

Understanding our Current Budget Situation

WASHINGTON STATE
BUDGET
& POLICY
CENTER

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November 8, 2024

TO: Agency Directors
Statewide Elected Officials
Presidents of Higher Education Institutions

FROM: Pat Sullivan 
Director

SUBJECT: BUDGET REDUCTIONS FOR FISCAL YEAR 2025 AND 2025-27 BIENNIUM

This year's revenue forecasts, rising costs, and expanding needs require reductions to propose a balanced budget. The Governor's operating budget will prioritize continuing essential programs and addressing caseload increases, while not expanding existing programs and services.

The magnitude of the operating budget deficit is between \$10 and \$12 billion over the four-year outlook period. This deficit is due to the recent revenue forecasts that were adjusted down and the increase in caseloads and the cost to maintain existing programs. The budget is a work in progress, and we need your assistance to propose a budget that best reflects the needs of our state.

Transportation budget revenue projections also have trended down for several forecasts. That, along with rising costs and increasing demands, has created a situation where revenues are not covering current commitments.

To assist with this effort, I direct agencies to propose operating and transportation budget reductions, starting with pauses or delays of programs, and to identify savings options for both the 2025 supplemental budgets and 2025-27 budgets. Please consider measures that will result in immediate savings, such as hiring and other freezes.

\$10-12 billion budget deficit over 4-year outlook:

- Upcoming Governor's budget will prioritize continuing essential programs, and not expanding existing programs, services, etc.
- Agencies directed to propose budget reductions, including program delays, reductions, eliminations, and hiring freezes.

WE HAVE A REVENUE PROBLEM



INFLATION

Maintaining programs and services costs (a lot) more.

INCREASED CASELOADS

Forecasted caseloads are higher across education, children's services, medical care, and more.

EMPLOYEE SALARIES

Recent union contracts (CBAs) will add over \$1.3 billion to the next budget.

WE HAVE A REVENUE PROBLEM



EDUCATION FUNDING

The need to improve public school funding continues, including helping school districts close their own budget gaps.

↪ **OSPI requesting \$3 billion increase**

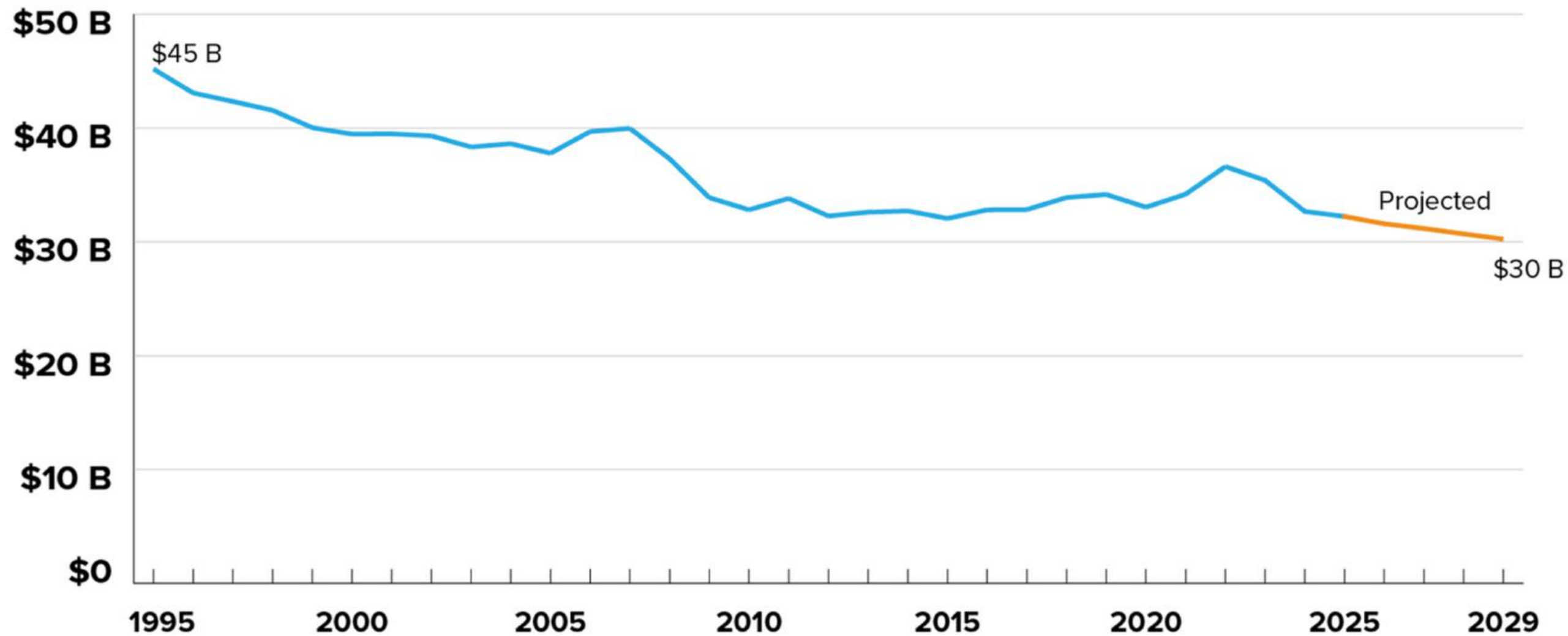
for public schools in the next budget, with \$1 billion to fully fund special education.

↪ **the Fair Start for Kids Act**

increases funding commitments to support affordable child care and early learning.

As Washington's wealth grows, state tax revenues struggle to keep pace

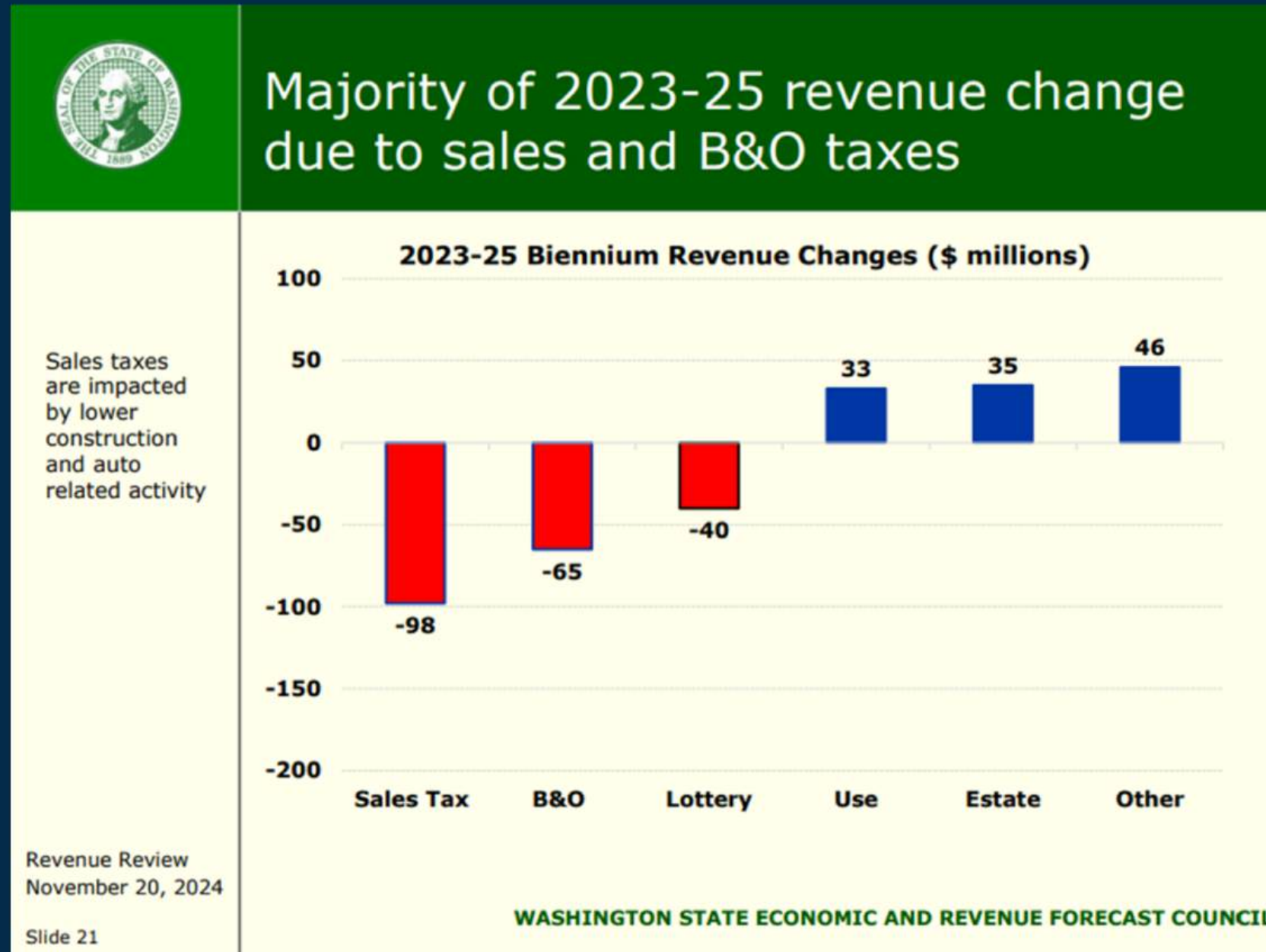
Washington state tax revenues adjusted for inflation, fiscal years 1995-2029 (projected)*



