginning in March of 2020 until mid-June caused a substantial decrease in the projected revenue forecasts. Legislators were expecting gloom and doom in the 2021 legislative session and had even gone so far as to call for a special session in 2020 to adjust spending in response to the significant revenue decline. However, as the economy opened back up in summer 2020, the revenue forecast also began improving.

Prior to the start of the 2021 session, legislators were given a revenue forecast showing an increase of \$1.3 billion for the 2019-2021 biennium and a \$1.9 billion increase for the 2021-23 biennium (Kurle). This projection was "...about \$350 million less than expected, but in the next biennium is nearly \$300 million above what was projected" (Kurle). This larger than expected

revenue increase was good news for legislators who always prefer to spend, rather than cut, and when combined with the increase in the number of progressive Democrats from the Seattle area serving in the legislature, resulted in substantial spending increases. The 2021 legislative session resulted in a biennial budget of over \$59.2 billion which was 12%, or \$6.7 billion more than the previous operating budget (Gildon), and 54%, or \$20 billion larger, than the operating budget of six years ago (Westneat). We will discuss the budget in more detail later in the paper.

## **Capital Gains Tax and Washington's Tax Structure**

Washington is a state that relies heavily on the sales tax as a revenue source for the general fund; in the 2021 budget, retail sales tax was anticipated to constitute forty-five percent of the state's revenue (Washington State Legislature Senate Ways and Means Committee). However, retail sales tax is known as the most regressive of the three big taxes used by states to generate revenue. Organizations such as the Washington State Budget & Policy Center have suggested that due to this regressive nature of the state's tax system, the bottom twenty percent of households by income pay 17.8% of their income in taxes while the top 1% pay only 3% of their income (Washington State Budget & Policy Center). This disparity has led many to accuse Washington State of being a regressive state and have pointed out how ironic this is, given the progressive leanings of the state.

To generate more revenue and address this regressivity, Democrats proposed and passed a capital gains tax, called an "excise tax" by the legislature, that would levy a 7% tax on capital gains above \$250,000 a year (Brunner). They argued that this tax, anticipated to generate an estimated \$445 million per year beginning in 2023, will only impact the state's wealthiest residents, and will make the tax code less regressive by asking the wealthier to bear more of the tax burden.

Washington State's Constitution, however, in Article VII, Section I states, "All taxes shall be uniform upon the same class of property within the territorial limits of the authority levying the tax and shall be levied and collected for public purposes only. The word 'property' as used herein shall mean and include everything, whether tangible or intangible, subject to ownership." Over the years, this provision has been interpreted by the Washington State Supreme Court as prohibiting a graduated income tax, and voters have repeatedly rejected attempts to implement an income tax in the state when the issue has been presented to them as an initiative on their ballot.

Opponents of the capital gains tax have cited the IRS's classification of capital gains as income and claim that a capital gains tax is an income tax and thus unconstitutional. They also argued that this tax does nothing to alleviate the tax burden on lower-income citizens, and that the imposition of a capital gains tax is the first step towards implementing a statewide income tax. Opponents also questioned the logic of imposing new taxes during a time of strong revenues for the state as well as great economic uncertainty for so many. There was also concern that the ability to refer the capital gains tax to voters, in the form of a referendum, was taken away just before final passage (Gildon). If voters want to repeal the legislation, they will have to do so through the initiative process in 2022.

While the capital gains tax passed the legislature on a party line vote, legal challenges questioning the constitutionality of the tax were immediately filed. As of this writing, the cases

have been consolidated in Douglas County Superior Court and are expected to be decided in late 2021 or early 2022 (Shaver & Haberzette). It is expected, however, that this case will end up on the Washington State Supreme Court's docket.

The Working Families Tax Credit (WFTC) – Washington State's version of the Earned Income Tax Credit (EITC) – did, however, pass the legislature. The tax is meant to alleviate the tax burden on the lowest income households in Washington State, with payments between \$300 and \$1,200. Democrats initially wanted to pay for the credit through new taxes, but Republicans argued that if the WFTC is a priority, then it needs to be funded appropriately. Ultimately, the WFTC was permanently fixed into the regular budget (Cornfield).

