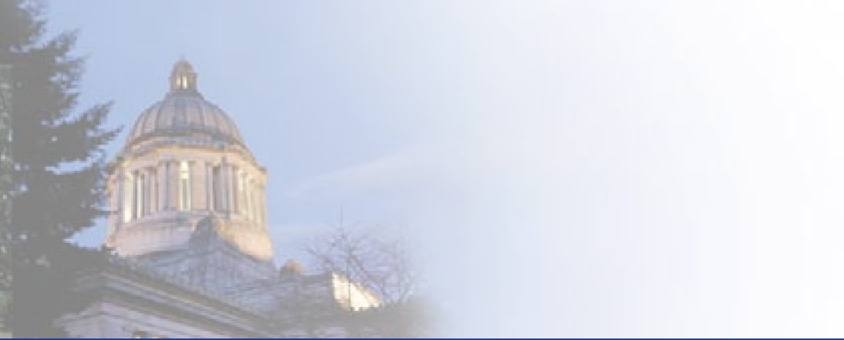

TWIO

This Week In Olympia

April 11, 2012

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The Background

It took 108 days (including a 17-day pre-session Special Session, the full 60-day Regular Session, a full 30-day Special Session and an 8-hour, early morning Special Session), but the 2012 Legislature completed its business and has gone home. It all started in September with a projected $2.0 billion shortfall in the current 2011–13 operating budget (ending June 30, 2013). Governor Gregoire declared a fiscal emergency and called the Legislature into a somewhat rare, pre-session Special Session beginning on November 28. She urged legislators to erase the projected deficit and completely balance the budget before Christmas, allowing policymakers to exclusively focus on policy issues when the Regular Session convened in January. Legislators haggled over the budget for 17 days and ultimately adopted a "down payment" budget, eliminating about $480 million of the budget gap. Only $1.5 billion to go.

When the Regular Session began on the second Monday in January, it was expected that legislators would get right down to business, grapple with the budget problem and as quickly as possible adopt a solution. Unfortunately, legislators chose instead to deal with a whole host of policy issues—many of them complex and controversial. Among the issues on the table: abortion, marriage equality, the death penalty, and just so public schools did not feel left out, a little experiment called charter schools. Other than a few initial briefings early in the session, there was virtually no public discussion about the budget until mid-February. Following some good news from the Economic and Revenue Forecast Council and the Caseload Forecast Council. The revenue forecast was essentially flat, with a slight increase in projected revenue (about $46 million) over the previous forecast in November; however, this was the first projection in the last 15 quarters that was actually positive. More importantly, the estimate of entitlement caseloads for the state was projected to be about $330 million less than projected in November. And the total budget gap fell to just under $1.0 billion.

At this point, the budget floodgates opened. In a few short weeks, four separate legislative budget proposals were released: a House Republican budget; a House Democrat budget, which was adopted by the full House on February 29; a Senate Democrat budget; and a Senate Republican budget, which was adopted by the full Senate after three moderate Democrats joined with 22 minority Republicans and took over the Senate floor on March 2–3. Shortly after, a fifth budget, another proposal adopted by the House on March 8, the last day of the Regular Session—a last effort to avoid a Special Session—was a unified House and Senate Democrat package. Each used different approaches to a budget solution. Legislators failed to agree to a negotiated compromise by midnight March 8 and the Regular Session came to a close without a budget being adopted. Gregoire gave legislators the weekend to recharge, calling them back to a Special Session on Monday, March 12.

About *TWIO*

This Week in Olympia **is emailed to active WASA and AEA members each Friday during the Legislative Session and is posted on WASA's website at www.wasa-oly.org/TWIO.**

NOTE: WASA staff is currently preparing our annual End of Session report. It will contain full details of the 2012 Supplemental Operating Budget and the 2012 Supplemental Capital Budget, along with a comprehensive review of the many education-related bills the Legislature addressed this session. It will be e-mailed to all TWIO subscribers as soon as it is complete.