Source: Washington State Budget and Policy Center calculations; data from the Economic Revenue Forecast Council (ERFC).

*Revenues include total GF-S, ELTA, OPA, and WEIA from the November 2024 Economic and Revenue Forecast.

SALES TAX IS NOT SUSTAINABLE



Reduced sales tax revenues

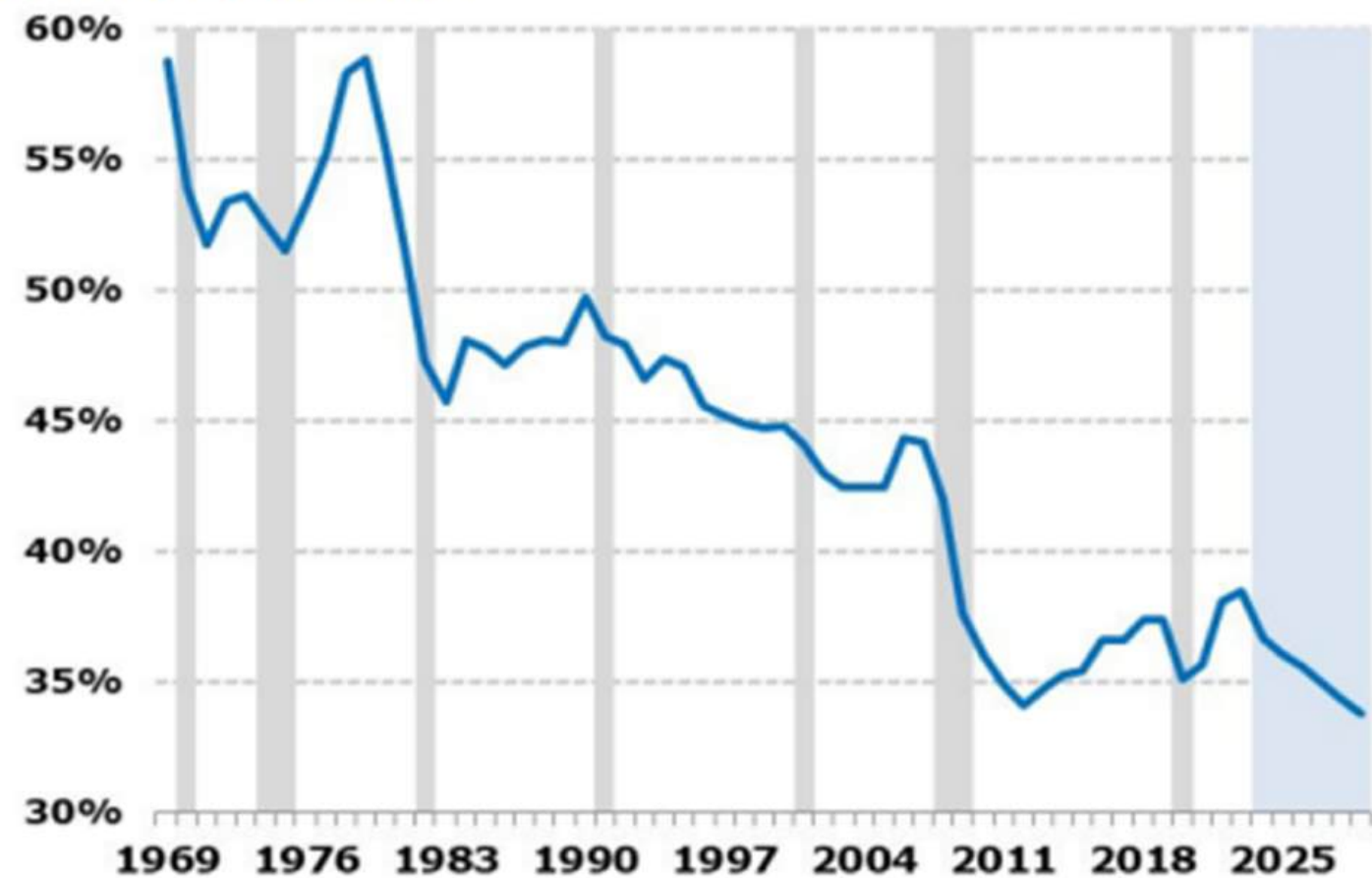
Primarily from reduced construction activity.

Construction makes up 20% of statewide sales tax revenues.

Car sales are reduced too.

SALES TAX IS NOT SUSTAINABLE

Figure 3.4: Taxable Sales* as Percentage of State Personal Income



*Past tax base adjusted to represent current base. Gray shaded area indicates recession, blue shaded area indicates forecast.
Source: ERFC; Data through FY23, forecast through FY29

We have moved to a service-based economy.

Reduction of sales tax revenues over time are not a temporary, but a long-term trend.

MORE FACTORS IMPACTING THE 4-YEAR BUDGET OUTLOOK:

- Transportation budget
 - Fuel taxes & declining fuel consumption
 - Ferry Revenues decreasing
- Previous use of federal COVID relief funds and state reserves
- Lower personal income forecasts
- Slowing state population growth
- Uncertainty of federal funding changes post-election



