

# OVERVIEW OF THE WASHINGTON TAX SYSTEM

## State and Local Government Revenues

According to the latest survey data compiled by the Census Bureau of the U.S. Department of Commerce, total revenues received by Washington state and local jurisdictions amounted to \$72.3 billion during Fiscal Year 2007 (see Table 1).

"General" revenues accounted for 69 percent of the total revenues in Washington. The expenditure of these revenues is typically determined by the legislative bodies of the various governmental jurisdictions (State Legislature, County Commissioners, City Councils, etc.) via the annual or biennial budget process. Taxes are the most important of the general revenue sources for the state and second to intergovernmental revenues for local governments; they represent 38 percent of total revenues. Other significant revenue sources are charges for services and federal grants; each account for about 12 percent of total revenues. Intergovernmental transfers, including state-shared tax revenues, are especially important for local jurisdictions.

Nongeneral revenue sources represent the remaining 31 percent of total revenues; these revenues are usually not available for general programs but are often dedicated to specific purposes. Examples include enterprise funds received for municipal utility functions, profits derived from liquor sales, payroll taxes that are dedicated for workers' compensation programs, and employee contributions for pensions.

Taxes can be defined as compulsory payments to a governmental entity in which the amount paid is not directly related to the cost of or benefits received from a service provided by the public jurisdiction. Examples of items which are directly related to a specific service and which are not considered as general taxes include benefit assessments for local improvement districts and payroll taxes levied upon employers for compensation to unemployed or injured workers.

The Census Bureau figures indicate that Washington state and local taxes totaled \$27.5 billion for Fiscal Year 2007. By far the largest source was the general sales and gross receipts tax category, which represented 47.5 percent of all state and local taxes in Washington. In addition to the state and local retail sales/use taxes, this category includes the state business and occupation (B&O) tax and municipal business taxes since they are generally based on gross sales. (Few other states levy taxes measured by gross receipts, so the Census Bureau groups these with the sales taxes, rather than as a separate category.) The property tax was Washington's second largest tax source, representing 26.8 percent of all state and local taxes; it remains by far the most important local revenue source, accounting for 57.8 percent of all local tax receipts.

State taxes accounted for 64 percent of all state/local taxes in Washington; local government taxes comprised the remaining 36 percent. Washington's ratio of state taxes is higher than many states (compared with 59 percent nationally) because Washington finances a greater proportion of governmental services at the state level, particularly funding of public K-12 and vocational schools, community colleges, public assistance programs, and criminal justice expenditures.

**TABLE 1**  
**REVENUE OF STATE AND LOCAL GOVERNMENTS IN WASHINGTON<sup>1</sup>**  
 Fiscal Year 2007 (Dollars in Millions)

<u>Source of Revenue</u>	<u>State Level</u>	<u>Local Level</u>	<u>Total</u>
<b>Taxes:</b>			
Property taxes	\$ 1,688.5	\$ 5,684.1	\$ 7,372.6
General sales taxes <sup>2</sup>	10,861.3	2,225.2	13,086.5
Motor fuel taxes	1,128.8	--	1,128.8
Liquor taxes	253.2	--	253.2
Tobacco taxes	444.7	--	444.7
Utility taxes	444.1	474.7	918.8
Other sales taxes	719.7	535.3	1,255.1
Vehicle license taxes	459.2	32.1	491.3
Other taxes	1,693.2	888.9	2,582.0
<b>Taxes - Subtotal</b>	<b>17,692.8</b>	<b>9,840.3</b>	<b>27,533.0</b>
<b>Current Charges:</b>			
Education	2,026.3	339.8	2,366.1
Hospitals	900.4	1,568.9	2,469.3
Sewerage/garbage	8.1	1,983.0	1,991.1
Other charges for service	547.6	1,986.6	2,534.2
<b>Federal Grants</b>	<b>7,547.7</b>	<b>1,329.8</b>	<b>8,877.5</b>
<b>State and Local Inter-governmental Transfers</b>	<b>311.2</b>	<b>9,048.4</b>	<b>--*</b>
<b>Interest Earnings</b>	<b>799.3</b>	<b>952.6</b>	<b>1,751.9</b>
<b>Other General Revenue</b>	<b>1,340.1</b>	<b>1,279.9</b>	<b>2,620.1</b>
<b>Non-General Revenue:</b>			
Utility operations	1.3	5,801.9	5,803.2
Liquor store revenue	503.7	--	503.7
Insurance trust revenue:			
Employee retirement	11,424.2	514.3	11,938.5
Unemployment and workers compensation	3,888.4	--	3,888.4
<b>TOTAL REVENUE</b>	<b>\$46,991.1</b>	<b>\$34,645.5</b>	<b>\$72,277.0*</b>

<sup>1</sup>Source: Bureau of the Census, U.S. Department of Commerce, State and Local Government Finances, 2006-07.

