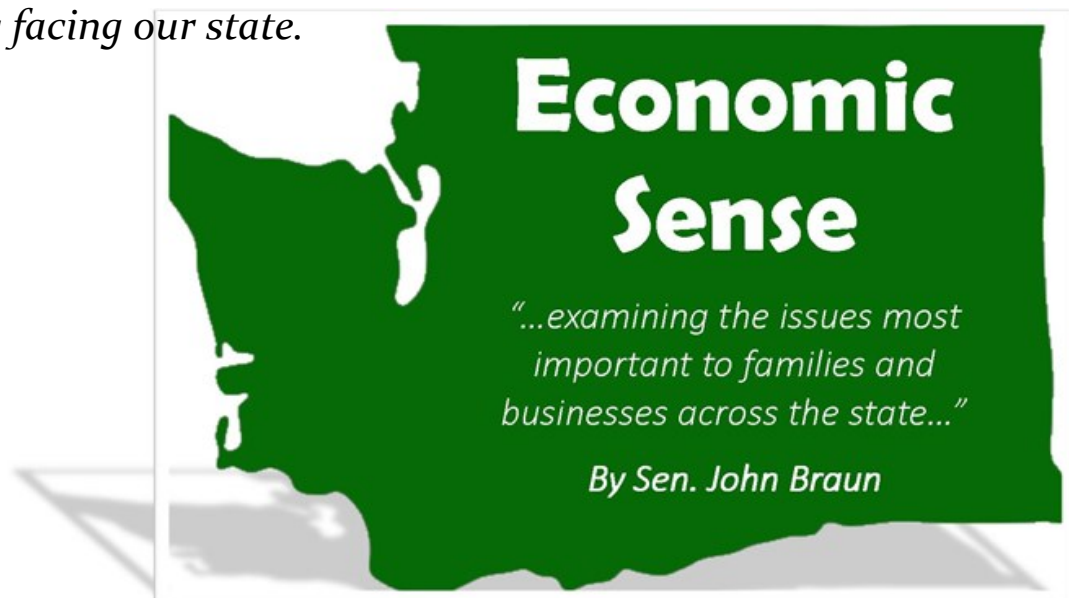


Welcome to the initial installment of "Economic Sense," a data-driven policy summary that examines economic issues facing our state.



The Bottom Line: Up Front

Two issues are explored in this policy piece:

-- MCC Impact: Protecting Taxpayers & Budget Reforms --

The first part documents how the Majority Coalition Caucus protected taxpayers by rejecting efforts to impose new taxes, raid the state's rainy day fund, and undo budget reforms with revenue gimmicks and unsustainable spending.

-- Washington -- A Low Tax State? The Facts --

The second part examines a recent quote by the House Finance Chair which compared Washington's taxation level to that of Somalia. The inference that Washington is a low-tax state is examined and rebutted.

I. MCC Impact: Protecting Taxpayers & Budget Reforms

A. 2013 Session: Protecting Taxpayers

As the legislature entered the 2013 session, the forecast was for \$2.1 billion in new money, equivalent to 7% revenue growth.¹ Governor Inslee and House Democrats both proposed over 10% budget growth, paid for by over \$1 billion in tax increases and raiding the state's constitutional rainy day fund.²

