

Governor Inslee's Budget Proposal

Overview

The Governor's 2015-2017 biennium budget uses a mix of spending cuts, new revenue, and reserves.

The two-year budget will spend just under \$39 billion.

- **Cuts and Shifts:** The budget will include **\$211 million in General Fund (GF) spending cuts**. The budget will save an additional \$212 million by maximizing federal funds and shifting GF costs to other fund sources.
- **Revenue:** The new budget will raise about **\$1.4 billion in new revenue** (more information below).
- **Reserves:** While the budget will use **\$450 million from reserves**, it will also work to put that money back. Its current proposal will leave \$911 million in reserves by the end of the biennium.

K-12 Education

- The budget has just under **\$1 billion in new investments**, beyond the legal requirements of McCleary. When combined with the legally required pieces, **K-12 spending is increased by 20.2 percent (\$3 billion)** over the state's level of spending, for a **total of \$17.8 billion**.
- Most of this is focused on items such as reduced class size in K-3, full-day kindergarten, MSOC, student success, and teaching and instructional support.
- Voters approved I-1351 by a narrow margin in November. The Governor's proposal makes no mention of the initiative, except to say **it will seek to amend the phase-in schedule** by only requiring the investments in K-3 class size reduction, increased middle school counselors, and increased elementary school family engagement coordinators. **Only \$484 million of the \$2 billion requirement will be implemented.**

Higher Education

- There are only a few, limited changes to the current funding for the state's higher education system. These changes, in reality, **represent a reduction in state support**.
- The Governor proposes a **freeze on undergraduate tuition rates**, however governing boards have the **authority to increase tuition rates on other students**, including graduate/professional and nonresident undergraduate students in amounts they judge reasonable and necessary.
- **Major changes are in very specific areas, totaling just under \$164 million:** Opportunity scholarships, increased enrollment in College Bound, increased job training and ABE at CTCs, STEM programs, and support programs to address health care profession shortages and specific energy/climate impact related programs.

Compensation and Benefits

- The proposal provides a **3% COLA in the first year** of the biennium and a **1.8% COLA in the second year** for all K-12 education employees and faculty in CTCs. These percentages are a slight enhancement over the current I-732 COLAs.
- There is **no proposal for funding faculty increments**.

- There is **no increase in allocation for K-12 employee health benefits**. The current amount the state provides, of \$768/month per FTE staff unit, is continued.
- There is a sizeable required investment in pensions. For educational staff in **TRS, SERS, or PERS Plan 2, the employees' deduction for pensions will increase by about one percent**, meaning employees will pay more each month toward retirement benefits.

Revenue

- The budget proposes **tax and revenue changes that will result in about \$1.4 billion** during the biennium.
- Over half that total will come from a **capital gains tax**.
 - A **seven percent tax** to capital gains earnings above \$25,000 for individuals and \$50,000 for joint filers, starting in year two of the biennium.
 - **Exemptions are provided** to remove any capital gains tax on retirement accounts, homes, farms, and forestry. Earned income from salaries and wages are not capital gains and would not be taxed at all.
 - Only a **fraction of taxpayers would be affected** and this proposal **will raise about \$798 million** in fiscal year 2017.
- **Increase the state cigarette tax** by 50 cents per pack and **start taxing e-cigarettes and vapor products**, resulting in \$56 million.
- **Repeal five tax breaks**, raising about \$282 million
- Implement a **market-based carbon reduction program** (the 'Carbon Pollution Accountability Act') that requires major polluters to pay for their emissions. This carbon tax **will raise \$380 million** in new revenue.
- The proposal also proposes **several tax decreases to help spur growth and create jobs** in key sectors of our economy.