<sup>2</sup>Includes gross receipts business taxes which are generally measured by sales.

\*Duplicative intergovernmental transactions are excluded.

There are three general types of taxes: property, income, and excise. Property taxes consist of annual payments by owners of real property (land and structures) and personal property (tangible and intangible). Property taxes are measured by the value of the property - i.e., ad valorem tax - determined either by the fair market value or a statutory assessment formula. Property taxes are the oldest form of general taxation in this country and are levied in all states.

Income taxes include the federal, state, and local taxes measured by the annual income of individuals and corporations. Washington is one of seven states that does not levy a personal income tax upon households and one of only five states – the others are Nevada, South Dakota, Texas, and Wyoming - that does not impose any form of income tax (Alaska and Florida have corporate income taxes but not a personal income tax).

Excise taxes include virtually every other type of tax. Although there is not a single definition of excise taxes, generally these refer to a specified type of transaction or privilege. In Washington most excise taxes are measured by the selling price or some other measure of sales such as gross receipts. The retail sales tax is the single largest excise tax levied in this state. The major business tax is the business and occupation tax; although measured by gross "income," it is levied on the privilege of engaging in business and is categorized by the Census Bureau as an excise tax rather than an income tax. Other excise taxes include the selective sales taxes on specific products (cigarettes, gasoline, etc.) and the various taxes which are levied in lieu of property tax (e.g., harvested timber, leaseholds, etc.).

For more details on tax collections in various states, see the Census Bureau web site: [www.census.gov/govs/estimate](http://www.census.gov/govs/estimate). Also, see the next to last section in this chapter for comparisons of tax burdens among the states.

### State Government Revenues and Expenditures

Data compiled by the Office of Financial Management (OFM) and published in its Comprehensive Annual Financial Report form the basis for the state revenue and expenditure information shown in the following charts; local governments are not included in these data. It should be noted that accounting differences may exist between the OFM figures indicated here and those reported by various tax collecting agencies in the remainder of this book. The first set of charts reflects the revenues and expenditures for all state government funds; the following page shows the state general fund. The general fund is the source of funding for most programs which are not financed by dedicated revenue sources. Most transportation expenditures (and the fuel taxes and federal revenues which fund transportation) are outside of the general fund. Likewise, workers' compensation programs, which provide benefits to employees who become injured or unemployed, and pension programs of public employees are financed outside of the general fund.

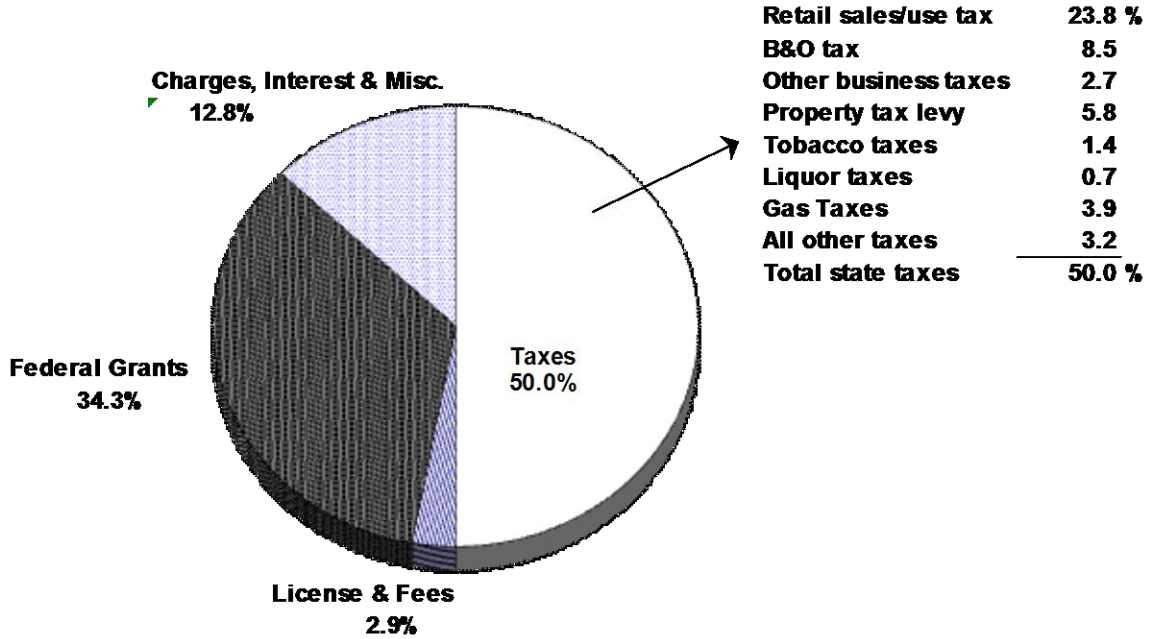
For Fiscal Year 2009 total state revenues for all state government funds, excluding enterprise activities, amounted to \$30.7 billion. Taxes accounted for \$15.4 billion or 50.0 percent of the total. Receipts from the federal government constitute the other major category of state revenue; federal grants equaled \$10.5 billion and represented 34.3 percent of the total. Education, including support

