



## Voter's Guide to the Washington State Budget

*Aaron Keating, Economic Opportunity Institute, July 2018*

We all want to live in a prosperous state with thriving communities. Washingtonians consistently identify the same set of public priorities for state leaders: excellent schools, well-maintained infrastructure, protecting the vulnerable, quality health care, responsive police, and stewardship of the state's natural resources.<sup>1</sup>

Decades ago, Washington State consistently invested enough to establish a foundation of opportunity and prosperity. Yet since the 1990s, the share of our economy devoted to public investment in our people and communities has been declining – even as incomes soar. The budget increases of the past few years are still making up for losses from the Great Recession. We are nowhere near the levels of public investment the people of our state need to thrive.

Washington's revenue structure relies heavily on regressive sales taxes, whose revenues grow much more slowly than our state's population and economy. Without new revenue sources, our state will face continuing budget shortfalls, putting education, infrastructure, health care and other priorities at constant risk.

### An Overview of the State Operating Budget

Washington's budgets (there are actually three) provide the foundation for the state's economy,<sup>2</sup> serving more than 7.4 million residents and approximately 200,000 businesses.<sup>3</sup> The **Operating Budget** pays for most day-to-day operations of state government. The **Transportation Budget** pays for roads, public transit and related investments. The **Capital Budget** supports construction, acquisition and maintenance of public schools, higher education facilities, state buildings, public lands, parks, and other assets.

In the spring of 2019, the Legislature will adopt a two-year budget for the next biennium, starting in July. The portion of the Operating Budget the Legislature directly controls is called the Near General Fund. (Federal funds contribute about a third of the overall budget and must be spent according to terms set by Congress.)

Nearly 60 percent of tax revenue collected in Washington is devoted to education, providing public education for nearly 1.1 million K-12 children and making higher education available to more than 240,000 students.<sup>4</sup> Health and human services – which includes AppleHealth (Medicaid), early learning, child protective services, mental health, and other services – comprise another 31 percent.

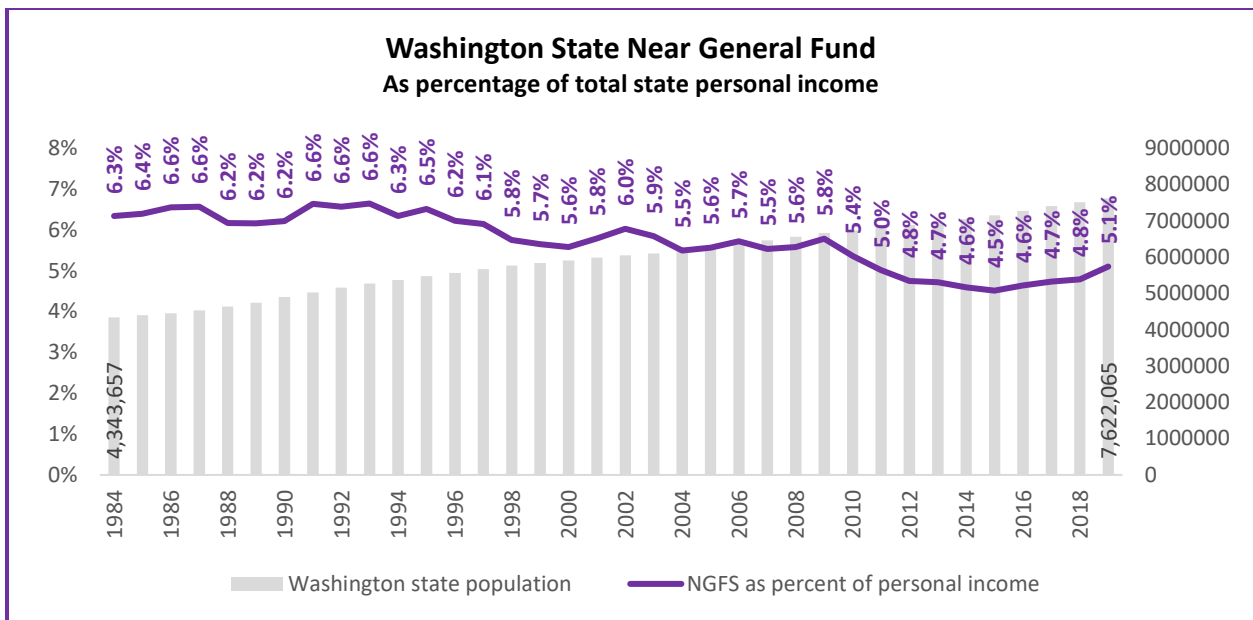
In order to build and maintain a high quality of life for all Washington residents, the state's budget needs to keep up with growth in the state's economy and population. Throughout the 1980s and 1990s, Washington reinvested more than 6 percent of total state personal income in public priorities. That declined in the 2000s and hit a trough of 4.5 percent after the Great Recession. State leaders have yet to restore public investments to pre-recession levels.