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There appeared to be two major sticking points between the two major budgets (House Democrats and Senate Republicans): (1) The Democrats proposed a delay in school districts' June 2013 general apportionment payments from the last day in June 2013 to the first day in July 2013. This tactic allowed budget-writers to use the $330 million in "savings" to limit the level of cuts in the budget. Republicans rejected the idea, calling it a "gimmick" that simply increased the projected deficit in the next biennium. (2) The Republicans proposed to skip a required pension payment, saving $130–140 million in the current budget. Republicans argued that, even though this money would have to be paid back with interest, it was a part of a larger pension reform package which, overall, would save significant funding in the future.

While these issues certainly divided the two sides and essentially forced an impasse in budget negotiations, the stalemate was about more than just the budget. Governor Gregoire presented a "third" way—a budget solution allowing both the general apportionment delay and the pension skip ideas to be dropped. The two major sticking points were off the table; however, the impasse continued. On March 15, shortly after the start of the Special Session, Senate Republicans (along with their three Democrat allies) publicly released their "demands," indicating that the budget was only a small part of a much bigger picture. Along with this list of reforms that they wanted to be adopted, the Republicans unveiled another budget (budget number six). It quickly became clear that they would hold their coalition and refuse to move on a budget until their list of reforms were adopted. Their list included six or seven key reforms; however, the main focus (and the main fight) centered on three: pension reform; K–12 health benefits; and 4-year balanced budgets. House Democrats refused to budge on these reforms.

Even though the Special Session began on March 12, rank-and-file legislators remained at home. Only caucus leaders and budget-writers were in town. They met off and on with little productivity. With the Special Session winding down House Democrats released another budget (budget number seven) on April 4, along with a series of reforms they were willing to accept. They introduced new bills on the three main reforms Republicans sought.

All legislators returned to town on April 4; however, it was not clear if any kind of deal had been struck to end the session. Following the House Democrats' press conference on budget issues, the Senate Republicans held their own press conference and made it clear that there was no deal in place. In fact, Republicans complained that the reform bills that were released that morning were weak, watered-down versions of the reforms they demanded.

The House took action on its new budget and their new reform bills and waited for action from the Senate, which was unlikely to happen. After tensions rose and tempers flared in a Senate Ways & Means hearing and on the Senate floor, legislators were given a bit of a reprieve on Easter Sunday. When they returned Monday morning, Governor Gregoire called caucus leaders and budget-writers together and unveiled a new proposal: a compromise budget, along with a series of compromise reforms. She met with these key legislators off-and-on for almost 11 hours, ultimately reaching a "tentative" agreement on a "framework" for a budget and reforms—but no deal. On Tuesday, the last day of the Special Session, it appeared legislators were close to a deal on the budget and the necessary reforms. Rather than wait for official handshakes, the House and Senate started moving bills in a rush to meet their midnight deadline. Compromise agreements on several issues moved through the process but the "big three" had some hang-ups. One of the biggest hurdles was the K–12 health benefits issue, with multiple amendments and multiple versions being discussed.

Legislators pushed to reach agreement on all of the moving pieces before midnight, but after several bumps in the road it became clear that there just was not going to be sufficient time to finalize agreements, draft and print bills and adopt them before time ran out. Shortly before midnight, Gregoire again met with leaders and they each assured her that they were "close" to final agreements. Gregoire told them she wanted to immediately call them back into another Special Session, but she wanted it to be limited to one day. She also told them

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that legislators should not be released for the evening, saying they needed to continue to plow through their business through the night and into the morning. The leaders agreed.

It seemed very strange, but just shy of midnight the House and Senate quickly moved through the procedural motions to adjourn "Sine Die." With the echo of the banging gavel still in the air, the gavel again came down to reconvene the Legislature. Both the House and Senate recessed to caucus to allow negotiators to finalize agreements and for legislators to discuss next steps.

