

The background is a grayscale collage of various items related to finance and accounting. It includes a close-up of a beaded abacus, a sharp pencil, a calculator, and a receipt with numerical data. The central text is overlaid on a white rectangular box.

AX AND TAX

A budget-
balancing
exercise

INTRODUCTION

Ax and Tax: A budget-balancing exercise was created by the staff of the Senate Ways and Means Committee to be used as a teaching tool in exploring and discussing the challenges faced when attempting to balance the state budget.

This exercise gives students a first-hand account of the inherent difficulties encountered when attempting to adequately balance the immediate needs of the citizens of Washington state with financial responsibility and adequate future planning. When utilized in a group setting, students encounter even further difficulties when they attempt to obtain a majority of votes for their “budget plan.”

So, follow along as the legislative session commences and see how similar your choices were to those of the legislature.

Happy budget balancing!

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Ax and tax: a budget-balancing exercise

For the last few years, as a result of an economy that had rebounded from the last economic downturn, writing the budget has been relatively easy. Oh, how times have changed. Over the last twelve months, the housing bubble burst and the overall economy has significantly deteriorated. As a result, in just the last year, there has been over a \$3 billion decline in projected state revenues for the next three years. This revenue downturn and other budget pressures mean that the Legislature is now facing the worst budget problem in the last thirty years. In fact, the current projected deficit in the major state funds considered as part of the state budget process is approximately \$6 billion.

Think the job of a legislator is easy? Now, you get step into their shoes and say how you would balance the budget. Better yet, try this exercise with a big group of people. Remember, you have to get a majority of them to go along with every proposal.

1. What are your reserves to address the problem? <i>First, take stock of the reserves you have available to help address the budget deficit. Unfortunately, as a result of the revenue decline, at most, you only have \$709 million in reserves.</i>	
	COLUMN ONE
General Fund Balance (including anticipated revenue receipts)	None it is actually projected to have a negative fund balance
Budget Stabilization In 2007, the legislature adopted ESSJR 8206, which established a budget stabilization account. 1% of general fund revenues must be transferred annually into this account and a 3/5 vote is required to expend from this account, unless employment growth has fallen to less than 1% or there is a state of emergency due to a catastrophic event, which it has as a result of the economic downturn.	\$709 Million
Starting Balance (General Fund Balance + Budget Stabilization)	\$0.7 Billion

2. What are your priorities for increases (if any)? <i>Second, there are a few important decisions you have to make — decisions that could make the budget problem even larger. You need to decide if you want, even in these tough economic times, to enhance, expand and/or create particular types of state services?</i>	
Keeping up on college Want to add enough enrollment slots at the state's colleges and universities to keep up with the baby-boom echo? To fund, add another \$75 million .	<input type="checkbox"/> \$75 M
How about providing an increase to social service and other contracted providers of state services? The state contracts with a variety of contractors including those that provide services for the developmentally disabled, seniors, and low income citizens. If the	<input type="checkbox"/> \$200 M

state does not provide a rate increase to those contractors, they might reduce services for some of the clients. To fund, add another \$200 million .	
Family and medical leave insurance The birth/adoption of a child is not only difficult, but expensive. And, trying to balance these demands with a full-time job is even harder. Last year the Legislature established a paid leave program would provide individuals with much-needed financial support and security. To fund, add another \$75 million .	<input type="checkbox"/> \$75 M
Puget Sound clean up Protection and restoration activities will clean up toxic waste and remove creosote logs and structures: \$9 million .	<input type="checkbox"/> \$9 M
Affordable housing Additional state funding will expand affordable housing for homeless families in Washington and provide services (such as job training, child care, and domestic violence counseling) to support a successful transition from homelessness to permanent housing: \$6 million .	<input type="checkbox"/> \$6 M
Family planning services Additional state funding for family planning will restore service to nearly 10,000 clients who were previously ineligible in order to help the state avoid higher costs associated with unintended pregnancies and sexually transmitted disease infections among underserved populations: \$5 million .	<input type="checkbox"/> \$5 M
In-Person Verification of Sex Offenders' Location To ensure local law enforcement agencies have the resources needed to verify in-person that all registered sex offenders are living where they say they are. Level III sex offenders, those most likely to re-offend, will be visited every 3 months, Level II offenders will be visited twice each year and Level I offenders will be visited annually. State funds have not been provided for these local law enforcement activities. This increased monitoring of sex offenders will cost \$5 million .	<input type="checkbox"/> \$5 M
	COLUMN ONE SUBTOTAL <input type="text"/>

2. Want to decrease taxes?

Given the overall state of the economy, some have suggested that decreasing particular kinds of taxes would stimulate the economy or provide some much needed relief to certain kinds of taxpayers. Do you buy this argument? If so, below are some examples of some taxes that could be lowered.

