



# AX AND TAX

## A budget- balancing exercise

2007

# 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.

The information contained within this document reflects actual decisions that had to be made by our legislators in order to balance the budget by which the state operates during the 2005-07 biennium.

This exercise gives students a first-hand account of the inherent difficulties encountered when attempting to resolve a gap of this magnitude. When utilized in a group setting, students encounter even further difficulties when they attempt to obtain a majority of votes for their “budget plan.”

Appendix A, provided for educators, explains the reasons for the budget shortfall and the decisions made by the legislature to solve the problem. Appendix B contains the Legislative response for this exercise, incorporating the decisions made by the legislature during the 2005 legislative session. This information can be used to help guide discussions at the conclusion of the exercise.

Happy budget balancing!

For more information, please contact:

Senate Ways and Means Committee  
PO Box 40483  
Olympia, WA 98504  
(360) 786-7715

# **BUDGET EXERCISE - 2007**

## **General Instructions**

- STEP 1:** ORGANIZE. You will be divided into small groups of about 10 people. A facilitator will work with each group to keep time and help the process move smoothly. The facilitator should not be expected to provide budget information and does not vote. Each group must also select a “tracker” and a “notetaker/reporter”. The tracker keeps track of the cuts/revenue choices. A calculator will be provided. The reporter will share the group’s decisions with the other participants.
- STEP 2:** CHOOSE A COURSE OF ACTION. Your second step is to decide on a general course of action. Spend about 15 minutes discussing and choosing whether you want to make cuts only or also raise revenue. Make the decision by majority vote.
- STEP 3:** MAKE SPENDING AND TAX CHOICES. The next step is to make the individual cut/revenue decisions. The facilitator will start with the person to his/her left and work their way around the table so everyone has a chance to select items. Each person has one minute to explain why they chose that item. The group then has three minutes to debate its merits before the facilitator calls for a vote. Decisions will be made by simple majority. If a tie occurs, the item fails.
- STEP 4:** REPORT BACK. The reporter will share the group’s decisions, explaining which option was chosen and why; which spending and tax options, as appropriate, were selected; how much they cut and spent and any other points they feel are relevant. The reporter may want to explain what choices were the hardest to make and the general tone of the discussion.
- STEP 5:** EVALUATE. Share general comments with the group and fill out evaluation forms.

# Ax and tax: a budget-balancing exercise 2006

In the 2003-05 biennium, the legislature had to solve a \$2.6 billion problem, the state's worst budget shortfall in decades. Guess what? The problem hasn't gone away. In 2005, the problem totaled \$1.8 billion. Tax collections are up but so is the cost of current state programs. Revenues will likely fall more than **\$1 billion** short of what the state needs to keep government going at its current pace for the next two years. Legislators will struggle to close the deficit. Think their job is easy? Step into their shoes and find \$1 billion in spending cuts, tax increases and other new money from the lists below. 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 cut and every tax.

<b>1. How big is your budget deficit?</b>	
First, there are a few important decisions you have to make — decisions that could leave you with an even bigger budget problem:	
<b>Starting Deficit</b>	<b>COLUMN ONE</b> <b>\$1.0 Billion</b>
<b>Pay raises for state workers?</b> State employees have bargained for wage increases. Covering those raises would cost another <b>\$200 million</b> .	<input type="checkbox"/> \$200 M
<b>How about for home-care workers?</b> The state's unionized 26,000 home health-care workers, who also completed collective bargaining with the Governor. Total price tag: <b>\$35 million</b> .	<input type="checkbox"/> \$35 M
<b>Keeping up on college</b> Want to add enough enrollment slots at the state's colleges and universities to keep up with the baby-boom echo? Add another <b>\$136 million</b> .	<input type="checkbox"/> \$136 M
<b>Your starting deficit</b> This is now the amount you have to make up in spending cuts or tax hikes.	<b>DEFICIT TOTAL</b> <input type="text"/>

## 2. Spending cuts

OK now let's look at some possible spending cuts. 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 TWO
<p><b>Eliminate big portions of state government</b>            Want to close the 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; Basic Health Plan; 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. <b>Savings: \$2.5 billion.</b></p>	<p><input type="checkbox"/> \$2.5 B</p>
<p><b>Overall cut to state government</b>            One of the simplest ways to trim spending is with across-the-board cuts to state government.  <b>Savings: \$123 million</b> for every 1 percent cut to all state agencies, colleges and universities (but excluding K-12 education). It would take more than a 20 percent across-the-board cut to close the entire deficit.  <b>All things created equal?</b>            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>	<p><input type="checkbox"/> \$123 M</p> <p>X <input type="checkbox"/> %</p> <p>= <input type="text"/></p>
<p><b>(Very) Basic Health Plan?</b>            Unlike other states, Washington provides subsidized health insurance to about 100,000 low-income people who do not qualify for other medical assistance.  <b>Savings: \$425 million</b> if you eliminate the program altogether; or <b>\$100 million</b> if you simply reduce the state subsidy by 25 percent and force recipients to pay a bigger share.  <b>Un-cover the working poor:</b> If cutbacks to the Basic Health Plan leave people uninsured, who pays for their care?</p>	<p><input type="radio"/> \$425 M</p> <p><input type="radio"/> \$100 M</p>
<p><b>No teacher raises</b>            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.  <b>Savings: \$160 million</b> 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>	<p><input type="checkbox"/> \$160 M</p>
<p><b>No class-size reductions</b>            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.  <b>Savings: \$140 million</b> if you do not provide additional class-size reduction funds beyond the current \$254 per student.</p>	<p><input type="checkbox"/> \$140 M</p>

<p><b>Reduce state employee pay and benefits</b>  About one-fifth of all state spending goes toward salaries and benefits for more than 100,000 state government and higher-education employees.  <b>Savings: \$220 million</b> if you impose a 5 percent across-the-board pay cut. Save another <b>\$100 million</b> by forcing state workers to pay 20 percent (they now pay 14 percent) of their health-care costs.  <b>Earnings erosion:</b> State workers have not received cost-of-living raises in 5 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"/> \$100
<p><b>Save through reduced supervision</b>  Keeping criminals locked up is expensive. Grant early release to about 1,200 low-risk offenders, eliminate post-prison supervision for thousands more, and reduce drug sentences. <b>Savings: \$6 million.</b></p>	<input type="checkbox"/> \$6 M
<p><b>Close foreign trade offices</b>  The state has international trade representatives based in Paris, Tokyo, Seoul, Shanghai and Taipei.  <b>Savings: \$2.7 million</b></p>	<input type="checkbox"/> \$2.7 M
<p><b>Overall cuts to higher education</b>  Higher education is one of the state's biggest expenses. You could do an across-the-board cut averaging nearly 7 percent to all four-year colleges and universities as well as community and technical colleges.  <b>Savings: \$177 million</b></p>	<input type="checkbox"/> \$177 M
<p><b>Capping tort claims</b>  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.  <b>Savings: \$40 million</b>  <b>No-man's land:</b> You might be wading into a crossfire between trial lawyers and big business.</p>	<input type="checkbox"/> \$40 M
<p><b>Reductions in the arts programs</b>  The state spends money each year to boost arts participation and the amount of art in public places.  <b>Savings: \$5.7 million</b> if you eliminate the Washington State Arts Commission</p>	<input type="checkbox"/> \$5.7 M
<p><b>Cuts to Medicaid</b>  Under Medicaid, Washington provides health coverage to about 540,000 children from low-income families.  <b>Savings: \$40 million</b> if you drop income eligibility from its current level — \$47,000 for a family of four — down to \$33,000. Be aware, though, that this would immediately bump about 40,000 children off Medicaid.</p>	<input type="checkbox"/> \$40 M