## **Environmental Legislation**

A centerpiece of Jay Inslee's agenda since taking office in 2012 has been reducing Washington's carbon footprint. The Governor has tried numerous times to get legislation passed that addressed policies such as the Low-Carbon Fuel Standard (LCFS) and versions of a cap-and-trade or cap-and-invest program. The increased Democratic majorities in the legislature in 2021 finally gave him the ability to pass those policies.

The "cap-and-invest" legislation is expected to bring in substantial revenue (\$357 million in 2024 – the first year of operation) as heavy industry pays for pollution credits and the LCFS is also expected to increase revenue through the state's gas tax – a prime source of revenue for the state transportation budget (Pulkkinen). Proponents of this legislation suggest that revenue generated can be used to pay for bike lanes, transit grants, tax rebates for air quality monitoring, climate change adaptation proposals, and promoting green buildings. Washington State, like others, has failing infrastructure and needs heavy investment to update roads, bridges, and ferries, to name a few. The transportation budget is primarily funded through the gas tax, but between falling gas prices and fewer drivers on the road due to the pandemic, increased fuel efficiency in vehicles, increasing numbers of electric vehicles, and now, proposed legislation to phase out the sale of fossil-fuel powered passenger vehicles by 2030, revenue has been declining. The state has increased tolls on bridges and select toll roads in the Puget Sound area and has increased ferry fares for riders, but those increases are not keeping pace with the rate at which transportation needs to be addressed.

Critics of the policies argue that LCFS will make gas more expensive for those who must commute and for agricultural producers – many of whom are located East of the Cascade mountains and must travel hundreds of miles to get their goods to population and export centers. Additional consequences, critics argued, will include increased costs for food and other goods. Critics further argue that the cap-and-trade policy will not reduce Washington's carbon footprint as it does not significantly incentivize lowering rates of pollution.

The next challenge will be creating a transportation package that will allow these two centerpieces of Inslee's time as Governor to be implemented. At the bill signing ceremony for these two pieces of legislation, the Governor vetoed parts of the bills that require a new statewide transportation-funding package for the climate legislation to take effect (O'Sullivan & Bernton). Tying the legislation to the transportation package had been part of the bargain to get the support