Progressive Revenue is Key to a Sustainable Budget

PROGRESSIVE VS. REGRESSIVE TAXES



Image: California Budget and Policy Center

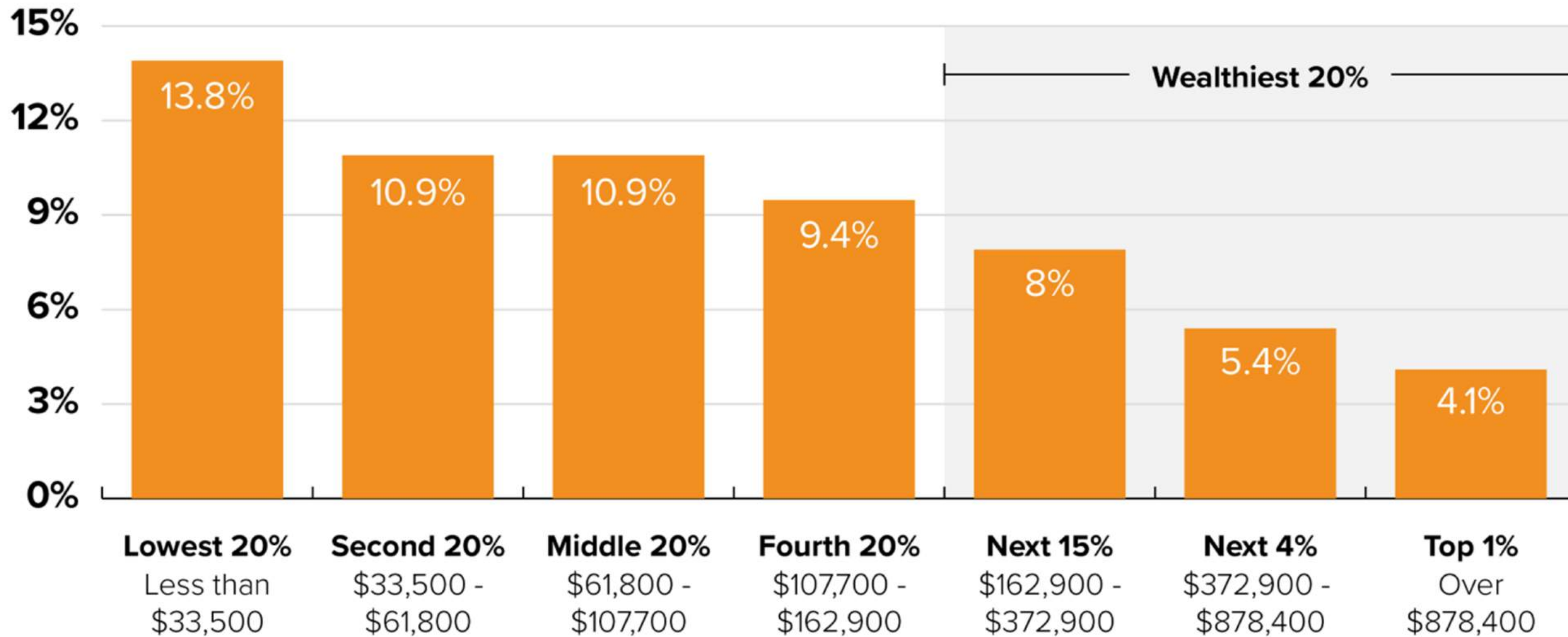
Progressive:

- Considers ability to pay
- Takes a higher percentage of income from high earners

Regressive:

- Takes a larger percentage of income from people with lower earnings

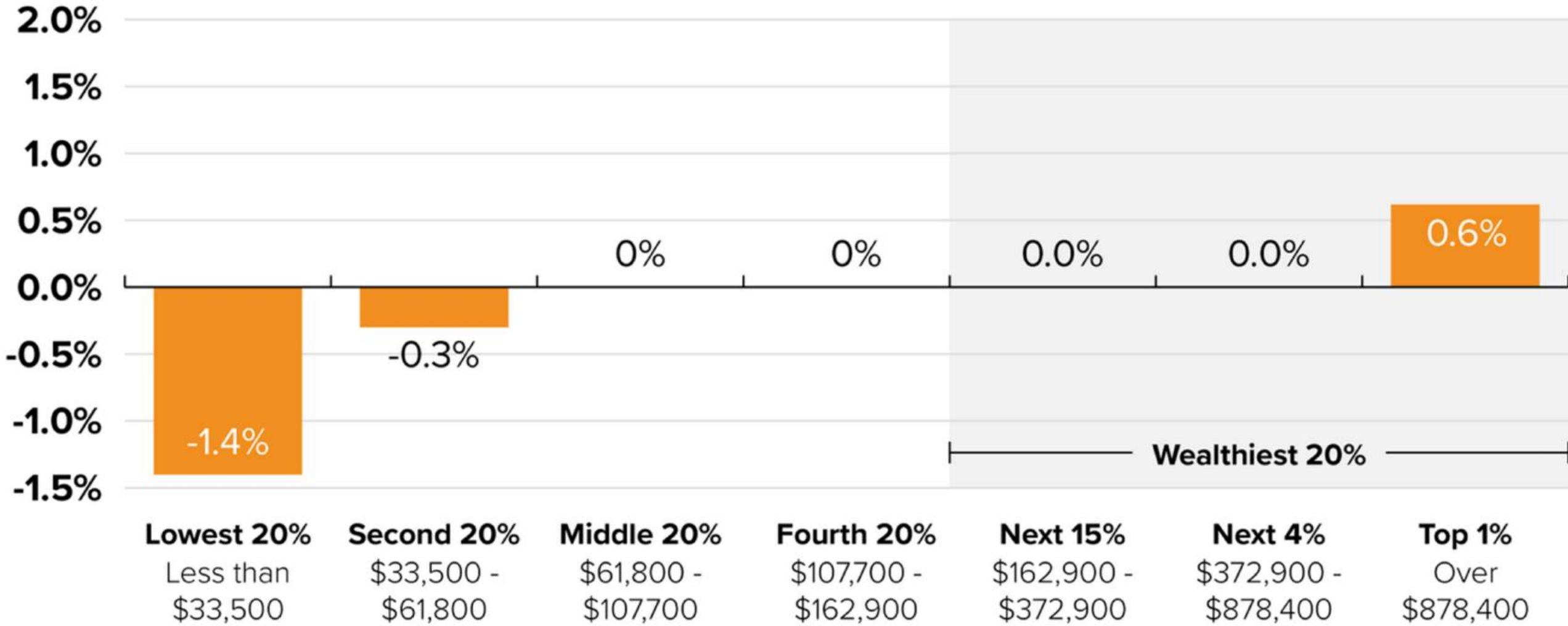
Washington state and local taxes as a share of annual income by income group



Source: Institute on Taxation and Economic Policy, update to Who Pays, 7th Edition, provided January 2024

Thanks to recent policy wins, tax rates for people in Washington are moving in the right direction

How tax rates have shifted for Washington households at different income levels since the Working Families Tax Credit and capital gains tax launched



Source: Institute on Taxation and Economic Policy, update to Who Pays, 7th Edition, provided January 2024



REALITY OF TAXATION IN WA

Sales tax:

- Deeply Regressive
- Large impacts on individual's and families' day to day costs



Property tax:

- While property values increase, incomes can't keep up for many Washington home owners
- Constitutionally restricted from allowing progressivity
- Limited relief: Senior tax exemption (w/ low take-up)

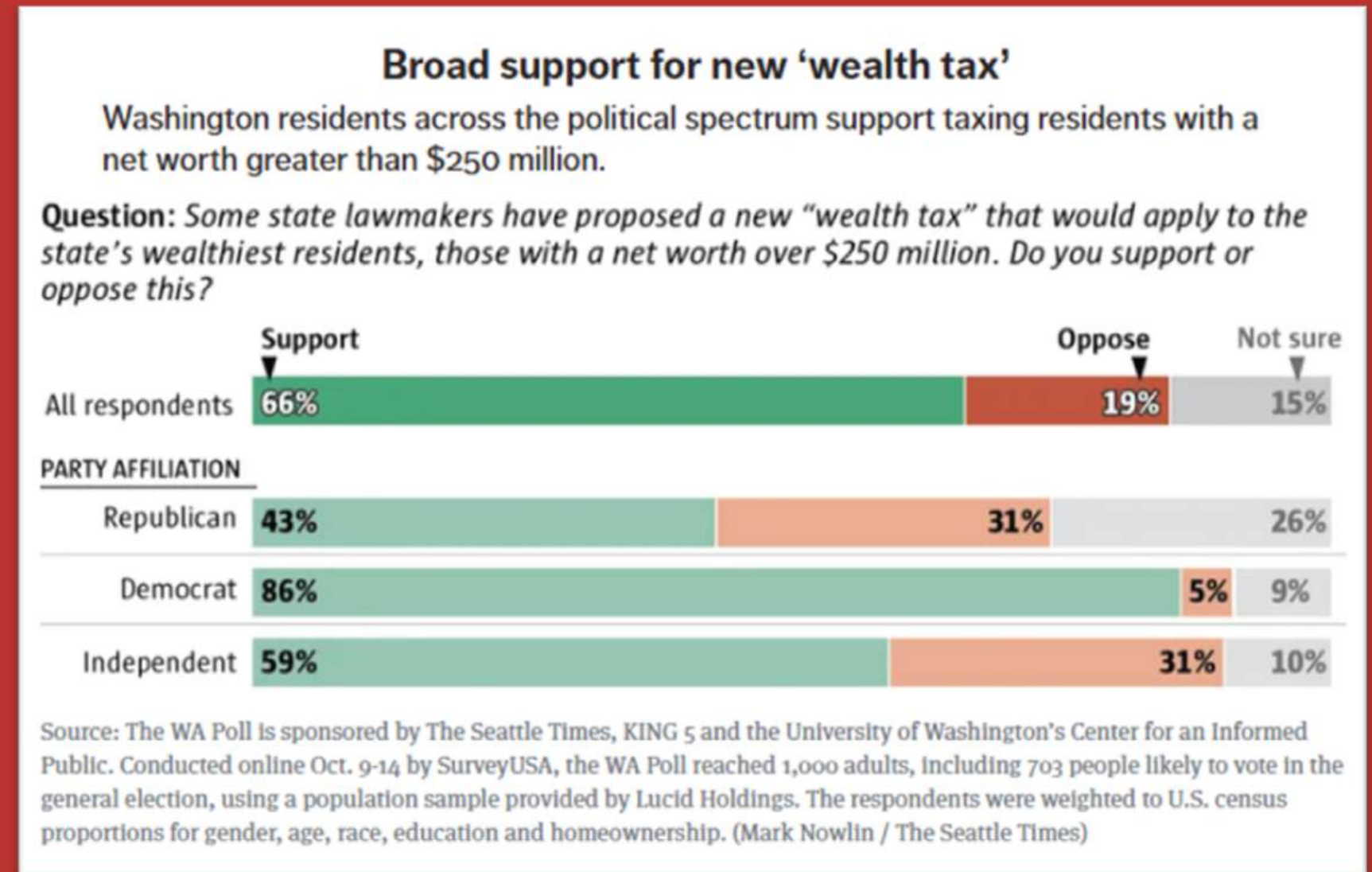
B&O tax:

