



## Reinvesting in Washington's Future 2015-17 Budget Rollout – Governor's remarks

December 18, 2014

Remarks as prepared · [Accompanying slides here](#)

((Slide 1)) Good morning. It has been a great week as I've had the chance to share my vision for Washington's future.

I know there will be plenty of discussion, debate and maybe even a few arguments about exactly what our goals should be for the 2015 Legislature.

But I don't think there is much disagreement about the fact that we should work toward a future in which every child has access to a high-quality education and the promise of a good-paying job.

- A future in which our businesses have a ready supply of skilled workers
- A future with a transportation system that enables us to compete in the global economy
- A future in which we all do our part to reduce carbon pollution and leave our grandchildren with a healthier planet.

That's what guided me.

This budget will accomplish these four things: Stronger schools, healthier kids, cleaner air and a fairer tax system. I know that you're anxious to hear how we are going to fund the plans I've proposed this week.

Here's a quick summary:

- We will make more than \$400 million in cuts and savings to current programs and use about \$450 million from our reserves.
- We will generate \$282 million from closing five tax loopholes and the Carbon Pollution Accountability Act will contribute \$380 million to the general fund.
- And to close the gap and be able to fund essential needs and obligations, we will introduce a capital gains tax that would affect fewer than 1 percent of Washingtonians.



Over recent months my staff and I met with hundreds of people.

One message I heard from many of those people – from industry, agriculture, government, labor, social service groups, teachers and people from every field you can imagine -- is that it is time to reinvest in Washington state.

This budget does that.

((Slide 2)) This budget will make our schools stronger, our kids healthier, our air cleaner and our tax system fairer.

- It makes the largest-ever state investment in early learning and follows through on our commitment to adequately fund basic education — and does so a year ahead of schedule
- It strengthens the backbone of our economy by boosting technical training and freezing college tuition and providing thousands more scholarships.
- It protects services for our most vulnerable citizens, including the mentally ill who are waiting too long for treatment.
- It helps ensure our children are healthy and ready to learn
- It restores our state parks and makes targeted investments to protect our environment
- And it builds on our successes in Lean management

((Slide 3)) One more thing — and this is important — my budget is sustainable. It doesn't rely on unspecified reductions or gimmicks. Instead, it makes smart, targeted cuts. It calls for new revenue to provide stable funding for ongoing needs and growing demand for services. And it leaves us with a healthy reserve.

Those are the principles of a sound budget. And if someone has an alternative plan — that is still responsible, sustainable and fair — then I hope they will come forward and share their ideas, too.

It is said a budget is the ultimate policy statement. But this is the start of a conversation — and I want to stress that I am open to any ideas others may have. Over the past year, our economy has continued its slow but steady recovery from the worst recession since World War II. The economy is still lagging in some areas of our state and we have to do something about that. But in the past two years we have added more than 150,000 jobs and statewide unemployment is now at its lowest levels since 2008. State revenue collections are rebounding, too.

Even in the face of this positive news, however, we face an enormous budget challenge in the next two years.

The national economy is recovering at a much slower pace than after previous recessions, and that means state revenues lag, too.

Take a look at this chart...

((Slide 4)) It shows where we would be if revenue had continued growing at historic rates over the past decade. Of course, we all know what happened instead. We are still digging out of the massive hole left by the Great Recession and revenue has not yet returned to its historic growth rate.

((Slide 5)) As I'm sure you are well aware, during the past six years the state slashed spending and asked millions of Washingtonians to make sacrifices. We made deep cuts to services that protect our most vulnerable. Because we didn't have adequate funding to treat the mentally ill, we had people parked in hospital hallways awaiting treatment to make sure they are not a danger to themselves or others. Students are paying thousands of dollars more in tuition at our public colleges and universities. Since 2001 Washington's population has grown by 1 million people, but they are being served by 3,000 fewer state employees.

State employees have worked to figure out ways to deliver services more effectively and more efficiently. Last year, we launched our Results Washington initiative, which is focusing state government on key goals in education, the economy, the environment, health and safety and government efficiency.

((Slide 6)) Although the work is still in the early stages, Lean principles and tools are helping the state avoid millions of dollars in costs, eliminate paperwork and cut wait times for driver's licenses, business licenses, administrative hearings, collision data and public records.

We have seen modest increases in revenue projections. Trouble is we have growing needs and court-ordered obligations that far exceed those revenue projections.

((Slide 7)) In the McCleary case, the state is being held in contempt by the Supreme Court which has ruled that Washington has not lived up to its constitutional

obligation to adequately fund basic education. We now face growing pressure from the court on funding for at-risk children and people with mental illness. And these are not just legal obligations. They are moral obligations and we need to act not just as lawmakers and as governor, but as parents and grandparents who demand the best for our children and grandchildren.

Given the size of the budget shortfall heading into the next biennium, some spending cuts are necessary, and as I've said, we're making cuts. But after six years of cutting vital services and neglecting obligations, I believe we must reinvest in Washington.

((Slide 8)) The constitution says education is our paramount duty and my budget reflects that. As this chart shows, a decade ago, public schools accounted for less than 39 percent of Near General Fund spending. Under my budget, public schools' share of state spending would increase to nearly 47 percent.

((Slide 9)) We will dramatically cut class sizes statewide for kindergarten through third grade and provide enough funding to implement full-day kindergarten statewide.

It includes the state's largest ever investment in early learning, programs to increase high school graduation rates and expanded teacher training.

For higher education, we freeze instate tuition and will allow 17,000 more students will receive College Bound and Opportunity Scholarships.