<p><b>A little actuarial adjustment</b> It may not be legal, but you could try and delay contributions to employee pension funds. <b>Savings: \$120 million</b> <b>Free money:</b> This is an accounting tweak, not a real cut and contributions must eventually be made (with interest).</p>	<input type="checkbox"/> \$120 M
	<b>COLUMN TWO SUBTOTAL</b> <input type="text"/>

<h3>3. Budget Cut Grab Bag</h3>	
<p>First, there are a few important decisions you have to make — decisions that could leave you with an even bigger budget problem:</p>	
	<b>COLUMN THREE</b>
<p>Eliminate the program that provides cash to unemployable poor adults: <b>\$138 million.</b></p>	<input type="checkbox"/> \$138 M
<p>Reduce nursing home reimbursement rates by about 7 percent: <b>\$34 million.</b></p>	<input type="checkbox"/> \$34 M
<p>Eliminate funding for crisis shelters for teens: <b>\$17 million.</b></p>	<input type="checkbox"/> \$17 M
<p>Eliminate funding for the Treatment Alternatives to Street Crime program: <b>\$7 million.</b></p>	<input type="checkbox"/> \$7 M
<p>Cut spending on goods and services — from paper clips to printing — by one-fourth: <b>\$200 million.</b></p>	<input type="checkbox"/> \$200 M
<p>Eliminate the Washington Council for the Prevention of Child Abuse and Neglect: <b>\$1.3 million.</b></p>	<input type="checkbox"/> \$1.3 M
<p>Close the State Film Office, which tries to attract Hollywood producers to Washington: <b>\$897,000.</b></p>	<input type="checkbox"/> \$897,000
<p>Eliminate education funding for the Pacific Science Center, the Cispus environmental camp, the LASER science program: <b>\$4.8 million.</b></p>	<input type="checkbox"/> \$4.8 M

Eliminate funding for tourism marketing: <b>\$6.6 million.</b>	<input type="checkbox"/> \$6.6 M
Eliminate consumer protection enforcement: <b>\$6.9 million.</b>	<input type="checkbox"/> \$6.9 M
Halt Department of Health food safety/shellfish protection program: <b>\$6.5 million.</b>	<input type="checkbox"/> \$6.5 M
Close Naselle, Coulter Creek and Hurd Creek fish hatcheries: <b>\$800,000.</b>	<input type="checkbox"/> \$800,000
Cut marketing of state parks: <b>\$132,000.</b>	<input type="checkbox"/> \$132,000
Eliminate tobacco tax-enforcement program: <b>\$2.6 million.</b>	<input type="checkbox"/> \$2.6 M
End state Capitol campus tours: <b>\$616,000.</b>	<input type="checkbox"/> \$616,000
Eliminate Washington Conservation Corps: <b>\$390,000.</b>	<input type="checkbox"/> \$390,000
Halt state air- and water-quality programs: <b>\$50 million.</b>	<input type="checkbox"/> \$50 M
Cut funding for eradication of noxious weeds: <b>\$2.6 million.</b>	<input type="checkbox"/> \$2.6 M
Eliminate state parks winter recreation program: <b>\$190,000.</b>	<input type="checkbox"/> \$190,000
Reduce spending on personal bodyguards for the governor and lieutenant governor by 50 percent: <b>\$1.3 million.</b>	<input type="checkbox"/> \$1.3 M
Eliminate public emergency information system: <b>\$250,000.</b>	<input type="checkbox"/> \$250,000
Cut assistance to Innovative Businesses program: <b>\$5.7 million.</b>	<input type="checkbox"/> \$5.7 M

Halt state assistance for local economic development: <b>\$6.7 million.</b>	<input type="checkbox"/> \$6.7 M
Eliminate international agriculture marketing: <b>\$2.4 million.</b>	<input type="checkbox"/> \$2.4 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: <b>\$1.7 million.</b>	<input type="checkbox"/> \$1.7 M
	<b>COLUMN THREE SUBTOTAL</b> <input type="text"/>

## 4. Raising Revenue

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 FOUR
<p><b>The \$6 billion tax</b> The backbone of the budget, Washington's 6.5 percent sales tax, raises nearly <b>\$6 billion</b> a year. The sales tax hasn't been increased since the early 1980s, but some people want a temporary bump. <b>How high can you go?</b> Increasing the sales to 6.6 percent would raise <b>\$200 million</b> over the next two years. Go to 7 percent, you get <b>\$999 million</b>. Need more? A 7.5 percent tax will raise <b>\$2 billion</b>.</p>	<input type="checkbox"/> \$200 M (raise sales tax to 6.6%)  <input type="checkbox"/> \$999 M (raise sales tax to 7%)  <input type="checkbox"/> \$2 B (raise sales tax to 7.5%)  <input type="checkbox"/> \$0 (keep sales tax at 6.5%)
<p><b>Bread-and-butter tax?</b> 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 budget crisis comparable to this one. Lifting the exemption on food purchases for two years would raise nearly <b>\$1.5 billion</b>. 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>	<input type="checkbox"/> \$1.5 B

<p><b>Increase the B&amp;O tax</b>  The business-and-occupation (B&amp;O) tax, the state's second largest source of income, will bring in more than <b>\$4 billion</b> over the next two years.  A 10-percent surtax on all rates would raise <b>\$450 million</b>. A 25-percent surtax would raise about <b>\$1.1 billion</b>.</p>	<input type="checkbox"/> \$4 B <input type="checkbox"/> \$1.1 B <input type="checkbox"/> \$450 M <input type="checkbox"/> 0
<p><b>Increase property taxes</b>  Also known as the "school levy," the state property tax – about \$2.60 on every \$1,000 in property value – will raise about \$2.5 billion over the next two years.  Under state law, the highest you can go on the property tax is \$3.60 per \$1,000.  <b>Up a quarter:</b> Increasing the levy by 25 cents would raise nearly <b>\$319 million</b>. A \$1 bump gets you nearly <b>\$1.3 billion</b>.  This is already our most unpopular tax. Any increase would require a two-thirds vote of the Legislature or approval from the voters.</p>	<input type="checkbox"/> \$319 M <input type="checkbox"/> \$1.3 B <input type="checkbox"/> 0
<p><b>Create a personal income tax?</b>  Unlike almost every other state, Washington has no personal income tax. There have been several futile attempts in decades past to impose one.  A 1 percent personal income tax would raise nearly <b>\$2.4 billion</b> 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>	<input type="checkbox"/> \$2.4 B
	<b>COLUMN FOUR  SUBTOTAL</b> <input type="text"/>

