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Olympia dollar derby — a spectator guide to legislation

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By DEIRDRE GREGG
STAFF WRITER

As the first week of the Legislature drew to a close, it was already clear that leaders of both houses plan to fight the cuts that Gov. Chris Gregoire has proposed to close the state's \$5.7 billion budget gap — a shortfall that may reach \$7 billion when the next economic forecast comes in March.

"We have to be very careful this year not to let a budget problem rob us of our vision and values," House Speaker Frank Chopp said during a Jan. 12 speech.

Here's a guide to some of the ways that politicians will be trying to eke out more dollars and balance the budget during the 105-day session.

Asking voters

To pass any kind of tax increase, lawmakers would likely need to put it to a public vote. Initiative 960 requires either a two-thirds majority in the Legislature or a public vote to pass a tax increase. While Democrats have large majorities in both houses, they don't quite make up two-thirds, even assuming that all Democrats would vote for a tax increase.

Republicans say the majority party is likely to frame the budget choices in a way that will make it hard for voters to reject a tax increase by focusing on threats to popular programs such as education.

"We'd fully expect they'll put something out there that will be pretty repulsive to vote against," said Senate Republican Leader Mike Hewitt, who represents Walla Walla.

Chasing loopholes

Olympia also will likely see proposals to close tax "loopholes," a solution about which the business community is wary.

"There's this myth that there's an abundance of tax exemptions that can be repealed" to balance the budget, said Dick Davis, who coordinates for the Washington Alliance for a Competitive Economy, a coalition of business advocacy groups.

Many such “loopholes” for certain industries match standard tax policies in other states, he said, such as exemptions on manufacturing machinery or incentives for research and development.

“Once people begin to take a look, they’ll realize these things are in place because they stimulate the economy,” Davis said. “It’s passing strange to talk about a stimulus while pulling the rug out from under stimulus programs that are actually working.”

Fees, tolls and tuition

Another option for backfilling revenue would be to hike more specific revenue sources such as fees. Several possible fees have been discussed, but targets of the proposals are likely to fight back.

“It still impacts the bottom line, whether they call it a fee or a tax,” said Jan Teague, president of the **Washington Retail Association**.

Meanwhile, tolling is expected to be part of the funding package for regional mega-projects, including replacements for the Alaskan Way Viaduct and the State Route 520 floating bridge. Some lawmakers also are discussing tolling Interstate 90 to avoid the diversion of traffic from 520 and raise more funds.

Higher education, which is facing cuts of 13 percent across the board, will likely try to recapture some of that loss through higher tuition and student fees.

Shifting funds around

Lawmakers are hoping to jump-start the state economy with both state and federal stimulus programs.

Gregoire is proposing a plan that would shift money from the unemployment insurance fund to temporarily increase benefits to unemployed workers and temporarily cut taxes for businesses. Other lawmakers are considering a plan that would use unemployment insurance funds for worker training.

Some in the business community worry about such plans, fearing that the fund could be drained quickly.

“We don’t know how long the downturn is going to last,” said Don Brunell, president of the Association of Washington Business, the state’s largest business group.

“With the increase in unemployment rates, those funds can drain pretty fast,” he said. “I wouldn’t want to be here in six to eight months or a year looking at our employer community and saying there will have to be an increase in unemployment insurance rates.”

In the early 1980s, the state had to borrow money from the federal government to pay unemployment benefits, he said — and then had to repay that with interest.

Asking Uncle Sam

To make lawmakers’ jobs more difficult, they don’t know what kind of help they’re likely to get

from the federal government.

While President-elect Barack Obama is pushing for a colossal federal stimulus package, no one knows how much the state would get, or in what form.

Gregoire is counting on more than \$1 billion in federal money to help pay for Medicaid and welfare programs. That money is included in her operating budget proposal.

Another portion of the federal stimulus is expected to come on the capital side, with an infusion of federal money for infrastructure projects. That portion of the package would not directly address the operating budget shortfall.

But the sales tax revenue generated by new construction activity and building materials would swell the state's coffers. New projects would also create jobs, good news in a state that saw a record number of new unemployment claims filed last month. More than 90,000 people applied for unemployment in December, about 75 percent more than in December 2007.

Congressional leaders once planned to have a stimulus package ready for Obama just after Inauguration Day, but now it seems likely to be mid-February at the earliest. If the package takes much longer to pass, the Legislature could be budgeting in the dark.

"With our 105-day deadline, we don't have the luxury of waiting until June or July," said Rep. Skip Priest, R-Federal Way.

Meanwhile, the state has taken a dramatic step forward on one long-running debate: Gregoire, King County Executive Ron Sims and Seattle Mayor Greg Nickels have agreed to replace the crumbling Alaskan Way Viaduct with a deep-bore tunnel, with construction expected to start in 2011.

dgregg@bizjournals.com | 206.876.5424

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