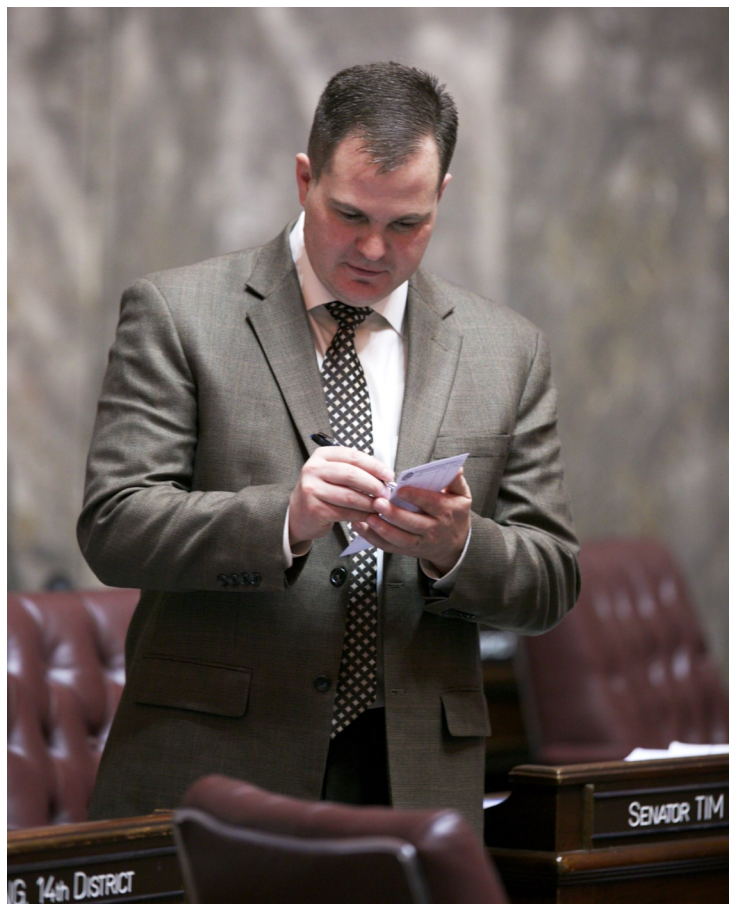
There were three fundamental problems with Democrats' proposals:

This was not a rainy day. Prudence and experience dictate that the fund be preserved for economic downturns, not used in times of revenue growth.

Voters expect promises to be kept. The Democrats' budget proposals broke previous pledges. In the Governor's case, he reversed course on a campaign pledge to not raise taxes.³ In addition, House Democrats broke a commitment to end temporary B&O and beer taxes enacted in 2010.⁴

Increased spending was not for education. Despite rhetoric to the contrary, the vast majority of additional spending in the Democrats' proposals above the MCC budget went to non-education.⁵

In the end, the MCC prevailed on the structure of the 2013-15 budget: the constitutional rainy day fund was preserved; the call for more than \$1 billion in new taxes was rejected; the commitment to let temporary B&O and beer taxes expire was kept; and the budget clamped down on requests for new non-education spending.⁶



B. 2014 Session: Protecting Budget Reforms

In 2014, the Legislature entered session with the first balanced budget in six years.

During this session, MCC leadership had to fight to maintain the structural reforms enacted in prior years. The Democrat-controlled House moved to repeal two vital reforms in their supplemental budget:

Protecting the Four Year Balanced Budget Requirement -- In what would have been a tremendous step backward from responsible budgeting had it been enacted, the House passed legislation gutting the four year balanced budget requirement.

HB 2244 proposed to count the same money twice. Eerily reminiscent of past financial shenanigans such as assuming 25 months in a 24-month budget, the proposal stemmed from a desire to move hundreds of millions of tax dollars away from the operating budget and permanently dedicate it to the capital budget. This idea would have created a significant hole in the ensuing operating budget, thus violating the four-year balanced budget requirement.

So how did the House address the hole created by their proposal? It attempted to pretend it didn't exist by amending the balanced budget statute to allow the hundreds of millions permanently shifted to the capital budget to also be counted in the operating budget for purposes of balancing.⁷

This move -- deemed a 'gimmick' by the State Treasurer⁸ -- was a return to past budgeting practices that had gotten Olympia into so much trouble.

Thankfully, the MCC-led Senate rejected this idea. Had HB 2244 been allowed to become law, it would have again opened the gates to irresponsible budgeting practices and removed the requirement to balance the budget in a sustainable manner.

Protecting Dedicated Funds for K-12 -- Also noteworthy is that HB 2244 would have gone backwards on education funding, directly contrary to the Supreme Court's order.

In the 2013 session, in recognition that education is the paramount duty of the state and that existing tax dollars needed to be prioritized, the Legislature, through the work of the MCC, directed almost \$400 million a biennia in tax revenues from the capital budget and into the operating budget's Education Legacy Trust Account to finance education improvements for this biennia and into the future.⁹ A year later, HB 2244 proposed undoing that action entirely.

Had this proposal been enacted, the resources available to be spent on K-12 would have been reduced by nearly \$800 million over the next two budget cycles.¹⁰

II. Washington -- A Low Tax State? Here are the facts:

On April 12th the House Finance Chair's Blog stated:

“We cannot continue to have Somalia level taxes and Denmark level services.”