<sup>1</sup> As of January 3, 2018. The Elway Poll, "Education Still Tops Public Agenda for Legislature."

<sup>2</sup> As of 2017, based on Economic Opportunity Institute analysis of Bureau of Economic Analysis data, "Per capita real GDP by state (chained 2009 dollars)."

<sup>3</sup> As of April 1, 2018. See: Washington State Office of Financial Management, "Strong population growth in Washington continues." Business number estimate from U.S. Census Bureau, "QuickFacts: Washington."

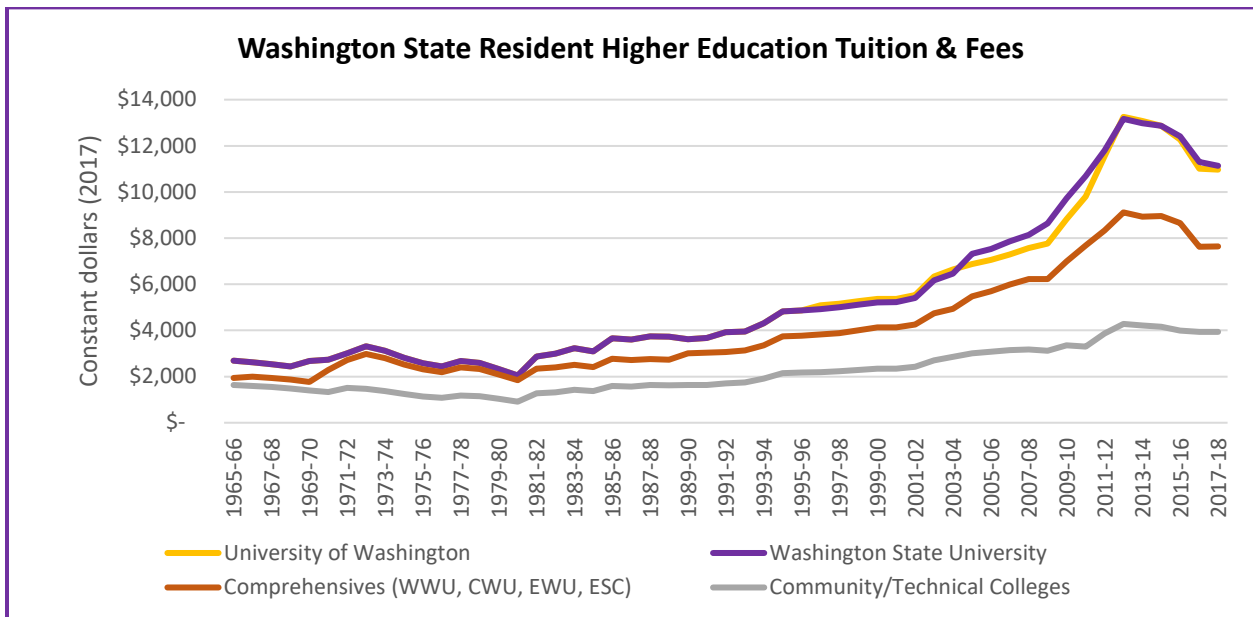
<sup>4</sup> Washington State Office of Financial Management, "Kindergarten through grade 12 (K-12) enrollment", and Caseload Forecast Council, "Higher Education FTE Student Enrollment History by Academic Year".



Sources: Washington State Fiscal Information, U.S. Bureau of Economic Analysis.  
2018-19 values are EOI interpretation of forecasts from the Washington Economic and Revenue Forecast Council.

## In Focus: The Crisis of Higher Education Costs

The high cost of higher education has become an obstacle to opportunity that creates a drag on our economy, deprives businesses of qualified workers and customers and stifles entrepreneurship. Baby Boomers were able to work a summer minimum-wage job to pay for their tuition. But in the 1980s, legislators began to steadily cut state investment in higher education. Today, the cost of a bachelor’s degree from one of Washington’s public colleges or universities often requires loan amounts that cause the state’s young people to postpone marriage, homeownership, children, and the American Dream.

