The Washington Budget 2003

By Lance T. LeLoup and Eric Grulke
Washington State University

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Introduction

Although mild by historical standards, the economic slowdown of 2001-2003 had a devastating effect on the budgets of most of the American states (Conant and Lauth, 2003). In 2003, the State of Washington faced one of its most difficult budget challenges in history. The governor and legislators confronted a $2.6 billion shortfall – more than ten percent of the budget – and did so without raising taxes. The budget process was an eventful one, rolling back voter-approved mandates, targeting the state’s unemployment compensation system for cutbacks to appease big business, and a Democratic governor siding with the Republican State Senate on major budget issues.

Democratic Governor, Gary Locke, submitted a two-year budget in December, 2002 that proposed making up the deficit entirely through spending cuts. This led to a strange political situation where Republican lawmakers and business groups were supporting the governor, while many legislative Democrats along with labor and teachers organizations opposed Locke. This was complicated by the fact that the 2002 elections returned the state to divided party control of government—after one brief year of unified Democratic control—with a Democratic House and a Republican Senate.

While it might be presumed that the Democratic governor would be at odds with the Republican Senate, quite the opposite happened. Locke forwarded proposals which were conservative in nature and pro-business in effect. Senate Republican legislators praised the efforts of Locke with the Chief Senate budget writer claiming to have “done a better job than (Locke’s) press secretary did” in providing accolades for the governor (Galloway, 6/13/03: A1). The regular session was followed what was called the “Boeing” session as Locke successfully shepherded a $3 billion package of tax breaks for the Northwest airline giant in an attempt to induce Boeing to build its new 7E7 in the state.

The Economy and Washington’s Budget Problems

In June 2003, the state’s Office of the Forecast Council issued a revised revenue forecast, lowering projections by $157.4 million to $22.7 billion for the 2003-2005 biennium (Ammons, 4/17/03: A1). The budget gap was a function of the economic downturn that
began in 2001 and was exacerbated by revenue limitations, mandated spending, and short term factors including fuel prices and the war.

Table 1 shows the breakdown of the budget gap by the House Appropriations Committee, including both the General Fund shortfall and the separate Health Services Account shortfall. Basic maintenance of programs required over a billion dollars over current revenues.

<table>
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<th>Table 1</th>
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<tr>
<td><strong>Budget Gap</strong></td>
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<td><strong>$ in thousands</strong></td>
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<tr>
<td>Current Revenues</td>
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<td>Current Maintenance Level</td>
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<td>Maintenance Level Shortfall</td>
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<tr>
<td><strong>Potential Policy Items:</strong></td>
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<tr>
<td>Vendor Rate Increases and State Employee/Higher Ed COLA’s</td>
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<tr>
<td>Health Benefits</td>
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<td>Risk Management/Torts</td>
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<td>New Capital Projects Debt Service (maximum)</td>
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<tr>
<td>Higher Education Enrollments</td>
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<tr>
<td>Other</td>
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<tr>
<td><strong>TOTAL Potential Policy Items</strong></td>
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<tr>
<td>Potential General Fund Shortfall</td>
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<td>Health Services Account Shortfall</td>
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<tr>
<td><strong>Total Budget Gap</strong></td>
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In addition, the state has a number of other commitments, including vendor rate increases, promised COLAs, health benefit costs and debt service for proposed capital projects, also totaling over a billion dollars. Current higher education demand is significantly greater than funded openings at the state’s universities.

The state economy has shifted dramatically in the last 50 years, becoming less dependent on manufacturing and extractive industries, and more concentrated in high tech and service industries. In 1950, 26 percent of all jobs were in manufacturing. By 2001, this had fallen to 12.6 percent. Conversely, service sector jobs, including high tech, increased from 11.7 percent to 24.8 percent in the same period. (Washington State Employment Security Department, 2002). Trade, construction, and government employment all constitute approximately the same proportion of the economy today as they did in 1947. Manufacturing alone has lost over 80,000 jobs since mid-1998, mainly in the airline industry. Although the
state economy seemed to have bottomed out in 2002, employment increased only at a snail’s pace in 2003—an increase of .02 percent.

Growth was projected by the state’s Forecast Council to be only 0.6 percent in 2003. Greater economic diversity has not protected Washington State from the cyclical booms and busts of the past. Comparing personal income growth to the situation across the nation, Figure 1 shows that before 2000, Washington was growing faster, but then dropped more suddenly. The state economy is projected to grow more slowly than the rest of the nation until 2005.