<h2>5. Tax Increase Grab Bag</h2>	
	<b>COLUMN FIVE</b>
5 cent tax per 12-ounce soft drink: <b>\$272 million</b> .	<input type="checkbox"/> \$272 M
Extend existing sales tax to haircuts and beauty services: <b>\$49 million</b> .	<input type="checkbox"/> \$49 M
10 percent tax on cardrooms: <b>\$61 million</b> .	<input type="checkbox"/> \$61 M
2 percent sales tax on sporting goods: <b>\$57 million</b> .	<input type="checkbox"/> \$57 M

Increase liquor tax \$1 per liter: <b>\$58 million.</b>	<input type="checkbox"/> \$58 M
Extend sales tax to golf and bowling lessons: <b>\$5.5 million.</b>	<input type="checkbox"/> \$5.5 M
Extend sales tax to dance studios: <b>\$2.5 million.</b>	<input type="checkbox"/> \$2.5 M
1 percent tax on admission to movies, concerts and sporting events: <b>\$12 million.</b>	<input type="checkbox"/> \$12 M
Extend sales tax to bakery products: <b>\$54 million.</b>	<input type="checkbox"/> \$54 M
50 cent increase in cigarette tax: <b>\$206 million.</b>	<input type="checkbox"/> \$206 M
Extend sales tax to cable television: <b>\$60 million.</b>	<input type="checkbox"/> \$60 M
	<b>COLUMN FIVE SUBTOTAL</b> <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.

<b>6. Tax Increase Grab Bag</b>	
	<b>COLUMN SIX</b>
Sales tax on manufacturing equipment: <b>\$369 million.</b>	<input type="checkbox"/> \$369 M
Sales tax on newspapers: <b>\$31 million.</b>	<input type="checkbox"/> \$31 M
Sales tax on prescription drugs: <b>\$501 million.</b>	<input type="checkbox"/> \$501 M

Sales tax on gasoline (We already pay a per gallon gas tax): <b>\$520 million.</b>	<input type="checkbox"/> \$520 M
Sales tax on agricultural feed and seed: <b>\$103 million.</b>	<input type="checkbox"/> \$103 M
	<b>COLUMN SIX SUBTOTAL</b> <input type="text"/>

<b>7. Other Options</b>	
	<b>COLUMN SEVEN</b>
<p><b>Legalized gambling</b> 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 <b>\$80 million</b> over the next two years. A state lottery run "Quick-draw Keno" would bring about <b>\$36 million</b> 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.</p>	<input type="checkbox"/> \$80 M  <input type="checkbox"/> \$36 M
<p><b>Utilize the funds received from the tobacco settlement now</b> Last year, lawmakers agreed to sell so-called tobacco bonds in order to cash in on a portion of the 1998 settlement between 46 states and the tobacco industry. The state is still owed about \$4 billion over the next 30 years. But you could forgo those future payments in exchange for <b>\$800 million</b> right away. But beware, lots of other cash-strapped states are doing this. The tobacco bond market might be flooded by the time you get there.</p>	<input type="checkbox"/> \$800 M
<p><b>Spend our savings</b> The state has about <b>\$500 million</b> left in reserves. Use as much as you want. But remember, the economy is struggling. You might want to keep some savings on hand.</p>	<input type="checkbox"/> ENTER UP TO \$500 M
<p><b>How about donations?</b> 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're doing down in Oregon, where the budget is even worse off. Right there on the front page of the state's Web site is this link: "Donate to the State of Oregon," with instructions on where to send your check.</p>	<input type="checkbox"/> ENTER ANY AMOUNT
	<b>COLUMN SEVEN SUBTOTAL</b> <input type="text"/>

COLUMN FOUR SUBTOTAL \$ B	COLUMN FIVE SUBTOTAL \$ B	COLUMN SIX SUBTOTAL \$ B
COLUMN SEVEN SUBTOTAL \$ B	TOTAL NEW REVENUE \$ B	
TOTAL BUDGET CUTS \$ B	+	TOTAL NEW REVENUE \$ B = \$ B
MONEY SAVED/RAISED \$ B	-	TOTAL DEFICIT \$ B = BALANCED BUDGET \$ B

# APPENDIX A

## REASONS FOR THE PROJECTED BUDGET SHORTFALL

Since September 11, 2001, Washington State has faced continuing budget deficits as the cost of current services has exceeded current revenues. When it built the 2003-05 budget, Washington State was faced with a \$2.7 billion gap between revenues and the demand for spending. That shortfall was solved primarily by a combination of reductions and one-time savings, but also included a modest level of new revenues.

In 2005, the shortfall between available revenues and the demand for spending was \$1.8 billion. The two-year growth in revenue for 2005-07 was projected to be \$1.6 billion, a 7% increase, while the cost to maintain current services, provide cost-of-living increases, supply additional higher education capacity, and other enhancements often included in a new biennial budget was estimated to grow by \$3.4 billion, a 15% increase.

This demand for increased spending arose from five primary areas:

1. growth in entitlement programs;
2. increased pension obligations;
3. requests for employee and vendor cost-of-living increases;
4. requests to expand higher education enrollments as the state experienced historically high growth in high school graduates; and
5. proposals made by the Governor and some legislators to reverse reductions made in prior budgets and to add funding for new or expanded programs or services.

### Entitlement Programs

The largest growth in entitlement programs has been in medical assistance. The general fund state cost of that program grew by more than \$650 million. Other mandatory cost increases included \$354 million for K-12 student enrollment and other cost increases in public schools; \$239 million for caseload and cost-per-case increases in long-term care, developmental disabilities, and mental health; \$152 million for debt services; and \$150 million for mandatory cost-of-living increases for staff in public schools and some community college staff.

### Pensions

The cost of pensions for 2005-07 increased by \$513 million, a 300% increase over pension funding included in the 2003-05 biennial budget. Recognition of extraordinary investment returns in the late 1990s allowed the state to lower the pension contribution rates paid by both employer and employees in recent years. In the 2003-05 biennium, the legislature also suspended the scheduled payments towards the unfunded liability. Another factor that increased the pension costs for

2005-07 was a finding by the State Actuary, who identified a 1998 pension enhancement that was omitted from the valuation for calculation of the required level of pension funding.

### **Employee Cost-of-Living Increases**

In 2002, cost-of-living adjustments (COLAs) were granted for public school and community college employees covered by Initiative 732 (I-732), but the budgeted COLA for state employees was rescinded. In 2003 and 2004 no COLAs were granted, although some teachers and classified staff did receive targeted raises.

The 2005-07 biennium marked the beginning of collective bargaining for wages and benefits by state employees. Under the new collective bargaining law, unions negotiate agreements with the Governor by October of the even year preceding the biennial budget. The Governor is then obligated to include funding for the collective bargaining agreement in the proposed budget. By statute, the legislature is required to either fully fund or completely reject the agreements.

For the 2005-07 biennial budget, \$306 million General Fund-State (GFS) was required to fund the negotiated agreements and to provide similar increases for other state employees.

### **Prior Budget Reductions**

Additional spending pressures resulted from restoring previous budget reductions. For example, changes made in 2003 that required co-payments for children's health premiums and more frequent eligibility reviews were reversed. In addition, a children's medical program for non-residents eliminated in the 2002 session was restored.

Finally, the federal government notified the state that almost \$82 million of federal funds used to support community based mental health programs would be eliminated on July 1, 2005. (The legislature restored \$80 million of the lost funding.)

