



Viewpoint

THE QUARTERLY MAGAZINE OF WASHINGTON POLICY CENTER

SOUND TRANSIT
UNDER
LEGISLATIVE
INVESTIGATION

Summer 2017

School Budgets, Taxes, and Public Charter Schools
States Agree that Taxes on Capital Gains are Income Taxes

- 3 Legislative Impact
- 4 Legacy Partners
- 5-6 Education
- 7-8 Transportation
- 9-10 Government Reform
- 11 Solutions Summit
- 12 New Videos
- 13 Young Professionals
- 14 Summer Calendar

WPC'S 2017 ANNUAL DINNER

WESTERN

Friday, October 13th | Bellevue Hyatt
6pm – Reception | 7pm – Dinner



NEIL CAVUTO

**“The best interviewer in broadcast
business news.”**
- *The Wall Street Journal*

EASTERN

Wednesday, September 27th | Davenport Grand
6pm – Reception | 7pm – Dinner



NIGEL FARAGE

“Briton of the Year”
- *The Times of London*

STAY TUNED FOR MORE SPEAKER ANNOUNCEMENTS

WWW.WASHINGTONPOLICY.ORG

Craig Williamson, *Chairman*
John Otter, *Vice Chairman*
Heidi Stanley, *Treasurer*
Anne Cowles, *Secretary*

SUMMER 2017

Dear Friends,

Happy summer! With the legislature extending into special sessions, it has been a busy first half of the year at Washington Policy Center. We've seen many of our key recommendations in the legislature this year, including over 12 of our long-time recommendations in the Senate education plan, and we're also continuing to fight back against new taxes including a new capital gains income tax at the state level and a local income tax in Seattle. We appreciate your support of our work to improve the lives of Washington residents.

We recently held our fourth annual Solutions Summit, and for those who attended, thank you for being there! For those who weren't able to join, you can watch many of the sessions on our website, and we look forward to seeing you next year! The policy conference in both Bellevue and Spokane featured local and national leaders including an inspiring address from education reform advocate Kevin Chavous, former US Senator Dr. Tom Coburn, and many more. Each of our seven research areas had a speaker or panel discussion talking about an issue that's impacting the residents of our great state and how to reform policies to make Washington an even better place to start and maintain a business and raise a family.

Throughout this issue of *Viewpoint*, you'll learn more about the two proposed education plans to address the *McCleary* decision, the capital gains income tax, and the investigation into Sound Transit. While Sound Transit is a regional light rail system, the agency is spending billions of taxpayer dollars that could be used for other state-wide projects.

We highlight how some of our policy recommendations were received by the legislature, including the bills that were introduced and enacted based on our research and analysis.

I look forward to seeing you at our Annual Dinner events this fall! In Spokane, we'll be joined by Nigel Farage, and in Bellevue, we'll be joined by Neil Cavuto. Additional keynote speaker announcements are coming for both Spokane and Bellevue, so stay tuned! Both nights are sure to be great events – don't miss your chance to join us and over 2,000 of your fellow WPC supporters from around the state!

Regards,



Dann Mead Smith
President



Richard Alvord
Bill Baldwin
Dave Barber
Roger Bowlin
Artie Buerk
Jim Coles
William Conner
John Connors
Kathy Connors
Hon. Kemper Freeman Jr.
John J. Hennessy
Matt McIlwain
Daniel Mead Smith
Dr. Rhonda Medows
Hon. George R. Nethercutt Jr.
Hon. Mary Odermat
Mark Pinkowski
Greg Porter, *Pillar Society President*
Sarah Rindlaub
Phil Scott Schlaepfer
Irene Song
Hon. Brian Sonntag
Randy Talbot
Robert Tippet
Janet True
Roberta Weymouth
Wayne Williams
Len Zarelli

Viewpoint is the quarterly magazine of Washington Policy Center, an independent Washington state-focused think tank.

Viewpoint designed and edited by **Molly Sheerer & August Bress**

WPC experts testified by invitation **32** times this legislative session

These are some of the bills introduced in accordance with our recommendations

HB 1299 | SB 5196

increasing efficiency and reducing waste in cattle feedlots. The governor signed the bill on May 5th and it will be effective on July 23rd.

HB 1132 | SB 5075

concerning dispute resolution between seed buyers and dealers. SB 5075 was signed by the governor on April 17th and becomes effective on July 23rd.

HB 2180

was introduced in accordance with WPC's recommendation for Gas Tax Transparency. It passed as an amendment by Rep. Condotta in the transportation budget.