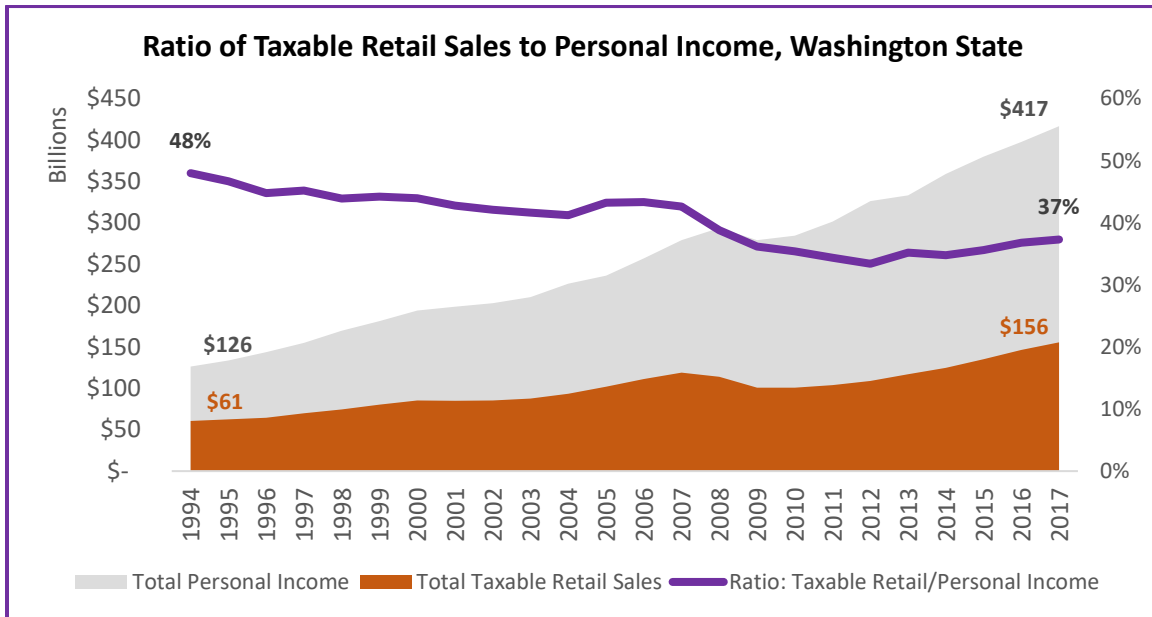


Sources: Washington State Fiscal Information website, Historical Spending Trends; Washington Office of Financial Management, Budget Drivers (Higher Education Enrollment History); Washington 4-year institution websites, State Board of Community and Technical Colleges

## Washington's Tax Structure: Unstable and Unjust

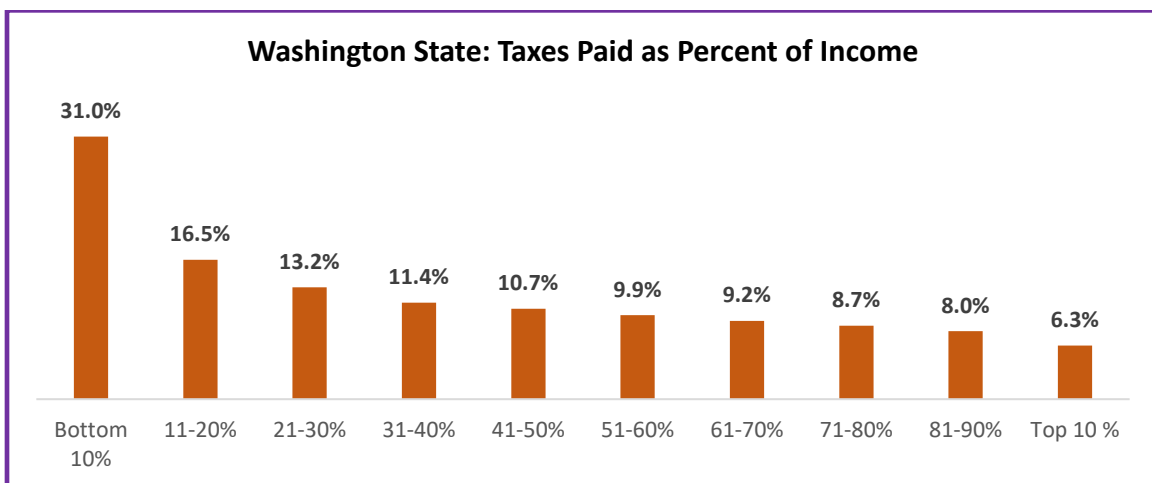
State revenue for the Operating Budget comes from a variety of taxes and fees. The largest source – by far – is the retail sales tax, which comprises 47 percent of current revenue. After that, the largest revenue sources are business and occupation taxes at 19 percent and property taxes at 14 percent.

