### Investing in Education, Public Safety and Services for the Vulnerable

Washington must do everything it can to avoid jeopardizing the future of our students, the safety of our citizens and the care of our most vulnerable citizens.

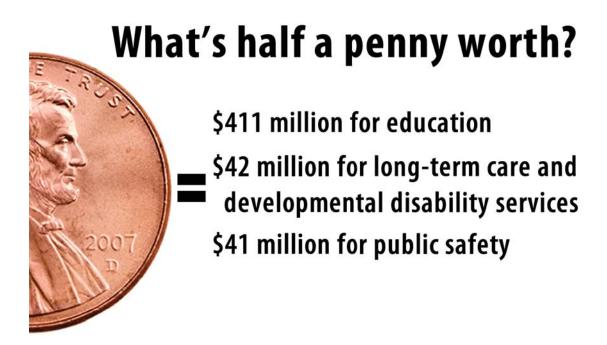
After putting forward a long list of budget reduction alternatives in October, Governor Gregoire turned her attention to revenue options and whether to recommend new revenue. The Governor reviewed more than 150 revenue options submitted by the Department of Revenue, or raised by citizens, state employees and interest groups, as well as a number of fees to offset the costs of certain programs. These options range from eliminating the state sales tax exemption for nonresidents and taxing the windfall profits of oil companies and banks to auctioning licenses for non-tribal casinos.

The Governor identified revenue options that support or have limited negative effect on the state's economic recovery, promote fairness among taxpayers, simplify the state's tax structure and provide immediate benefits to address the projected \$1.4 billion shortfall in the 2011–13 biennium.

Grounded on those guiding principles, the Governor today is recommending a revenue package to Washington citizens and the Legislature that will help protect critical services in several key areas.

#### Governor Gregoire's recommendation to the public

The Governor is asking voters to approve a temporary half-cent increase in the state sales tax (from 6.5 percent to 7 percent). If approved by a majority of the state's voters, this would raise \$494 million.



## **Guiding Principles for Governor's Revenue Package**

#### **Economic recovery**

- » Supports or has limited negative impacts on the state's economic recovery, especially for small businesses and struggling business sectors
- » Promotes job creation

### Fairness/equity

- » Promotes consistent treatment of similar taxpayers
- » Ensures in-state businesses aren't disadvantaged vs. out-of-state competitors
- » Makes sure those who should be paying taxes are paying them

### **Simplification**

- » Promotes simplicity, efficiency and certainty in the tax system
- » Works within the state's current tax structure
- » Reduces or has limited impact on administrative costs

### Revenue adequacy

- » Raises revenue necessary to fund critical state services
- » Provides immediate benefits in the current biennium

#### Health & environment

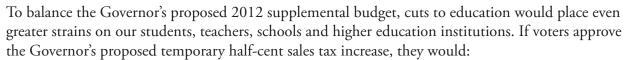
- » Promotes beneficial activities and discourages harmful behavior
- » Promotes environmental quality

### **Investing in Education**

Since the start of what has been the worst economic downturn since the Great Depression, we have had to make drastic cuts that diminish the opportunity for our students to get the education they need to compete in today's global economy.

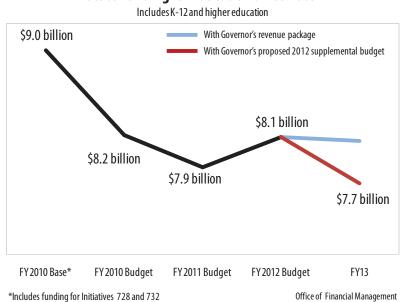
During the past three years we have:

- » Cut funding for our K-12 education system by \$966 million, including elimination of funding for smaller class sizes, teacher pay and educator training.
- » Cut state support for higher education institutions by \$623 million a 46 percent reduction to our four-year universities and 26 percent cut to our community and technical colleges, resulting in tuition increases of up to 55 percent.



- » Stop a \$100 million cut which would shorten the K-12 school year from 180 to 176 days.
- » Stop a \$152 million reduction to the state's levy equalization program, which provides financial support to school districts in property poor counties. The Governor's tiered proposal would reduce school district levy equalization payments by 10 percent to 100 percent.
- » Stop a \$160 million reduction in state support for higher education. The Governor's budget would reduce support to the six public four-year colleges and universities by up to 17 percent and would cut the state's 34 community and technical colleges by 13 percent.