Slowly and methodically, while the rest of the world slept, legislators went through the motions to one by one move each of the necessary bills. Compromise versions of the three reforms were adopted, followed by the 2012 Supplemental Operating Budget and the 2012 Supplemental Capital Budget (and its necessary financing package). At 7:20 am, the House was finished and dispensed with the traditional formality of jointly adjourning with the Senate. Instead, they made the necessary motions and quickly banged the gavel. Most of the House chamber was cleared by the time the Senate completed its necessary motions and officially adjourned the 2012 Legislative Session at 7:28 am.

The Bills

Multiple bills were adopted in the last day of Special Session and the 8 hours of the Second Special Session that facilitated the passage of the Supplemental Operating and Capital Budgets. The main bills:

HB 2822, Working Capital Reserve – This is the governor's (and state treasurer's) idea which broke the impasse regarding the Republican's pension payment skip and the Democrat's delay of school district general apportionment payments. The bill provides budget-writers with a one-time "windfall" of $238 million and allowed the two sides to drop their previous money-saving ideas. In simple terms, local government taxes will be held in the state's general fund for a longer period of time before they are distributed to local governments, allowing a "cushion" in the state budget.

HB 2823, Revenue Consolidation – This bill makes a series of budget shifts or transfers. It directs the Solid Waste Tax to the Operating Budget in the current and next biennia; retains the Education Construction Account portion of the lottery funds in the operating budget until the 2015–17 biennium; directs increased liquor profits to the general fund; moves the Public Utility Tax and the Real Estate Excise Tax from the Capital to the Operating Budget; and transfers funds from the Public Works Assistance Account back to the Capital Budget.

SB 5940, K–12 Health Benefits – This is the compromise version of the Consolidated K–12 Health Benefits bill; however, there is no "consolidation" piece included. The main focus is on transparency and equity. It retains current collective bargaining for benefits and the present pooling arrangements. School districts are required to make progress toward a 3 to 1 premium ratio between families and the single payer and at least one plan in the district must have premiums comparable to plans available to state employees. A competitive procurement process for benefit contracts will be required. Various reports are required from school districts and several state-level entities are responsible for monitoring and/or collecting information and reporting on that information. The final version of this bill was released around 3:00 this morning and further analysis will be required to fully determine impacts on districts and employees.

SB 6378, Pension Reform – This bill eliminates the alternative early retirement factors granted in 2000 and 2007 for new state employees. For employees hired after May 1, 2013, a new subsidized early retirement benefit is created that provides a five percent per year reduction in benefits from age 65 for members retiring with 30 or more years of service. The bill changes the investment rate of return assumption used for calculating contribution rates in the state retirement systems on July 1, 2013, to 7.9 percent, on July 1, 2015, to 7.8 percent,

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and on July 1, 2017, to 7.7 percent. It also requires a study to review potential options for employees who face significant danger or physical requirements.

SB 6636, Four-year Budgeting – This bill requires the Legislature to enact a balanced budget in the current and ensuing fiscal biennia. It also requires the Economic and Revenue Forecast Council to prepare a state budget outlook. Republicans backed off their demand for these provisions to be included in a constitutional amendment.

SJR 8221, Debt Limit – This Joint Resolution, if approved by the voters in November, would amend the Constitution to include the recommendations of the Commission on State Debt. Specifically, it would reduce the constitutional debt limit percentage from 9 percent to 8 percent by July 1, 2034. Additionally, it would: modify the debt limit calculation to extend the average annual general revenue from a three-year to a six-year average; and modify the definition of general state revenues to include state property taxes.

SB 5127, Capital Budget Bonds – This is the bill that funds the Supplemental Capital Budget by authorizing the issuance of $977 million in general obligation bonds.

