**THE BUDGET SOLVING EXERCISE**

**GOAL**

Develop a state budget proposal based on your priorities and then negotiate with the other teams in your group for a final budget.

**TEAMS**

* House (2 people)
* Senate (2 people)
* Governor (2 people)

**DIRECTIONS**

* Using the proposals given or your own ideas, fill in the Budget Balancing Worksheet and develop a state budget.
* If you use your own proposals, you should be able to back them up with facts. Do not guess numbers. For example, if you propose to raise the sales tax on food to raise $8 million, you should have sales figures to show that this is realistic.
* As you develop your budget proposal, remember the other corners have their priorities, so keep in mind what their priorities might be and what you are willing to negotiate.
* You should strive for a balanced budget that addresses your priorities.
* You can have a surplus. If you have a surplus, add a line to the Budget Balancing Worksheet directing the money to the Rainy Day Fund.
* We will assign you to a group with members from the other corners to negotiate a final budget. When everyone is done, you will present your budget and explain your revenue and spending proposals.

**MATERIALS**

Budget Priorities**:** These are your priorities. This is what you want to see in the budget. Your decisions should be based on keeping these priorities.

Revenue Options: These are possible options if you decide to raise or cut revenue. You can find your own revenue proposals, but you must have facts to back up your proposals. You do not have to raise or cut revenue.

Spending Options: These are possible spending changes. You may propose your own spending changes.

Budget Balancing Worksheet: This will automatically do the math for you! The group will draft a separate final.

**Priority List – Sasquatch (EXAMPLE)**

In budget negotiations, the Office of the Governor, and the House and Senate Democratic and Republican caucuses are often referred to as the “five corners,” each bringing their own priorities to the negotiating table. Our exercise has three corners: House, Senate, and the Governor. You represent one of the corners and need to advocate for a compromise that balances the budget and preserves as many of your priorities as possible.

Begin by determining how you would balance the budget to achieve your priorities. Your budget proposal must balance, meaning if you increase spending in one area, you must either reduce spending in another area or increase revenue to fund the new spending.

Remember, the other two corners have their own priorities. Anticipate how the other corners might approach the task. In the second half of the activity, the three corners will come together to negotiate.

**Starting Budget vs Goal Budget**

* Starting budget: $51.5 billion to maintain the budget from the prior year
* Revenue from priorities: $10.9 billion
* Governor’s goal budget: $62.4 billion proposed

**Sasquatch's Priorities: $10.9 billion**

* Additional cost to continue current programs for the next biennium ($4.5 billion)
* Whales ($1.6 billion)
* Trains ($1.3 billion)
* Free Community college ($1 billion)
* Free internet ($0.9 billion)
* Teachers ($0.6 billion)
* Forests ($0.4 billion)
* Covid recovery ($0.3 billion)
* Environmental Education ($0.2 billion)
* Taco Tuesday ($0.1 billion)

**Possible Additional Available Funding**

* Federal COVID relief: $4.4 available
* State surplus: $3 billion

**Priority List – Governor**

In budget negotiations, the Office of the Governor, and the House and Senate Democratic and Republican caucuses are often referred to as the “five corners,” each bringing their own priorities to the negotiating table. Our exercise has three corners: Governor, House, and Senate. You represent one of the corners and need to advocate for a compromise that balances the budget and preserves as many of your priorities as possible.

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**Starting Budget vs Goal Budget**

* Starting budget: $51.5 billion to maintain the budget from the prior year
* Revenue from priorities: $10.9 billion
* Governor’s goal budget: $62.4 billion proposed

**Governor's Priorities: $10.9 billion**

* Additional cost to continue current programs for the next biennium ($4.5 billion)
* K-12 education ($1.6 billion)
* COVID ($1.3 billion)
* Rental Assistance ($1 billion)
* Rainy Day fund ($0.9 billion)
* Saving the resident Southern Resident Orca ($0.6 billion)
* Behavioral health ($0.4 billion)
* Combat climate change ($0.3 billion)
* Early learning ($0.2 billion)
* Higher education ($0.1 billion)

**Possible Additional Available Funding**

* Federal COVID relief: $4.4 available
* State surplus: $3 billion

**Priority List – House**

In budget negotiations, the Office of the Governor, and the House and Senate Democratic and Republican caucuses are often referred to as the “five corners,” each bringing their own priorities to the negotiating table. Our exercise has three corners: Governor, House, and Senate. You represent one of the corners and need to advocate for a compromise that balances the budget and preserves as many of your priorities as possible.