SB 5001

was introduced in accordance with WPC's recommendation to reform the governance of Sound Transit. It passed the Senate and has been stalled by House leadership.

SB 5637

was introduced in accordance with WPC's recommendation to eliminate mandates in individual and small group insurance markets.

SB 5541

was introduced in accordance with WPC's recommendation to expand the teen training wage.

SB 5545

was introduced in accordance with WPC's recommendation to make collective bargaining negotiations open to the public.

SB 5692

was introduced in accordance with WPC's recommendation to make Washington a right-to-work state.

House Budget Proposal

based on a longtime WPC recommendation, Governor Inslee dropped the push for a capital gains income tax.

Senate Education Proposal

includes over a dozen of WPC's longtime recommendations.





Everyone leaves a legacy. It is not an option – you either have a plan by default, which is laid out for you by the government, or you have a plan by design where **YOU** decide who benefits from your hard earned estate.

WPC's Legacy Partners program ensures that your legacy will live on and support one of the causes you care most about — the cause of freedom.

Planned gifts are a great opportunity to make a meaningful gift that costs you nothing during your lifetime. Thoughtful planned giving creates a win-win solution for you and for Washington Policy Center.

If you are interested in ensuring Washington Policy Center continues to serve Washington state for generations to come, please consider including us in your estate plans today and ensure your legacy lives on through WPC's important work, including WPC's Young Professionals program.

If you have already included Washington Policy Center in your estate plans, please let us know so we can recognize your commitment to our shared ideals.

FOR MORE INFORMATION:

Please contact Stephanie True at strue@washingtonpolicy.org or (206) 937-9691 to learn more about how you can include WPC in your estate plans.



School budgets, taxes, and public charter schools



BY LIV FINNE, Director, Center for Education



State legislators are working to respond to the *McCleary* school funding lawsuit. Both the Senate Republicans and the House Democrats have separate budget proposals for 2017-19. Under either plan, spending on schools would increase from \$18.2 billion to nearly \$22 billion. Neither budget, however, expands family access to public charter schools, which are helping struggling students learn more for less money.

The Senate Republican plan includes a new per student finance model, and other cutting-edge reforms. The plan would equalize school funding across the state with higher property taxes in 17 percent of Washington's wealthiest school districts and lower property taxes for the rest. The House Democrat plan adds billions of dollars but makes no other changes to the system. Democrats want to create a new capital gains income tax, a 20 percent increase in business taxes, and other tax increases. Negotiators are discussing which elements will survive in the final negotiated budget, and who will pay higher taxes to support this increased spending.

The long-standing experience of Washington state is that providing big jumps in school funding does not improve learning for students. For example, after the 2012 *McCleary* court decision, the state legislature increased school funding by a massive \$4.6 billion, expanding K-12 school programs by 34 percent. Per-student funding grew from \$10,000 to \$12,400 by 2016. Yet, while adults on the payroll and the WEA teachers union benefited financially, students did not. Though schools receive the highest level of funding in state history, students are not receiving higher-quality instruction. Academic learning on state tests and high school graduation rates are essentially flat.

This makes no difference to the WEA union and school activists. They demand more money no matter how much taxpayers provide. Their strategy is simple. They say: "How can you deny more money to a school where children are struggling to learn?" The media generally falls in line with this shallow analysis, ignoring past experience to posture about increasing funding to schools. As a result, the media has largely ignored reforms to school spending included in the Senate budget.

Writing bigger checks to the schools has not helped students in the past, and without reforms, it will not help them in the future. Washington's students need a reformed public school system, one similar to the popular model used by Washington's new public charter schools.

Eight public charter schools currently serve over 1,800 students in Washington state. Three new charter schools will open this fall. Washington's charter school law allows a total of 40 charter schools to open in the next five years, in a system of over 2,000 traditional schools.

One of these charter schools is Excel Public Charter School in Kent, serving nearly 200 students. The school opened in mid-August of 2015. Excel Public Charter School, which spends only about \$10,000 per student, just earned an "Exemplary" or "A" on the School Achievement Index from the State Board of Education.



“ Excel Public Charter’s success is not due to the money it receives, but to the way it is organized, and to the energy and talent of its families, students, and educators. ”



Excel Public Charter’s success is not due to the money it receives, but to the way it is organized, and to the energy and talent of its families, students, and educators.

Excel Public Charter does not receive any local levy funding. Levy funding provides on average \$2,200 per student in traditional schools. Instead, students at Excel Public Charter benefit from a feature traditional schools do not enjoy—the voluntary “buy-in” of excited families. Parents at Excel Public Charter freely choose to enroll their students, and they love being involved in their children’s education.