However, when deciding whether to lower taxes keep in mind that any lowered taxes will make your budget problem larger. Also, you need to consider whether lowering taxes for particular types of taxpayers will create an uneven tax burden among Washington's citizens. Too much taxation will be burdensome on both private citizens and businesses. If business perceives the state as being unfriendly and leaves, who supplies the needed jobs? If private citizens cannot afford to pay their taxes, how can they be prosperous and viable participants in the good of the state? Either way, finding an equitable balance of revenue is tricky. Can you make it work?

	COLUMN TWO
Decrease property taxes? Although total property taxes in the state are limited to a 1% increase each year, some individuals taxes are increasing much faster than others as a result of increases in the value of their property. Do you offer some relief? To reduce the tax collection by 20% over the next two years would cost \$600 million .	<input type="checkbox"/> \$620 M
Reduce sales and use taxes? The majority of individuals and business in the state are subject to the sales and use tax. Many entities feel that their burden of this tax is more than for others. Want to provide a little relief? Exemptions for prescribed durable medical equipment: \$25 million	\$ _____
Reduce Business and Occupation taxes? Some business owners feel that the B&O tax makes Washington state an unfriendly environment in which to conduct business. Want to provide them a break? Deduction for the sale of certain prescription drugs: \$2 million Tax credit for high technology research and development spending: \$2 million Reduce the threshold for reporting and filing requirements: \$52 million	\$ _____
	COLUMN TWO SUBTOTAL <input type="text"/>

3. Major Spending Cuts

OK, now we get to the difficult part. You have to review some possible spending cuts to close the budget deficit and pay for your other budget priorities. State government has hundreds of programs, so this list is far from complete. But it should give you a sense of how deep you will have to cut.

	COLUMN THREE
<p>Eliminate big portions of state government Want to close over half of the \$6 billion deficit with one swing? To get the job done, you would have to lop off a vast swath of state government. For instance, try eliminating all of these: University of Washington; Western Washington University; Department of Health; State Patrol; Department of Ecology; Veterans Affairs; Natural Resources; Agriculture; State Parks and Recreation Commission; State School for the Blind; Human Rights Commission; Children's (Child Protection) Administration; Juvenile Rehabilitation; Alcohol and Substance Abuse; State Supreme Court; State Senate and House of Representatives. Go ahead, try it. Savings: \$3.1 billion.</p>	<div> <input type="checkbox"/> </div> <p>\$3.1 B</p>
<p>Overall cut to state government One of the simplest ways to trim spending is with across-the-board cuts to state government. Savings: \$200 million for every 1 percent cut to all state agencies, colleges and universities (but excluding K-12 education). It would take more than a 30 percent across-the-board cut to close the entire deficit. All things created equal? This approach means you have cut state troopers just as deeply as, say, outdoor recreation. And, overall, human service programs would have to bear more than two-thirds of any across-the-board cut.</p>	<div> <input type="checkbox"/> </div> <p>\$200 M</p> <p>X</p> <div> <input type="checkbox"/> % </div> <p>=</p> <div> <input type="text"/> </div>
<p>(Very) Basic Health Plan? Unlike other states, Washington provides subsidized health insurance to about 100,000 low-income people who do not qualify for other medical assistance. Savings: \$600 million if you eliminate the program altogether; or \$250 million if you simply reduce the state subsidy by slightly over 40 percent and force recipients to pay a bigger share or reduce the number of people covered. Un-cover the working poor: If cutbacks to the Basic Health Plan leave people uninsured, who pays for their care?</p>	<div> <input type="radio"/> </div> <p>\$600 M</p> <div> <input type="radio"/> </div> <p>\$250 M</p>
<p>No teacher raises Voters in 2000 approved Initiative 732, promising teachers and other school employees annual cost-of-living raises. The legislature suspended them in the 2003-05 biennium. Savings: \$390 million if you overturn, or at least suspend, the pay-raise initiative. Or you could ask voters to approve a tax increase to cover the raises. Pick one when you get to the taxing part of the game.</p>	<div> <input type="checkbox"/> </div> <p>\$390 M</p>

