

Whose Surplus is It? Washington State Continues to Overcharge Taxpayers

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For each of the last six years, the state has collected more in general fund revenue than it has spent. On the one hand, this pattern is commendable: better to be in the black than in the red. Yet the substantial growth in the state's budget surplus over this period (expanding from \$234 million to \$900 million or more) reveals another pattern: Washington state has repeatedly overtaxed its residents and businesses.

Last year Washington voters approved Referendum 49 by a wide margin, thereby reducing the state tax burden by about \$130 million per year. Even after taking into account the impact of Referendum 49, our analysis concludes that anticipated revenues and the current surplus more than justify a further tax cut.

Even if we assume a 1999-2001 spending level as high as the one proposed by Governor Gary Locke, a \$75 million tax cut in 1999 and another \$150 million in 2001 can easily be achieved. Better yet, deeper tax cuts are possible if the Legislature displays greater spending discipline or implements cost-cutting measures.

A Responsible, but not Excessive, "Rainy Day" Fund

A reserve or "rainy day" fund is designed to provide the Legislature with adequate time to react to unexpected economic downturns. In an earlier

Washington Institute Foundation study, "Washington's Tax Surplus: Keeping Faith with Washington's Taxpayers," authors Emilio Cantu and Craig Schmid recommended that the state's reserve should total five percent of its *annual* expenditures. Thus, a prudent reserve for Washington state given current spending levels would total around \$500 million. The ending surplus for the current biennium, however, will exceed \$900 million.

Tax Cut Opportunities

This study considers three spending scenarios and evaluates the opportunity for tax cuts. Governor Locke's 1999-2001 spending proposal is taken as a high-end starting point; the other two examples assume greater spending discipline.

Scenario #1

In the high-end spending scenario we assume a \$50 million 1999 supplemental budget and the Governor's \$20.577 billion spending proposal for 1999-2001.

Table 1 depicts the general fund balance sheet, given anticipated revenues and the above spending assumptions. Consistent with our goal of maintaining a responsible, but not excessive, reserve, we conclude that even under the Governor's proposal a phased tax cut is appropriate: a \$75 million tax cut for the 1999-2001

Even under Gov. Locke's proposed spending level, a phased tax cut can easily be achieved.

TABLE 1: GF Balance Sheet (\$50 million 1999 supplemental; Locke's 1999-2001 spending)			
	(in millions)		
	<u>1997-1999</u>	<u>1999-2001</u>	<u>2001-2003</u>
RESOURCES			
unrestricted beginning reserves	512.9	550.6	147.6
revenue forecast	19,525.8	20,179.2	22,050.0
1999-2001 revenue changes in Locke budget		(9.2)	
Total unrestricted resources	20,038.7	20,720.6	22,197.6
APPROPRIATIONS			
appropriation	19,083.7	20,576.5	21,810.5
1999 supplemental	50.0		
Total spending level	19,133.7	20,576.5	21,810.5
I-601 spending limit	19,156.3	20,592.9	21,810.5
RESERVES			
emergency reserve (incl. interest earnings)	368.3	398.8	679.9
unrestricted ending balance	554.1	144.1	147.6
Wildlife Account (loan and repayment)	(3.5)	3.5	
Total ending reserves	918.9	546.4	827.5
TAX CUT OPPORTUNITIES (Scenario #1)			
1999-2001 tax cut		(75.0)	
carryover effects of 1999-2001 tax cut			(82.0)
2001-2003 tax cut			(150.0)
Resulting ending balance	918.9	471.4	512.3

budget, and an additional \$150 million tax cut for 2001-2003.

As noted above, the Governor's budget proposal was taken as a starting point. Deeper tax cuts are possible if the Legislature exhibits greater spending discipline or identifies more opportunities for program savings. Consider the two examples below, each of which maintains a responsible rainy day reserve of about \$500 million.

Scenario #2

The Legislature's consideration of the 1999 supplemental budget represents an immediate opportunity to display a commitment to tax relief. Simply resisting the temptation to pass a supplemental budget would allow for an immediate \$200 million tax cut for 1999-2001 and an additional \$125 million cut for 2001-2003.

Scenario #3

Rejecting a supplemental budget and trimming \$250 million off of the Governor's 1999-2001 budget proposal would permit a \$350 million tax cut for 1999-2001 and another \$150 million tax cut for 2001-2003.

Conclusion

Washington's citizens are overtaxed. Even under the high-end spending proposed by the Governor, there is room to maintain a responsible reserve *and* implement a phased tax cut. Better still, with sufficient spending discipline or a willingness to make government more efficient, legislators can provide more substantial and more immediate tax relief. The state could then begin to return tax revenue that it does not need to the citizens who earned it in the first place.