

**Note from the Fourth Corner:** The following is budget information... keep in mind this talks about “Supplemental” items. This means that this funding is an add-on for the items mentioned... the main budget was approved in June 2017.

## **Budget Summary – Senate Democrat 2018 Supplemental Operating Proposal**

### **Big Picture: How Well Does it Adhere to 5 Supp. Budget Principles?**

Earlier in session, Sen. Braun announced 5 principles for the 2018 supplemental budget:

1. Abide by 4 Year Balanced Budget Statute
2. Preserve Rainy Day Fund for Economic Downturn
3. Use Portion of Post-Session Revenue Bump to Lower 2018 Property Tax
4. Maintain Integrity of Last Year's Education Funding Plan
5. Include Manufacturing Tax Parity

The Senate Democrat proposal does the following:

**1. Yes, Abides by 4 Yr Balanced Budget Statute.** The concern from last week was the inclusion of the 25th month budget gimmick with regard to K-12 apportionment, shifting over \$300 M into the next biennia in their education bill (SB 6362). However, the Senate Democrat proposal no longer includes that gimmick. The 4 year outlook statute is followed in both letter and spirit.

**2 & 3. Taps Rainy Day Fund to Provide One-Time Property Tax Relief.** Unlike the Governor who proposed tapping the rainy day fund to support on-going spending and to balance, the Senate D proposal taps the Rainy Day fund solely for one-time property tax relief, lowering the CY 2019 state rate from \$2.70 to \$2.39. This is a \$403 million item and requires a 60% vote. Note: The tax relief doesn't occur until CY 2019, rather than CY 2018. The rainy day fund is projected to have \$1.5 billion in current budget after the tax relief and \$1.9 billion in FY 19-21.

**4. Maintain Integrity of Last Year's Education Funding Plan** - With the removal of the apportionment trick and the retention of the \$1.50 local levy limit, SB 6362 - at this point - largely maintains the integrity of last year's plan. There is concern that with the nearly \$1 billion salary infusion for the upcoming school year proposed in the Senate D plan that nearly all districts will have more money in SY 18-19 than in SY 19-20, leading to potential issues in future years.

**5. No, Manufacturing Tax Parity is Not Included** - The Senate D budget does not propose giving the Boeing rate to all other manufacturers in the state. No B&O relief is given.

*\* The carbon tax is not assumed for purposes of the operating budget. Nor are there any other tax increases assumed as part of the budget proposal.*

## Understanding The Structure

### **A. As-Passed Spending vs. Senate D 2018 Supplemental Proposal**

- As-Passed by Legislature in June:
  - \$43.5 B spending in 2017-19
  - \$49.6 B in 2019-21 (projected)
  
- Senate D 2018 supplemental:
  - \$44.6 B spending in 2017-19
  - \$50.0 B in 2019-21

The Senate D proposal is for roughly \$1.5 billion in increased spending over the 4 year time frame, compared to the legislatively adopted budget. Gov. Inslee proposed a \$2.3 B increase.

### **B. Where the Spending Occurs**

Bulk of spending over the 4 years is in these areas:

- |                                     |          |
|-------------------------------------|----------|
| • K-12:                             | \$932 m  |
| • Mental Health:                    | \$294 m  |
| • Debt Service/Disaster Response:   | \$173 m  |
| • Higher Ed:                        | \$120 m  |
| • Natural Resources/Fires:          | \$55 m   |
| • Early Learning/Children Services: | \$27 m   |
| • Health Care/Corrections/LTC:      | \$13 m   |
| • All Other:                        | \$99 m   |
| • Compensation:                     | -\$84 m  |
| • Maintenance Level:                | -\$127 m |

The above does not include the \$403 million of property tax relief, which comes out of the budget stabilization account.

### **C. How it is financed**

Since the Legislature left town, the revenue forecast has brought \$2.3 billion of new revenue to the table (\$1.6 billion unrestricted & \$700 million in "extraordinary revenue growth" to be deposited into the const. rainy day fund).

***The Senate D proposal uses \$1.5 billion of the \$1.6 billion in add'l new revenue,*** leaving a balance at the end of the four years of \$82 million in the unrestricted reserve (and \$1.85 billion in the const. rainy day fund).

The Senate D proposal suggests tapping into the const. rainy day fund to provide \$403 million of property tax relief in CY 2019, lowering the state rate from \$2.70 to \$2.39 for that year.

Again, just to provide context, the entirety of the increase in the state property tax from \$1.89 in CY 17 to \$2.70 in CY 18 was an add'l \$1.023 billion in revenues for CY 2018.