- Relatively unique to Washington state
- Regressive & filled w/ loopholes for large businesses

PROGRESSIVE TAXES HAVE BROAD SUPPORT

| Initiative Measure No. 2109 | | County Results & Map | |
|-----------------------------|-----------|--|---|
| Measure | Vote | Vote % | |
| Yes | 1,348,555 | 35.86% |  |
| No | 2,411,578 | 64.14% |  |

I-2109 – the initiative that sought to repeal the capital gains tax – was resoundingly batted down by voters just last month.



Seattle Times Wealth Tax Poll from Oct. 2024 shows broad support across political ideologies.

CUTS LEAD TO DEVASTATING HEALTH & ECONOMIC IMPACTS



During the Great Recession, Washington state lawmakers made over \$10 billion in cuts to the operating budget.

In the years following these cuts, Washington state experienced:

- Sharp increases in poverty and deep poverty rates, particularly for Black families.
- Increases in unemployment rates, particularly in rural areas.
- Disproportionately high rates of foreclosures for Black and Latinx households.
- and more...

KEY TAKEAWAYS

WORKING PEOPLE CONTINUE TO FOOT THE BILL

Our current tax system relies heavily on everyday, working people in Washington to pay the highest share of their income in state and local taxes. Despite recent wins, wealthy Washingtonians still don't come close.

SUSTAINABILITY IS KEY

It will be impossible to get through this time while only focusing on the short term needs. Some revenue options will take time to set up - coupled w/ shorter term solutions, a more sustainable budget is very possible.

WE HAVE OPTIONS & WE NEED MANY FOR SUCCESS

We can't cut our way out of this situation. We are facing a deficit that will require several options to address short-term and long-term needs. Not to fear, they are extremely popular & we have a checklist for you!



Traci Underwood
The Economic Opportunity Institute
www.opportunityinstitute.org

PROGRESSIVE TAXES FOR FUNDING THE PUBLIC GOOD

Policy ideas for the 2025 session



PILLARS OF PROGRESSIVE REVENUE POLICY

PROGRESSIVE REVENUE IS
POPULAR, SUSTAINABLE &
ADEQUATE

There are several policy options that the legislature could pass this session that would bring in revenue to fund public programs and services both on a short and long term basis.

These policies are **progressive, sustainable, and equitable.**



SETTING THE TABLE

- The ideas presented here are possibilities and are not final. Revenue amounts are estimates.
- Policy possibilities include both smaller and larger new revenue estimates.
- These progressive revenue possibilities vary in terms of how quickly they can be implemented and begin to generate revenue. Both short and longer term policies will be necessary to achieve sustainability.





WEALTH TAX

A TAX ON EXTREME WALL STREET WEALTH

Currently, financial assets, such as stocks and bonds, are not taxed unless they are sold. The wealth tax is a 1% property tax on the fair market value of financial assets with the first \$250 million in value exempted from taxation. Distinct from capital gains tax, which is on the *sale* of certain financial assets.

The 2024 Wealth Tax Study from the Dept. of Revenue sheds more light on how to implement this tax reasonably and effectively.

Estimated to raise \$3.1 billion a year from approximately 700 taxpayers.



HIGH EARNERS PAYROLL TAX ON EMPLOYERS

CLOSING A LOOPHOLE ON EMPLOYERS

Payroll taxes for social programs – including Washington’s popular Paid Family and Medical Leave (PFML) program – aren’t paid on income above \$168,600. This progressive tax would close this payroll loophole on the *employer* side.

This would be similar to Seattle’s Jumpstart Tax, and could include both W2 and stock -based compensation.

At a rate of 6.5% it could raise upwards of \$4 billion per year to help fund the public good.



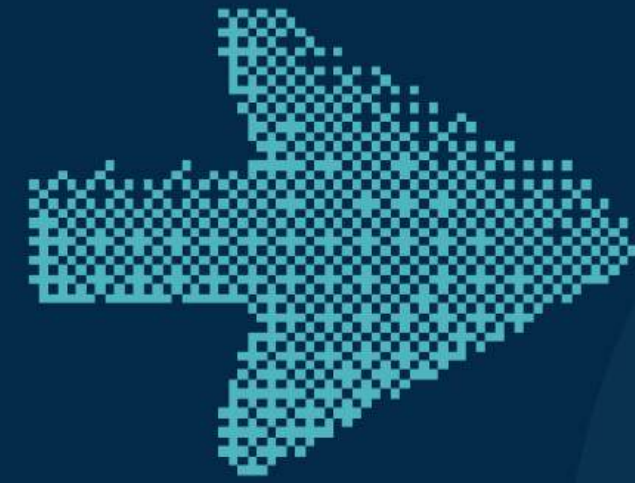
BIG BUSINESS TAXES

MAKE THE BUSINESS TAX CODE MORE PROGRESSIVE

The B&O can be tough for small business with low profit margins. In contrast, large, multi-national corporations get many B&O tax breaks and rake in more and more revenue. With a deep bench of tax experts on staff, big companies can minimize their taxes while small businesses struggle to keep up with a complex system riddled with loopholes.

Reforming the B&O tax system to make it more progressive and ask the high profit businesses to pay more their share is on the table this session.

POLICY IDEAS FOR '25



WEALTH TAX

Tax Wall Street wealth based on its market value, exempting the first \$250 million in such assets

~\$3.1 billion per year

HIGH EARNERS PAYROLL TAX ON EMPLOYERS

Close a loophole on high earners (making more than \$168k)

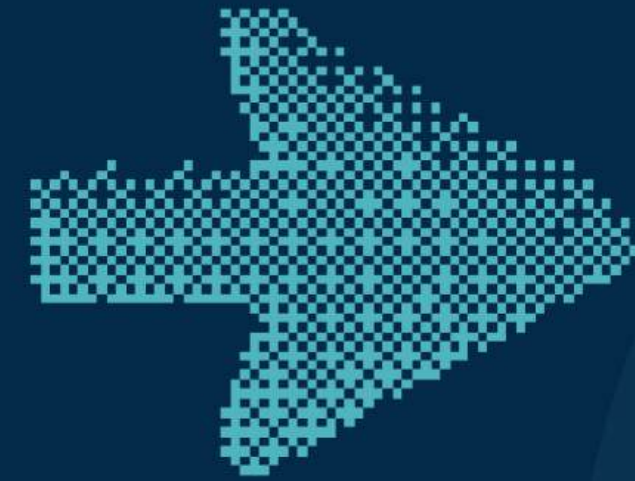
~\$4 billion per year

BIG BUSINESS TAXES

Make the B&O more progressive and easier for small business

tbd

POLICY IDEAS FOR '25



AFFORDABLE HOMES ACT

Reform the Real estate
Excise Tax to make it

REFORM THE ESTATE TAX

Exclude small estates
from filing and raise the
top rates on big estates

END THE WEIA GIVEAWAY

Eliminate the cap on
taxes that big tech pays
toward WEIA

NOT A UNICORN IN SIGHT

There's no one magic policy idea that will fix our regressive tax code and adequately address our state's revenue problem this session.