# WASHINGTON STATE FINANCES

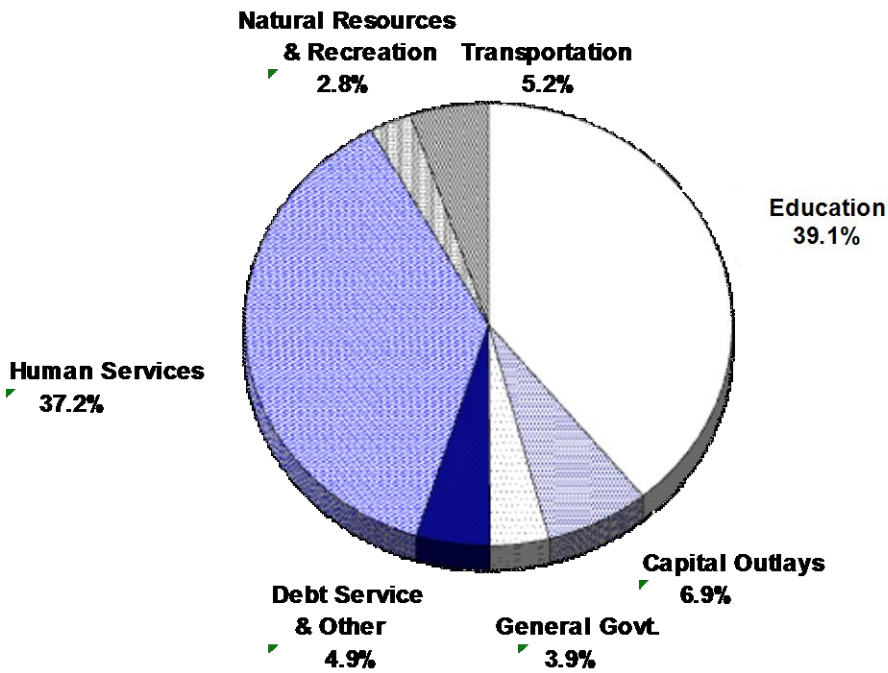
**Fiscal Year 2009**

**All State Funds (\$ in millions)**

**Revenue - \$30,748**

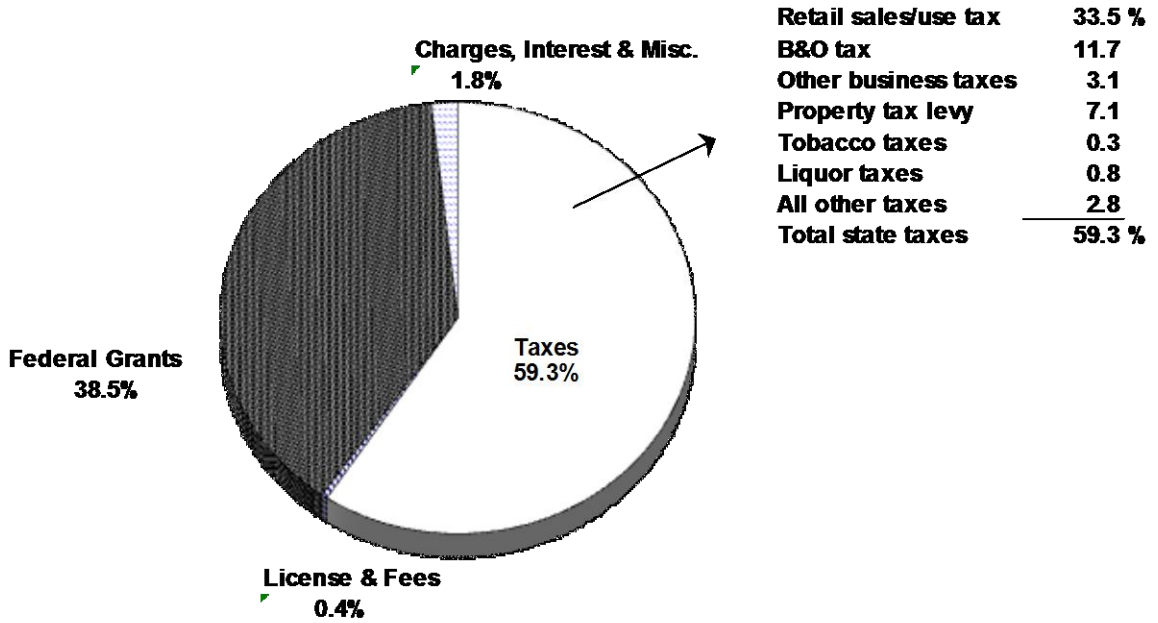


**Expenditures - \$35,348**



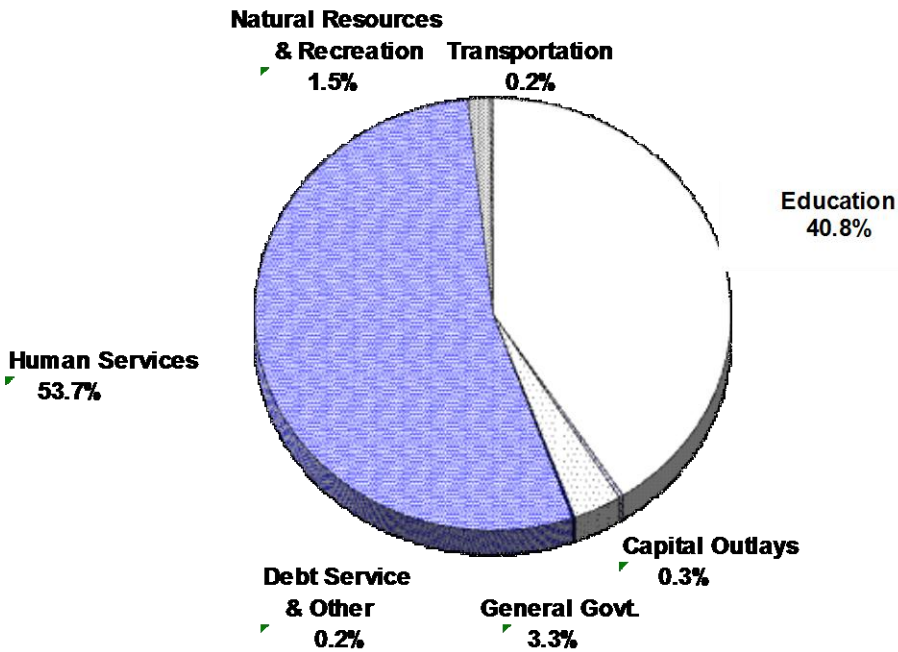
**WASHINGTON STATE FINANCES**  
**Fiscal Year 2009**  
**State General Fund (\$ in millions)**

**Revenue - \$21,587**



Retail sales/use tax	33.5 %
B&O tax	11.7
Other business taxes	3.1
Property tax levy	7.1
Tobacco taxes	0.3
Liquor taxes	0.8
All other taxes	2.8
<b>Total state taxes</b>	<b>59.3 %</b>

**Expenditures - \$22,179**



for K-12 schools and expenditures for public colleges and universities, accounts for 39.1 percent of all state expenditures. The other major state expenditure category was for human service programs; these represented 37.2 percent of state expenditures from all funds.

