Washington State Senator • 33rd Legislative District

Karen Keiser

How to contact me

I appreciate your letters, calls and e-mails on legislative issues. Please let me know if I can help you with matters before state agencies, too.

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- Commerce & Labor
- Health Care
- Ways & Means

Dear Neighbors,

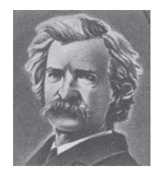
I have worked on our state's budgets for many years, and have a deep understanding of how our budgets are put together to address the needs of our citizens and communities. But I have become increasingly alarmed at the budget gimmicks used in the last few years, and have written this "Special Budget Report" as a way to put forward some new ideas.

I hope you will find it of interest and useful in understanding the budget dilemmas we now face.

Always,

Senator Karen Keiser

Special Budget Report



"It's not what you don't know that gets you in trouble. It's what you know for sure that just ain't so."

—Mark Twain

Twain's warning is good advice, especially when talking about our state's budgets. Our main operating budget is adopted every two years. Lately we've also been adopting predictions for a four-year budget, and we're the only state in the nation to do so. As our state's top economist, Arun Raha, warned us when the Legislature voted to require four-year budgets, "It would be unwise to hang your hat on for budgeting purposes."

Well, we went ahead and hung ourselves by our own petard. The first four-year projection was made in 2013, and it **missed the mark by $3.4 Billion!** My colleagues across the aisle argue that this four-year budget provides a "check on budget gimmicks," but in actual fact this device amounts to the biggest budget gimmick of all — it results in a budget board game approach that "sweeps" huge amounts of dedicated revenues into this phony four-year budget.

One of the biggest victims of this budget board game has been the Public Works Trust Fund Account. This 30-year, revolving loan fund which pays for local government infrastructure is almost bankrupt, and local towns and cities and water and sewer districts are at a loss as to what to do next.

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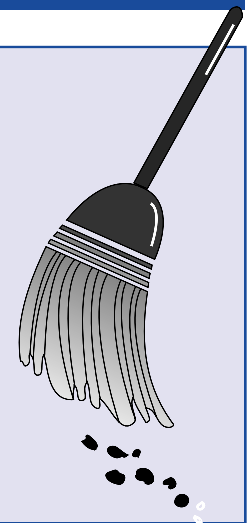
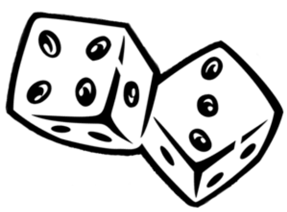
Here's some of the gimmicks used to create the four-year budget:

- Take money out of the state's "rainy day" fund (aka Budget Stabilization Account)
- Assume future revenues not in the official forecast (aka wishful thinking)
- Sweep money from numerous accounts dedicated for other purposes (i.e. the Public Works Trust Fund)
- Count on agencies to come in under budget so the money can be used elsewhere (i.e. increasing and double-counting agency underspends)
- Fund portions of agency budgets as one-time rather than ongoing costs (aka magical thinking)
- Ignore cost projections made by professional actuaries (aka dangerous arrogance)



This kind of reckless "budgeteering" needs to stop. We have serious challenges ahead to fully fund basic education, an obligation that will cost the state budget billions of dollars. **We can't play more games with education funding.**



And we have other urgent obligations as well. Beginning this fall an estimated 3,494 fully qualified families per month will not be able to access child care subsidies for the next three years under our state's Working Connections child care program. Families who cannot afford dependable child care often can't work or even look for a job. Why is this happening? Our four-year budget imposes a hard cap of just 33,000 families in Working Connections child care and we'll hit that cap this fall. The budgeteers prefer to ignore these needs.

These budget games also create perverse incentives for state agencies. For example, our state's Employment Security Department has done an incredible job managing our state's unemployment system through the rough years of the Great Recession when the unemployment rate reached double digits. Unlike many states, we didn't have to take out a federal loan; the Department had carefully husbanded its revenues and accounts. But does the Department get so much as an "attaboy" for its exemplary effort? No, it suffers a sweep of $17 million from its administrative funds that comes from fines for violations. **The unspoken message to state agencies is clear: Spend every dime you have before the next budget is written and before any savings can be swept away!**

No one in Olympia wants to create an unsustainable budget, but given the assumptions and sweeps in the current budget that were necessitated by the requirement we have a four-year balanced budget, we end up creating one anyway. There has to be a better way.