In order to fund the vital programs that make life affordable and good for so many in Washington State, 2025 must be the year we pass multiple progressive revenue policies.



Email me!

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QUESTIONS?





Messaging This Moment

Ready for Revenue

Reiny Cohen

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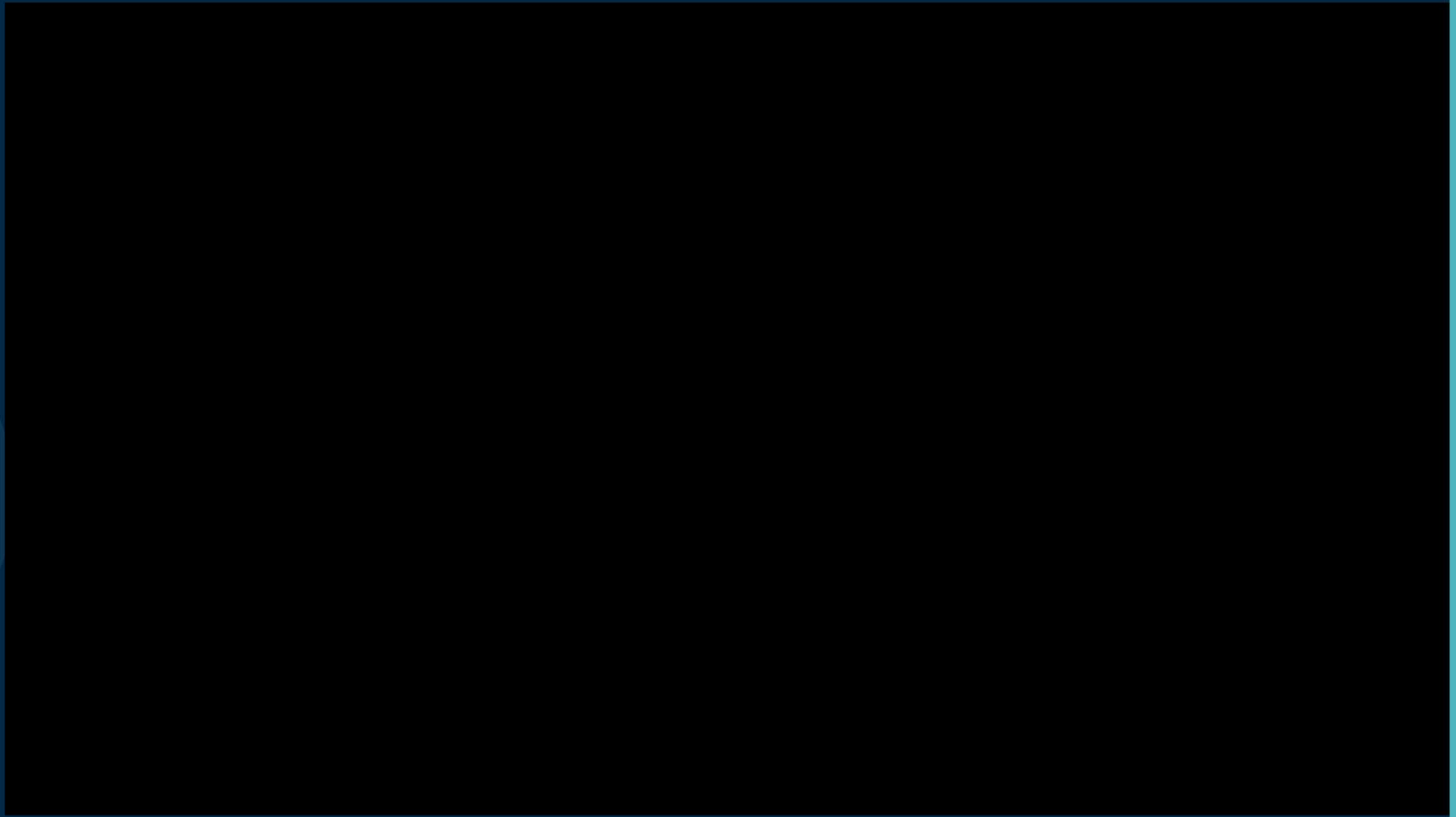


WHAT'S ON THE TABLE?

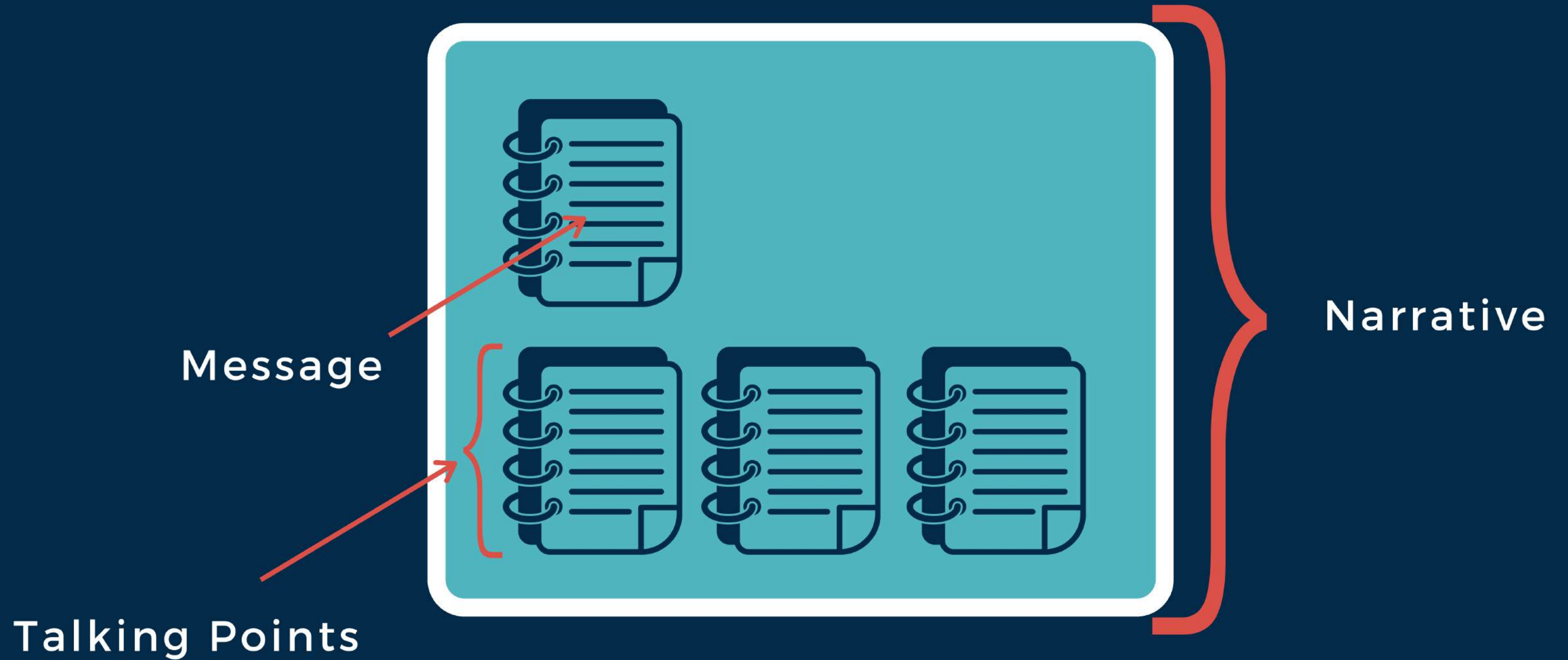
KEY DISCUSSION POINTS

- Strategic Storytelling
- Research
- I-2109 Case Study
- 2025 Session Narrative

BUT FIRST, A VIDEO!



