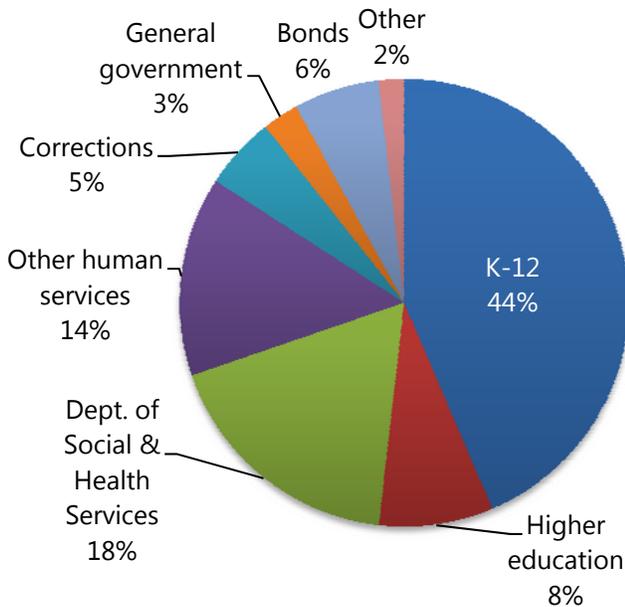


Washington State Budget 101

2011-13 General Fund Budget (\$31 billion)



What's the General Fund?

Every 2 years the Legislature and Governor adopt a budget.

The General Fund Budget, including closely related funds, is based on state tax revenues. In addition to the General Fund, the state receives money from the federal government for specific services, such as Food Stamps, Medicaid, and children's health.

The state also has separate budgets for transportation, funded mostly by the gas tax, and capital construction.

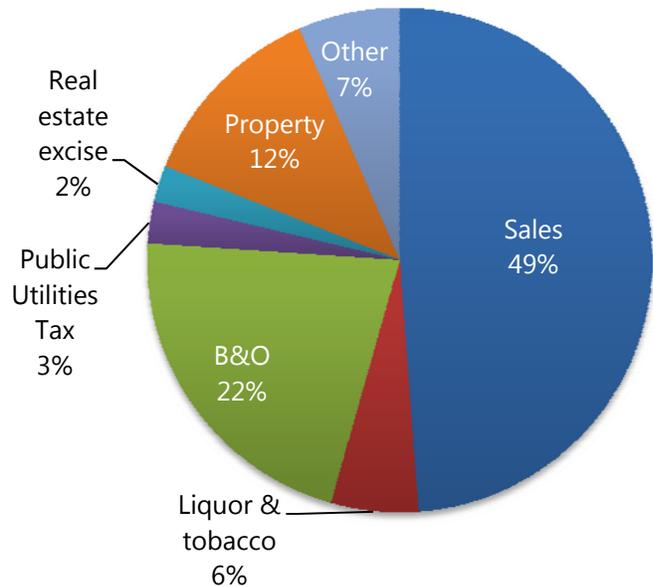
Budget Revenue by Source

Where does revenue come from?

Sales taxes fund half the budget. The state collects 6.5% on sales of most goods, construction and repair services. Local governments collect additional sales tax.

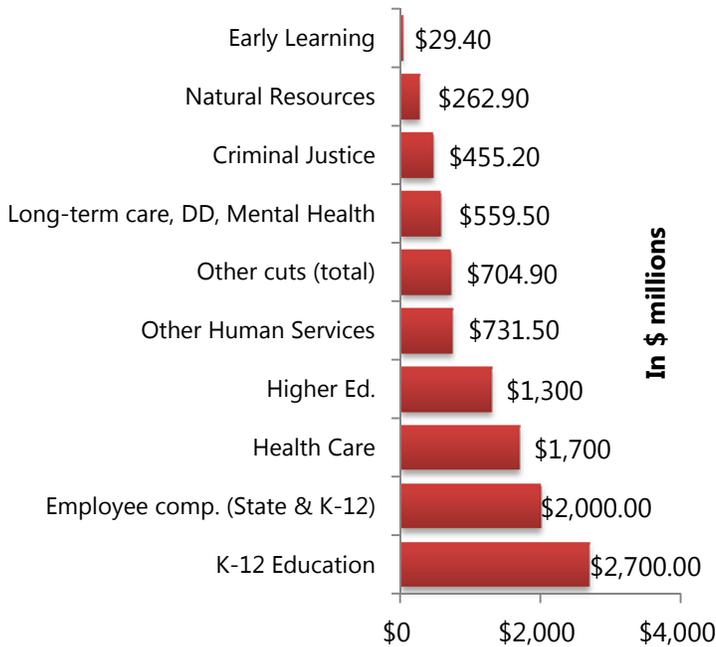
Business taxes include the Business & Occupation Tax (B&O) and Public Utilities Tax (PUT).