#### **State Funding for Education Since 2009**



### **Protecting Public Safety**

Under the strains of the recession, Washington has had to look everywhere for savings. One budget area critical to public safety but not protected by statutory or constitutional provisions is our state corrections system.

Over the past three years, we cut more than \$300 million and eliminated almost 1,200 positions at the Department of Corrections. Those cuts include:

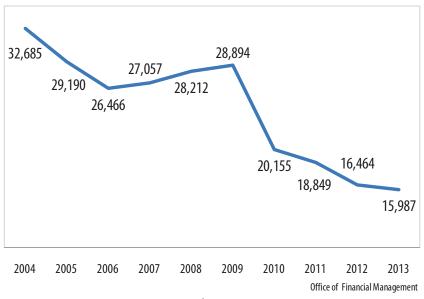


- » Closure of three prisons McNeil Island, Pine Lodge and Ahtanum View. The department targeted older, more costly facilities for closure and now is focusing its limited resources on safer, more efficient institutions.
- Reduced sentences for offenders and elimination of community supervision for low-risk offenders.
  In three years, the number of offenders on community supervision has decreased by about 10,000
   a nearly 40 percent decline.

The Governor's supplemental budget would cut the department by another \$72 million and stretch our prison and community corrections system even thinner. If voters approve the Governor's temporary half-cent sales tax increase, they would:

- » Stop the early release (150 days) of offenders assessed at low to moderate risk of reoffending, including sex offenders. Under the Governor's proposed cuts, the state's average daily prison population would be reduced by an estimated 370 offenders.
- » Maintain the length of post-prison community supervision for all offenders. The length of supervision will be reduced to 12 months for all offenders, except sex offenders. Sex offender supervision will be reduced from 36 to 24 months.

### The Number of Offenders Under Community Supervision Has Declined Sharply Since 2009



### Caring For Our Most Vulnerable Citizens

Many of our society's most vulnerable citizens are individuals who need long-term care and individuals with developmental disabilities — low-income elderly or people with conditions or ailments that prevent them from performing normal daily routines such as bathing, dressing or preparing meals. Economic downturns are especially trying for people with such significant needs.

During the past three years, our cash-strapped state government has:

- » Reduced in-home personal care services by \$311 million, resulting in more than 46,000 elderly and disabled adults losing up to a quarter of their monthly hours of care.
- » Cut home care and community residential provider rates by \$50 million. These rate reductions limit a provider's ability to serve clients and could cause some providers to shy away from Medicaid clients and instead serve private-pay clients who can afford the care.



» Regularly suspended or reduced state-only funded programs such as the Individual Family Support program, the Family Caregiver Support program and the Senior Citizens Services Act, which keep the elderly and individuals with developmental disabilities in their own homes and with their families.

The Governor's proposed supplemental budget would make even deeper cuts that would reduce — or in some cases eliminate — services for people with developmental disabilities or those in long-term care. If voters approve the Governor's proposed temporary half-cent sales tax increase, they would:

- » Prevent 1,600 individuals from losing all personal care and other services, and restore service hours, for some of the most vulnerable clients whose care has been reduced over the past three years.
- » Restore nearly \$13 million in home care and residential provider rates.
- » Invest more than \$15 million in programs that keep elderly and developmentally disabled individuals in their own homes and with their families.

### Recommendations that require a simple majority vote of the Legislature

These alternatives (see page 7) could raise an estimated \$59 million.

### Recommendations that require a two-thirds vote of the Legislature

These alternatives (see page 8) could raise an estimated \$282 million.