Washington State's general fund revenues amounted to \$21.6 billion for Fiscal Year 2009. Tax revenues accounted for 59.3 percent of the total, while federal grants represented 38.5 percent of all general fund revenues. Within the tax category, the retail sales/use tax represented by far the largest source, accounting for 33.5 percent of state general fund revenues. Two other major state taxes were the business and occupation tax and the state property tax levy; these produced 11.7 and 7.1 percent respectively of state general fund revenues. Human services represents 53.7 percent of general fund expenditures, while education comprises 40.8 percent of general fund programs. The cost of operating general state government--including most executive branch agencies, the Legislature, state judicial expenses, licensing and regulation activities, financial administration, and a variety of other administrative functions--amounted to 3.3 percent of general fund expenditures.

### Net Washington State Tax Collections

Further detail on taxes collected for state purposes is shown in Table 2, according to information compiled by the various tax-collecting agencies. The data in this table are consistent with the amounts indicated for each particular state tax source in the body of this report; however, the figures may be slightly different than those reported by the Office of Financial Management or by the Census Bureau due to differences in definitions (e.g., the Census Bureau includes a variety of license fees as miscellaneous tax revenues) and because some of the reported revenues may be on the basis of cash collections and others may represent accrued tax liability (GAAP basis).

The total of all state taxes covered in this manual for Fiscal Year 2009 was \$15.49 billion, compared with \$16.81 billion the previous year. Washington's present tax system was basically established by the Revenue Act of 1935. In the intervening 73 years until Fiscal Year 2009, total state revenue collections increased nearly every year, with an average annual growth of 8.72 percent. Prior to the current year, collections declined only four times – three times due to economic conditions and once in 1985 due to a change in the accounting rules. Each of these four decreases in state tax receipts was relatively small – three were less than 1 percent. In contrast, Fiscal Year 2009 recorded by far the largest decline in total Washington State tax receipts since 1935, with a year-over-year reduction of 7.8 percent.

#### DECLINE IN TOTAL STATE TAX RECEIPTS SINCE REVENUE ACT OF 1935

<u>Fiscal Year</u>	<u>Percentage Decline</u>
1938	(1.73)%
1950	(0.85)
1985	(0.45)
2002	(0.30)
2009	(7.82)

**TABLE 2**  
**NET WASHINGTON STATE TAX COLLECTIONS\***  
**Fiscal Years 2008 and 2009 (\$ in thousands)**

<u>Tax Source</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>% Change</u>	<u>2009 % of Total</u>
<b>General/Selective Sales Taxes</b>				
Retail sales	\$7,747,276	\$6,903,654	(10.9)%	44.6%
Use	517,979	465,418	(10.1)	3.0
Cigarette	421,138	392,429	(6.8)	2.5
Tobacco products	(8,669)	30,278	--	0.2
Liquor sales	91,798	96,592	5.2	0.6
Liquor liter	122,554	125,116	2.1	0.8
Wine	21,339	21,736	1.9	0.1
Beer	31,517	32,415	2.8	0.2
Motor vehicle fuel	949,099	956,761	0.8	6.2
Special fuel	230,282	213,699	(7.2)	1.4
Aircraft fuel	2,995	1,999	(33.3)	0.0
Convention center	61,463	57,253	(6.8)	0.4
Solid waste collection	32,751	32,480	(0.8)	0.2
Wood stove	299	320	7.0	0.0
Brokered natural gas	41,154	46,730	13.5	0.3
Rental car	24,207	22,768	(5.9)	0.2
Enhanced 911 telephone	18,856	20,192	7.1	0.1
Telephone assistance (WTAP)	5,551	4,988	(10.1)	0.0
Telephone relay (TRS)	4,576	4,554	(0.5)	0.0
Replacement tire fee	3,802	3,602	(5.3)	0.0
Tribal cigarette tax	5,206	5,614	7.8	0.0
<b>General/Selective Business Taxes</b>				
Business & occupation	2,874,339	2,650,526	(7.8)	17.1
Public utility	380,538	386,101	1.5	2.5
Insurance premiums	415,028	408,464	(1.6)	2.6
Food fish/shellfish	2,567	1,963	(23.5)	0.0
Hazardous substance	130,189	127,055	(2.4)	0.8
Soft drinks syrup	(1,305)	8,365	--	0.1
Petroleum products	(416)	609	--	0.0
Oil spill	4,547	4,966	9.2	0.0
Litter	9,133	8,848	(3.1)	0.1
Pari-mutuel	1,832	1,547	(15.6)	0.0
IMR	9,873	9,931	0.6	0.1
<b>Property &amp; In-lieu Taxes</b>				
State levy	1,741,819	1,785,323	2.5	11.5
Aircraft excise	287	285	(0.7)	0.0
Watercraft excise	17,648	17,192	(2.6)	0.1
Timber excise	6,515	4,630	(28.9)	0.0
PUD privilege	41,677	42,175	1.2	0.3
Leasehold excise	21,707	25,613	18.0	0.2
<b>Other Taxes</b>				
Real estate excise	716,680	426,048	(40.6)	2.8
Estate & transfer	109,192	137,116	25.6	0.9
<b>TOTAL</b>	<b>\$16,807,023</b>	<b>\$15,494,356</b>	<b>(7.8)%</b>	<b>100.0%</b>