Before choosing Excel, parents meet with the principal, talk to teachers, and determine whether a Public Charter is a good fit for their child. Parents are committed to the school’s success. Their enthusiasm spills over to students, and this positive parental attitude helps children learn.

As a Charter, Excel enjoys independence from cloying district bureaucracies and harsh union rules. This independence allows the creativity and talent of teachers and leaders to flourish. Excel’s teachers have the freedom to design a program that makes learning fun and inspires students to attend and succeed in school. Excel’s staff must attract families to their program, not have them assigned by zip code. They face constant incentives to make this program work for their students.

Excel’s teachers promote “computational thinking,” to inspire learning in math, reading, coding, and music. Excel has the positive energy of a technology start-up; teachers know they are providing something valuable and innovative, and that what they do with students every day can be the difference between failure and success.

Washington lawmakers will continue to debate providing more money to the schools. WEA union executives will continue to call for tax increases. Adding \$3 billion to Washington state’s 2017-19 school budget may or may not satisfy our political supreme court, but the shining example of Excel Public Charter School shows how we can do more for Washington’s school children.

Sound Transit is under legislative investigation



BY MARIYA FROST, Director, Coles Center for Transportation



On Friday, May 11th, Senator Steve O'Ban and Senator Dino Rossi called for a legislative investigation into Sound Transit, alleging that Sound Transit officials deceived lawmakers and voters, and misused public money leading up to their 2016 ballot measure to secure a tax increase.

A few days later, Senator Mike Padden, the Chair of the Senate Law and Justice Committee, said he would schedule hearings to investigate these serious allegations.

The last time Senator Padden's committee conducted a large investigation of a public agency, the Secretary of the Department of Corrections was forced to resign. In other words, the pending investigation of Sound Transit is a big deal.

Sound Transit officials are already notorious for delivering projects late and over budget. Their recent decision to profit from an unfair and outdated vehicle valuation method to collect maximum revenue from taxpayers may have been the last straw. Inflated car tab notices shocked voters who were unaware that Sound Transit overvalues their cars to get more taxpayer money. The practice has raised important questions about the agency's ability to operate with integrity.

In their letter, Senators O'Ban and Rossi raise three important points.

First, they say Sound Transit's authorization to collect up to 0.8 percent in additional car tab fees is unconstitutional. They raised the same point in March with Attorney General Bob Ferguson, who took no action.

Second, they say Sound Transit officials repeatedly said in 2015 that they wanted "the full \$15 billion" in taxing authority to extend light rail to Tacoma and Everett. Legislators understood this to mean \$15 billion over a 16-year time period, as the 2015 Connecting Washington transportation package is a 16-year program. Lawmakers had no reason to think Sound Transit's tax request would extend beyond the 16-year life of Connecting Washington, so they did not limit the time period of the authorization. As it turned out, Sound Transit extended the authorization to 25 years, and nearly doubled the \$15 billion to \$28 billion in tax revenue. With bonding, the package increased to \$54 billion.

Even Representative Judy Clibborn, Chair of the House Transportation Committee, said that the authorization "would not have gone anywhere" had lawmakers known of Sound Transit's intent to expand the proposal to a whopping \$54 billion. If lawmakers didn't know then, they certainly do now – yet House leaders continue to block Senate legislation that would increase accountability for Sound Transit and require fair car tab collections for working families.

Meanwhile, Sound Transit officials insist they were honest with officials and voters about their tax proposal. Their story does not line up with reality. Had Sound Transit spent nearly as much money to communicate honest data as they did on colorful pictures in their Mass Transit Guide for voters, people would have understood what they were





voting on. Even lawmakers who are Sound Transit supporters are now reluctantly acknowledging that Sound Transit officials went too far and that the inflated car tabs are unfair.

Third, the Senators allege that Sound Transit used public taxpayer dollars for campaign purposes. Leading up to last year’s Sound Transit 3 (ST3) campaign, Sound Transit officials used an online survey to identify what political message would make people more likely to vote for more taxes. Then last August, they gave 173,000 private email addresses of ORCA cardholders to their friends at the Mass Transit Now political campaign. To make matters worse, between 2014 and 2016, gearing up for the ST3 campaign, Sound Transit officials increased their communications and external affairs budget by 25 percent.