<p>Lower funding for class-size reduction Aside from teacher raises, voters in recent years overwhelmingly approved two other big-spending measures. I-728 steers more money toward class-size reduction efforts. Savings: \$180 million if you reduce this class-size reduction funds by around 20 percent.</p>	<input type="checkbox"/> \$180 M
<p>No state employee raises State and higher education employees are slated to get cost-of-living raises of approximately 2 percent per year. If you don't provide raises, it might make it harder to attract and retain quality staff. Savings: \$197 million if you don't provide funding for the salary increases for state and higher education employees that are represented by unions and similar increases to non-represented employees.</p>	<input type="checkbox"/> \$197
<p>Reduce state employee pay and benefits Let's say you want to make further reductions to the pay and benefits of government workers. About one-fifth of all state spending goes toward salaries and benefits for more than 100,000 state government and higher-education employees. Savings: \$220 million if you impose a 5 percent across-the-board pay cut. Save another \$130 million by forcing state workers to pay 20 percent (they now pay 12 percent) of their health-care costs. Earnings erosion: State workers have already not received cost-of-living raises in 3 of the last 10 years and in recent years have been forced to pay more for health care.</p>	<input type="checkbox"/> \$220 <input type="checkbox"/> \$130
<p>Save through reduced supervision Keeping criminals locked up is expensive. Grant early release to lower risk offenders or those convicted of misdemeanors and you could save lots of money. Are you comfortable reducing parole/supervision for about half of the current 30,000 offenders supervised by the Department of Corrections? Savings: \$69 million.</p>	<input type="checkbox"/> \$69 M
<p>Overall cuts to higher education Higher education is one of the state's biggest expenses. You could do an across-the-board cut averaging around 13 percent to all four-year colleges and universities and 6 percent to the community and technical colleges. Savings: \$370 million</p>	<input type="checkbox"/> \$370 M
<p>Capping tort claims In recent years, the state has been forced to pay huge sums in damage claims. Some legislators want to limit state-government liability payouts to \$1 million to \$2 million. Savings: \$40 million No-man's land: You might be wading into a crossfire between trial lawyers and big business.</p>	<input type="checkbox"/> \$40 M

Reductions in the arts programs The state spends money each year to boost arts participation and the amount of art in public places. Savings: \$5 million if you eliminate the Washington State Arts Commission	<input type="checkbox"/> \$5.2 M
Cuts to Low Income Health Care Coverage The state currently provides medical assistance for approximately 16,500 individuals eligible for General Assistance Unemployable (GAU). GAU is a state-funded program that provides cash and medical benefits for people who are physically and/or mentally incapacitated and unemployable for 90 days from the date of application. Savings: \$230 million if you drop health care coverage for these individuals (see budget grab bag section if you want to eliminate the cash grants), but keep in mind that if they don't have health care coverage or some amount of income, they may become public safety risks or cause even greater costs when they show up in emergency rooms.	<input type="checkbox"/> \$40 M
	COLUMN THREE SUBTOTAL <input type="text"/>

4. Budget Cut Grab Bag	
	COLUMN FOUR
Eliminate the cash grant program to 16,500 individuals eligible for General Assistance Unemployable for unemployable poor adults: \$156 million.	<input type="checkbox"/> \$156 M
Reduce nursing home reimbursement rates by about 7.5 percent: \$46 million.	<input type="checkbox"/> \$46 M
Eliminate funding for secure crisis shelters for teens: \$9 million.	<input type="checkbox"/> \$9 M
Eliminate funding for the emergency food assistance program: \$12.4 million.	<input type="checkbox"/> \$12.4 M
Cut spending on goods and services — from paper clips to printing — by one-fourth: \$200 million.	<input type="checkbox"/> \$200 M
Eliminate the Council for Children and Families which coordinates child abuse and neglect prevention activities: \$1.5 million.	<input type="checkbox"/> \$1.5 M