### **Priorities for Preventing Cuts**

The Governor recommends that any additional revenue approved by the Legislature be used to prevent or mitigate reductions in the following priority:

- 1. **Non-emergency dental coverage** for 38,000 adults with developmental disabilities, long-term care clients and pregnant women (\$8.6 million). Last year, we eliminated non-emergency dental services for all but these individuals (45,000 in all).
- 2. Chemical dependency services for nearly 5,000 low-income individuals (\$5.9 million). These services help individuals receive outpatient treatment and detoxification services, which improve public safety and cut down on emergency medical costs.
- 3. **Regional support networks** that deliver non-Medicaid mental health services (\$4.6 million). These networks provide mental health treatment to low-income individuals with severe and persistent mental illness. The Governor's supplemental budget would reduce services such as crisis intervention, medication management and case management that help keep 8,000 people living safely in their communities.
- 4. **The Basic Health Plan**, which covers the working poor low-income people who do not qualify for Medicaid. Over the past three years, we have dropped more than 60,000 people from Basic Health. The Governor's supplemental budget would eliminate the program (\$49 million), which would leave another 35,000 people without health care.
- 5. **TANF/WorkFirst grants** that help low-income families with children with cash assistance. Grants were reduced last year by 15 percent and the Governor has proposed another 2 percent reduction (\$7.2 million).
- 6. **Community grants** that deliver prevention and treatment services to victims of sexual assault as well as domestic violence prevention, crisis intervention, and crime victims assistance programs. The Governor has proposed cutting these programs by 20 percent (\$4.7 million).
- 7. **Disability Lifeline medical program**, which provides limited medical benefits for 20,000 low-income individuals with temporary disabilities. The Governor has proposed eliminating the program (\$95 million).
- 8. **Subsidized child care** to help low-income families in getting and keeping work. The Governor has proposed reducing the program by 12 percent (\$50 million), which would eliminate subsidies for about 4,000 children.
- 9. **State Work Study program** which provides financial aid to 7,600 students in higher education institutions. The Governor has proposed suspending the program (\$8.1 million).
- 10. **Parole treatment and services** that help keep juvenile offenders from returning to the correctional system. The Governor has proposed a 20 percent cut (\$2.9 million) that would eliminate services for about 400 youths.

# **Governor Gregoire's Recommendations**

(Dollars in Thousands)

	EV2042
RECOMMENDATION TO CITIZENS	FY2013 Estimate <sup>1</sup>
» Requires majority vote of the public	Listillate
Increase state sales tax rate temporarily from 6.5% to 7.0% – This proposal would increase the state sales tax rate from 6.5% to 7.0%. The increase would expire on July 1, 2015.	\$494,100
RECOMMENDATIONS TO THE LEGISLATURE	FY2013 Estimate <sup>1</sup>
» Requires majority vote of the Legislature	
Convert securities reported as unclaimed property immediately upon receipt — Currently, the Department of Revenue must hold most securities such as stocks and bonds received as unclaimed property for at least three years before they may be sold and converted to cash. This proposal would allow the department to immediately convert into cash all securities received as unclaimed property. The cash would be deposited into the General Fund and may be claimed by the original owners of the securities at any time. This results in a one-time increase in General Fund revenue.	\$50,600 <sup>2</sup>
Require local governments that issue building permits to supply subcontractor information to the Department of Revenue – This proposal would require local governments (cities, towns and counties) that issue residential building permits to request — at the time of final inspection — the name, contractor registration numbers and state business license numbers of any subcontractors performing work on the project. This proposal will help the department combat an underground economy and ensure that subcontractors are paying their taxes and fairly competing with other businesses.	2,600
Reduce the time to claim an excise tax refund to four years — Currently, businesses can file refund claims for five years — the current tax year plus the past four years. This proposal would shorten time to claim refunds by one year.	2,100
Increase the interest rate on excise tax assessments by 2% to equal the federal short-term rate plus 4% — Currently, the interest rate for excise tax assessments and refunds is 2% above the average federal short-term rate, adjusted annually. The rate for calendar year 2011 is 3%. This proposal would increase the interest rate on unpaid taxes an additional 2%.	1,200
<u>Prohibit delinquent taxpayers from renewing liquor licenses</u> – This proposal would require businesses to pay any past due taxes before their liquor license could be renewed. The requirement would be waived for any business in a payment plan with the department.	1,000

<sup>&</sup>lt;sup>1</sup> Estimates based on the November 2011 forecast unless otherwise noted. Assumes start date of July 1, 2012, for any new legislation.

<sup>&</sup>lt;sup>2</sup>This is a one-time sale of accumulated securities. Actual value will vary depending on market value on date of sale.