WHAT IS NARRATIVE?





WHY STORIES?

Speak to their hearts to change their minds.

THE RACE-CLASS NARRATIVE

ELEMENTS OF AN EPIC STORY



Shared Value
Name race,
class, gender



Violation of
shared value



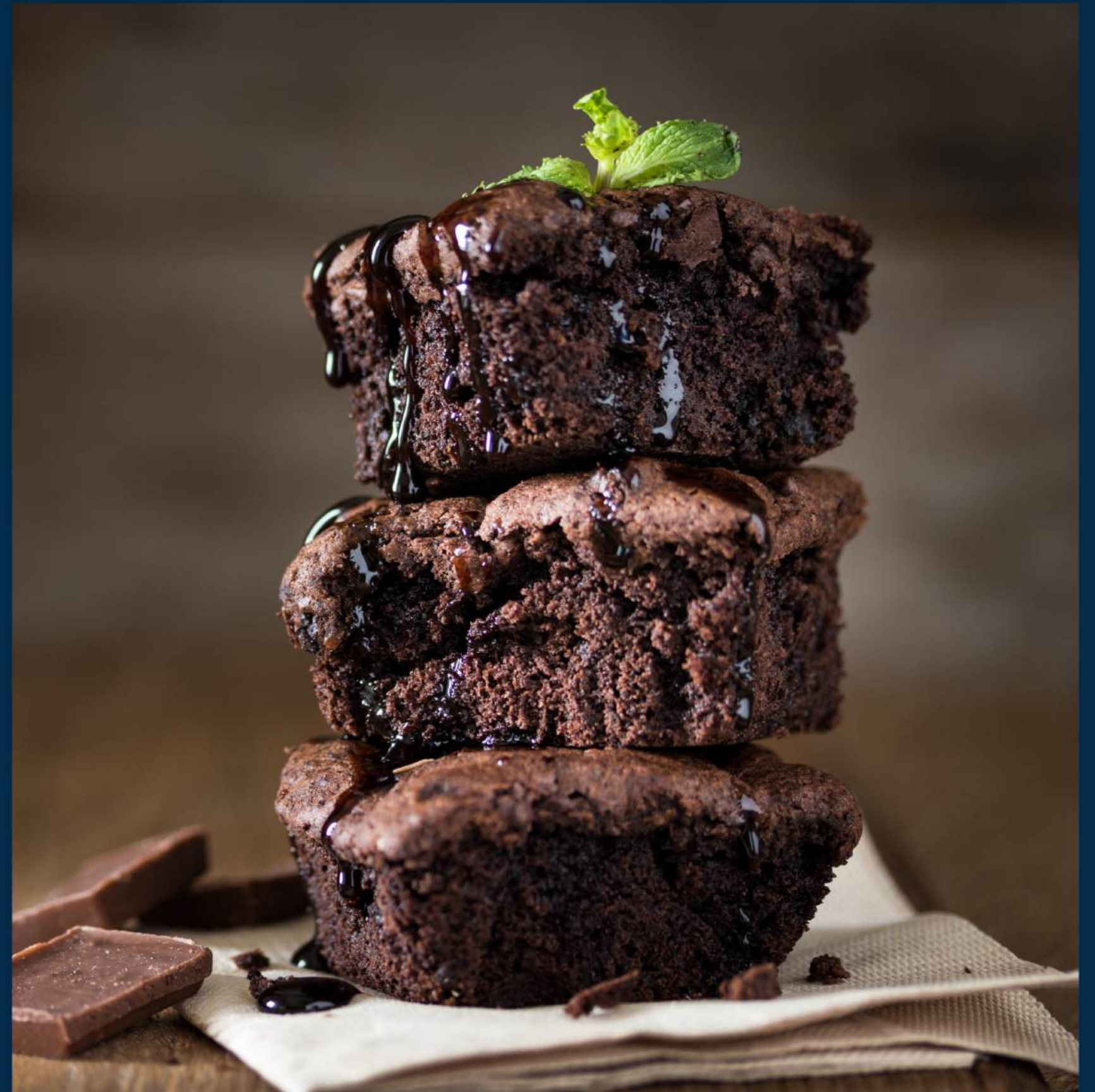
Villains
Active agents
blocking
progress



Heroes coming
together for
policy change

SHARED VALUES

THE BROWNIE EXERCISE



SHARED VALUES

THE BROWNIE EXERCISE

Brownie Examples:

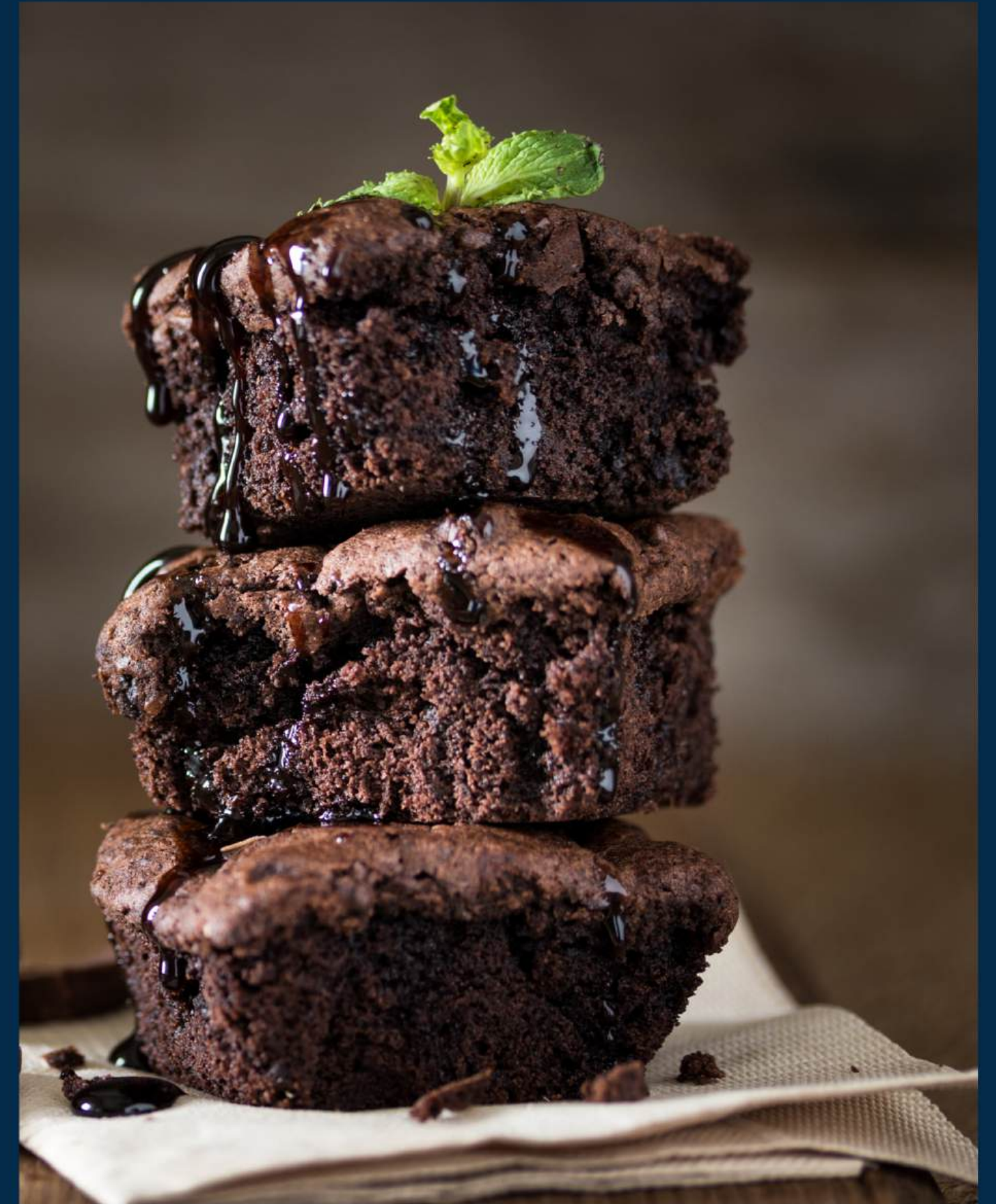
"My family finally lives in a home with heat that works and a door that locks."