((Slide 10)) My budget mitigates some of the painful cuts we've seen to services for our most vulnerable:

- In mental health, we will be able to provide treatment to more people awaiting admission to a state psychiatric hospital or for community-based care.
- We add more than 100 child protective and child welfare services workers.

((Slide 11)) Over the past several years we have continued to reduce the size of our state workforce, meaning state employees do more with less.

Yet they have not received a general wage increase since 2008 — the longest state employees have gone without a raise since at least 1960.

They agreed to a temporary pay cut in the midst of the recession and are paying more for their benefits.

But you can only put off these things for so long.

My budget includes funding for recently completed bargaining agreements with our employees that call for modest wage increases.

The education budget also gives teachers a long delayed cost of living raise.

((Slide 12)) Over the past few decades, natural resource agencies were squeezed, too. We can't reverse that anytime soon, but we can make modest but important investments to state parks – including \$85 million in the capital budget. And we can boost our efforts to respond to oil spills and keep toxics out of our water.

((Slide 13)) I have outlined what I believe are the right investments for Washington state today.

So how do we pay for this?

First, we will continue building a smarter and more efficient state government. That is a permanent part of how we do business.

That's why we started building this budget by having all state agencies prioritize everything they do and tell me what they would cut if they had to cut by 15 percent.

My budget includes more than \$400 million in cuts and savings in existing programs, including cuts to state prisons, Medicaid and our Running Start program.

Those are all worthy programs, but we had to make some tough choices to have funding available for critical services.

((Slide 14)) But we can't balance this budget on cuts alone. Court decisions on education and mental health make that pretty clear.

An all-cuts budget would be devastating and hit especially hard in higher education, human services public safety and any other part of the budget not protected by the constitution or federal mandates.

((Slide 15)) For example:

- We would need to cut the Department of Corrections by nearly \$260 million, which would mean shorter sentences for more than 4,900 offenders
- We would have to cut \$103 million to our State Needs Grant program and deny more than 25,000 students access to grants
- We would have to close four hatcheries and makes cuts at two more.
- And, for those of you watching on TV, we'd have to eliminate funding for TVW programming for 8 months a year

That's why my budget calls for additional revenue of about \$1.4 billion during the next biennium.

My proposed revenue package would:

- Repeal five corporate tax loopholes
- Increase the state cigarette tax by 50 cents per pack and start taxing e-cigarettes and tobacco vapor products
- And it will include revenue from the market-based carbon reduction plan I proposed yesterday

That's not enough to fund our obligations and critical needs. So a key piece of this plan is a capital gains tax that would increase the share of state revenue paid by the wealthiest Washingtonians.

The state would apply a 7 percent tax to capital gains earnings above \$25,000 for individuals and \$50,000 for joint filers, starting in the second year of the biennium.

((Slide 16)) At those earnings thresholds, fewer than 1 percent of the state's taxpayers would be affected — and we would exempt any capital gains tax on retirement accounts, homes, farms and forestry.

I want to stress: Earned income from salaries and wages are NOT capital gains and would not be taxed at all. Washington's tax on salary and earned income remains as low as it can go: Zero.

What would apply are things such as money made from selling stocks and bonds. This is a fair way to raise needed revenue. It avoids additional burden on the vast majority of Washington taxpayers. This is not intended to show a lack of respect for those who would pay. We honor success in Washington, but we also always push for fairness.

Washington is one of a handful of states that does not tax capital gains. A 7 percent tax would put us below Idaho, and well below Oregon and California.

We need to ensure Washington has an economy that works for everyone. Rising income inequality is a serious problem for our state and for our nation. We need to address that.

As I have said many times since taking office last year, Washington's tax system is badly outdated.

((Slide 17)) The fact is state revenue collections no longer keep pace with the growth of our economy or with increasing demands for services.

And over the past 20 years, our state collections have declined dramatically compared to other states. Take a look at this graphic...

((Slide 18)) It shows how Washington compares to other states in terms of state local tax collections as a share of personal income.

As you can see here, in 1995, Washington ranked 11<sup>th</sup> among all states and was well above the national average. But by 2011 we had fallen to 35<sup>th</sup> in state and local tax collections.

If we were simply average we would generate about \$2.8 billion more a year in state and local revenue.

((Slide 19)) In 1990, State General Fund revenue collections equaled about 7 percent of total personal income in Washington. But General Fund revenue collections as a share of the overall economy have been declining steadily for the past 25 years and now equal less than 5 percent of personal income — a nearly 30 percent drop.

The disconnect between Washington's tax system and the growth of our overall economy and demand for services is the result of a variety of factors. We have many tax outdated tax loopholes on the books. Consumers do more of their shopping online, costing the state hundreds of millions of dollars in potential sales tax collections. And consumer spending has shifted dramatically toward services, which we do not tax to the extent we tax commodities.

Washington's tax system isn't just bad at keeping pace with our economy — it's also unfair. Low-income and middle-income households must pay a much larger share of their earnings in taxes than do the very richest. With income inequality at historically high levels, our state's unfair tax system hits the middle class and working poor especially hard.

((Slide 22)) In fact, Washington's state and local tax system is the most unfair in the nation. One recent study found that our poorest residents pay six times as much of their income in taxes as do the wealthiest.

((Slide 23)) Will my revenue plan fix all of these problems with our tax system? Of course it won't. But my plan will help make Washington's tax system a little fairer to low- and middle-income residents.

More importantly, it provides a sustainable solution to our structural budget problem. It will help us meet our obligations to our children and to the court.

It will make our schools stronger, our children healthier, our air cleaner and our tax system fairer.

This will allow us to reinvest Washington.

((Slide 1)) I'm happy to take your questions.