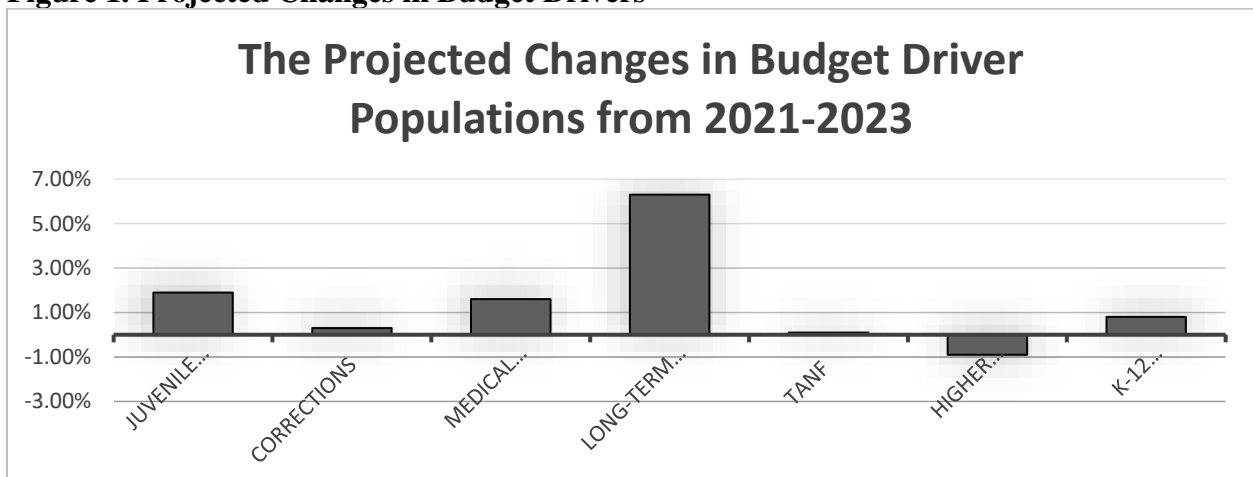


of factions of the Democratic Party which was split with some feeling that it didn't go far enough to address climate change while others felt the legislation went too far too quickly. The Governor's office, in response to criticism over the vetoes stated "There never was a grand bargain, as far as the Governor's role in the process is concerned" (O'Sullivan & Bernton). Legislative leaders, including Speaker of the House Laurie Jinkins stated "The Governor's partial veto today of ... the clean-fuel standard bill reaches beyond his constitutional powers and we will ask the Washington courts to again rule on the balance of legislative and executive branch powers," (O'Sullivan & Bernton). While the Governor indicated he would call a special session in fall 2021 to deal with the transportation budget, as of this writing, no special session has been called.

## Budget Drivers

The shape and character of the state's budget are limited by its need to address specific budget items (i.e., healthcare, education, state prisons, etc.). In terms of the budget, the following drivers informed and constrained lawmakers during the 2021 biennium budget:

**Figure 1. Projected Changes in Budget Drivers**



Source: Washington State Office of Financial Management 2020

In Figure 1, we see the projected changes in the populations receiving state funds through juvenile rehabilitation, corrections, medical assistance, long-term care, TANF, higher education, and K-12 education between 2021-23. The most significant change is the population expected to receive long-term care assistance. In 2019 the state passed the Long Term Care Trust Act, which creates a payroll tax to support long-term care in the state. Individuals had the opportunity to opt-out of the program if they could demonstrate that they had other long-term care insurance by November 1, 2021 (Zhou 2021). In the context of the total budget, long-term care accounts for 5.5% of spending. However, the most significant budget driver remains K-12 education which accounts for 51.1% of the overall budget (Projected change in budget driver populations 2020).

## **The Governor's Proposed Budget (Proposed in December 2020)**

While the Governor's proposed budget does not entirely reflect the decisions made by the legislature, it is a window into the priorities that the Governor believes should be driving statewide policy (Proposed 2021-23 Budget & Policy Highlights 2020). Our discussion of the Governor's proposal will not be exhaustive, but we will highlight some of the most significant items contained within it.

The largest expenditure, in the proposal, was directed at K-12 education in the state. In total, the Governor proposed spending over \$28 billion on K-12 schools for the 2021-2023 omnibus operating budget, which is the largest share of the \$57.8 billion proposal. Included in this amount is an additional \$400 million to support a variety of activities related to addressing learning loss during the pandemic. In addition, the budget included funds to expand access to broadband Internet in the state, to increase the number of support staff positions in K-12 settings, and to expand training for paraeducators. A unique facet of the Governor's evaluation of K-12 education in the state is his continued pursuit of a Mastery-based Learning (MBL) model. MBL promotes a mastery of certain required skills but allows students to learn those skills through diverse, individualized pathways. The Governor's budget included money to continue the working group tasked with considering this type of model. If Washington adopts this format, they will join Idaho, South Carolina, and Arizona in using MBL.

The Governor also proposed a variety of measures to help address the physical and economic demands of the ongoing pandemic. The state made use of \$120 million in Coronavirus Aid, Relief, and Economic Security (CARES) Act funding for the purpose of rental assistance. With less federal funds, the Governor pursued state spending to prevent increased foreclosures, evictions, and homelessness. The proposal included \$164 million for rental assistance before the start of the next biennium (July 2021) and then \$164 million for 2021-2023. Likewise, Inslee included \$17 million to provide relief to individuals facing foreclosure in the state. The budget also utilized a variety of other methods of providing and preserving access to housing including:

- \$70 million to purchase properties and convert them to temporary or permanent housing units for unhoused persons,
- \$30 million to the Housing Trust to protect and preserve the Trust's properties which are used to support persons experiencing poverty,
- \$20 million for rural rehabilitation loans to allow for necessary repair and maintenance for homes in rural communities,
- \$11.3 million in financial support for landlords who are not being compensated fully for the use of their properties,
- \$50 million for enhanced shelters to improve conditions for the large population of individuals facing housing insecurity,
- \$10 million to clean up land currently deemed too environmentally hazardous for residential zoning.