\*Excludes local taxes, general penalties and interest, and state payroll taxes for workers' compensation programs.

By far the largest state tax source in Washington is the retail sales tax; it totaled \$6.9 billion in Fiscal Year 2009. Together with its companion use tax, the retail sales/use tax represents 47.6 percent of total state tax collections. In second place was the business and occupation tax with 17.1 percent of the total. The third largest state source was the state property tax levy; it produced 11.5 percent of state tax revenues. In fourth place among state tax sources was the motor vehicle fuel tax; together with the special fuel tax, the fuel taxes produced 6.2 percent of total state taxes.

Limits on State Expenditures and Tax Increases; Rainy Day Fund

In November 1993 the voters of Washington approved Initiative 601 (chapter 43.135 RCW). This measure limits the amount which state government may spend from the general fund and also imposes a supermajority voting requirement on increases in state taxes. It replaced another limitation mechanism, Initiative 62, which had been approved by the voters in 1979; this had limited the rate of growth in state revenues to the growth in state personal income.

SPENDING LIMITATION

The I-601 spending limitation prohibits the expenditure of state general fund revenues above a certain level that is determined by formula. The expenditure limit became effective on July 1, 1995. On July 1, 2007, the spending limitation was revised to apply not only to the general fund, but also to related “near-general fund” accounts as well. These include the Health Services Account, the Violence Reduction and Drug Enforcement Account, the Public Safety and Education Account, the Water Quality Account, and the Student Achievement Account.

The limit is based on actual state general fund expenditures for the previous year multiplied by the fiscal growth factor which is calculated as the average growth in state personal income over the prior ten years. The growth factors for the two years of the 2009-11 Biennium have been determined to be 5.20 and 4.17 percent respectively.

Because the expenditure limit applies on a fiscal year basis, determining the amount of appropriations within the biennial state budget must now be done on an annual basis so that the limit for individual fiscal years is not exceeded. Each November, the Expenditure Limit Committee - consisting of the Director of the Office of Financial Management, the Attorney General, and the chairs and ranking minority members of the Senate Ways and Means and House Appropriations committees - adjusts the limit for the previous fiscal year to reflect the actual level of expenditures which occurred. The Committee then forecasts the limit amount for succeeding years. The expenditure limits for each year of the 2009-11 Biennium and the 2011-13 Biennium are:

Fiscal Year 2010	\$15,836.1 million
Fiscal Year 2011	\$17,577.1 million
2009-11 Biennium	\$33,413.1 million
Fiscal Year 2012	\$18,325.9 million (projected)
Fiscal Year 2013	\$19,181.7 million (unofficial)
2011-13 Biennium	\$37,507.5 million



If legislation shifts programs or funding sources into or out of the general fund or related accounts, then a commensurate change must be made to the expenditure limit. Likewise, Initiative 601 requires that local governments be compensated by the state for any new programs or expanded services they are required to perform by the Legislature. If program responsibility is shifted to or from the state to local jurisdictions or the federal government, the state expenditure limit must be revised accordingly.

## VOTING REQUIREMENTS FOR TAX INCREASES

Initiative 601 also limits the manner in which state revenue may be increased. After July 1, 1995, any measure which increases state revenues or results in revenue-neutral tax shifts may only be adopted if two-thirds of the members of both houses of the Legislature approve. (This requirement was "lifted" by the Legislature in 2005 for the period between April 18, 2005, and June 30, 2007.) Further, the increased revenues must not result in expenditures above the spending limit. If the additional revenues will cause the limit to be exceeded, then the measure must also be approved by a simple majority vote of the statewide electorate. The initiative allows temporary tax increases to combat the effects of natural disasters for up to 24 months upon declaration of an emergency by the Governor and a two-thirds vote of the Legislature; no referral to the voters is required for such emergencies.