![Figure 1: Comparison of Personal Income Growth in Washington State and the U.S.](image)

Source: Senate Ways and Means Committee, 2002.

Political Context

Although it has tended to lean Democratic in recent national elections, the state has one of the most competitive party systems in the country. In the last decade, control of the legislature has switched between parties. The House was tied 49-49 after the 1998 and 2000 elections, with the Senate switching from Republican to Democratic control. A special election in the House in November 2001 broke the tie in the House and gave Democrats a 50-48 advantage and unified control of the state government. Despite divided government, the protracted deadlock of 2001 did not recur in 2003.
In November 2002, the Democrats increased their control of the House but lost the Senate to the Republicans 25-24 based on a razor-thin election outcome in one district. The final result was not known for weeks after the election. In addition, the voters rejected Referendum 51 drafted by the legislature to solve the state’s growing transportation problems. It had included a 9-cent per gallon gas tax increase and several other fee increases. It was overwhelmingly defeated by 63 percent of the voters. The message received by elected officials seemed to be that the anti-tax sentiment of voters remained strong and dominant in the state. This would be reflected in their actions on the biennial budget, but not in their willingness to raise gasoline taxes.

The resounding “no” expressed by voters in November, 2002, would have seemed to close the door to another transportation package. However, the need for improvement in the transportation infrastructure was simply too strong to ignore. Deciding not to send a new proposal to voters and deal with the consequences, a separate $4.2-billion transportation package was passed in 2003 which includes a nickel a gallon tax increase (one penny per gallon per year for the next five years) for improved roadways and public transportation (Cat Le, 4/28/03, B1).

Initiative Process

Initiatives continue to play a consequential role in state budgeting. Since 1992 when voters approved I-601, which limits spending increased to a formula based on population growth and inflation, numerous initiatives have been passed that either cut revenues or mandate spending. Figure 2 shows how revenue growth in the state was significantly restrained since the passage of I-601. This was despite the fact that the legislature and governor were able to avoid its strictures in many cases.
In November, 2002, the fourth initiative sponsored by state anti-tax crusader, Tim Eyman, was approved by voters. I-776 was a second attempt to limit all license tab fees to $30 and eliminate public transit funds for four counties on the west side of the state. It was enacted despite the fact that Eyman was tarnished by scandal earlier in the year for secretly taking funds from his nonprofit organization, Permanent Offense, for personal use. He was vilified by the press and fined by the state, but changed the name of his organization and carried on. Three of his four initiatives were eventually overturned by the courts for violating the state constitution.

In February, 2003, I-776 was also invalidated by a state court. For 2003, Eyman announced he would propose I-800 that would require two-thirds majorities in the state legislature for all state tax increases, what he called his “800 pound gorilla.” One of his opponents managed to take away the number 800, leaving Eyman with I-807. This initiative involved creating a “voter’s veto” of any and all tax and fee increases—including the $4.2 billion transportation package (Eyman, 2003). Perhaps signaling that Eyman’s popularity and the momentum of his ballot measures was waning, I-807 failed to obtain the required number of signatures by the July 1, 2003 deadline. Because his fundraising efforts fell short, Eyman’s group was not able to rely on paid signature-gatherers and did not qualify for the November, 2003 ballot.
Public criticism of the initiative process magnified in 2003. A number of new initiatives were proposed, including one that would officially declare that, “Tim Eyman is a Horse’s Ass.” Although initially ruled ineligible to be placed on the ballot, the sponsor challenged that ruling in court. A number of other initiatives were proposed in 2003 to limit the future effect of budget-busting statewide votes. They include:

- A requirement that initiatives that affect the budget must receive 60% of the vote to pass.
- Prohibiting the use of paid solicitors to gather signatures for initiatives.
- Establish a commission to review initiatives’ constitutionality before any vote.
- Requiring initiatives that reduce revenues to identify where budget cuts would be made.

Like I-807, none of these measured qualified for the November, 2003 ballot.

Governor Locke took direct action against the initiative process by proposing a budget that would suspend I-728 which provided guaranteed cost-of-living increases for all state teachers and I-732 which mandated that the state dedicate money to reduce class sizes in all state schools. These were enacted by voters in 2000 and state law allows state government to suspend an initiative two years after passage. This action saved the state $545 million in the biennium.