## **HOW THE LEGISLATURE SOLVED THE 2005-07 BUDGET PROBLEM**

The combined spending demands of increased costs for current services and priority enhancements would have resulted in a gap between expenditures and projected revenues of more than \$1.8 billion for the 2005-07 biennium.

The legislature addressed this deficit in three ways: (1) increased revenues by \$482 million; (2) instated program reductions and savings of \$557 million; and (3) used \$774 million of fund balances, transfers, and budget driven revenue. These changes resulted in a 2005-07 biennial General Fund-State appropriation of \$26 billion, an 11.6% increase, and a total funds operating budget of \$49.4 billion.

## **Revenue Increases**

The majority of the new revenue, \$313 million, was targeted for funding education. The legislature created a new Education Legacy Account dedicated to funding education programs. Revenue for the account is derived from two sources: (1) a re-enacted estate tax projected to raise \$139 million and (2) an additional cigarette tax of \$0.60 per pack anticipated to generate \$174 million.

The Education Legacy Account is used in two ways:

1. \$138 million is used to pay for a scheduled increase in the per-student payment for the I-728 class size initiative.
2. \$175 million is used to pay for new enrollments at the state's four-year and community colleges; provide financial aid for Washington residents to attend college; allow a \$25 million enhancement to the learning assistance program in public schools; and fund other education items.

An additional \$170 million of new revenue is raised through a variety of tax increases, including an increase in the liquor tax, application of the sales tax to extended warranties, one-time revenue generated by funding accelerated revenue collections, and changes in notification requirements for unclaimed property.

## **Program Reductions and Savings**

Program reductions, along with one-time and ongoing efficiencies, generated \$557 million towards solving the budget deficit. \$325 million is saved through three changes in pension funding policy: 1) deferring contributions to the pension funds for the unfunded liability for PERS and TERS 1; 2) deferring contributions for the gain-sharing benefit for the PERS and TERS 1 and 3 plans; and 3) delaying a portion of the rate increases.

Efficiencies and program reductions will generate another \$232 million, including:

- improving the purchasing process for goods and services;
- enhancing the general assistance program to convert clients more quickly to the federal SSI program and to help legal aliens attain citizenship;
- not funding inflation for leases and equipment;
- reducing middle managers and regional staff in DSHS;
- reducing funds for non-instructional costs at colleges and universities;
- eliminating the Promise Scholarship program; and
- reducing funding by \$25 million for levy equalization, school bus depreciation, and the Reading Corps.

## **Reserves, Fund Transfers, and Budget-Driven Revenue**

To close the remaining gap, the Legislature used \$493 million of general fund reserves along with \$219 million of reserves from other funds, including \$102 million from the Public Employees Benefit account and \$45 million from the Health

Services Account. In addition, the budget included specific activities to be conducted by the Department of Revenue and the Liquor Control Board which will result in an additional \$46.3 million for the general fund.

# APPENDIX B

## Legislative Response

<b>1. How big is your budget deficit?</b>	
	COLUMN ONE
<b>Starting Deficit</b>	<b>\$1.0 Billion</b>
<p><b>Pay raises for state workers?</b> State employees have bargained for wage increases. Covering those raises would cost another \$200 million.</p> <p><b>How about for home-care workers?</b> The state's unionized 26,000 home health-care workers, who also completed collective bargaining with the Governor. Total price tag: \$35 million.</p> <p><i>The legislature approved spending <b>\$197.3 million</b> from the state general fund to help pay for cost-of-living salary increases for both represented (employees in a union) and non-represented employees. For represented employees, 3.2 percent was added to their pay effective July 1, 2005 and an additional 1.6 percent will be added effective June 30, 2007. For non-represented employees, 3.2 percent was added to their pay effective September 1, 2005 and an additional 1.6 percent will be added effective June 30, 2007.</i></p> <p><i>Please note that because the \$197.3 million from the general fund is not enough to pay for all salary increases, an additional \$141.2 million from other funds was collected. These revenues include, for example, a portion of the fees collected for fishing licenses. However, because these other funds do not impact the state general fund deficit, the dollar amounts are not relevant to this exercise.</i></p>	<b>\$197.3 M</b>
<p><b>Keeping up on college</b> Want to add enough enrollment slots at the state's colleges and universities to keep up with the baby-boom echo? Add another \$136 million.</p> <p><i>The legislature approved adding <b>\$72.5 million</b> from the state general fund and the Education Legacy Trust Account to increase the capacity of colleges and universities by 7,900 general enrollments. At the community and technical colleges, 4,185 new enrollments were added (\$5,400 per student annual general fund subsidy). At the research and comprehensive institutions, 3,715 new enrollments were added (\$6,303 for undergraduates and \$15,000 for graduate students). Of the new enrollments at the 4-year institutions, 600 upper division enrollments were added at UW-Tacoma, UW-Bothell, and WSU-Vancouver (\$9,000 per student); and 475 lower division enrollments are added at Bothell, Tacoma, Vancouver, and WSU-Tri-Cities. In addition, funding is provided for 32 resident enrollments in veterinary medicine at WSU to replace Oregon students. An additional <b>\$4 million</b> of the Education Legacy Trust Account is provided to strengthen and expand Adult Basic Education programs at the community and technical colleges.</i></p>	<b>\$76.5 M</b>
	DEFICIT SUBTOTAL
	<b>\$1.3 Billion</b>

<p>The 2005 legislature chose to enhance some of the services provided to the citizens of our state. This included, but is not limited to, the following enhancements:</p> <ul style="list-style-type: none"> <li>• K-12 education – expand learning assistance program, enhance special education, assessment changes</li> <li>• Higher education – expand eligibility for state need grant, increase funding for state work study and Washington Scholars program</li> <li>• Health and human services – Increase funding for children’s services, maintain funding levels for mental health services, increase funding in developmental disabilities and long-term care services</li> <li>• Natural resources – clean up toxic waste sites, emergency drought relief</li> <li>• Criminal justice/public safety – maintain funding for juvenile offenders, increase funding for adult offenders</li> </ul>	<p><b>\$500 M</b></p>
<p><b>Your starting deficit</b> This is now the amount you have to make up in spending cuts or tax hikes.</p>	<p style="text-align: center;">DEFICIT TOTAL</p> <p style="text-align: center;"><b>\$1.8 Billion</b></p>

<h2 style="margin: 0;">2. Spending cuts</h2>	
<p><b>Eliminate big portions of state government</b> Want to close the 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; Basic Health Plan; 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: \$2.5 billion.</p> <p><i>The legislature would never consider taking the magnitude of this cut. Some of the most basic services to the citizens of our state are provided for in these agencies, including the ability to create/modify state laws via the legislative process.</i></p>	<p style="text-align: right;">COLUMN TWO</p> <p style="text-align: center;"><b>Total Savings:</b></p> <p style="text-align: center;"><b>\$0</b></p>
<p><b>Overall cut to state government</b> One of the simplest ways to trim spending is with across-the-board cuts to state government. Savings: \$123 million for every 1 percent cut to all state agencies, colleges and universities (but excluding K-12 education). It would take more than a 20 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> <p><i>The legislature may briefly entertain the notion of this solution, but because cuts to human service programs would be more heavily affected the legislature, instead, more typically consider cuts to a particular agency or item rather than an across-the-board sweep. However, the legislature did impose a <b>\$46.3 million</b> cut for government efficiency and accountability to promote stewardship of state government resources. Reductions were made by reducing middle management positions, implementing strategic purchasing initiatives based on lessons learned from the private sector, and eliminating double-filled positions.</i></p>	<p style="text-align: right;"><b>Total Savings:</b></p> <p style="text-align: center;"><b>\$46.3 M</b></p>

