



LEGISLATIVE UPDATE

April 5, 2017

Vol. XXXII — No. 11

321 16th Ave S, Seattle, WA 98144 — 906 Columbia St SW, Olympia, WA 98501 — 360-943-0608



Budgets demonstrate party values

Dems' plan funds schools, protects critical services, respects working families; GOP's plan... doesn't

Last Friday, the Democratic-controlled House of Representatives approved its state spending plan for the 2017-19 biennium. It passed on a strict party-line vote, just as the Republican Senate's version did the week before.

These budgets are statements of values. Ultimately, they made it crystal clear that the Democratic leaders in Olympia value sufficiently funded public schools, plus state employees and the critical public services they provide—and the Republican leaders do not. Instead, the GOP values maintaining Washington's upside-down tax system and protecting the state's wealthiest people and biggest corporations from paying their fair share.

The divergence in these budgets does not bode well for the Legislature reaching a compromise and passing a budget before the regular session ends on April 23. As of this writing, Republican budget negotiators are rejecting their Democratic counterparts' invitation to begin negotiations. Most observers are predicting at least one extended overtime session to get this done.

However long it takes, the Washington State Labor Council, AFL-CIO will join the rest of the labor movement and our community allies in fighting for a final budget agreement that reflects working families' values. That will mean a budget deal that more closely resembles the proposals from Gov. Jay Inslee and the House than that of the Senate.

PUBLIC EDUCATION—The Democrats' budget includes about \$3 billion in new funding for K-12 schools to respond to the *McCleary* court decision's mandate to sufficiently fund public education. As that decision requires, that new money will help sufficiently staff schools, boost teachers' starting salaries and compensate existing teachers more fairly.

Republicans initially claimed their budget would invest an additional \$1.8 billion in K-12, but a closer look shows it amounts to an \$871 million increase because it phases out local school levies as it raises state property taxes. The GOP budget



Parents brought their kids as they testified in support of the House Democrats' approach to funding public education and state services (HB 2186) at Monday's House Finance Committee hearing.

also imposes new limits on how much state money school districts can spend on collective bargaining agreements.

As *The Seattle Times* editorial board concluded, the Senate Republican budget "just moves dollars around instead of actually increasing the money going to Washington public schools. The House proposal takes a much more ambitious approach, with a real \$3 billion increase for education."

Likewise, *The Olympian* editorial board wrote: "The reality is that new revenues — other than a statewide property tax hike — are needed."

STATE SERVICES AND EMPLOYEE CONTRACTS—In the first edition of the *WSLC Legislative Update* back on Jan. 9, we acknowledged that this session was all about funding public schools, but implored lawmakers not to do this by shortchanging critical state services or underpaid state employees:

"That would be an extraordinary injustice to public service employees and the rest of us who rely on them to keep us safe and

(SEE REVERSE)



healthy. For decades, state legislators have neglected their school funding responsibility, shifted it to local property taxpayers, and deferred billions in revenue by passing more and more business tax breaks. It was lawmakers who created this crisis, but all of us bear the responsibility to fix it. All of us. Not just the other state and local government employees and the most vulnerable among us who rely on their services most."

The Senate Republican budget proposal does exactly what the WSLC urged against. To shift more money into education, it slashes critical services for some of Washington's most impoverished families and it rejects almost all of the state employee's negotiated contracts, which included a 6 percent wage increase spread over two years. It also ignores the state's collective bargaining laws by proposing to unilaterally impose small lump-sum raises while increasing their out-of-pocket health care costs.

The House Democratic budget, like Gov. Jay Inslee's, maintains critical public services and funds all state employee contracts while holding the line on their health care costs. These contracts recognize that the state is experiencing a recruitment and retention crisis. The state's salary survey found that 99 percent of state job classifications are paying below-market wages, 66 percent of state jobs are more than 25 percent behind, and 23 percent are more than 50 percent behind.

These are the hard-working people who keep our communities safe, care for the elderly and disabled, protect our children, maintain our roads and transportation system, instruct and serve students at state universities and colleges, and provide other essential services. This biennial budget must value public employees and the work they do.

CLEANING UP THE TAX CODE—So how do we pay for it?

The conversation must start with Washington state's dubious distinction of having the most regressive tax system in the nation. People here who earn the least money are forced to pay the highest percentage of their income in taxes than any other state in America, while our state's wealthiest pay the least.

Therefore, to pay for the *McCleary*-required investments in public schools, preserve critical public services and fund state employee contracts, the House Democratic budget plan includes reforms that would start cleaning up our state's upside-down tax code. The House budget financing bill (HB 2186) would:

- Close the tax break on profits from high-end capital gains (\$715 million). A 7% tax on capital gains from the sales of stocks and bonds, with common-sense exceptions, would apply only to an estimated 48,000 out of 7 million Washingtonians;
- Rebalance the Real Estate Excise Tax to make it more progressive (\$420 million). Instead of the flat 1.28% tax rate on all real estate purchases, it would create a graduated tax that is lower for homes under \$1 million and higher for homes above that. This tax cut will help working-class families, particularly first-time homebuyers, to afford homes while providing a source of revenue from those who can most afford to pay;

- Reform business taxes by raising B&O rates for larger service businesses, which don't collect sales taxes; and carving out a larger tax exemption for small businesses (\$1.2 billion);
- Curtail or eliminate five wasteful business and sales tax breaks (\$137 million);
- Create a more level playing field between in-state and out-of-state retailers (\$340 million), and
- Modify the 1% levy growth limit to allow property tax revenues to keep better pace with economic drivers (\$128 million).

"More than any other state, Washington expects people experiencing poverty and working families to carry more than their fair share of our shared responsibilities, and HB 2186 starts to remedy that inequity," said WSLC Government Affairs Director Joe Kendo.

In contrast, Senate Republicans refuse to close the tax break on capital gains or close other unnecessary, ineffective tax loopholes. Instead, they propose raising state property taxes while lowering local property taxes in such a way that "property rich" areas of the state (read: Democratic-leaning urban areas) pay more and rural (Republican-leaning) areas pay less.

On Monday, the WSLC joined labor and community supporters in testifying before the House Finance Committee in support of HB 2186, the Democrats' progressive approach to state revenue reform. Supporters' testimony was led off by several parents of public schoolchildren—surrounded by their kids.

Opposing the bill were a collection of business lobbyists and "concerned citizen" Tim Eyman, who took time out from preparing his defense in the state's lawsuit accusing him of misappropriating campaign contributions for personal gain to testify. In the end, more than two-thirds of Monday's testimony was in favor of the House plan to clean up the tax code, including from multiple citizens who said they would be among those paying the capital gains tax under HB 2186.

THE END GAME—In recent years, Republicans have held out until the final hours of overtime legislative sessions to seek budget and policy concessions that would never pass on their own merits.

There are already indications that the state employee contracts will be used as a bargaining chip in last-minute negotiations. *The (Tacoma) News Tribune* reported that Republicans may be holding out for SB 5533, a constitutionally questionable bill sponsored by Sen. Dino Rossi (R-Sammamish), that would ban state employee unions from making campaign contributions to candidates for governor. Writes the *Tribune*: "Senate leaders would like to see the measure pass the full Legislature if they are to approve labor contracts."

Republicans have also leveraged overtime budget talks to try to pass policy bills completely unrelated to the budget, such as cutting workers' compensation benefits for injured workers.

The WSLC urges against cynical political games of chicken that gamble with the livelihoods of working families.