It pays to have some institutional memory, and looking back between 1976 to 1997, our state budget averaged 6.2 percent of personal income. **Today, the state's budget amounts to just 4.8 percent of personal income.** Despite misinformation to the contrary, the state has not been increasing general sales and property taxes. The state sales tax rate of 6.5 percent hasn't been increased since 1983. **Our state property tax rate has actually declined — in 1975 it was $3.60 per thousand, today the state property tax rate is just $2.12 per thousand.**

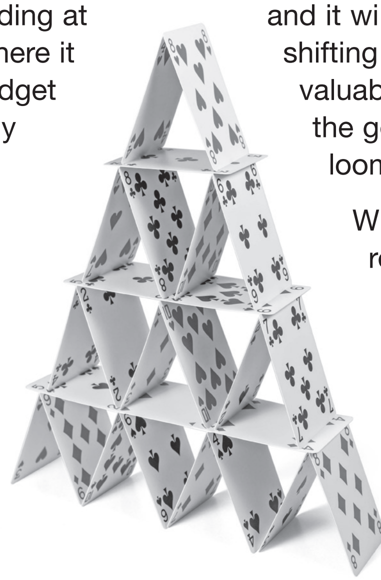
Indeed, the state and local property tax rate per thousand dollars of property value averages far less today than it did 40 years ago. In 1975, our property tax burden averaged $19.78 per thousand dollars; in 2015, it averaged $11.70 per thousand. Of course, the reason property owners feel property taxes are increasing is because property values have increased dramatically over the last several decades while median incomes have not kept pace. Given the realities we face in Olympia, I suggest we at least adopt some reasonable reforms that will stabilize spending but will not create an ever-tightening four-year noose requiring budget shenanigans to "balance."

Here's my modest proposal:

- **Expenditure Limit:** Let's keep our state expenditure limit, which has currently been suspended to allow implementation of the McCleary Supreme Court ruling requiring the state to pay for basic education. But we can cap the expenditure limit at 6 percent of state personal income, as forecast by the Economic and Revenue Forecast Council. Using the 6 percent benchmark for budgeting may not be a total solution, but it has advantages.
- **Budget Stabilization Account:** This rainy day fund is needed to tide us through recessions. Currently 1 percent of all general state revenues goes into the BSA, along with any extraordinary revenues. But we have a healthy balance in our rainy day fund now, so let's adjust future transfers. For example, if general revenues exceed 5 percent of state personal income we could direct 10 percent of those revenues above 5 percent into the BSA. We could also direct all revenues above 6 percent of personal income into the rainy day fund.
- **4-Year Balanced Budget:** Currently, resources for predicting a four-year budget are extrapolated from the revenue forecast, or at 4.5 percent annual growth, whichever is higher. Obviously the current approach has created a budget nightmare of sweeps and caps and unsustainable assumptions. Let's simply adopt a standard that resources will be 6 percent of state personal income, as forecast by the Economic and Revenue Forecast Council. That steady benchmark will avoid some of the extreme measures that have had to be taken recently.

In other words, my proposal caps spending at 6 percent of personal income, below where it was for twenty years. The four-year budget would be built off this cap and the "rainy day fund" would receive 100 percent of all revenue above that cap. **The use of one benchmark to harmonize the three different budget mandates would simplify and clarify the calculations, while maintaining the fiscal discipline imposed by these limits.**

This may not be the perfect budget dial, but it's rational and reasonable and it will help halt the risky shell game of shifting funds and dedicated revenues out of valuable services and into the giant maw of the general fund to balance a mythical budget looming on the four-year horizon.



While my plan does not create new revenues, it would allow a 1 percent increase in usable revenue, without in any way jeopardizing the "rainy day fund" by adjusting the current automatic deposit. As Mark Twain might say, "that ain't nothing." Indeed it amounts to about $300 million in needed operating funds.

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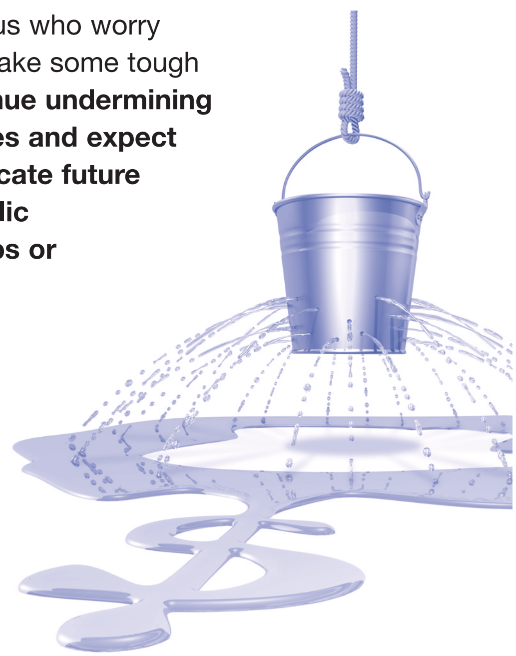
Much work lies ahead for those of us who worry about these budget details. It will take some tough negotiating. **But we cannot continue undermining the integrity of dedicated revenues and expect anyone to support efforts to dedicate future revenues to basic education, public works, hazardous waste clean-ups or anything else.**



As the old adage says, *"Trust is earned in drops and lost in buckets."* Right now, our state operating budget is a leaky bucket and we need to take steps to restore its integrity, and earn the public's trust again. I offer my proposal as a first step and ask you to give it serious consideration.