<p><b>(Very) Basic Health Plan?</b>          Unlike other states, Washington provides subsidized health insurance to about 100,000 low-income people who do not qualify for other medical assistance.          Savings: \$425 million if you eliminate the program altogether; or \$100 million if you simply reduce the state subsidy by 25 percent and force recipients to pay a bigger share.          Un-cover the working poor: If cutbacks to the Basic Health Plan leave people uninsured, who pays for their care?</p> <p><i>The Basic Health Plan is a state-sponsored program that provides affordable health care coverage to low-income Washington State residents. Monthly premiums are based on family size, income, age, and health plan choice. The legislature provided \$44 million to maintain Basic Health Plan enrollment at 100,000. This funding covers the cost of projected medical inflation without reducing current benefit or subsidy levels.</i></p>	<p><b>Total Savings:</b></p> <p><b>\$0</b></p>
<p><b>No teacher raises</b>          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: \$160 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> <p><i>Due to Initiative 732, the legislature approved a total of \$139 million for cost-of-living adjustments. Specifically, 1.2 percent is provided for the 2005-06 school year and 1.7 percent for the 2006-07 school year.</i></p>	<p><b>Total Savings:</b></p> <p><b>\$0</b></p>
<p><b>No class-size reductions</b>          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: \$140 million if you do not provide additional class-size reduction funds beyond the current \$254 per student.</p> <p><i>Due to Initiative 728, the legislature appropriated \$138.2 million from the student achievement fund to be used for lower class sizes, to create extended learning opportunities for students, to provide professional development for educators, and to provide early childhood programs. However, because this dollar amount is from the student achievement fund, rather than the state general fund, it is not relevant to this exercise.</i></p>	<p><b>Total Savings:</b></p> <p><b>\$0</b></p>
<p><b>Reduce state employee pay and benefits</b>          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 \$100 million by forcing state workers to pay 20 percent (they now pay 14 percent) of their health-care costs.          Earnings erosion: State workers have not received cost-of-living raises in 5 of the last 10 years and in recent years have been forced to pay more for health care.</p> <p><i>This potential cut is no longer relevant because, as was noted previously, the legislature appropriated a total of \$197.3 million to pay for state employee salary increases. In addition, \$118.8 million from the state general fund was provided for</i></p>	<p><b>Total Savings:</b></p> <p><b>\$0</b></p>

<p><i>state employee health benefits in general government and higher education to help offset the increasing costs of medical care. For represented employees, this increase was in compliance with the collective bargaining agreements.</i></p>	
<p><b>Save through reduced supervision</b>          Keeping criminals locked up is expensive. Grant early release to about 1,200 low-risk offenders, eliminate post-prison supervision for thousands more, and reduce drug sentences. Savings: \$6 million.</p> <p><i>The legislature, to control increasing costs in the criminal justice system, achieved savings via the following:</i></p> <ul style="list-style-type: none"> <li>• <i>Delaying for four months the move of 892 offenders into units currently under construction at the State Penitentiary in Walla Walla. Total savings of <b>\$7.4 million</b> are realized as a result of delaying the significant start-up costs of opening the new units. Additionally, a total of <b>\$744,000</b> is saved in bed costs in the juvenile justice system.</i></li> <li>• <i>In accordance with SB 5256, the budget eliminates supervision for 3,000 certain gross misdemeanants sentenced in superior court annually; supervision requirements are maintained for offenders assessed at high risk. Total savings: <b>\$3 million.</b></i></li> <li>• <i>Savings of <b>\$2.4 million</b> was achieved via adoption of HB 1136 which created a one-year pilot project using electronic monitoring in lieu of jail or prison sanction time when low-risk offenders violate the terms of their community supervision.</i></li> <li>• <i>A total of <b>\$660,000</b> was saved in accordance with adoption of HB 2282 which authorizes the Department of Corrections to determine the types and amounts of offender property that the Department will transport between institutions or to other jurisdictions at the agency's expense rather than being responsible for incurring the cost of shipping all personal property.</i></li> </ul>	<p><b>Total Savings:</b></p> <p><b>\$14.2 M</b></p>
<p><b>Close foreign trade offices</b>          The state has international trade representatives based in Paris, Tokyo, Seoul, Shanghai and Taipei.          Savings: \$2.7 million</p> <p><i>The legislature did not close foreign trade offices in the 2005-07 biennium budget.</i></p>	<p><b>Total Savings:</b></p> <p><b>\$0</b></p>
<p><b>Overall cuts to higher education</b>          Higher education is one of the state's biggest expenses. You could do an across-the-board cut averaging nearly 7 percent to all four-year colleges and universities as well as community and technical colleges.          Savings: \$177 million</p> <p><i>The legislature chose to do the following in order to achieve savings in higher education:</i></p> <ul style="list-style-type: none"> <li>• <i>Assumed an increase in tuition of 7%. However, the legislature reduces the amount appropriated to these institutions by 25% for a total savings of <b>\$16.6 million.</b></i></li> <li>• <i>Made a 1%, or <b>\$10.3 million</b>, state general fund reduction to all non-instruction programs.</i></li> <li>• <i>Eliminated the Promise Scholarship for a savings of <b>\$12.7 million.</b></i></li> <li>• <i>Transferred support for routine maintenance of buildings to the capital budget for a total savings of <b>\$15 million.</b></i></li> <li>• <i>Reduced funding to the Washington Award for Vocational Excellence (WAVE) for a total savings of <b>\$49,000.</b></i></li> </ul>	<p><b>Total Savings:</b></p> <p><b>\$54.6 M</b></p>