One of the reasons Washington voters have approved so many initiatives and referenda dealing with the budget is the perceived lack of sensitivity of public officials. That insensitivity was suggested when, despite the massive cutbacks and no salary increases for teachers and state employees, the salaries of legislators were increased by an independent commission. The salary commission was approved by state voters in 1986 by constitutional amendment. The raising of lawmaker’s salaries during a budget crunch was politically unpopular for the part-time legislature, yet it was accepted by the Commission that the salary rate was too low for the work performed (Queary, 5/20/03).

The Governor’s Budget Proposals

The governor’s rejection of any significant new revenues was the most controversial aspect of his proposal to eliminate the budget gap in Washington. He employed a new system of budgeting called “Priorities of Government” developed in partnership with corporate executives on loan from the private sector. In what one commentator labeled “management-speak”, the new budget refers to the state government as an enterprise and establishes ten categories within the budget. It ranks programs in each of the areas and then indicates what the states will “purchase” or “not purchase.” Figure 3 shows the overall priorities and purchases, and unfunded priorities. Figure 4 is an example of one of the ten priority areas—purchases and non-purchases in health care in the proposed budget. This represents an interesting development in the executive budget process, somewhat reminiscent of the ranking procedures that were part

What did this system of clarifying the priorities of the state produce in terms of services “not purchased,” (i.e., cut)? Key elements of the governor’s spending reductions included:

- Reduction in higher education $109M
- Release non-violent and minor drug offenders $112M
- Drop state health plan for 59,000 poor residents $277M
- Reduce future expansion of health plan $389M
- Cut state employment by 2500 positions $112M
- Reduce pension contributions $83M
- Cut assistance programs for vulnerable children and adults $197M
- Cut Office of Minority and Women-Owned business and State Film Office $2M
- Close some state parks, fish hatcheries $25M

Governor Locke received much praise and criticism for his no-new-taxes plan for balancing the state budget. Republicans and business praised his approach. Democrats, unions, and teachers were unhappy with a budget that looked more Republican than Democratic. Skeptics wondered if the budget was a negotiating ploy to let the legislature take the heat for any tax increase. But throughout legislative consideration of his budget, Locke remained consistent in stating that he would veto any major tax increase. The only areas where he would accept additional revenues were in the transportation package (gasoline taxes), “sin” taxes on alcohol and tobacco, and limited increases in state gambling.

Locke’s “new Democrat” budget won support on the right, but alienated many of his “old Democrat” allies. Locke, eligible for a possible third term, will likely face primary opposition from the left within his own party. The Washington Education Association indicated after the budget’s passage that it would not support Locke’s reelection (Thomas, 6/13/03: B1). Prior to the budget battle, the WEA sponsored a statewide advertising campaign to encourage legislators to vote against Locke’s budget proposals. The 76,000 member association clearly has Locke in their sites, but they are
Figure 3

**$24 Billion** (GF-S & Health Services)

**Purchased:** $24 Billion (GF-S & Health Services Account)
- $10.2b  K-12 education for 1,000,000 students
- $2.7b  Higher education for 215,000 students
- $3.7b  Healthcare for 979,000 children & needy people
- $3.8b  Protecting vulnerable children, adults & families
- $1.4b  Public safety, including prison for 15,500
- $125m  Economic development
- $310m  Natural resources and parks
- $133m  Legislature
- $82m  Judicial
- $309m  Government Operations
- $1.3b  Debt service on capital projects
- $55m  Pension contributions
- $344m  Reserves
  (GF-S=$214m, Health Services=$73m, ERF=$57m)

**$2.4 Billion** (GF-S & Health Services Account)

**Reductions:** $2.4 Billion
- $109m  Lower costs in higher education
- $221m  Future class size reduction
- $112m  K-12 programs beyond basic education
- $112m  Revised sentences for 1,200 non-violent and drug offenders
- $197m  Lower-priority programs for vulnerable children and adults
- $389m  Future expansion of Basic Health Plan
- $277m  Health coverage for 59,000 adults now on Basic Health Plan
- $773m  Pay increases and benefits for state-funded employees
- $33m  Pension contributions
- $112m  Consolidation and staff reductions of 2,500 FTE