SB 6074, Supplemental Capital Budget – Full details of the final Supplemental Capital Budget are available from the Legislative Evaluation & Accountability Program Committee. This $1.1 billion "jobs bill" keeps the School Construction Assistance Program "whole" (providing funding for all anticipated projects currently in the pipeline). Additional funding is provided for: several Skills Centers projects; a Distressed Schools program; and Energy Efficiency Grants.

The Budget

The 2012 Supplemental Operating Budget is very similar to the budget adopted by the House on March 8 . The operating budget balances the current 2011-13 budget with a mix of policy reductions totaling $295 million, revenue enhancements totaling $177 million and a series of transfers and "adjustments." Approximately $320 million is left in reserve. The budget contains NO cuts to K–12 education, beyond the reductions made in December's "down payment" budget—and the proposed June 2013 general apportionment delay was ultimately rejected. Enhancements of $12 million are included in the K–12 portion of the budget.

A comparison of each of the budgets that were introduced (excepting the House budget that was introduced on April 4, which was substantially the same as its March 8 proposal), with the final, adopted budget is available from WASA.

AEA

By Mitch Denning

We are glad to see the session come to a conclusion, as it's been quite an interesting process. WASBO worked really hard to urge Senate and House members to support Sen. Hobbs' striker to SB 6442, consolidated purchasing of K–12 health benefits. Unfortunately, the plan was not adopted by the Legislature, and WASBO will be working members of their association in the implementation of the plan that was passed into law.

WAMOA was particularly pleased to see that the Capital Budget was funded well for K–12. They will continue to work with their members in pursuit of the now-available $40 million for energy efficiency grants.

WAMOA and WASBO partnered to help change the direction of state policy re: school construction formula process of counting enrolled ALE students for eligibility of state funding assistance. Working with Senate Ways & Means members and staff, we were successful in

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helping set up a process where a school district's resident and non-resident ALE students who attend class on a school campus can be part of the enrollment eligibility.

WSNA was quite pleased that child nutrition funds were not reduced in the budget that passed earlier today. Indeed, "hungry kids" can't learn.

Pensions and Health Benefits

By John Kvamme

This Wednesday morning, April 11, the school employee benefit bill, ESSB 5940 was delivered to the Governor. It was one of the very last reform bills required for passage by the Senate Republicans together with some moderate Democrats before this session's Supplemental Operating Budget could be passed in the Senate. The Governor played a key role in the difficult negotiations with the four corner legislative leadership in obtaining the final version of the bill.

The bill is not what we had worked for in February of this session, however once the language was combined with the elements of what was introduced in the House, the bill became a patchwork and the consolidation of health benefits through the SEBB was pretty much dropped.

The bill as delivered to the Governor focuses predominantly on transparency, i.e. better information and data from districts and carriers and on equity, seeking affordability for families and lowest-paid and part-time employees. It retains current collective bargaining for benefits and the present pooling arrangements. Districts are to make progress toward a 3 to 1 premium ratio between families and the single payer and at least one plan in the district must have premiums comparable to state employees. Benefit contracts are to be determined through a competitive procurement process. The Office of the Insurance Commission (OIC), the Health Care Authority (HCA), OSPI and the Joint Legislative Audit and Review Committee (JLARC) all play a role in monitoring, recommending and reporting progress to the legislature. Some of these recommendations could include moving to a consolidated SEBB or the PEBB. Performance grants ($5 million fund) are initiated in 2015 to help some with co-payments of deductibles.

Senator Zarelli and Baumgartner's so called pension reform bill that the Senate Republicans demanded passed both the House and Senate on Tuesday, April 10. This bill's last version, 2ESB 6378, focused on early retirement and lowering assumptions used in calculating investment returns for setting contribution rates.

The bill closes the two early retirement options for new TRS, PERS and SERS Plan 2 and 3 members hired on or after May 1, 2013. It provides a new 5 percent per year reduction in benefits from age 65 for these new members retiring with 30 or more years of service. This is slightly better than taking the full actuarial reduction.

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