Another large expenditure proposed by the Governor stems from a 2013 federal court injunction which necessitates the removal of culverts that are blocking salmon and steelhead migration. This involves removing about 400 barriers at the cost of over \$3 billion. For this biennium, the

Governor suggested allotting \$724 million to this effort—an amount that would lead to the removal of 136 barriers and other related construction efforts.

Finally, the budget projected the amount necessary to position the state to effectively respond to the public health crisis of the COVID-19 pandemic. The Governor estimated in his budget proposal that the state would need an additional \$400 million to provide the adequate contact tracing, research, testing, and provision of PPE.

The Governor's budget was indicative of some of the most important priorities of this administration while balancing the need to respond to the pandemic.

## **The New Biennium (Passed in April 2021)**

While the budget proposed by the Governor outlined some of his key priorities, it was ultimately incumbent upon the legislature to craft a complete budget negotiated by both the House and the Senate through the process described above. In this section, we will briefly discuss some of the most important items included in the budget, the mechanisms that the state has for raising revenue, and the budget drivers—ongoing expenditures which must be addressed in each biennium.

## **Budgetary Response to COVID-19 and Racial Inequity**

Looking back to May of 2020, the economic outlook of the state was bleak, and the workforce looked significantly different than it had just months before. While many were without work, over a third of all workers in the state saw their jobs move to a remote format (Office of Financial Management 2020). As the state moves back to the normalcy of 2019 and early 2020 (from an economic perspective), the biennium bets on an array of efforts to facilitate that transition.

The budget includes the expenditure of federal funds that were allotted as part of the American Rescue Plan (ARPA) of 2021 (Geranios 2021; Goldberg 2021). Some highlights include:

- \$1.7 billion for schools in the state. These funds are designed to assist in the reopening of educational institutions and addressing the learning loss due to the pandemic.
- \$1.1 billion to support vaccine distribution, and ongoing testing, tracing, and staffing related to the state's pandemic response.
- \$658 million in the provision of rental assistance.

The budget also includes federal dollars for childcare, pandemic relief for non-citizens, foreclosure prevention, and family leave.

As in much of the rest of the country, Washington has experienced the budgetary effects of COVID-19 while also dealing with issues of racial violence and renewed conversation about the nature of policing throughout the state.

We will have to track the long-term economic impact of the pandemic given the preexisting income disparities as noted by the non-profit Economic Policy Institute which estimates that the average income for the top one percent of earners in the state makes 24.2 times more than the

bottom 99% with the greatest disparities occurring in the population rich Seattle-Tacoma area (Income inequality in Washington n.d.). Correspondingly, unemployment hit Black, indigenous, and Hispanic communities the hardest. In a report written for the West Coast Poverty Center by Jennie Romich and Ellie Terry, the authors note that “While the ongoing economic impacts of COVID-19 and future federal policy supports remain uncertain, these projections suggest that poverty has already increased in Washington State and will continue to increase if unemployment continues to increase. While the health impacts of the novel coronavirus pandemic are dramatic, so too are the impacts of poverty on the health and future well-being of our state” (Potential Washington State Poverty Rates for the COVID-19 Era 2020).

## Revenues

Improving economic conditions in the state have had a corresponding impact on the evaluation of potential revenue for the state. The Washington Office of Financial Management in November of 2021 predicts revenue of approximately \$60 billion during the current biennium. This is an increase of \$3.6 billion from their initial projections. These hopeful numbers have sparked a political debate among Republicans, who want to use the projections as a justification for tax cuts, and Democrats, who are wary to pursue tax cuts at the moment (La Corte 2021). Some factors for this positive revision include growth in the collection of real estate excise taxes, retail spending, and personal income (Washington State Economic and Revenue Forecast 2021).