Source: Office of Financial Management
Maintaining the Health of Washington's Children

Governor's Priorities for Health Care
- Preserve all existing health care programs for children
- Provide a health care safety net for vulnerable adults
- Ensure that medical treatment is available to those who can least afford it
- Maintain a strong public health system
- Contain health care costs
- Revise Initiative 773 to prevent further reductions in Basic Health Plan enrollment

The Governor's Proposal:
Funds all existing health care programs for children, but reduces programs for adults in order to cope with health care costs that continue to increase at five times the general inflation rate. State drug purchasing is consolidated to achieve savings. Tighter controls are placed on screening for Medicaid eligibility. Increases in rates the state pays to HMOs for health coverage are limited by tying increases to the Seattle Consumer Price Index.

Provides $3.7 billion in state funds for health care for more than 908,000 vulnerable children and adults, the public health system, health insurance for 81,000 low-income people and increased funding for community clinics.

Eliminates $328 million, ending Basic Health Plan coverage for 59,800 childless adults, optional medical care for Medicaid patients and payments to hospitals for treatment of indigents.

Changes Initiative 773, so new tobacco tax revenue can be used to prevent further reductions in Basic Health Plan enrollment.

<table>
<thead>
<tr>
<th>Health Care Spending Plan:</th>
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<tr>
<td>$13.7 billion GF-S and Health Services Account</td>
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Key purchases:
- Medicaid health care for 908,600 vulnerable children and adults
- All current children's health programs
- Statewide public health programs to protect all citizens
- Public health programs to ensure the health of babies and the safety of food
- Basic Health Plan insurance for 81,000 low-income people
- Expanded financial help to community health clinics

Examples of what's not purchased:
- Basic Health Plan coverage for 59,600 adults
- Health coverage for the medically indigent
- Optional Medicaid coverage for workers with disabilities
- Optional adult dental, vision and hearing services
far from the only labor interest that is less than pleased with Locke’s performance. Washington State Labor Council President was quoted as saying that Locke is in “serious trouble” in regards to maintaining the support of labor (Thomas, 6/13/03: B1). One exception to the labor problems that Locke is experiencing is the Boeing Machinist’s Union, who were pleased with his leadership in the “Boeing Session” discussed below. (Timmerman, 6/12/03).

The Legislature’s Budget Proposals

The Republican-controlled Senate proved to be more united and approved their version of the budget more expeditiously than the House. The only voice of opposition to the “no-new-taxes” approach, the Democratic House struggled with trying to balance painful spending cuts with tax increases. The Senate passed their no-new-taxes budget on April 4, 2003 by a vote of 28-20, with four conservative Democrats joining the unified Republican majority (Ammons, 4/5/03: 5A). The Senate’s 22.8 billion dollar budget closely paralleled the governor’s budget and the blueprint prepared by the Senate Ways and Means Committee.

Over on the House side, Democrats had difficulty finding a majority to support any combination of tax increases and spending cuts. The plan that emerged projected a $23.2 billion dollar budget with budget cuts of $1.7 billion and $650 million in new revenues (Galloway, 4/17/03: B1, 8). The House proposal would have increased state sales tax by two-tenths of one percent and raised the rest through sin taxes (including candy). The House proposals still included substantial cuts but managed to reduce severity the cuts in health care and included a modest pay increase for state workers.

The state’s Basic Health Plan was scheduled to take a hit regardless of which plan was finally enacted. The Senate was looking to reduce the enrollment of this state funded health plan by approximately 30,000 and then later use tobacco-tax income to maintain the current level of funding. The House recommended a reduction of 25,000 participants and then used the same tobacco-tax scheme to maintain service levels. Unable to pass a budget with $650 million in new revenues, the House finally eliminated consideration of the controversial sales tax increase, dropping new revenues in the budget to around $350 million. Table 2 summarizes the main elements of the budget proposals of the governor, the Senate, and the House.