<p><b>Capping tort claims</b>  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</p> <p><i>This issue continues to be a highly charged political issue and one that has proven difficult to resolve. Over the past few years, various legislation has been introduced pertaining to this issue but as of the 2005 legislative session, no substantive law has been adopted. There are currently two initiatives (Initiative 330 and Initiative 336) that will go before the popular vote this year dealing with this issue. Initiative 330 would cap medical malpractice noneconomic damages at \$350,000. Initiative 336 would revise the medical malpractice insurance requirements.</i></p>	<p><b>Total Savings:</b></p> <p><b>\$0</b></p>
<p><b>Reductions in the arts programs</b>  The state spends money each year to boost arts participation and the amount of art in public places.  Savings: \$5.7 million if you eliminate the Washington State Arts Commission</p> <p><i>The legislature did not consider the possibility of closing the Arts Commission. Rather, they appropriated \$200,000 for an additional project manager to handle increased capital budget activity. However, this amount will be funded through the capital budget and, as a result, is not relevant to this exercise.</i></p>	<p><b>Total Savings:</b></p> <p><b>\$0</b></p>
<p><b>Cuts to Medicaid</b>  Under Medicaid, Washington provides health coverage to about 540,000 children from low-income families.  Savings: \$40 million if you drop income eligibility from its current level — \$47,000 for a family of four — down to \$33,000. Be aware, though, that this would immediately bump about 40,000 children off Medicaid.</p> <p><i>The legislature achieved savings in the Medicaid program via the following:</i></p> <ul style="list-style-type: none"> <li>• <i>A 5% reduction in overall costs for medical equipment and supplies. This will be achieved through various strategies such as selective contracting, reducing rates to better reflect the best available market price, and more stringent reviews of the initial and ongoing medical necessity of proposed purchases. Total savings: <b>\$6.8 million.</b></i></li> <li>• <i>A total of <b>\$5.3 million</b> is realized by increased management of high-utilizing patients. An additional 1,500 medical assistance clients whose medical histories demonstrate a clear pattern of over-utilization and inappropriate use of medical services will be assigned a single primary care physician, pharmacy, and other medical providers from whom they may obtain services.</i></li> <li>• <i>The level of grant funding for community clinic support statewide is reduced by <b>\$5.0 million.</b></i></li> <li>• <i>A total of <b>\$800,000</b> is saved by discontinuing “Pharmacy Connections,” the program that was expanded in 2003 to assist low-income people learn about and apply for manufacturer drug discount programs. Drug manufacturers have undertaken a broadly publicized effort that provides a very similar service.</i></li> <li>• <i>Approximately 50 additional classes of drug will be added to the evidence-based prescription drug program. The preferred drug will be the least costly, equally effective drug identified through clinical evidence reviews. Total savings: <b>\$7 million.</b></i></li> <li>• <i>Ten additional staff are provided to pursue collection of a backlog of disputed drug manufacturer rebates and audit recoveries resulting in <b>\$7.1 million</b> in savings.</i></li> </ul>	<p><b>Total Savings:</b></p> <p><b>\$32 M</b></p>

<p><b>A little actuarial adjustment</b>  It may not be legal, but you could try and delay contributions to employee pension funds.  Savings: \$120 million  Free money: This is an accounting tweak, not a real cut and contributions must eventually be made (with interest).</p> <p><i>The legislature saved <b>\$325.3 Million</b> in the state general fund via three changes in pension policy:</i></p> <ul style="list-style-type: none"> <li>• <i>Deferring contributions to the pension funds for the unfunded liability for PERS and TERS 1</i></li> <li>• <i>Deferring contributions for the gain-sharing benefit for the PERS and TERS 1 and 3 plans</i></li> <li>• <i>Delaying a portion of the rate increases.</i></li> </ul>	<p><b>Total Savings:</b></p> <p><b>\$325.3 M</b></p>
<p><b>Subtotal:</b></p>	<p><b>\$472.4 M</b></p>

<p><b>3. Budget Cut Grab Bag</b></p>	
	<p>COLUMN THREE</p>
<p>Eliminate the program that provides cash to unemployable poor adults: \$138 million.</p> <p><i>Because there are, and probably always will be, a population of unemployable poor adults, the legislature did not consider eliminating this program. Rather, a total of <b>\$18 million</b> is saved in the General Assistance Unemployable Program (GA-U) through the following proactive strategies to improve the outcomes for GA-U clients:</i></p> <ul style="list-style-type: none"> <li>• <i>Invest in naturalization to reduce the number of aged clients who no longer qualify for SSI</i></li> <li>• <i>Facilitate an increased number of clients to obtain social security and veterans benefits</i></li> <li>• <i>Provide medical services through managed care demonstration projects</i></li> <li>• <i>Provide improved mental health and vocational rehabilitation and employment support to reduce times on caseloads</i></li> </ul>	<p><b>Total Savings:</b></p> <p><b>\$18 M</b></p>
<p>Reduce nursing home reimbursement rates by about 7 percent: \$34 million.</p> <p><i>The legislature chose to increase reimbursement rates for nursing homes at a rate of 1.3%, the same increase as provided to hospitals and physicians. The total cost to the state for this increase is \$10 million.</i></p> <p><i>The legislature realized savings in the long-term care area by:</i></p> <ul style="list-style-type: none"> <li>• <i>Increasing efforts to recover the cost of publicly-funded care from the estates of deceased Medicaid recipients for a total savings of <b>\$4.8 million</b>.</i></li> <li>• <i>Reducing funding for Area Agency on Aging case management services by 3.75 percent for a total savings of <b>\$1.4 million</b>.</i></li> </ul>	<p><b>Total Savings:</b></p> <p><b>\$6.2 M</b></p>

<p>Eliminate funding for crisis shelters for teens: \$17 million.</p> <p><i>The legislature provided \$9.3 million from the public safety and education account to maintain crisis residential centers at the 2003-05 spending level. These centers offer services to at-risk adolescents by providing them a safe and secure placement.</i></p>	<p><b>Total Savings:</b></p> <p><b>\$0</b></p>
<p>Eliminate funding for the Treatment Alternatives to Street Crime program: \$7 million.</p> <p><i>The legislature did not consider eliminating this program. Rather they opted to increase funding in the juvenile justice system by expanding alcohol and drug treatment for youth. An additional 1,000 youth will be provided substance abuse treatment for a total cost of \$5 million.</i></p>	<p><b>Total Savings:</b></p> <p><b>\$0</b></p>
<p>Cut spending on goods and services — from paper clips to printing — by one-fourth: \$200 million.</p> <p><i>The legislature realized savings of <b>\$7.9 million</b> by directing state agencies to achieve efficiencies sufficient to offset actual and anticipate increases in leases, medical inflation, and equipment replacement. An additional <b>\$25 million</b> in savings is expected via the newly initiated state purchasing strategy whereby a new Strategic Sourcing initiative will enable state government to purchase goods and services in a more cost-effective manner. This effort will include an analysis of all aspects of the state purchasing process.</i></p>	<p><b>Total Savings:</b></p> <p><b>\$32.9 M</b></p>
<p>Eliminate the Washington Council for the Prevention of Child Abuse and Neglect: \$1.3 million.</p> <p><i>The legislature provided \$355,000 to be used for child advocacy centers which facilitate a multi-disciplinary approach toward the investigation and prosecution of child abuse allegations.</i></p>	<p><b>Total Savings:</b></p> <p><b>\$0</b></p>
<p>Close the State Film Office, which tries to attract Hollywood producers to Washington: \$897,000.</p> <p><i>The legislature did not eliminate this office in the 2005-07 omnibus operating budget.</i></p>	<p><b>Total Savings:</b></p> <p><b>\$0</b></p>
<p>Eliminate education funding for the Pacific Science Center, the Cispus environmental camp, the LASER science program: \$4.8 million.</p> <p><i>The legislature achieved savings by reducing funds appropriated to the Pacific Science Center and LASER science program. Total savings: <b>\$2.3 million</b>.</i></p>	<p><b>Total Savings:</b></p> <p><b>\$2.3 M</b></p>
<p>Eliminate funding for tourism marketing: \$6.6 million.</p> <p><i>The legislature did not eliminate funding for tourism marketing in the 2005-07 biennium budet.</i></p>	<p><b>Total Savings:</b></p> <p><b>\$0</b></p>