Figures 2 and 3 provide an overview of the various revenue streams predicted by the Economic and Revenue Forecast Council as of September of 2021. Figure 2 is demonstrative of the various tax policies that shape the most significant part of the state’s revenue stream. Clearly, the most significant driver of tax revenue is consumer spending. As noted above, the increase in consumer spending is a prerequisite to the projected revenue growth posited by the Economic and Revenue Forecast Council. In 2021, the legislature passed a 7% capital gains tax for the sale of certain investments that are \$250,000 or more. As noted by the Department of Revenue, “The revenue collected from this tax fund will fund the education legacy trust account and common school construction account” (Capital gains tax n.d.). As mentioned above, the debate over the capital gains tax was partisan—with Republicans in opposition to the new tax. There is a lawsuit currently making its way through the courts evaluating whether the law constitutes an income tax—making it illegal in the state of Washington (O’Sullivan 2021).

In addition to the capital gains tax, Democrats proposed and passed several new taxes to help fund programs, including a \$100 surcharge on recorded documents anticipated to generate \$146 million annually in new revenue (Block, Harmsworth). This dedicated funding source will be used to pay for rental assistance – a significant issue due to job losses resulting from the COVID-19 pandemic (Block).

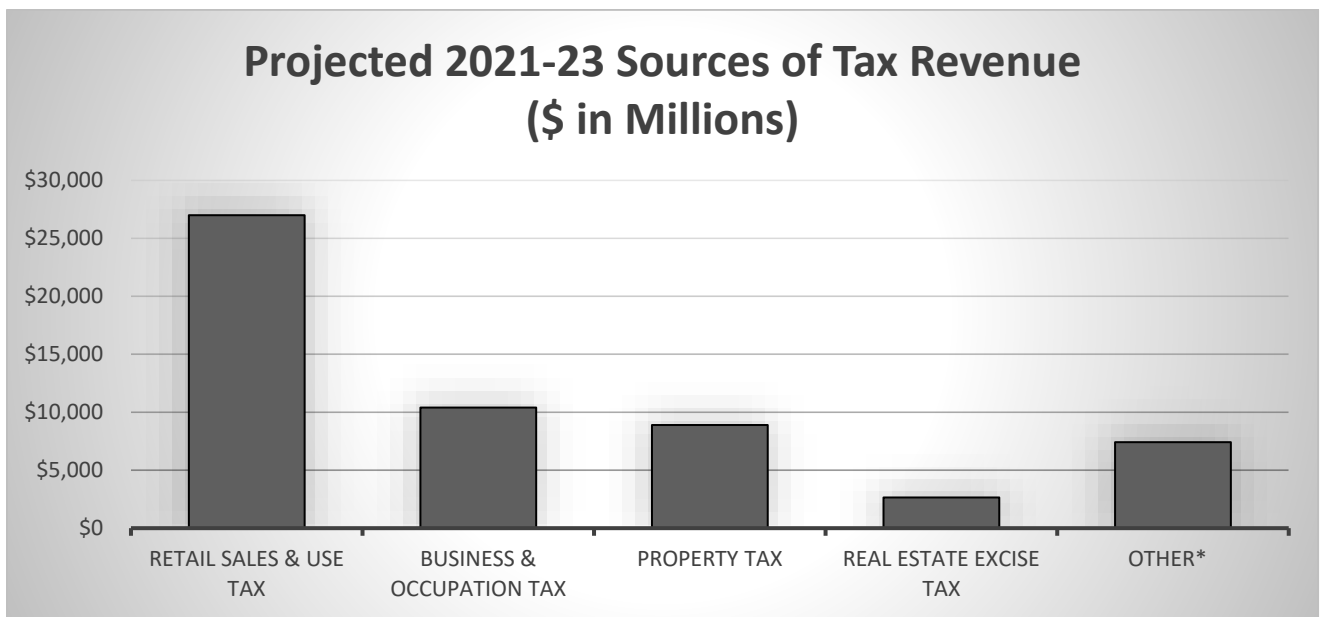
Other significant tax related issues addressed during this budgeting cycle were:

- property tax deferral for property owners impacted by COVID,
- expanding eligibility for property tax exemptions for service-connected disabled veterans and seniors,
- unemployment insurance relief for businesses that saw their rates increase due to the pandemic,

- and cutting the Business and Occupation (B&O) tax for businesses that receive grants from the state or federal government.