Begin by determining how you would balance the budget to achieve your priorities. Your budget proposal must balance, meaning if you increase spending in one area, you must either reduce spending in another area or increase revenue to fund the new spending.

Remember, the other two corners have their own priorities. Anticipate how the other corners might approach the task. In the second half of the activity, the three corners will come together to negotiate.

**Starting Budget vs Goal Budget**

* Starting budget: $51.5 billion to maintain the budget from the prior year
* Revenue from priorities: $ 9.2 billion
* House's goal budget: $60.7 billion proposed

**House Priorities**

* Additional cost to continue current programs for the next biennium ($4.5 billion)
* Rainy Day Fund ($1.7 billion)
* Rental Assistance ($0.6 billion)
* Offset unemployment tax increase for businesses ($0.6 billion)
* Temporarily increase rates for long-term care providers and providers for people with developmental disabilities ($0.4 billion)
* Immigrant relief fund ($0.4 billion)
* Childcare needs ($0.3 billion)
* Working Families Tax Exemption ($0.3 billion)
* Expansion of Paid Family Medical Leave program ($0.2 billion)
* Forest health ($0.2)

**Possible Additional Available Funding**

* Federal COVID relief: $4.4 available
* State Surplus: $3 billion

**Priority List – Senate**

In budget negotiations, the Office of the Governor, and the House and Senate Democratic and Republican caucuses are often referred to as the “five corners,” each bringing their own priorities to the negotiating table. Our exercise has three corners: Governor, House, and Senate. You represent one of the corners and need to advocate for a compromise that balances the budget and preserves as many of your priorities as possible.

Begin by determining how you would balance the budget to achieve your priorities. Your budget proposal must balance, meaning if you increase spending in one area, you must either reduce spending in another area or increase revenue to fund the new spending.

Remember, the other two corners have their own priorities. Anticipate how the other corners might approach the task. In the second half of the activity, the three corners will come together to negotiate.

**Starting Budget vs Goal Budget**

* Starting budget: $51.5 billion to maintain the budget from the prior year
* Revenue from priorities: $12.3 billion
* Senate's goal budget: $63.8 billion proposed

**Senate Priorities**

* Additional cost to continue current programs for the next biennium ($4.5 billion)
* Rainy Day fund ($2.3 billion)
* School reopening and learning loss ($1.7 billion)
* Vaccine deployment ($1.1. billion)
* Homelessness and rental assistance ($0.9 billion)
* Childcare needs ($0.5 billion)
* Early childhood education ($0.5 billion)
* Immigrant relief fund ($0.3 billion)
* Working Families Tax Exemption ($0.3 billion)
* Wildfire risk ($0.2)

**Possible Additional Available Funding**

* Federal COVID relief: $4.4 available
* State Surplus: $3 billion

**Revenue Proposals**

Select revenue options from the list below and enter in the Revenue side of your budget balance sheet. If you adopt an across the board tax cut, make sure to enter it as a negative number in the balance sheet.

**Across the Board Increase and Decrease**

These calculations show what would happen to changes in [current tax rates](http://fiscal.wa.gov/RevenuebyFund.aspx). You may select percentages as listed below or determine your own percentage. Remember that voters have routinely overturned tax increases and raising taxes too much may cause decreases in sales and businesses, which reduces the amount of revenue you collect.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Source | Current (in billions) | + 10% | - 10% | + 5% | - 5% | + 1% | - 1% |
| **TAX** |  |  |  |  |  |  |  |
| Retail Sales Tax | 18.5 | 1.85 | - 1.85 | 0.925 | - 0.925 | 0.185 | - 0.185 |
| B&O Tax | 7.46 | 0.746 | - 0.746 | 0.373 | - 0.373 | 0.075 | - 0.075 |
| Property Tax | 5.85 | 0.585 | - 0.585 | 0.293 | - 0.293 | 0.059 | - 0.059 |
| Real Estate Tax | 1.77 | 0.177 | - 0.177 | 0.085 | - 0.085 | 0.018 | - 0.018 |
| Other Taxes | 4.33 | 0.433 | - 0.433 | 0.217 | - 0.217 | 0.043 | - 0.043 |