The House was not able to enact its budget in a timely fashion, waiting until the day before the end of the session (Thomas, 4/27/03: B1). That made it impossible for the legislature to enact a budget before the statutory deadline of April 28. In addition, the House version fell $34 million short of producing a balanced budget because a bill to increase revenues by expanding the state’s Keno game (by increasing drawings to every four minutes) had failed to pass. The governor called a first special session to work out differences on the biennial budget.
Table 2
The Three Proposed Budgets

<table>
<thead>
<tr>
<th></th>
<th>Governor Gary Locke</th>
<th>Senate</th>
<th>House</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General-Fund Spending</strong></td>
<td>$23 billion plan; 1.8 percent increase over current spending</td>
<td>$22.8 billion plan; 1 percent increase over current spending</td>
<td>$23.2 billion plan; 3 percent increase over current spending</td>
</tr>
<tr>
<td><strong>Education</strong></td>
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<tr>
<td>Teacher cost of living raises</td>
<td>Suspend teachers raises</td>
<td>Suspend teacher raises but give raises to new teachers and other employees</td>
<td>2 percent raises in Sept. 2004</td>
</tr>
<tr>
<td>Class-size reduction</td>
<td>Suspend class-size-reduction spending.</td>
<td>Put $40 million toward class-size reduction in second year of biennium</td>
<td>Calls for spending $70 million in second year.</td>
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<tr>
<td><strong>Higher Education</strong></td>
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<td></td>
<td>Reduce state support by $177 million; partially offset by annual 9 percent tuition increases.</td>
<td>Reduce state support by $167 million; partially offset by annual 9 percent tuition increases.</td>
<td>Reduce state support by $105 million; partially offset by annual 9 percent tuition increases.</td>
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<tr>
<td><strong>Public Employment</strong></td>
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<td></td>
<td>Reduce work force by 2,200 full-time equivalent (FTE) positions, mostly through attrition.</td>
<td>Reduce work force by 2,300 FTEs, mostly through attrition.</td>
<td>Reduce state support by $105 million; partially offset by annual 6 percent tuition increases.</td>
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<tr>
<td><strong>Pay Raises</strong></td>
<td>No pay raises for state employees; employees required to pay 20 percent of their health-care costs (up from 14 percent).</td>
<td>No pay raises for state employees; employees required to pay 20 percent of their health-care costs (up from 14 percent).</td>
<td>2 percent raises in Sept. 2004 (same as teachers); employees required to pay 17 percent of health-care costs (up from 14 percent).</td>
</tr>
<tr>
<td><strong>Health Care</strong></td>
<td>Medical Assistance</td>
<td>Eliminate Medicaid coverage for 40,000 children.</td>
<td>Increase Medicaid premiums for children ($10-20 per child).</td>
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<tr>
<td></td>
<td>Basic Health Plan</td>
<td>Reduce enrolment by about 30,000; use extra tobacco-tax income from Initiative 773 to maintain, not increase, BHP enrollment.</td>
<td>Reduce enrolment by 25,000; use extra tobacco-tax income from Initiative 773 to maintain, not increase, BHP enrollment.</td>
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<tr>
<td></td>
<td>Medically indigent program</td>
<td>Eliminate program. Offset with $40 million in grants.</td>
<td>Eliminate program. Offset with $80 million in grants.</td>
</tr>
<tr>
<td></td>
<td>Home care contract</td>
<td>Not included in budget.</td>
<td>$98 million included in budget.</td>
</tr>
</tbody>
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| **New Revenue**         | No general tax increases, but governor has said he'd support sin taxes and some expanded gambling. | No general tax increases. | ? Increase cigarette tax by 50 cents a pack: $81 million
? Increase penalties for underpayment of taxes: $74 million
? Increase liquor tax at stores only (avg. 5 percent per bottle): $37 million
? Extend sales tax to candy and gum: $31 million
? Extend Keno gambling: $39 million
? Hire additional tax auditors: $26 million
? Reduce unclaimed-property waiting period: $35 million
? Total revenue raised: about $360 million |
| **Revenue Reductions**  | None                        | ? Extend high-tech sales and B&O exemptions: $75 million
? Extend rural county sales tax exemption: $15 million
? Other reductions: $26 million
? Total revenue reductions: $116 million | Other reductions: $1.1 million |
| **Reserves**            | $105 million                | $243 million                     | $201 million                   |
The Transportation Package and Resolution of the Biennial Budget

Surprising many observers, the legislature and governor were able to move in a timely fashion on a separate transportation package to help boost the state's highways and ferry system (Cat Le, 4/28/03: B1). Despite the failure of Referendum 51 with its 9 cent per gallon gasoline tax increase, the legislature and governor worked in a bipartisan fashion to put together a $4.2 billion transportation package that included a 5 cent per gallon tax increase. They decided not to send this law to voters for their approval but, of course, it was subject to repeal by voter initiative and Tim Eyman threatened to do just that. State gasoline taxes had last been increased in 1990. The transportation package earmarked a number of specific highway and infrastructure projects in Seattle and around the state. The governor signed the bill into law in May. The transportation package was a major achievement for the legislature given its controversial history and voter rejection of the earlier package. But with the support of major businesses in the state concerned about deteriorating roads and bridges, the legislature demonstrated more determination to take the lead on the issue than they had the year before.