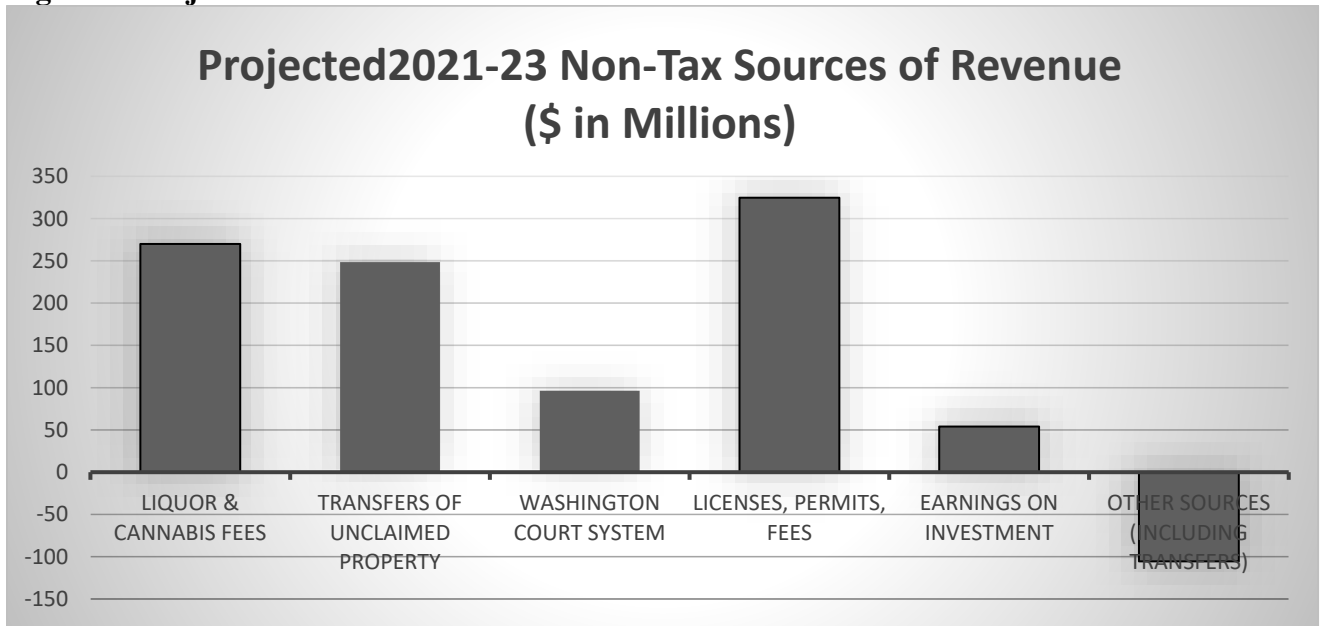
In Figure 3, the breakdown of non-tax revenue is provided. A contributor to the state’s economic health has been the cannabis industry. The industry added \$473.9 million in revenue for the state in 2020. Approximately half of these funds are allocated to the Basic Health Plan Trust Account (Washington Marijuana Revenues, And Health n.d.). The Office of Financial Management states that the Basic Health Plan Trust Account is “To provide necessary basic health care services to working persons and others who lack coverage, at a cost to these persons that does not create a barrier to the utilization of necessary health care services” (Fund 172-Basic Health Plan Trust Account n.d.).