None of this comes as a surprise. In 2008, Washington Policy Center found that Sound Transit had given \$156,000 in public money to the political advocacy group, Transportation Choices Coalition (which ran the Mass Transit Now ST3 campaign), in the form of annual membership dues. Sound Transit gave more money to Transportation Choices Coalition and other interest groups by purchasing “sponsorships” at annual fundraising dinners, including events for Futurewise and Cascade Land Conservancy. Using public money for politics violates the state constitution and shows disrespect for taxpayers.

Still, some public officials are upset that Sound Transit is being investigated. They insist that House Bill 2201 should be accepted as a solution and everyone should move on. However, this bill favors Sound Transit and provides only a “modicum” of relief, as stated by Jerry Cornfield of *The Everett Herald*. It passed the House Floor on May 25th with a 64-30 vote, and would give drivers in Sound Transit’s taxing district credit for the amount they are overcharged each year; in other words, the overcharges would remain built in to car tab renewals. This is hardly a fix, and it is susceptible to being reversed in the future.

A true fix would end the dishonesty and misuse of public money within Sound Transit, which is what the Senate investigation aims to do. During hearings, lawmakers will have an opportunity to both fix inflated car tabs and also help Sound Transit officials operate above reproach in the future.



States agree that taxes on capital gains are income taxes



BY JASON MERCIER, Director, Center for Government Reform



When is a capital gains tax not considered an income tax? The answer is never, no matter how often advocates try to dress it up as something else.

Washington's state constitution says that property must be taxed at a uniform rate, and the state supreme court has ruled repeatedly that income is property. In addition, voters have five times rejected constitutional amendments to allow a graduated income tax, and four times they have rejected proposals to call an income tax an "excise tax."

Because of this history, income tax supporters are trying once again to sell people an income tax dressed up in excise tax clothing.

Much like the children's story about the emperor having no clothes, attempts to call a capital gains tax an excise tax is a naked attempt to hide the truth from voters. It is simply an income tax. Don't take my word for it. Let's see how state revenue officials across the country describe capital gains taxes.

I contacted the departments of revenue of all fifty states and asked how they treat capital gains. In every case, revenue officials reported that they consider a tax on capital gains to be an income tax. In a few instances, state revenue officials actually laughed at my question, because they thought the answer was obvious.

Those states that tax capital gains do so through their income tax codes. No state taxes capital gains as an excise tax. States without income taxes described their treatment of capital gains income similar to the way Florida officials did: "There is currently no Florida income tax for individuals and, therefore, no Florida capital gains tax for individuals."

The best response describing the difference between an excise tax and an income tax was provided by Illinois: "Capital gains are included in federal taxable income, against which Illinois income tax is determined. Illinois does not impose an excise tax on any form of income. Excise taxes are imposed on items of consumption, such as the liquor tax, cigarette tax, and utilities taxes."

Supporters in our state will say, however, that they are proposing an "excise tax" on capital gains much like the state Real Estate Excise Tax (REET). The REET tax applies to the sale price of the home whether or not there are any gains or losses. The REET taxes a transaction, not profits. Should lawmakers want to impose a tax on the transaction of selling stock, that would be an excise tax. The excise tax would apply even if the seller lost money.

As the IRS and all state revenue departments explained, however, taxing only the profits on selling capital investments is an income tax.

Further illustrating this point is the actual text of the bill this year proposing the tax on capital gains. House Bill 2186 says capital gains "means the net long-term capital gain reportable for federal income tax purposes." In fact, a different section of HB 2186 requires those subject to the new capital gains tax to send a copy of their federal income tax return to the state.



Capital gains tax proponents say the Court gives great “deference” to lawmakers when defining what a tax is. They say that if the tax is called an “excise tax” then that is how the Court will view it.

Not likely. Twice before, lawmakers have attempted to call an income tax an excise tax. Both times the state Supreme Court rejected this argument and struck down the tax. The justices said, “The character of a tax is determined by its incidents, not by its name.”

When faced with the fact all states consider capital gains as income and those that tax it do so as income taxes, the “incidents” of the tax will be clear.

If supporters of a capital gains tax really believe in their idea, they should call it what it actually is – an income tax – and not play word games. Of course, the fact that the courts have repeatedly struck down graduated income taxes and the voters have rejected them nine times may be why the “excise tax” label game is being played in the first place.