Governor Locke ordered a new session to complete work on the biennial budget for May 12. Members were given a break of several weeks before returning to cobble together a compromise budget. Final agreement was finally reached on Sunday, June 1, producing $23 billion budget that eliminated the $2.6 billion budget shortfall through spending cuts and freezes (Ammons, 6/2/03: 1A). While the House continued to push their modest tax increases, the Senate and the Governor held firm. Locke continued to argue that the “soft” economy would only be further injured with the introduction of new general tax increases (Roesler, 4/28/03: A1). During the negotiations, the Governor indicated that some of the House Democrat’s proposals for “narrow taxes” (presumably such as increased penalties for underpayment of taxes) might be acceptable. Republican warnings of businesses moving from Washington-to-Idaho were undercut by the fact that Idaho had increased its sales tax (Roesler, 4/28/03: A1). Nonetheless, the no-new-taxes position championed by the governor and the Senate won the day. The Governor’s Office emphasized the positive by highlighting the amounts that the state would spend in the 2003-2005 biennium:

- K-12 education $10.5 billion
- Higher education $2.6 billion
- Health care for needy $3.6 billion
- Child & vulnerable protective services $4 billion
- Public safety $1.4 billion
- Economic development $120 million
- Natural resources and parks $297 million
- Legislative and judicial agencies $208 million
- Government operations $403 million
- Debt service on capital projects $1.2 billion
- Pension contributions $55 million
- Home health care pay increase $31.6 million
The final agreement spelled a humiliating defeat for the House Democrats. The Senate’s budget committee Chairman, Dino Rossi, boasted that the final budget represented a “90% victory” for the Republican Senate (Ammons, 4/17/03: 1A). The 10% victory for the Democratic-held House were found in small restorations in children’s health programs, in the Basic Health Program for workers (and low-income individuals) whose employers fail to provide basic medical insurance, and the assistance program for unemployable adults (Ammons, 4/17/03: 1A).

Critics of the budget compromise pointed to the tax breaks that would be enjoyed by businesses while the brunt of the cuts fell on “the backs of the poor and disabled” (Roesler, 4/28/03: B1). Democratic Senator Adam Kline stated that the “Legislature was playing to a ‘lynch mob mentality’ of anti-tax advocates “(t)o satisfy this rather primitive repeated mantra: ‘no new taxes’” (Roesler, 4/28/03: B1).

The “Boeing” Session

The governor called the legislature into a second special session in June for the purposes of enticing the Boeing corporation to stay in the state to build its proposed new 7E7 aircraft (Galloway & Cat Le, 6/11/03: B1; Postman, 6/11/03). Fears of Boeing breaking it’s ties to the Pacific Northwest have been on the forefront since they moved their headquarters to Chicago in 2001 and continue to publicize concerns about Washington State’s competitiveness for business (Scott, 6/1/01). The proposed Boeing 7E7 is more fuel efficient and “practical” for the competitive environment of jet sales. Increasingly losing market share to rival Airbus, Boeing was looking to a new generation of jet aircraft to bolster it’s share in the international commercial airline market. The decision on where to build the aircraft would have profound economic consequences for a state, and encouraged by Boeing, as many as 20 states were competing for the lucrative manufacturing facility (Galloway & Cat Le, 6/11/03: B1). The transportation package was itself part of the effort to woo the aircraft giant and keep its location in the state. Another major element of satisfying Boeing was reforming the states unemployment insurance program, one of the most generous to workers in the country. For many years, Boeing and other large businesses have been advocating a cutback in the state’s unemployment system. In the past, organized labor had opposed the measures to deny and degrade unemployment compensation benefits, and typically were victorious in their efforts. (Timmerman, 6/12/03). This budget season marked a major difference in this battle due to the Boeing 7E7.