State sales tax revenues doesn't keep up with our state's growth, even though sales tax rates have increased over the years. Through the middle part of the 20th century, when our economy was based largely on the consumption of goods, sales tax revenues largely grew with personal income. But for decades, our economy has been shifting from the consumption of goods to services – and most services are not subject to taxes.<sup>5</sup> Our economy has changed, but we haven't updated our tax system.



Source: U.S. Bureau of Economic Analysis, Per capita personal consumption expenditures by state (dollars).

Our tax system is also extremely unjust. Taxes like sales and property taxes are regressive, meaning poorer people pay proportionally more than richer people do. Washington has the dubious distinction of having the most regressive tax structure in the nation.<sup>6</sup>



Source: Washington State Department of Revenue, Washington State Tax Alternatives Model, published June 2014

<sup>5</sup> Church, Jonathan. "Explaining the 30-year shift in consumer expenditures from commodities to services, 1982–2012."

<sup>6</sup> Institute for Taxation and Economic Policy (ITEP), Who Pays – 5th Edition.

Washington's tax structure also includes large and unnecessary loopholes that benefit corporations at the expense of individuals, families, and small businesses. For example, RCW 82.04.4281(a) allows nonfinancial firms to invest money and reap dividends untaxed. It encourages large businesses to put their money into the stock market and share profits with stockholders, instead of reinvesting in jobs and communities. The Department of Revenue estimates that the budget would gain about \$200 million per year if the exemption were repealed.<sup>7</sup>

**Closing tax loopholes and exemptions** would create new funding for education, health care and other priorities. Washington has nearly 700 tax breaks, credits, and exemptions to its property, sales, and business and occupation taxes on the books.<sup>8</sup>

## The Way Forward – and What You Can Do

There are many possible solutions to bolster our state's tax structure, but they revolve around two basic principles – moving to more stable revenue sources and sharing tax obligations more evenly between wealthy residents and the rest of us.

One possibility is a **capital gains tax**, which 42 other states already have. Capital gains are profits from the sale of corporate stocks, bonds, and other high-end financial assets. This would help make Washington's tax structure somewhat less regressive, by requiring the wealthiest residents to pay a little more.

Versions of a capital gains tax introduced in the Legislature in previous years exempted retirement plans, sales of residential properties, college savings accounts, and the modest investment accounts of all but the richest 1 percent of Washingtonians. By eliminating this tax break and collecting from the very wealthy who are making millions through capital gains, our state will have more to invest in our early learning, higher education and health care.<sup>9</sup>

Allocating a portion of funds raised by a capital gains tax to fund the state **Working Families Tax Rebate** would also reduce taxes on low-wage workers. This rebate is our state's version of the federal Earned Income Tax Credit, one of the most effective programs to lift low-wage working families out of poverty. It was enacted by the Legislature in 2008 – but funding has never been allocated to get the program up and running.

While the Legislature and the governor ultimately decide how much money to raise and spend, Washington voters can – and should – play a significant role.

One of the best ways to become involved is to find an organization working on something you're passionate about. There are interest groups covering everything from agriculture to transit – and many of them keep tabs on budget and legislative developments that affect their members. Get active in one of them – or your union or faith community – and you'll learn more about what's happening and where your voice is needed.

Make sure you're in touch with your state representative or senator. Find out who they are at [app.leg.wa.gov/districtfinder](http://app.leg.wa.gov/districtfinder), and ask to receive updates about state budget issues. Let them know your priorities for funding and what kinds of changes you'd like to see in Washington's budget and tax structure.

The legislature also publishes several useful resources for learning more about what's in Washington's budget. To view or download these and other documents, visit [fiscal.wa.gov/](http://fiscal.wa.gov/) and click "Publications and Reports" under Other Resources.

Washington's budget is one of the state's most powerful policy levers we can use to address the challenges facing our families, schools and communities – so make your voice heard throughout the process!

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<sup>7</sup> Washington State Department of Revenue, "2016 Tax Exemption Study."

<sup>8</sup> Washington State Department of Revenue, "2016 Tax Exemption Study."

<sup>9</sup> Washington State Budget and Policy Center, "Closing the Tax Break on Capital Gains."