Part of the push for new taxes is reflective of Democrats' genuine belief that taxes are too low in Washington. This sentiment is captured the House Finance Chair's quote above made earlier this spring. This quote is troubling on several fronts:

- First, it's wild hyperbole;
- Second, this quote comes from the person who is lead on tax policy in the House of Representatives, a position from which one would expect more reasoned, thoughtful statements; and
- Third, it's a viewpoint shared – if not in tone, then in substance -- by others in House Democrat leadership roles. For instance, the House budget writer, last month wrote, “We've turned into a low-tax state.”¹¹

Luckily, it is easy to examine this assertion that Washington is a low-tax state. The Washington Department of Revenue issues an annual report entitled, “Comparative State & Local Taxes” (See Chart Below).¹² How does Washington fare?

State & Local Taxes Combined¹³

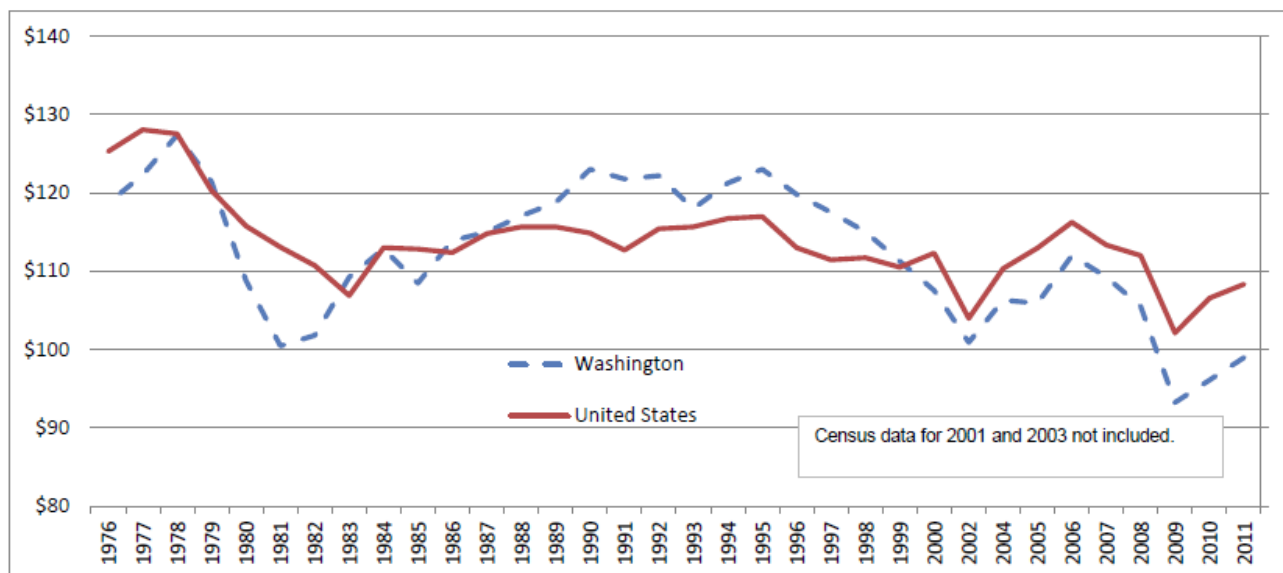
21st in per capita taxes

35th in taxes per \$1,000 of personal income

State Taxes Only¹⁴

19th in per capita

30th in per \$1,000 of personal income



State and Local Taxes Per \$1,000 of Personal Income

Washington and All States Average 1976 - 2011

So, depending on the measure, Washington is either slightly above or below the median state under the Dept. of Revenue's analysis. On a per person basis, Washington collects more than the median state while Washington collects less than the median state on a total personal income basis. (It's worth noting that the relative low ranking of Washington on personal income taxation is a trait shared by other states that don't have a state income tax.¹⁵) Combining the two measures, especially for state taxes, yields an outcome that Washington is essentially in the middle when it comes to the level of state taxation.