Close the State Film Office, which tries to attract Hollywood producers to Washington: \$500,000.	<input type="checkbox"/> \$0.5 M
Eliminate education funding for the Pacific Science Center, the Cispus environmental camp, the LASER science program: \$8.6 million.	<input type="checkbox"/> \$8.6 M
Eliminate funding for tourism marketing: \$4.2 million.	<input type="checkbox"/> \$4.2 M
Eliminate enforcement and regulatory oversight of financial institutions: \$12 million.	<input type="checkbox"/> \$12 M
Halt Department of Health food safety/shellfish protection program: \$5.9 million.	<input type="checkbox"/> \$5.9 M
Close Palmer Ponds and Bellingham fish hatcheries and reduce miscellaneous activities related to fish production: \$8.1 million	<input type="checkbox"/> \$8.1 M
Close 13 lower priority state parks: \$3.3 million.	<input type="checkbox"/> \$3.3 M
Eliminate tobacco tax-enforcement program: \$3.9 million.	<input type="checkbox"/> \$2.6 M
End state Capitol campus tours: \$616,000.	<input type="checkbox"/> \$616,000
Eliminate publishing of state voter's pamphlet and related activities: \$4 million.	<input type="checkbox"/> \$4 M
Eliminate funding for homicide investigation tracking by the Attorney General's Office: \$2.2 million.	<input type="checkbox"/> \$2.2 M
Cut funding for eradication of noxious weeds: \$2 million.	<input type="checkbox"/> \$2 M
Reduce litter pickup activities by Department of Ecology crews: \$4 million.	<input type="checkbox"/> \$4 M
Reduce spending on personal bodyguards for the governor and lieutenant governor by 50 percent: \$1.3 million.	<input type="checkbox"/> \$1.3 M

Reduce funding for Poison Control Center by 50 percent: \$2 million.	<input type="checkbox"/> \$2 M
Eliminate free colorectal cancer exams to individuals between 50 and 64 years old who are below 250% of the federal poverty level: \$1.9 million.	<input type="checkbox"/> \$1.9 M
Halt state assistance for local economic development: \$20 million.	<input type="checkbox"/> \$20 M
Eliminate international agriculture marketing: \$2.2 million.	<input type="checkbox"/> \$2.2 M
Eliminating customer service staff in the Department of Fish and Wildlife's regional offices. This will require the public to purchase hunting and fishing licenses from private vendors: \$1.7 million.	<input type="checkbox"/> \$1.7 M
	COLUMN FOUR SUBTOTAL <input type="text"/>

5. Larger Revenue Raising Options

Can't do it on cuts alone? Well, your only other option is to find more money. Here are some things you could do to boost income, including a list of tax or "revenue enhancement" ideas.

Turning to taxes

	COLUMN FIVE
<p>The \$6 billion tax The backbone of the budget, Washington's 6.5 percent sales tax, raises nearly \$7.5 billion a year. The sales tax hasn't been increased since the early 1980s, but some people want a temporary bump. How high can you go? Increasing the sales to 6.6 percent would raise \$230 million over the next two years. Go to 7 percent, you get \$999 million. Need more? A 7.5 percent tax will raise \$2 billion.</p>	<input type="checkbox"/> \$230 M (raise sales tax to 6.6%) <input type="checkbox"/> \$1,150 M (raise sales tax to 7%) <input type="checkbox"/> \$2.3 B (raise sales tax to 7.5%) <input type="checkbox"/> \$0 (keep sales tax at 6.5%)
<p>Bread-and-butter tax? Since the late 1970s, food purchases have been exempt from sales taxes. In the early 1980s, the Legislature lifted the exemption for 14 months to help close a</p>	<input type="checkbox"/>

<p>budget crisis comparable to this one.</p> <p>Lifting the exemption on food purchases for two years would raise nearly \$1.7 billion. Keep in mind, the sales tax is already criticized as unfair because poor people are forced to pay as much tax on a loaf of bread as the rich.</p>	<p>\$1.7 B</p>
<p>Increase the B&O tax</p> <p>The business-and-occupation (B&O) tax, the state's second largest source of income, will bring in more than \$6 billion over the next two years.</p> <p>A 10-percent surtax on all rates would raise \$450 million. A 25-percent surtax would raise about \$1.1 billion.</p>	<p><input type="checkbox"/></p> <p>\$6 B</p> <p><input type="checkbox"/></p> <p>\$1.5 B</p> <p><input type="checkbox"/></p> <p>\$604 M</p> <p><input type="checkbox"/></p> <p>0</p>
<p>Increase property taxes</p> <p>Also known as the "school levy," the state property tax – about \$1.92 on every \$1,000 in property value – will raise about \$3.1 billion over the next two years. Under state law, the highest you can go on the property tax is \$3.60 per \$1,000.</p> <p>Up a quarter: Increasing the levy by 25 cents would raise nearly \$472 million. A \$1 bump gets you nearly \$1.3 billion.</p> <p>This is already our most unpopular tax. Any increase would require a two-thirds vote of the Legislature or approval from the voters.</p>	<p><input type="checkbox"/></p> <p>\$472 M</p> <p><input type="checkbox"/></p> <p>\$1.9 B</p> <p><input type="checkbox"/></p> <p>0</p>
<p>Create a personal income tax?</p> <p>Unlike almost every other state, Washington has no personal income tax. There have been several futile attempts in decades past to impose one.</p> <p>A 1 percent personal income tax would raise nearly \$4.9 billion in the next two years. Keep in mind, to do this you'd have to convince an anti-tax electorate to amend the Constitution.</p>	<p><input type="checkbox"/></p> <p>\$4.9 B</p>
	<p>COLUMN FIVE SUBTOTAL</p> <p><input type="text"/></p>