**Figure 2. Projected 2021-23 Sources of Tax Revenue**



Source: Washington State Economic and Revenue Forecast Council 2021

**Figure 3. Projected 2021-23 Non-Tax Sources of Revenue**

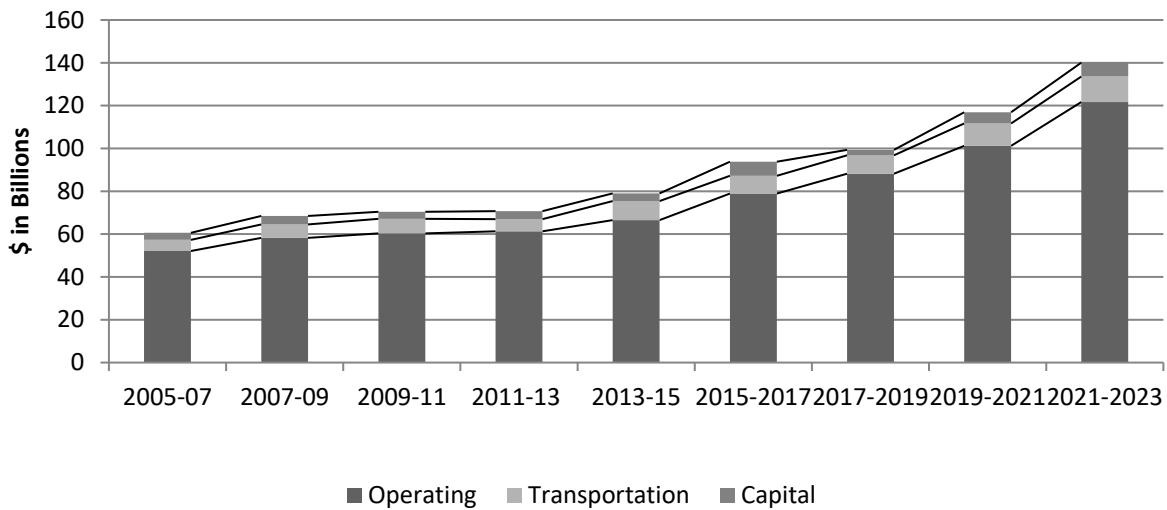


Source: Washington State Economic and Revenue Forecast Council 2021

## Expenditures

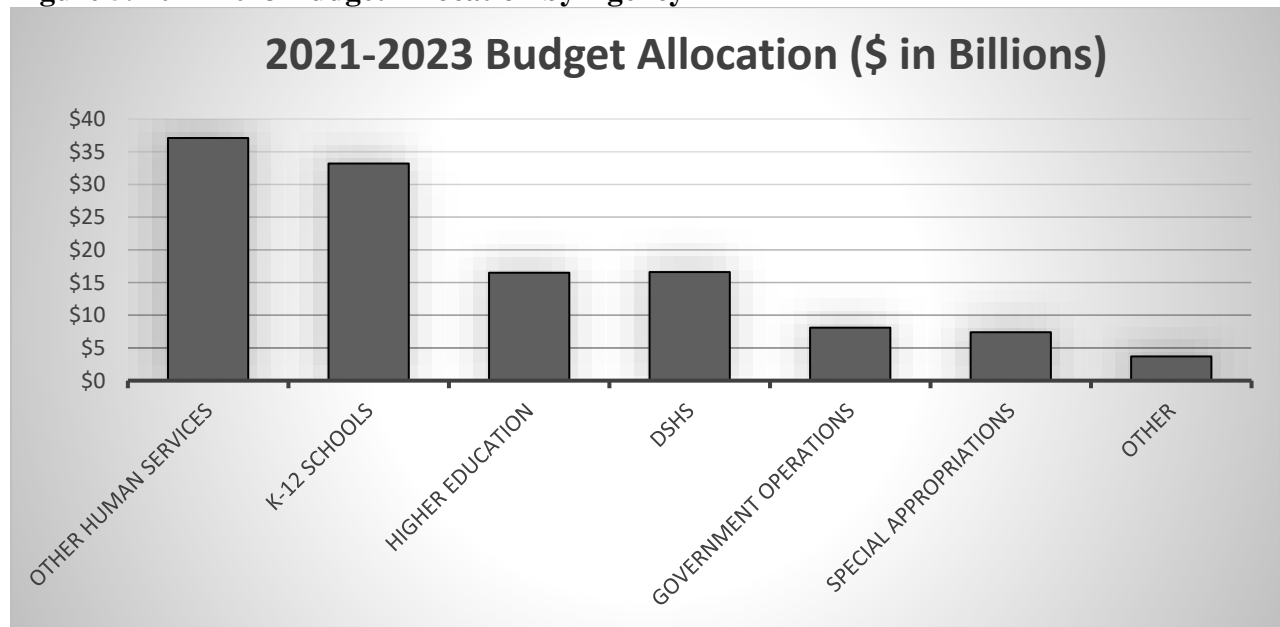
The expenditures included in the 2021-23 budget represent a definitive statement regarding the priorities of state lawmakers. First and foremost, Figure 4 depicts the growth in spending over the course of the last two decades. From the 2005-07 biennium to the current budget, state spending has doubled. While generally, the capital and transportation budgets from year to year have held steady, the increase in spending is largely due to the size of the operating budget. In January of 2012, the Washington State Supreme Court ruled that the state has a constitutional responsibility to fully fund K-12 education (McCleary victory: Billions for Washington K-12 public schools and students n.d.). The Washington Research Council states: “In response to the McCleary decision, and as part of the Legislature’s adopted school funding reforms, state spending on public schools increased \$14.244 billion or 110.0 percent from 2009–11 to 2019–21. Over the same period, all other state spending increased by just 52.0 percent” (School Funding: Accounting for the Billions Spent in Response to McCleary 2020). As of 2018, the Supreme Court determined that the state was finally in compliance with the McCleary decision.