The $3 billion tax relief package (over twenty years) consisted of cutbacks in benefits to unemployed workers, time limits on workers’ compensation benefits and direct tax cuts for Boeing. Boeing’s argued that under existing law, the unemployment tax required large companies to pay higher rates than what is used by their employees to offset smaller businesses that pay less than their “fair share” (Cook, 6/5/03). Under the incentive package passed by
the legislature, the worker’s compensation system will now implement a two-year limit in which workers can file (Office of the Governor, 2003). Other enticements in the bill included a $15.5 million dollar dock be built—referred to as “The Boeing Dock” by some legislators (Postman, 6/19/03: A1). While Washington State is prohibited from giving direct assistance to corporations seeking to do business in the state, other states vying for the 7E7 manufacturing plant have no such restrictions (Nyhan & Pope, 6/19/03: A1).

Fear of losing the economic impact of Boeing led to bipartisan support of the $3 billion incentive package, including a number of reluctant Democrats. Despite quick and decisive action, the tax breaks might not be enough to persuade Boeing to build the 7E7 jet in Washington State. From the Paris Air Show, Boeing Commercial Airplanes Chief Executive Alan Mulally made it quite clear that “he will not hesitate to take 7E7 final assembly elsewhere if that makes the most economic sense” (Bowermaster, 6/19/03: C1). In addition, the special session and the tax breaks might not be enough for Boeing to even build the 7E7 jet. While the plans are finished and bids for facilities are being made, Boeing Chairman Phil Condit is “adamant Boeing will not launch the 7E7 unless demand is high enough and costs are low enough to make a compelling business case” (“Will the 7E7 be built?”). Although reforms of the unemployment compensation system in the state have been adopted, most of the other tax breaks will not take effect unless Boeing decides to build the 7E7 and to build it in Washington State.

Conclusion

Governor Gary Locke started his career in politics in the liberal wing of the Democratic Party. As chair of the House budget committee in the early 1990s, he helped negotiate through the legislature one of the largest tax increases in state history. A decade later, Locke emerged as a more conservative “new” Democrat, more closely allied with the Republican Senate than the Democratic House.

Politically, the budget was somewhat of a calculated gamble for the governor within his own party, but reflects the strong anti-tax sentiment demonstrated by voters in the past ten years. The budget in 2003 reflected a political process unusually attuned to the wishes of big business. Even the format of the executive budget process reflected the influence of business. Although endearing himself to the Boeing unions, Locke has alienated several important base constituencies including the Washington Education Association and the Washington State Labor Council. The concessions and incentives given in the quest to land the Boeing 7E7 plant could provide a boost in his political capital if (a) Washington State wins the plant and (b) the plane actually gets built. However, suspending Initiative 732 (allowing for cost-of-living increases for school employees) and Initiative 728 (calling for class-size reduction) and cuts to higher education put into question the Governor’s qualifications as the “Education Governor.” The compromise budget did allow small pay raises for new teachers in hopes of attracting candidates and health benefit contributions by school employees was reduced (Roberts, 6/18/03: B1). Completing the budget process, Locke employed his line-item veto to eliminate $20 million in cuts when he signed the final budget on June 26 (Associated Press, 6/27/03). He eliminated limits placed by the legislature on agency travel, equipment and personal service
contracts and limits on agencies sending official liaisons to the legislature. Overall, Locke expressed satisfaction with the legislature’s acceptance of his “priorities of government.”

Despite a return to divided party control after the 2002 elections, the legislature proved capable of dealing with budget issues in a reasonably timely fashion. Even though the budget shortfall was much greater than it had been the year before, the legislature acted more decisively not only in reaching a compromise on the biennial budget but in enacting a transportation plan and the Boeing package. The Republican Senate, in achieving almost everything they wanted, was seen as a winner as well, holding back higher taxes and cutting social spending (Galloway, 6/13/03: A1). Boeing, regardless of whether they decide to build the 7E7 plant in Washington or not, has won a long-term battle in cutting back the amount of unemployment compensation taxation for the plants already here (Galloway, 6/12/03: A1). The transportation package, provided it isn’t overturned by the initiative process, will provide the state’s infrastructure with some much needed improvements. The hope by all parties in the state is that the economy has begun the road to recovery and that the supplemental budget in 2004 will not have to deal with a shortfall as great as the $2.6 billion that the state faced in 2003.
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