<p>Eliminate consumer protection enforcement: \$6.9 million.</p> <p><i>The legislature provided \$1.6 million in funding to the Consumer Protection Division of the Attorney General's Office for consumer education and outreach, complaint resolution and mediation, and litigation. This funding also includes implementation of EHB 1012 pertaining to computer spyware.</i></p>	<p><b>Total Savings:</b></p> <p><b>\$0</b></p>
<p>Halt Department of Health food safety/shellfish protection program: \$6.5 million.</p> <p><i>The legislature recognizes that failing septic systems are a significant threat to water quality and public health, particularly in shellfish areas. As a result, \$700,000 in funding was provided to assist the fourteen local health jurisdictions with marine shorelines develop and implement management plans and data systems to assure that septic systems are properly inventoried, monitored, and maintained.</i></p>	<p><b>Total Savings:</b></p> <p><b>\$0</b></p>
<p>Close Naselle, Coulter Creek and Hurd Creek fish hatcheries: \$800,000.</p> <p><i>The legislature provided an additional \$500,000 to the Naselle Hatchery to increase production and release of anadromous fish into Willapa Bay. However, \$3.1 million in savings is achieved by making necessary reductions to the State Wildlife Account in order to keep this account solvent. However, because this savings is realized in an account other than the state general fund, it is not relevant to this exercise.</i></p>	<p><b>Total Savings:</b></p> <p><b>\$0</b></p>
<p><i>The legislature did not do any of the following in the 2005-07 biennium budget:</i></p> <ul style="list-style-type: none"> <li>• Cut marketing of state parks: \$132,000.</li> <li>• Eliminate tobacco tax-enforcement program: \$2.6 million.</li> <li>• End state Capitol campus tours: \$616,000.</li> </ul>	<p><b>Total Savings:</b></p> <p><b>\$0</b></p>
<p>Eliminate Washington Conservation Corps: \$390,000.</p> <p><i>The legislature provided \$186,000 to the Department of Natural Resources and the Department of Fish and Wildlife to jointly operate the Washington Conservation Corps. The funding provided allows the corp to operate year-round rather than seasonally.</i></p>	<p><b>Total Savings:</b></p> <p><b>\$0</b></p>
<p><i>The legislature did not do any of the following in the 2005-07 biennium budget:</i></p> <ul style="list-style-type: none"> <li>• Halt state air- and water-quality programs: \$50 million.</li> <li>• Cut funding for eradication of noxious weeds: \$2.6 million.</li> <li>• Eliminate state parks winter recreation program: \$190,000.</li> </ul>	<p><b>Total Savings:</b></p> <p><b>\$0</b></p>

<p>Reduce spending on personal bodyguards for the governor and lieutenant governor by 50 percent: \$1.3 million.</p> <p><i>The Washington State Patrol provides this service to both the governor and lieutenant governor. No changes were made to this service in the 2005-07 biennium budget.</i></p>	<p><b>Total Savings:</b></p> <p><b>\$0</b></p>
<p>Eliminate public emergency information system: \$250,000.</p> <p><i>The legislature provided \$286,000 in funding to the military department to add 3 FTEs to the Emergency Operations' Alert and Warning Center.</i></p>	<p><b>Total Savings:</b></p> <p><b>\$0</b></p>
<p>Cut assistance to Innovative Businesses program: \$5.7 million.</p> <p><i>The legislature enacted SSB 5902, which appropriates one-time funding of \$45,000 to the Department of Community, Trade &amp; Economic Development to establish a small business innovation research assistance program at the Washington Technology Center.</i></p>	<p><b>Total Savings:</b></p> <p><b>\$0</b></p>
<p>Halt state assistance for local economic development: \$6.7 million.</p> <p><i>The legislature provided \$770,000 in funding to implement the Small Business Incubator and the NW Farm Innovation Incubator programs. However, the legislature eliminated the Inland Northwest Technology Center (INTEC) program, which provides state funds for economic development through public-private partnerships for business generation and development. By doing so, the legislature achieved savings of <b>\$968,000</b>.</i></p>	<p><b>Total Savings:</b></p> <p><b>\$968,000</b></p>
<p>Eliminate international agriculture marketing: \$2.4 million.</p> <p><i>The legislature did not eliminate international agriculture marketing in the 2005-07 biennium budget.</i></p>	<p><b>Total Savings:</b></p> <p><b>\$0</b></p>
<p>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.</p> <p><i>The legislature provided \$800,000 in funding to evaluate the department's recreational license sales system and, if necessary, select a new vendor to design and deploy the next generation licensing system to replace the current database.</i></p>	<p><b>Total Savings:</b></p> <p><b>\$0</b></p>
<p><b>Total Savings:</b></p>	<p><b>\$60.4 M</b></p>

## 4. Raising Revenue

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.

### The \$6 billion tax

The backbone of the budget, Washington's 6.5 percent sales tax, raises nearly \$6 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 \$200 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.

*The legislature did not increase the sales tax for the 2005-07 biennium budget.*

*However, a sales tax exemption was adopted via the following legislation:*

- *SSB 5623 – removes maintenance services for bus, rail, or rail fixed guideway equipment from the definition of a retail sale and exempting the services from the sales tax. Total revenue loss: **\$1.1 million.***
- *2SSB 5663 – provides a sales and use tax exemption for machinery and equipment used for agricultural field burning. Total revenue loss: **\$1.3 million.***

**Total  
Decrease:  
(\$2.4 M)**

### 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 budget crisis comparable to this one.

Lifting the exemption on food purchases for two years would raise nearly \$1.5 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.

*The legislature did not consider making food items subject to the sales and use tax.*

**Total Increase:  
\$0**

### Increase the B&O tax

The business-and-occupation (B&O) tax, the state's second largest source of income, will bring in more than \$4 billion over the next two years.

A 10-percent surtax on all rates would raise \$450 million. A 25-percent surtax would raise about \$1.1 billion.

*The legislature modified the B&O tax credit for high-technology research and development (R&D) to correct the formula used to determine the credit and change the formula to allow firms to ultimately calculate the credit based on an increased percentage of R&D expenditures. Total increase in revenue: **\$21.5 million.***

**Total Increase:  
\$21.5 M**

<p><b>Increase property taxes</b>  Also known as the "school levy," the state property tax – about \$2.60 on every \$1,000 in property value – will raise about \$2.5 billion over the next two years. Under state law, the highest you can go on the property tax is \$3.60 per \$1,000. Up a quarter: Increasing the levy by 25 cents would raise nearly \$319 million. A \$1 bump gets you nearly \$1.3 billion.  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><i>The legislature did not increase property taxes for the 2005-07 biennium budget. However, adoption of 2SHB 1240 requires counties to remit collected real estate excise tax on the last working day of the month, as opposed to the 20<sup>th</sup> day of the subsequent month. In addition, the bill allows county treasurers to assess an additional fee on real estate excise tax transactions until June 30, 2010. Total revenue increase: <b>\$51.6 million</b>. An additional <b>\$5.5 million</b> in revenue is expected by modifying disclosure requirements for the purposes of real estate excise tax.</i></p>	<p><b>Total Increase:</b>  <b>\$57.1 M</b></p>
<p><b>Create a personal income tax?</b>  Unlike almost every other state, Washington has no personal income tax. There have been several futile attempts in decades past to impose one.  A 1 percent personal income tax would raise nearly \$2.4 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><i>The legislature did not create a personal income tax for the 2005-07 biennium budget.</i></p>	<p><b>Total Increase:</b>  <b>\$0</b></p>
<p style="text-align: right;"><b>Total Increase:</b></p>	<p><b>\$76.2 M</b></p>