**Figure 4. Washington State Spending History**



Source: Washington State Data Book 2017; Washington State Fiscal Information 2018; Legislative Evaluation & Accountability Program Committee 2018; Washington State Fiscal Information 2021

**Figure 5. 2021-2023 Budget Allocation by Agency**



The largest expenditures in the budget relate to human services. Figure 5 is demonstrative of this—both in terms of the amount spent on DSHS as well as “Other Human Services.” We want to highlight a couple of important developments in this category of spending that will likely have ramifications in the state for years to come. First, the state has invested significantly in behavioral health—approximately \$500 million are allocated to address behavioral health and substance abuse in Washington. The importance of addressing mental health concerns became

more pronounced during the pandemic. For example, the number of young adults considering suicide increased by 25% during this period (Romero 2021). One of the ways in which the state is combatting mental health issues is through the creation of a hotline that can be used by individuals experiencing a mental health emergency. The number will simply be 988 and the rollout of this service will take place in July of 2022 (Land 2021).

In addition, to dealing with the mental health crisis, the state continues to respond to the COVID-19 pandemic. The Department of Health can spend \$1.1 billion in federal funds until 2023, but federal support is expected to wane and the state is prepping to expend a larger share of its resources in testing, vaccination, and other activities designed to curb the spread of the virus (Kunkler 2021).

The uncertainty about COVID-19, and possible new variants of the virus, could make for a demanding supplemental budget session in 2022.

## **Conclusion**

The state of Washington is not alone in facing unprecedented challenges—the pandemic, a reckoning with past and present racism, and partisan division in the legislature, in the courts, and our communities. The state has invested in public health, climate change mitigation, and education and the returns on these investments will define the state going forward. Likewise, the partisanship and division among the electorate and elected leaders at the national level are present in Washington State. The antipathy of some parts of the state toward other parts of the state may preclude successful statewide efforts. However, optimistically, perhaps the budget will present opportunities for the state to come together in an attempt to solve new and enduring problems faced by its citizens. Finally, as of this writing, the omicron variant of COVID-19 demands continued attention from the government—how that plays out will also color every facet of public life and government policymaking. The coming years might hold incredible growth and promise for the state, but they may also bear division and peril.



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