**NEW REVENUE PROPOSALS**

These bills below are proposals for new revenue from the 2021 session. You may use these proposals or create your own. Get creative by considering new revenue sources and researching proposals in other states.

|  |  |
| --- | --- |
| **Capital Gains Tax (**[**SB 5096**](https://app.leg.wa.gov/billsummary?BillNumber=5096&Initiative=false&Year=2021)**)** | * Equal to 7% of an individual's capital gain on long‐term capital assets * Assumes $357 million in additional funds |
| **Estate Tax (**[**HB 1465**](https://app.leg.wa.gov/billsummary?BillNumber=1465&Initiative=false&Year=2021)**)** | * Revises estate tax rates. Exempts small estates, reduces rates on medium estates, increases rates on large estates * Revenue is deposited into the Education Legacy Trust Account and must be used to support education * Creates the Equity in Housing Account with a required $6 million per biennium deposit * Assumes $105.9 million in additional funds |
| **Wealth Tax (**[**HB 1406**](https://app.leg.wa.gov/billsummary?BillNumber=1406&Initiative=false&Year=2021)**/**[**SB 5426**](https://app.leg.wa.gov/billsummary?BillNumber=5426&Chamber=Senate&Year=2021)**)** | * 1% of all financial intangible assets/wealth above $1 billion * Assumes $4.949 billion in additional funds |
| **Captive Insurance (**[**SB 5315**](https://app.leg.wa.gov/billsummary?BillNumber=5315&Initiative=false&Year=2021)**)** | * Requires captive insurers to register with the Office of the Insurance commissioner and pay premiums * Assumes $34.2 million in additional funds |

**Spending Proposals**

Select spending changes from the list below (across the board increases or cuts) or make targeted changes to specific programs. Enter your proposed changes in the Spending side of your budget balance sheet. Enter spending cuts as a negative number and increases as a positive number.

**Across the Board Spending Proposals**

These calculations show what it would cost to cut or increase a budget area across the board, meaning all programs within that area would increase or decrease by the same amount. You may select any % change, in addition to any targeted cuts or increases.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Program** | **Current (in billions)** | **+ 10%** | **- 10%** | **+ 5%** | **- 5%** | **+ 1%** | **- 1%** |
| Human Services | 15.8 | 1.58 | - 1.58 | 0.79 | - 0.79 | 0.158 | - 0.158 |
| Public Schools | 14.7 | 1.47 | - 1.47 | 0.735 | - 0.735 | 0.147 | - 0.147 |
| Higher Education | 7.9 | 0.79 | - 0.79 | 0.395 | - 0.395 | 0.079 | - 0.079 |
| DSHS | 7.1 | 0.71 | - 0.71 | 0.355 | - 0.355 | 0.071 | - 0.071 |
| Governmental Operations | 2.1 | 0.21 | - 0.21 | 0.105 | - 0.105 | 0.021 | - 0.021 |
| Special Appropriations | 1.8 | 0.18 | - 0.18 | 0.09 | - 0.09 | 0.018 | - 0.018 |
| Natural Resources | 1.1 | 0.11 | - 0.11 | 0.055 | - 0.055 | 0.011 | - 0.011 |
| Appropriations in other Legislation | .5 | NA | NA | NA | NA | NA | NA |
| Judicial | .2 | 0.02 | - 0.02 | 0.01 | - 0.01 | 0.002 | - 0.002 |
| Legislative | .1 | 0.01 | - 0.01 | 0.005 | - 0.005 | 0.001 | - 0.001 |
| Transportation | .1 | 0.01 | - 0.01 | 0.005 | - 0.005 | 0.001 | - 0.001 |
| Other Education | .1 | 0.01 | - 0.01 | 0.005 | - 0.005 | 0.001 | - 0.001 |
| **Total** | **51.5** |  |  |  |  |  |  |