Property taxes mostly fund services in local communities, but about 20% goes to the state to support public schools.



Recession Era Budget Cuts – 2009 through 2011

WA STATE BUDGET CUTS IN \$ MILLIONS, OVER 3 YEARS



Source: Governor's 2012 Supplemental Budget Proposal Highlights

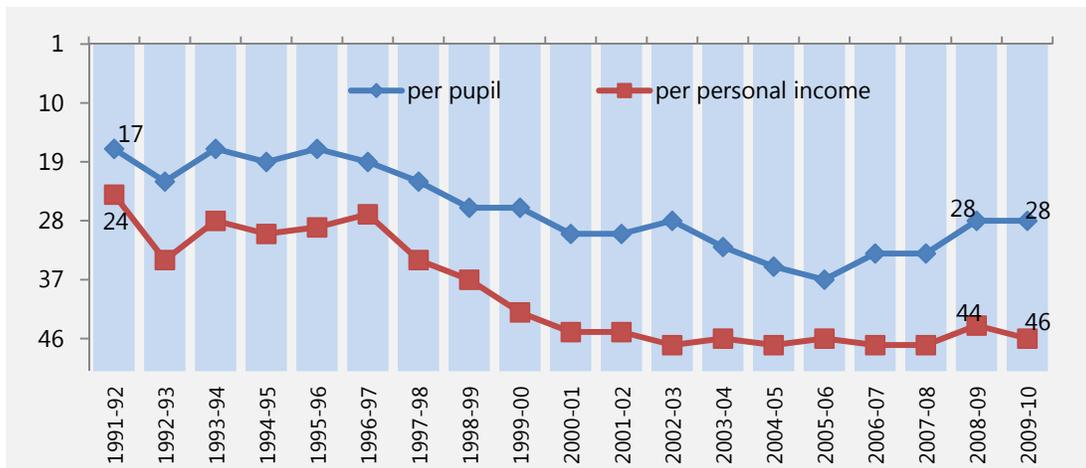
Cuts from 2009-11 include:

- K-12 education:** Elimination of student achievement funds & teacher cost of living adjustments; 7,000 fewer K-12 employees.
- Higher education:** 4-year college funding reduced 40%, 2-year reduced 20%, with large tuition increases.
- Health:** 60,000 people cut from Basic Health.
- Children's services:** Fewer children receiving health, childcare, and other services.
- Elder care:** Reduced home-care hours for vulnerable seniors and disabled.
- Cuts to state agencies:** Agency consolidation, elimination of jobs – and public services.
- State employees:** Layoffs, furloughs, and higher contributions for health insurance.

20 Years of Declining Support for Education

Washington's rank among the states in public school spending has been falling for two decades. In the latest figures, Washington ranked 28th in per pupil spending and 46th relative to the income of state residents. In the McCleary decision, the courts have ruled the state *must* invest more. The level of state support for higher education also has fallen for years and plummeted with the recession, putting the dream of a college education – and the jobs of the future – out of reach for many.

WASHINGTON'S RANK AMONG THE STATES IN K-12 PUBLIC SCHOOL SPENDING

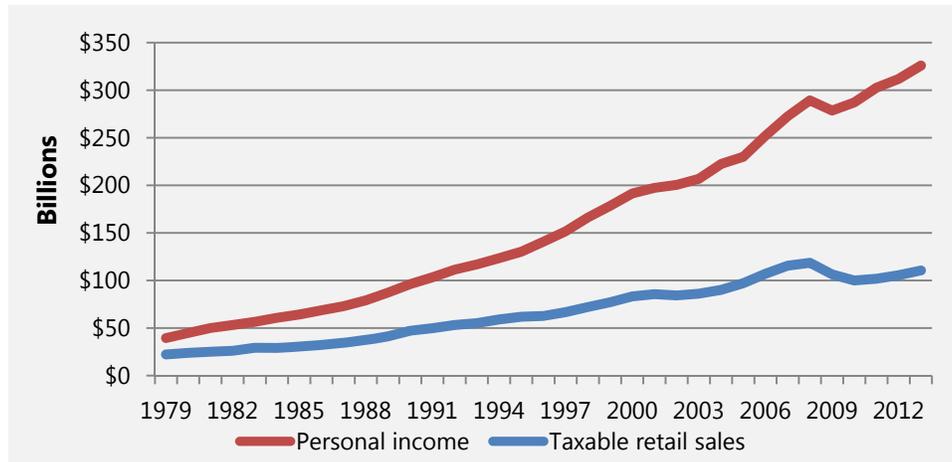


Source: US Census Bureau

Washington's tax code guarantees future revenue shortfalls

Our heavy reliance on the sales tax is a major reason Washington is falling behind. People are spending more on services, which are mostly not subject to tax, and buying more over the internet, largely tax-free. Most other states have a state income tax balancing out sales, business, and other taxes. Unlike the sales tax, revenues from income taxes keep pace with economic growth and recover more quickly after a recession, allowing other states to increase investments in education as the economy changes.