6. Smaller Tax Increase Grab Bag	
	COLUMN SIX
5 cent tax per 12-ounce soft drink: \$277 million .	<p><input type="checkbox"/></p> <p>\$277 M</p>
Extend existing sales tax to haircuts and beauty services: \$52 million .	<p><input type="checkbox"/></p> <p>\$52 M</p>
2 percent sales tax on sporting goods: \$57 million .	<p><input type="checkbox"/></p> <p>\$57 M</p>
Increase liquor tax \$1 per liter: \$58 million .	<p><input type="checkbox"/></p>

	\$58 M
Extend sales tax to golf and bowling lessons: \$5.5 million.	<input type="checkbox"/> \$5.5 M
Extend sales tax to dance studios: \$2.5 million.	<input type="checkbox"/> \$2.5 M
1 percent tax on admission to movies, concerts and sporting events: \$12 million.	<input type="checkbox"/> \$12 M
Extend sales tax to bakery products: \$54 million.	<input type="checkbox"/> \$54 M
50 cent increase in cigarette tax: \$206 million.	<input type="checkbox"/> \$206 M
Extend sales tax to cable television: \$60 million.	<input type="checkbox"/> \$60 M
Property tax levy dedicated to parks: \$14 million.	<input type="checkbox"/> \$14 M
	COLUMN SIX SUBTOTAL <input type="text"/>

Hitting the brakes on tax breaks

We forgo billions each year through tax exemptions. There are more than 430 separate tax breaks on the books, covering everything from hops and bubble gum to prescription drugs and high-tech manufacturing equipment. Lawmakers approved more than 100 new tax breaks during the booming 1990s.

7. Eliminating Tax Breaks	
	COLUMN SEVEN
Sales tax on manufacturing equipment: \$369 million.	<input type="checkbox"/> \$369 M
Sales tax on newspapers: \$31 million.	<input type="checkbox"/> \$31 M
Sales tax on prescription drugs: \$501 million.	<input type="checkbox"/> \$501 M
Sales tax on gasoline (We already pay a per gallon gas tax): \$520 million.	<input type="checkbox"/>

	\$520 M
Sales tax on agricultural feed and seed: \$103 million.	<input type="checkbox"/> \$103 M
Sales tax on vehicles using clean alternative fuels: \$8 million.	<input type="checkbox"/> \$8 M
	COLUMN SEVEN SUBTOTAL <input type="text"/>

8. Other Options

	COLUMN EIGHT
Legalized gambling The push is on to expand legalized gambling. One idea—to allow electronic slot machines in cardrooms, restaurants, bars, bowling alleys and racetracks—would raise nearly \$80 million over the next two years. A state lottery run "Quick-draw Keno" would bring about \$36 million to the general fund. But such proposals could hurt Indian tribes, which rely heavily on gambling income. And a powerful group of former governors and community leaders has joined to fight expanded gambling.	<input type="checkbox"/> \$80 M <input type="checkbox"/> \$36 M
How about donations? OK, so you've made all the cuts you can stomach and you're all taxed out. But you still need a little more dough for the deficit. Why not pass the hat? That's what they did down in Oregon, when their budget was even worse off than ours. Right there on the front page of the state's Web site was this link: "Donate to the State of Oregon," with instructions on where to send your check.	<input type="checkbox"/> ENTER ANY AMOUNT
	COLUMN EIGHT SUBTOTAL <input type="text"/>

Ax & Tax Budget Balancing Tally Sheet

<div>\$6.0 Billion</div>	Budget Deficit
-	
<div>\$0.7 Billion</div>	Starting Balance
+	
<div></div>	Column One (New Priority Spending)
+	
<div></div>	Column Two (Decreased Taxes)
-	
<div></div>	Column Three (Major Spending Cuts)
-	
<div></div>	Column Four (Budget Cut Grab Bag)
-	
<div></div>	Column Five (Larger Revenue Raising)
-	
<div></div>	Column Six (Smaller Tax Increase Grab Bag)
-	
<div></div>	Column Seven (Eliminating Tax Breaks)
-	
<div></div>	Column Eight (Other Options)
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<div></div>	<i>Balanced Budget????</i>