"I was filled with joy to watch my baby take their first steps."

Ingredients:

"We have to tax financial assets!"

"We have to close the loophole on payroll taxes for high income earners!"



KEEP IT POSITIVE!

SAY WHAT WE ARE FOR, NOT JUST WHAT WE ARE AGAINST

No matter what we look like or how much money we have, we:

- should all live in a home with a door that locks ---> shouldn't have to worry about sweeps
- should be home to see our baby's first steps ---> shouldn't have to return to work so soon.





NARRATIVE ELEMENTS

SHARED VALUES "BROWNIES"

- The high stakes outcome. What the daily experience of our heroes will be like.
- NOT your policy or campaign

VIOLATION OF OUR VALUES

- Why we don't have our brownies
- The real big problem our villains are creating and we're trying to solve



NARRATIVE ELEMENTS

VILLAINS WHO BLOCK PROGRESS

- Who we hold accountable for the threat.
- Always an active agent. Never an entire group of people
- Always paired with an action (what are they doing?)

HEROES COMING TOGETHER FOR CHANGE

- Coming together across our differences
- Actual person for whom change is necessary
- Your base

Example

Values/Brownie

Violation/Villain

Hero

Coming
together/Solution



No matter what we look like or how we make a living, most of us pitch in for each other. We want to live, work, and play in vibrant communities, and leave things better off for those to come.

But you know who doesn't pitch in? The wealthy few. Some of them have spent decades helping to maintain an upside-down tax code that requires us to pay a higher share of our income in state and local taxes than they do. While the rest of us foot the bill for the schools where our kids learn, the parks we play in, and the roads we all drive on, they are able to avoid paying what they truly owe to our shared communities.

In recent years, we've moved the needle on balancing our tax code with the passage of a capital gains tax and a working families tax credit. But there's still work to do. If we make sure Washington's wealthiest pay what they truly owe in taxes, the rest of us will have what they need - like affordable healthcare, housing, and food.



WHAT IS THEIR NARRATIVE?

Brownie/Value: A life free of government meddling, which equals more money in your pocket

Violation: Government takes your hard earned money and wastes it on lazy people

Villains: Greedy tax and spend Democrats who raise taxes to enable freeloaders

Heroes & coming together: Responsible tax payers, business owners, job creators banding together to say “spend within your means”

TAX AND REVENUE MESSAGING RESEARCH

**PRE-2021
LEGISLATIVE
SESSION
IWN, TOPOS**

**2021 TAX
FOCUSED RACE
CLASS
NARRATIVE
SIX, FUSE, TOPOS**

**2021 NATIONAL
“RAISING REVENUE”
FRAMESHIFT, ASO,
WMTF, HIIT, LAKE
RESEARCH**

**2023 WEALTH
TAX FOCUS
GROUPS
SEIU, FUSE,
GBAO**

**PROGRESSIVE
REVENUE IS SEXY!**

PROGRESSIVE TAX REFORM TAKEAWAYS 2020



Pandemic Created a New Landscape

More than ever, people see the connection between government and public programs and see the need for bold investments. When you focus communications on what taxes pay for – schools, childcare, roads, emergency services – support for progressive taxes dramatically increases

Clear Choice Story

We can cut spending, which harms people, or we can raise taxes for the wealthiest and keep money flowing through our communities.

Upside-Down Tax Code needs to be fixed

This idea is still new and striking, and easily persuades people that relying on sales tax does not make sense, and those who've been paying the least should pay more.

Clear, Simple Solutions

When we're clear, people easily understand where revenue will come from. Billionaires, wealthy corporations, wall street profits.

RCN IN WA TAKEAWAYS 2021



THE “BROWNIE” WORKS

When you center race, class, and gender in shared values about an aspirational Washington, our audiences are moved to support progressive tax policy.

HISTORICAL POLICY MAKERS ARE A GOOD VILLAIN

It makes sense to Washingtonians that policy makers who've historically been rich and white made policies that benefit people mostly like themselves. Past laws that created our tax code were racist in intents & outcomes.

POINT TO EXAMPLES OF HOW WE'VE COME TOGETHER TO MAKE CHANGE IN OUR PAST

WEALTH TAX FOCUS GROUP TAKEAWAYS 2023



People are struggling. Despite working hard, they are overwhelmed by the rising cost of living, homelessness, and inequality. They are very worried for their children's future.

Participants believe that extremely wealthy people don't pay their share of taxes. They also believe we shouldn't tax people for "being successful."

Participants believe that we need to invest more in mental health services and affordable housing. They have concerns about government not spending taxpayer money well.

Because they hold multiple competing viewpoints simultaneously, the electorate is very persuadable on the wealth tax. Participant conversation and moderator prompts had big, persuasive impacts the group dynamics.

Tax "cheats" emerged as a clear villain.

NATIONAL LESSONS & FRAMES TO AVOID 2021



TAXES AS PUNISHMENT

“Tax the Rich” frames taxes as a punishment when in reality taxes are what we all contribute to our communities. It’s a rallying cry that backfires with our persuadable audiences.

TAXES FOR TAXES SAKE

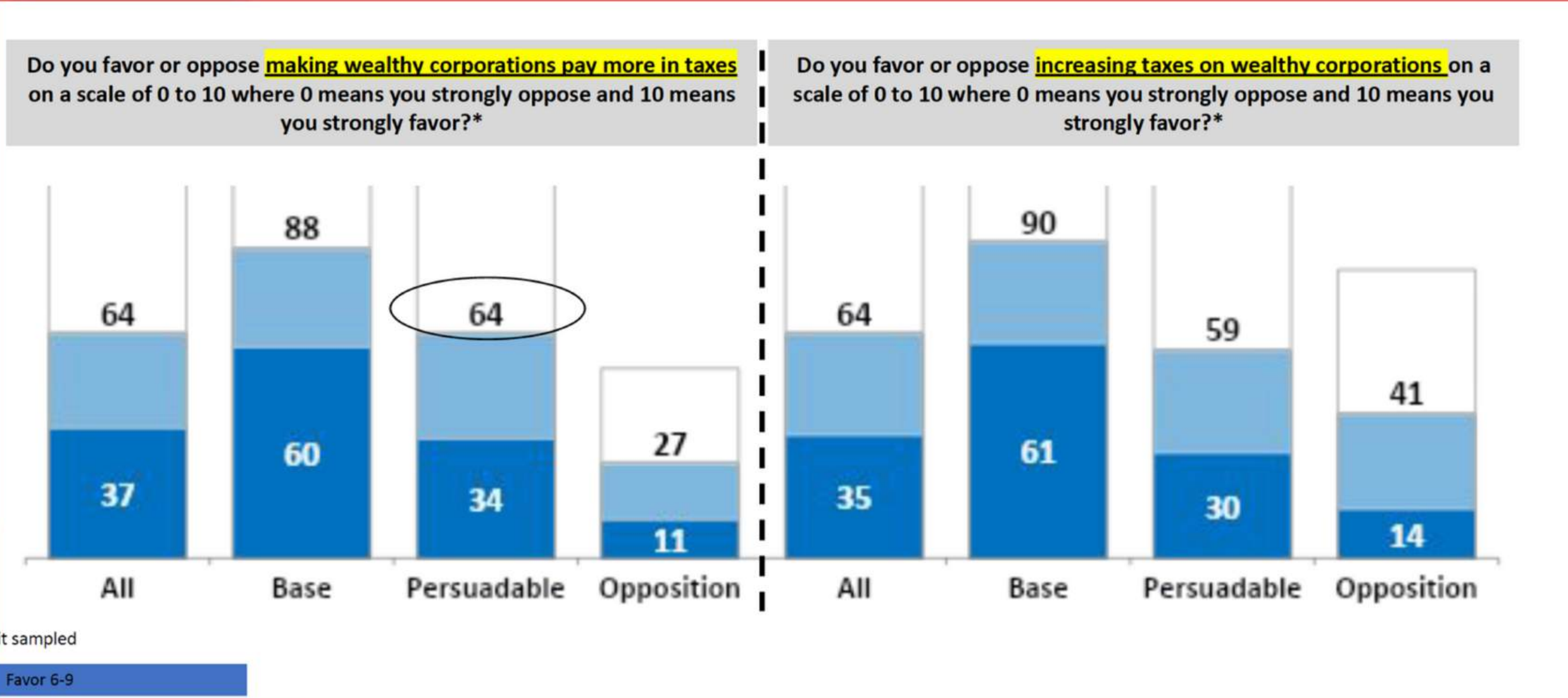
“The wealthy only pay 3% of their income in state and local taxes, that’s why we need a wealth tax.”