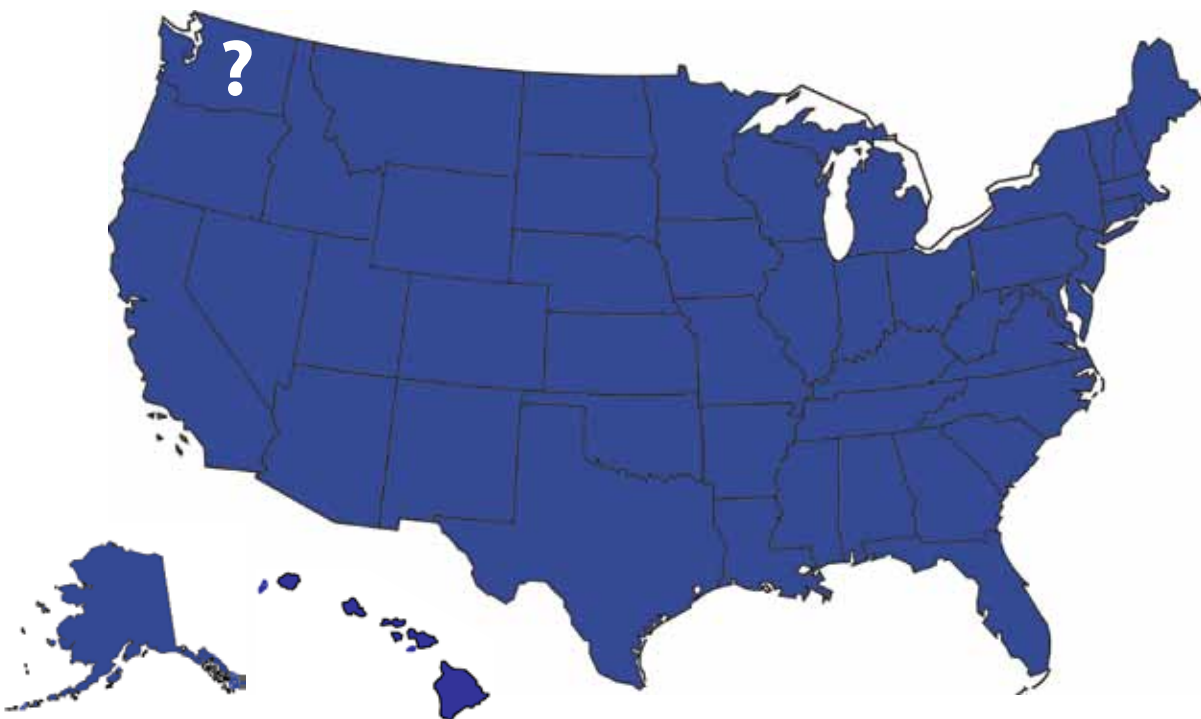
Capital Gains Taxes: Excise Tax or Income Tax?

50

Capital Gains are considered an income tax

0

Capital Gains are considered an excise tax



What states say about capital gains taxes:

Maryland:

“Maryland generally includes capital gain (or losses) in income to the extent such income or losses were included in federal adjusted gross income. There is no preferential treatment accorded them by Maryland by taxing them at a different rate.”

Illinois:

“Capital gains are included in federal taxable income, against which Illinois income tax is determined. Illinois does not impose an excise tax on any form of income. Excise taxes are imposed on items of consumption, such as the liquor tax, cigarette tax and utilities taxes.”

Colorado:

“Colorado treats qualified capital gains as an income tax deduction.” Note: this means qualified capital gains are not taxed in Colorado

California:

“California taxes capital gains as an income tax and they are taxed at the same rate as ordinary income.”

Florida:

“There is currently no Florida income tax for individuals and, therefore, no Florida capital gains tax for individuals.”

Texas:

“No capital gains tax. Texas does not have a state income tax.”

Arizona:

“Arizona taxes capital gains as an income tax.”



THANK YOU!

For making the 4th Annual Solutions Summit a Success!

“Thank you for supporting Washington Policy Center, your investment will give you great returns. Keep doing what you’re doing.” - former U.S. Senator Tom Coburn

WPC’s 4th Annual Solutions Summit was attended by over 600 people on both sides of the state.

WPC’s annual Solutions Summit was attended by hundreds of lawmakers, business and community leaders, media, and civic-minded citizens from across the state. Over 600 people gathered at the Hyatt in Bellevue and the Davenport in Spokane to discuss our state’s most pressing policy issues. The topics and policies we discussed at the conference are the same policies that will be in front of voters on Election Day and legislators during legislative sessions.

We are very appreciative of everyone who joined us to be a part of this unique conference. The theme this year was “Innovative Solutions Start Here” – which we at WPC truly believe. Solutions start with you - our state’s citizens.

