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Governor wants tax boost: Gregoire says \$203 million in cigarette, estate tax increases needed to balance budget

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OLYMPIA - Facing a \$1.6 billion state budget shortfall, Gov. Christine Gregoire unveiled on Monday her proposed fix, which includes hundreds of millions of dollars in budget cuts, a 20-cent increase in the cigarette tax and a partial revival of the recently killed estate tax.

Gregoire's two-year \$25.8 billion budget would:

- Increase Medicaid reimbursement rates to hospitals that treat poor patients who cannot pay;
- Restore \$80 million in mental health treatment money cut by the federal government;
- Add tens of thousands of children to state-subsidized health coverage (\$59 million);
- Boost pay for teachers and shrink class sizes (\$277 million);
- Add 6,600 slots for students at the state's colleges;
- Double alcohol- and drug-treatment programs.

"My mom would be proud of my budget today," Gregoire told a crowded news conference in Olympia. "I've invested in our children. I've invested in the future of Washington state."

Governors' budget proposals are only that, serving as blueprints and trial balloons for state lawmakers, who will be writing - and approving - the state budget over the next few weeks. Senate Democrats plan to roll out their version next Monday, with the House to follow.

Some Democratic lawmakers said they like the governor's focus on education. "While there were significant cuts in the budget, we are not slicing the social safety net," said Senate Majority Leader Lisa Brown.

Minority Republicans, however, noted that the governor's proposal relies on one-time fixes, such as spending down the state's reserves and delaying hundreds of millions of dollars in pension payments. That, they said, only worsens the state's real problem: overspending. Some predicted that the increase in cigarette taxes will drive more smokers over the borders to shop in Idaho and Oregon, or on Indian reservations.

After two years, Gregoire said, the cigarette tax may have to rise another 60 cents per pack to keep pace with Initiative 728, which steers an increasing amount of state money into schools. But if the higher prices encourage smokers to quit, she said, that's good for the state's health care costs.

Gregoire said she considered a no-new-taxes budget but decided that the \$203 million in tax increases are worth it since most of that money would go to schools.

"The trouble is (that) the status quo will kill you. You may think you're holding your own, when in fact you're backsliding," said Gregoire. "Getting by isn't good enough."

In an ideal world, the state wouldn't have to fund schools with cigarettes, said Charles Hasse, president of the Washington Education Association.

"But we have to be pragmatic about this," he said.

The estate tax was thrown out by the state Supreme Court earlier this year, costing the state \$277 million over the next two years. Gregoire is calling for reinstating a smaller version of the same tax. Hers would apply to estates worth \$2 million or more, instead of the old \$900,000 threshold. It also would exempt farms.

"This is the restoration of a tax that was there when I took office" on Jan. 12, Gregoire said.

The governor also called for a 5 percent annual increase in college tuition at four-year schools and a 3 percent increase at community and technical colleges.

She acknowledged, however, that barring a booming economy, the state will likely face a budget shortfall again in two years. She said one budget cycle is too fast to overturn the state's long-term problem: that taxes aren't keeping up with fast-growing costs, particularly in health care. Unless the state finds a way to rein in those health costs, the governor warned, education and social services will suffer.

To stave off deeper cuts - or bigger tax hikes - Gregoire wants to tap about \$400 million worth of the state's savings and to delay nearly \$400 million in pension contributions for government workers.

She would shorten the prison sentences of some nonviolent offenders, sending them instead to drug-and-alcohol treatment at a 600-person camp. The budget also saves nearly \$30 million by cutting payments and personal-care services to some elderly and disabled Washingtonians.

Some social service advocates warned that the cuts proposed by Gregoire would not be painless.

"It (the budget) is a step in the right direction," said Aiko Schaefer, spokeswoman for the statewide Poverty Action Network. "But there are many people who are going to be harmed by her budget."