Impose a \$10 fee per invoice issued to a taxpayer for unpaid taxes (balance due	900
<u>notices, assessments, warrants, etc.)</u> This proposal would require a \$10 fee for each	
billing invoice sent to taxpayers.	
Impose a \$25 fee for the issuance and renewal of reseller permits – This proposal	700
would require a \$25 fee for the issuance and renewal of reseller permits. Reseller permits	
allow businesses to make purchases for resale without paying retail sales tax. Reseller	
permits are now free.	¢ = 0
TOTAL (REQUIRING MAJORITY VOTE OF THE LEGISLATURE)	\$59
DECOMMENDATIONS TO THE LEGISLATURE	FY2
RECOMMENDATIONS TO THE LEGISLATURE	Esti
» Requires 2/3 vote of the Legislature	
Increase business and occupation (B&O) tax rate on oil companies with windfall	
profits – Currently, oil companies pay B&O tax in Washington at various rates —	\$13
0.471% for retailing and 0.484% for wholesale and manufacturing. This proposal would	
impose an additional B&O tax of 0.6% of taxable income (for a total of 1.071% or	
1.084%) if:	
a. The oil company reported, for federal income tax purposes, a profit (net income) of	
\$1 billion or more in the prior calendar year; and b. The profit was 5% or more of its total revenue.	
	E2 (
Increase B&O tax rate on financial institutions with windfall profits – Generally, financial institutions pay B&O tax at a 1.8% rate. This proposal imposes an additional	53,
1.5% B&O tax rate (for a total of 3.3%) on financial institutions if:	
a. The financial institution reported a profit (net income) of \$1 billion or more in	
the prior calendar year; and	
b. The profit was 5% or more of its total revenue.	
Repeal sales tax exemption for purchases made by nonresidents (from states with	23,
a sales tax of <3%) – Currently, residents of any state, U. S. possession or province of	
Canada with a sales tax of less than 3% may purchase goods for use outside Washington	
without paying our sales tax. The proposal would repeal this sales tax exemption.	
Limit the B&O tax deduction for first mortgage interest to community banks	18,
(banks located in 10 or fewer states) – Interest paid on first mortgages on homes and	
other residential properties are not subject to B&O tax. This proposal will require large	
national banks to pay the B&O tax on first mortgage interest income. The deduction	
will continue for locally owned and operated community banks.	
Impose 5% luxury tax on passenger motor vehicles - \$50,000 threshold – This	14,
proposal would create an additional sales and use tax of 5% on passenger motor vehicles if the price/value exceeds \$50,000.	
Impose 1.5% gross receipts tax on gambling and lottery winnings – This proposal	13,
would impose a new 1.5% excise tax on gambling and lottery winnings that must be	
reported for federal tax purposes. Washington residents would be allowed a credit for any	
	1

<u>Increase the cigarette tax 25 cents from \$3.025 to \$3.275</u> This proposal increases the combined state cigarette tax by 25 cents from \$3.025 to \$3.275 per pack.	12,400
Impose public utility taxes (PUT) on developmental disabilities supported living services at 5.029% – This proposal would increase the tax rate for supported living and community residential providers to 5.029% of all income, including payments from government sources. This change enables the state to qualify for higher federal Medicaid reimbursement and would help offset reductions in payments to providers.	11,600
Close B&O tax loophole that allows companies to create shell corporations outside the state to reduce their Washington tax liability — Under current law, some in-state manufacturers have artificially reduced their B&O taxes by creating out-of-state shell corporations to qualify for the nonresident manufacturer exclusion. This proposal would end this practice.	3,500
Limit B&O tax preferences for meat processors, fruit and vegetable processors — The Washington Supreme Court expanded this preference for butchers to include products that contained any amount of meat. This proposal restores the original legislative intent that the tax preference apply only to raw and perishable meat, not products such as canned chili. The proposal also applies to a similar preference for fruit and vegetable processors.	900
Close B&O tax loophole that allows out-of-state printers to sell into Washington without paying B&O tax – The department has been unable to collect B&O tax from out-of-state printers that sell into Washington. This proposal would end this loophole.	\$282,114
out-of-state printers that sell into Washington. This proposal would end this loophole.  TOTAL (REQUIRING 2/3 VOTE OF LEGISLATURE)	\$28