<p><b>5. Tax Increase Grab Bag</b></p>	
<p>5 cent tax per 12-ounce soft drink: \$272 million.</p> <p><i>The legislature did not impose a soft drink tax for the 2005-07 biennium budget.</i></p>	<p><b>Total Increase:</b>  <b>\$0</b></p>
<p>Extend existing sales tax to haircuts and beauty services: \$49 million.</p> <p><i>The legislature did not extend the sales tax to these types of services for the 2005-07 biennium budget.</i></p>	<p><b>Total Increase:</b>  <b>\$0</b></p>
<p>10 percent tax on cardrooms: \$61 million.</p> <p><i>The legislature considered SB 5287 in the 2005 legislative session, which would have added a 5% tax on cardrooms and would have resulted in \$24 million in revenues. However, this bill was not adopted by the legislature.</i></p>	<p><b>Total Increase:</b>  <b>\$0</b></p>
<p>2 percent sales tax on sporting goods: \$57 million.</p> <p><i>The legislature did not increase the sales tax on sporting goods for the 2005-07 biennium budget.</i></p>	<p><b>Total Increase:</b>  <b>\$0</b></p>

<p>Increase liquor tax \$1 per liter: \$58 million.</p> <p><i>Via passage of ESHB 2314, an additional \$1.33 per liter was imposed on liquor sales, excluding purchases by licensees. Total revenue: <b>\$47.2 million</b>. Additionally, the legislature adopted SHB 1379 which requires the Liquor Control Board to open at least 20 stores on Sunday. An additional <b>\$5 million</b> in revenues is expected from these extended stores hours.</i></p>	<p><b>Total Increase:</b></p> <p><b>\$52.2 M</b></p>
<p><i>The legislature did not do any of the following for the 2005-07 biennium budget:</i></p> <ul style="list-style-type: none"> <li>• Extend sales tax to golf and bowling lessons: \$5.5 million.</li> <li>• Extend sales tax to dance studios: <b>\$2.5 million</b>.</li> <li>• 1 percent tax on admission to movies, concerts and sporting events: <b>\$12 million</b>.</li> <li>• Extend sales tax to bakery products: \$54 million.</li> </ul>	<p><b>Total Increase:</b></p> <p><b>\$0</b></p>
<p>50 cent increase in cigarette tax: \$206 million.</p> <p><i>The legislature imposed an additional tax of 60 cents per pack of 20 cigarettes, the proceeds of which are deposited in the Education Legacy Trust Account to fund the directives of Initiative 728 as well as higher education for a total revenue increase of <b>\$174.5 million</b>. Additionally, the legislature adopted SB 5794 which authorizes the Governor to enter into an agreement with the Puyallup Indian Tribe regarding the taxation of cigarettes under which the tribe must impose a tax of \$11.75 per carton, in lieu of state cigarette and state and local sales and use taxes. The state receives 30% of the tribal tax revenue resulting in a total revenue increase of <b>\$17.3 million</b>.</i></p>	<p><b>Total Increase:</b></p> <p><b>\$191.8 M</b></p>
<p>Extend sales tax to cable television: \$60 million.</p> <p><i>The legislature did not extend the sales tax to include cable television for the 2005-07 biennium budget.</i></p>	<p><b>Total Increase:</b></p> <p><b>\$0</b></p>
<p style="text-align: right;"><b>Total Increase:</b></p>	<p><b>\$244 M</b></p>

### 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.

<h3>6. Tax Increase Grab Bag</h3>	
<p><i>The legislature did not do any of the following for the 2005-07 biennium budget.</i></p> <ul style="list-style-type: none"> <li>• Sales tax on manufacturing equipment: \$369 million.</li> <li>• Sales tax on newspapers: \$31 million.</li> <li>• Sales tax on prescription drugs: \$501 million.</li> <li>• Sales tax on gasoline (We already pay a per gallon gas tax): \$520 million.</li> <li>• Sales tax on agricultural feed and seed: \$103 million.</li> </ul>	<p><b>Total Increase:</b></p> <p><b>\$0</b></p>
<p style="text-align: right;"><b>Total Increase:</b></p>	<p><b>\$0</b></p>

## 7. Other Options

### 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.

*The legislature did not expand legalized gambling for the 2005-07 biennium budget.*

**Total Revenue:**

**\$0**

### Utilize the funds received from the tobacco settlement now

Last year, lawmakers agreed to sell so-called tobacco bonds in order to cash in on a portion of the 1998 settlement between 46 states and the tobacco industry. The state is still owed about \$4 billion over the next 30 years. But you could forgo those future payments in exchange for \$800 million right away. But beware, lots of other cash-strapped states are doing this. The tobacco bond market might be flooded by the time you get there.

*The legislature transferred **\$13.9 million** from the Tobacco Account into the state general fund for the 2005-07 biennium budget.*

**Total Increase:**

**\$13.9 M**

### Spend our savings

The state has about \$500 million left in reserves. Use as much as you want. But remember, the economy is struggling. You might want to keep some savings on hand.

*After balancing the budget for the 2005-07 biennium, the legislature left \$198.6 million in reserves.*

**Total Increase:**

**\$0**

### 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're doing down in Oregon, where the budget is even worse off. Right there on the front page of the state's Web site is this link: "Donate to the State of Oregon," with instructions on where to send your check.

*The legislature did not consider this as an alternative when balancing the budget for the 2005-07 biennium.*

**Total Increase:**

**\$0**

<p>The legislature increased revenue approximately <b>\$240 million</b> by doing the following:</p> <ul style="list-style-type: none"> <li>• Imposing the sales and use tax on sales of warranties that are not already part of the selling price of purchased tangible property.</li> <li>• Allowing the Department of Revenue to redeem mutual funds and other dividend reinvestment plans that have been deemed unclaimed property (SB 5948).</li> <li>• Changing the penalty for failure to register a vehicle in the state from a misdemeanor to a traffic infraction and increasing the amount of the fee (EHB 1241).</li> <li>• Cash transfers from other accounts.</li> </ul>	<p><b>Total Increase:</b></p> <p><b>\$240 M</b></p>
<p><b>Total Increase:</b></p>	<p><b>\$253.9 M</b></p>
<p><b>Overall Revenue Increase:</b></p>	<p><b>\$574.1 M</b></p>

<b>General Fund Balance</b>	
<p>Prior to the beginning of session, there was a general fund balance of <b>\$867.3 million</b>.</p>	<p><b>\$867.3 M</b></p>

COLUMN FOUR SUBTOTAL \$ 70.7 M	COLUMN FIVE SUBTOTAL \$ 246.7 M	COLUMN SIX SUBTOTAL \$ 0
COLUMN SEVEN SUBTOTAL \$ 253.9	TOTAL NEW REVENUE \$ 574.1 M	
TOTAL BUDGET CUTS \$ 532.8 M	+	TOTAL NEW REVENUE \$ 574.1 M
BEGINNING FUND BALANCE \$ 867.3 M	+	MONEY SAVED/RAISED \$ 1.1 B
		-
		TOTAL DEFICIT \$ 1.8 B
		=
		BALANCED BUDGET \$ \$174.2 M