“Wealth tax” itself is problematic as a name as it reinforces this frame.

NATIONAL LESSONS & FRAMES TO EMBRACE 2021

PAY WHAT THEY OWE

More engaging for our base. Hints at the unmet responsibility of the wealthy and reinforces the upside down nature of our tax code specifically.



ACTIVE VOICE MOTIVATES

Persuadables responded more strongly to "Making the wealthiest/corporations pay more in taxes" vs "Increasing taxes on"

I-2109 AS A CASE STUDY

SPOILER ALERT: WE WON

BROWNIES:

No matter how much money we have or where we live:

All our kids are worthy of quality care.

All kids should learn in great schools.

Parents should get to go to work knowing their kids are safe.

I-2109 AS A CASE STUDY

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BROWNIES:

No matter how much money we have or where we live:
All our kids are worthy of quality care.
All kids should learn in great schools.
Parents should get to go to work knowing their kids are safe.



I-2109 NARRATIVE ELEMENTS

SHARED VALUES, "BROWNIES"

Funding impacts were centered in every ad, mailer, blog post, op-ed, etc. The brownies made the difference!

LIMITED "FACTS"

Highlighted exemptions (which reinforced the real person impacts)

Highlighted that 99.8% of people will never pay (also real person impacts)

Public Investment Impact Disclosure as messaging

“This measure would decrease funding for K-12 education, higher education, school construction, early learning, and childcare.”

Inclusion of the PIID consistently swing support by 20 pts.

Strong language in the bill is what produced such an amazing PIID.

Write progressive tax bills with this in mind -- we don't need to fear challenges to our legislation. We have the messaging tools and coalition to win.

Example

Values/Brownie

Violation/Villain

Hero

Coming
together/Solution



No matter what we look like or how we make a living, most of us pitch in for each other. We want to live, work, and play in vibrant communities, and leave things better off for those to come.

But you know who doesn't pitch in? The wealthy few. Some of them have spent decades helping to maintain an upside-down tax code that requires us to pay a higher share of our income in state and local taxes than they do. While the rest of us foot the bill for the schools where our kids learn, the parks we play in, and the roads we all drive on, they are able to avoid paying what they truly owe to our shared communities.

In recent years, we've moved the needle on balancing our tax code with the passage of a capital gains tax and a working families tax credit. But there's still work to do. If we make sure Washington's wealthiest pay what they truly owe in taxes, the rest of us will have what they need - like affordable healthcare, housing, and food.

PROGRESSIVE REVENUE TALKING POINTS

BROWNIES

- No matter what's in our wallets, we should all have the freedom to provide for our families, contribute to our communities, and have enough left over to make meaningful choices about our lives.
- In Washington, we believe that all of our neighborhoods – no matter the zip code or racial makeup – are worthy of nurture and care.
- We believe that the experts on the needs of working communities are working people - single moms budgeting for diapers, first-gen college students depending on food pantries, and immigrant parents counting bills at the kitchen table. No matter the size of our paychecks, we should all be able to pay for our families' everyday needs and pursue our own goals in life.
- No matter how much money our parents have, all of us should be able to enter adulthood able to own a home, go to college, or start a business if we want to.

THREAT/PROBLEM

- When the wealthy few and corporations refuse to pay what they truly owe to our communities by blocking progressive tax policies, they compromise the wellbeing of all Washingtonians.
- When they work against us, wealthy few starve our communities of the funding we need to maintain the schools where our kids learn, see doctors when we're sick, or provide home options we can afford.

CALL TO ACTION

We're coming together to urge our lawmakers to fix our upside-down tax code and make the wealthy and corporations pay what they owe.

WEALTH TAX EXAMPLE

BROWNIES

- No matter what we look like, where we come from, or how we make a living, Washingtonians deserve to have the things we need to thrive: to access quality public education, supports for loved ones with disabilities, to live in a home we can afford, and to have healthy food on the table.

THREAT/PROBLEM

- However, powerful and wealthy individuals and corporations have lobbied to keep our state reliant on regressive taxes like the sales tax, maintaining a system that starves our services of funding while they hoard wealth for themselves. As a result, working families pay more than their share of taxes to fund our communities while the wealthy get a free ride off of what we contribute.

CALL TO ACTION

- Washington's lawmakers can make this right: enact a 1% tax on excessive wealth above \$250 million to ensure our communities have what we need. The ultra-wealthy should pay what they owe in taxes and stop forcing working families to pay more than our share for our the schools, roads, community benefits we all share.

Do Say

Don't Say

Pay what they owe

Tax the rich / pay fair share

Funding, providing, make sure

Invest in x

Family/people's financial/economic wellbeing

The Economy

Shared contribution, responsibility

Tax burden, tax relief

Lead with impacts on heros

Avoid centering the "tax"

Name the group you are talking about
Include qualifiers e.g. "wealthy few"

Everyone
Villainize in sweeping generalizations

POWERFUL PIVOTS

| | |
|---|---|
| <p>The wealthy will move if you tax them</p> | <p>Wealthy people maintain residences for the same reasons we do – to be close to family, their businesses, or school systems, and multiple studies prove this. Progressive taxes are how we create thriving communities in Washington that people want to and love living in, including the wealthy.</p> |
| <p>They'll just figure out how to dodge the tax</p> | <p>While it's true that armies of accountants and lawyers are paid to help people avoid taxes, it is not true that every wealthy person is a tax cheat. Good tax policy includes enforcement mechanisms including residency requirements.</p> |
| <p>Progressive taxes are volatile</p> | <p>Most economic systems are volatile, and that volatility has been planned for. This is not new. Our state's capital gains tax planned for it, and we can build the same thoughtful considerations into future tax reform bills.</p> |
| <p>It will get challenged at the ballot.</p> | <p>We are not afraid of that. Our state has a powerful tool in the Public Investment Impact Disclosure law, which tells voters what will be defunded if a tax is repealed. We know that voters support progressive taxes when they see what funding will be lost as proven by the 3 ballot initiatives with PIIDs on them that were just defeated.</p> |
| <p>It doesn't bring in money immediately</p> | <p>Lawmakers are required to balance a budget across four years, and need to fill a hole of \$12 billion. We need "now" money (like closing loopholes or adjusting existing taxes) AND "later" money. Passing progressive taxes this year allows time for implementation and for collection to begin to help fill that \$12 billion hole across four years.</p> |
| <p>I can't vote for taxes</p> | <p>Your other choice is decimating the services your constituents desperately need and rely on. In two election cycles since the capital gains tax was passed, not one lawmaker has lost their seat for voting yes. And, voters overwhelmingly upheld the tax, proving they support funding our state's essential services.</p> |

FINAL TIPS



REJECT CYNICISM

Focus on the solution/vision, not the problem

FOCUS ON YOUR HEROES

Talk to our people about our people. Don't waste time with people who will never agree with you.

THERE IS ENOUGH

Don't buy their themes of scarcity, of "every man for himself." There is plenty to go around.

You're Ready for Revenue!

QUESTIONS?