If you were unable to attend, we hope you will join us next year to learn more about Washington Policy Center and the work we are doing in our state. In the meantime, you can watch a recap of many of this year’s keynote speeches and policy sessions on our website. None of our work would be possible without the support of our members, and we thank you for your support.



Smartphone Environmentalism

Today, the EPA has gone from targeting specific areas of pollution to try to cover everything and has turned what was once a positive into a negative, not only for the economy, but also for the environment. It is time to move beyond 1970s environmentalism and into the smartphone era where we can improve energy efficiency, protect wildlife habitat, and improve water quality with information that is in the palm of our hand.



Keep Washington State Income Tax Free

Having no income tax in Washington state is a major competitive advantage. It attracts people to our state who want to work here. It also attracts capital - people who want to invest in our state. In attracting that talent, we build a virtuous cycle of investment, innovation, and economic opportunity. This video features a variety of Seattle-area residents, a Seattle business leader, and a Fremont-based documentary filmmaker.



How Agriculture Speaks Environmental

Farmers are environmentalists by nature. Through focus on water conservation, organic practices, and efficient technology, farmers are the best stewards of the land. They care for the land and through their work, it is clear they want to protect this vital resource. This video features farmers and growers in Eastern Washington talking about their love for the land.



Capital Gains and Capitol Games

Washington state residents have said NO nine times to the creation of a state income tax. The legislature knows this. They also know that this is an income tax. They know it is unconstitutional. They know the Supreme Court has said that income is property, and it has to be taxed uniformly. This battle is all about whether the state will begin bringing an income tax to all residents across the state of Washington. This video features Seattle-area technology and entertainment influencers and a Tacoma-based small business owner.



Young Professionals WPC

We've just launched a new look to our Young Professionals brand, and we're including a sneak peek in this issue of *Viewpoint*. Same free-market policies, same exciting and engaging events, just a new look. We hope you enjoy it!



Meet one of our Young Leaders



Rachel Platin

WPC Intern and President of
WPC's Young Professionals
Club at the University of
Washington
2017-2018

Rachel Platin, a double major in economics and political science, will be WPC's Young Professionals at University of Washington club president this coming school year. Rachel has served as a research intern at Washington Policy Center since September 2016, and she became involved with the club at UW through her internship. While interning, Rachel had the opportunity to see what the Young Professionals club was all about, including attending cool events at campuses across the state. As president, Rachel is looking forward to hosting exciting events for students on campus and creating opportunities for students at UW to connect with other young professionals and develop skills for their future careers. Rachel is hoping to increase club membership and continue holding events that draw big-name speakers to UW's campus.

WASHINGTON POLICY CENTER

Summer 2017

Mark your calendars for these WPC events!

June

- 9** - Pierce County Small Business Forum
- 12** - Policy Solutions Reception in Yakima
- 12** - Yakima Small Business Forum
- 14** - YP Happy Hour in Bellevue
- 15** - Eastside Breakfast
with Senator Dino Rossi
- 20** - YP Happy Hour in Tri-Cities
- 20** - President's lunch in Centralia/Chehalis
- 22** - Seattle Breakfast
with Bill Bryant, Bryant Christie Inc.
- 28** - Pillar Society Reception at Fidelitas in Tri-Cities

2017 JUNE						
SUN	MON	TUE	WED	THU	FRI	SAT
				1	2	3
4	5	6	7	8	9 	10
11	12 	13	14 	15 	16	17
18	19	20 	21	22 	23	24
25	26	27	28 	29	30	

July

- 18** - Exclusive Pillar Society Dinner in Bellevue
- 20** - President's lunch in Aberdeen
- 25** - Pillar Society Reception at DeLille Cellars
- 27** - Regional Reception in Hayden Lake, ID

2017 JULY						
SUN	MON	TUE	WED	THU	FRI	SAT
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18 	19	20 	21	22
23	24	25 	26	27 	28	29
30	31					

August

- 10** - YP Summer Social in Tri-Cities
- 15** - Exclusive Pillar Society Dinner in Mercer Island
- 17** - YP Summer Social in Sammamish

2017 AUGUST						
SUN	MON	TUE	WED	THU	FRI	SAT
		1	2	3	4	5
6	7	8	9	10 	11	12
13	14	15 	16	17 	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

For more details and to register, go to washingtonpolicy.org/events



WASHINGTON POLICY CENTER

ANNUAL DINNER

WESTERN
10.13

GET YOUR TICKETS TODAY!
WWW.WASHINGTONPOLICY.ORG

EASTERN
9.27