However, even this analysis isn't truly a complete picture of taxation in Washington. As the Department of Revenue notes, the report includes all state and local taxes, according to definitions used by the Census Bureau. Taxes are defined to "include compulsory payments which are not related to particular governmental services."¹⁶ What this number does *not* include are employer taxes for unemployment insurance and workers' compensation because these taxes are earmarked for a specific program.

And how does Washington rank with regard to these two employer taxes? In the most recent year for comparative data --

- **Unemployment Insurance** -- Washington's unemployment insurance taxes were the tenth highest in the country at \$672 per average full time employee. Nationally, the average was \$473.¹⁷
- **Workers' Compensation** – Washington employers paid the highest workers' compensation benefits in the country at \$857 per covered worker. Nationally, the average was \$459.¹⁸

Taken together, the data shows that it is inaccurate to suggest Washington is a low tax state. For taxes that support the state budget, Washington ranks in the middle of the country. When looking at taxes incurred on employers for unemployment insurance and workers' compensation, Washington is one of the highest in the nation.



Footnotes

1. Nov. 2012 revenue forecast, p. 82. <http://www.erfc.wa.gov/publications/documents/nov12pub.pdf>
2. Legislative Evaluation and Accountability Program (LEAP), NGFS+Opp. Pathways + Hosp. Assessment. The 2012 enacted budget was \$31.7 billion. Inslee proposed a \$34.9 billion budget. House Democrats a \$35.2 billion budget.

See budget proposals from Gov. Inslee (<http://ofm.wa.gov/budget13inslee/default.asp>) and House Democrats (http://leap.leg.wa.gov/leap/Budget/Detail/2013/hoOverview_0410.pdf).
3. "Inslee says he'd veto tax increases", Seattle Times, Oct. 12, 2012 <http://blogs.seattletimes.com/politicsnorthwest/2012/10/12/inslee-says-hed-veto-tax-increases/>
- "Inslee still says no new taxes needed for Wash. Budget", Associated Press, Jan. 10, 2013 http://www.oregonlive.com/politics/index.ssf/2013/01/washington_governor-elect_insl.html
4. The commitment was that the tax increase on service businesses and beer would be temporary, expiring at the end of fiscal year 2013. See 2010 Legislative Budget Notes, p. 19. <http://leap.leg.wa.gov/leap/budget/lbns/2010partiii.pdf>
5. When looking at the increased spending above the level proposed in the initial bipartisan 2013-15 Senate budget, 2/3rds of the House's went to non-education and 3/4ths of Gov. Inslee's went to non-education. Source: LEAP functional area analysis, NGF + Opp. Pathways.
6. 2013 Washington State Legislative Budget Notes. <http://leap.leg.wa.gov/leap/budget/lbns/2013toc.asp>
7. See section 6 of SHB 2244. <http://wsldocs/2013-14/Pdf/Bills/House%20Bills/2244-S.pdf>
8. <https://www.washingtonpolicy.org/blog/post/1045-pm-public-hearing-no-public-testimony-surprised>
9. ESHB 2051. <http://aor/billsummary/default.aspx?bill=2051&year=2013>
10. Projected impact of \$769 million through FY 19. <https://app.leg.wa.gov/CMD/Handler.ashx?MethodName=getdocumentcontent&documentid=14MQQd58s9M&att=false>
11. <http://www.rosshunter.info/2014/03/2014-supplemental-budget/>
12. <http://dor.wa.gov/Content/AboutUs/StatisticsAndReports/2011/Compare11/default.aspx>
13. Id., p. 6 & 14.
14. Id., p. 9 & 16.
15. There are nine states without a personal income tax. The comparative state/local tax burden per \$1,000 personal income is: Alaska - 1st (most revenue comes from oil); Wyoming - 4th (most revenue from severance tax); Nevada -- 28th; Washington - 35th; Texas -- 39th; New Hampshire - 41st; Florida - 44th; Tennessee -- 49th; and South Dakota - 50th. If you exclude the two natural revenue based outliers, the average ranking in taxes per \$1,000 of personal income in the other seven states without an income tax is 41st.
16. Id., p.3.
17. 2014 Competitiveness Redbook, WashACE (Table 24, source: U.S. Dept. of Labor, Employment and Training Administration, UI Data Summary)
18. 2014 Competitiveness Redbook, WashACE (Table 26, source: National Academy of Social Insurance)