GROWTH IN PERSONAL INCOME VS. GROWTH IN SALES SUBJECT TO SALES TAX, WASHINGTON, 1979-2012

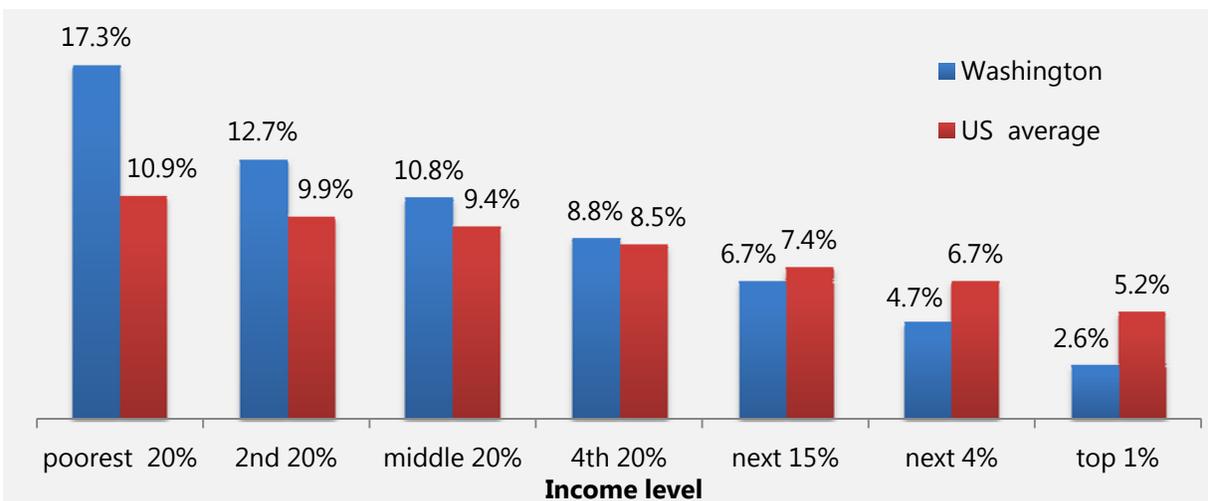


Sources: U.S. Bureau of Economic Analysis and Washington Economic and Revenue Forecast Council

The Equity Gap: Lower tax rates for higher incomes

The heavy reliance on sales tax and lack of a state income tax, make Washington's the **most regressive tax system** in the country. That means that low- and moderate-income people in Washington pay more in state and local taxes than in other states, while the highest income contribute far less.

PERCENT OF INCOME PAID IN TAXES, WASHINGTON STATE AND U.S. AVERAGE



Source: Institute for Taxation and Economic Policy

Revenue Reform Options

Education reforms alone will require at least \$1 billion in new public revenue in the 2013-15 biennium, with the bill for full implementation of K-12 reform rising to a likely \$6 billion by 2017-19. Where could that money come from – without starving the services that protect and raise the quality of life for all?

Small steps

End Tax Preferences	2013-15 Revenue \$ millions
End sales tax exemption on securities trading, investment management, financial planning	\$103.4
End sales tax exemption on custom software	\$78.6
B&O tax for farms with gross annual income over \$200,000	\$64
End sales tax exemption for non-organic fertilizers and sprays	\$92.3
End sales tax exemption for consumer services (hair & personal care, admissions, sport lessons, tax preparation)	\$90.9
Progressive Rate Increases	
Extend 0.3% B&O tax surcharge on services	\$536
Increase petroleum manufacturing tax rate to 1%	\$114.2
Luxury tax on motor vehicles, vessels, aircraft - 10% over \$50,000	\$66.4
Total	\$1,146

New Revenue Streams – Capital Gains Excise Tax

A 5% capital gains tax with exemptions to exclude middle- and lower-income state residents (as proposed in 2012 in HB 2563), would raise \$1.4 billion per biennium – enough for significant progress toward education reform goals.

Tax System Overhaul – The Long Term Solution

The 2002 Tax Structure Study Committee (Gates Commission) and earlier bipartisan commissions have recommended the key elements for a sustainable revenue system, including:

1. **Adding a personal income tax** – 43 states have a personal income tax, which helps assure revenue growth as the economy changes, and makes the tax system more fair across incomes.
2. **Lowering the sales tax** – will offset the impact of a new income tax for low- and moderate-income households, and promote equity for small and expanding businesses.
3. **Making business taxes more equitable** – Washington's business taxes could be made more fair for small, new, and expanding firms, for instance by allowing deductions for key expenses.