In November 2007, the voters approved Initiative 960 which contains additional requirements relating to increased taxes. Section 2 of the measure, RCW 43.135.031, requires public notification about any bill introduced in the Legislature which would raise taxes or increase fees. Within ten days, the Office of Financial Management must provide a ten-year analysis of the impact of the bill to all legislators, the media, and the public. The notification includes names and contact information for sponsors of the legislation. Similar reporting is required whenever a committee schedules a hearing on or passes such bills.

Initiative 960 also established a new procedure for review by the voters of any tax increases adopted by the Legislature; this is codified as RCW 43.135.041. If legislation raises taxes as defined in RCW 43.135.035 and it is either blocked from a public vote (e.g., contains an emergency clause) or is not referred to the electorate for their approval, then an advisory vote by the people is required at the next general election.

## RAINY DAY FUND

Another budgetary program was also approved at the November 2007 election. A constitutional amendment – ESSJR 8206 – added a new Section 12 to Article VII of the State Constitution. Two statutes, RCWs 43.79.490 and .495, implement the program, which establishes a Budget Stabilization Account, commonly referred to as a “rainy day fund,” effective July 1, 2008. The program requires that at the end of each fiscal year an amount equal to 1 percent of total state general revenues for that year be deposited into the budget stabilization account. The Constitution allows for expenditure of funds from the Budget Stabilization Account under three circumstances:

- If the Governor declares a state of emergency due to a catastrophic event, then funds may be appropriated by the Legislature with a simple majority vote of each House.
- If the employment growth forecast by the Economic and Revenue Forecast Council indicates a growth of less than one percent in statewide employment, then funds may be appropriated by the Legislature with a simple majority vote of each House.
- Any other expenditure from the Budget Stabilization Account may be made with a favorable vote of at least 60 percent of each House.

### Tax Comparisons with Other States

Probably the most unique feature of Washington's tax system is its heavy reliance on sales taxes. On the per capita basis, Washington ranks first in the nation in general sales taxes at \$2,029 per person, according to 2007 Census Bureau figures. This statistic is largely affected by inclusion of the B&O tax in this category. (The Census Bureau includes Washington's B&O tax in the general sales category, since it is measured by gross sales. In terms of economic effect, the B&O tax operates like a sales tax, and much of the impact is passed on to purchasers, as with a sales tax.) Washington's reliance on general sales taxes is more than twice the national average - see Table 3 below. Including selective sales taxes on specific goods, the overall general sales tax category accounts for 62 percent of state and local taxes in Washington.

In addition to inclusion of the B&O tax in the general sales tax category, there are other reasons that explain Washington's high ranking in general and selective sales taxes:

- The base of the retail sales tax is relatively broad and includes expenditures such as repair of tangible personal property, labor associated with construction, and some personal services.
- The state/local sales tax rate (up to 9.5 percent) is very high; among large cities, the rate in Seattle is exceeded only by Chicago, two cities in Alabama and a dozen California cities.
- The state gas tax rate is presently the highest in the nation.
- Liquor taxes are very high; industry data rank Washington at the top in taxes on spirits.
- Washington's cigarette tax rate is exceeded by only six other states.

Despite the high rankings in sales taxes, total state and local taxes in Washington are NOT considered as high; as seen below the total tax burden ranks only 26th in relation to personal income. Balancing the heavy reliance on sales taxes is the absence of an individual or corporate net income tax in Washington. Income taxes generate more than one-quarter of state/local tax revenues nationally, but none in this state. The other major category of taxes - property taxes - is utilized only moderately in this state. Property taxes represent 26.8 percent of total taxes in Washington; the national average reliance is 30 percent.

Table 3 illustrates the utilization of major state and local tax sources in Washington compared with the national average for the latest year that comparable data are available.

**TABLE 3**  
**PERCENTAGE RELIANCE ON MAJOR STATE/LOCAL TAXES**  
Washington State and National Average  
Fiscal Year 2007

<u>Tax Source</u>	<u>Washington</u>	<u>All States</u>
General sales taxes*	47.5%	23.5%
Selective sales taxes	14.5	10.9
Property taxes	26.8	30.0
Income taxes	-.-	27.4
All other taxes	11.2	8.2
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

\*Includes retail sales/use and gross receipts taxes.

Source: State and Local Government Finances in 2006-07, Bureau of the Census.

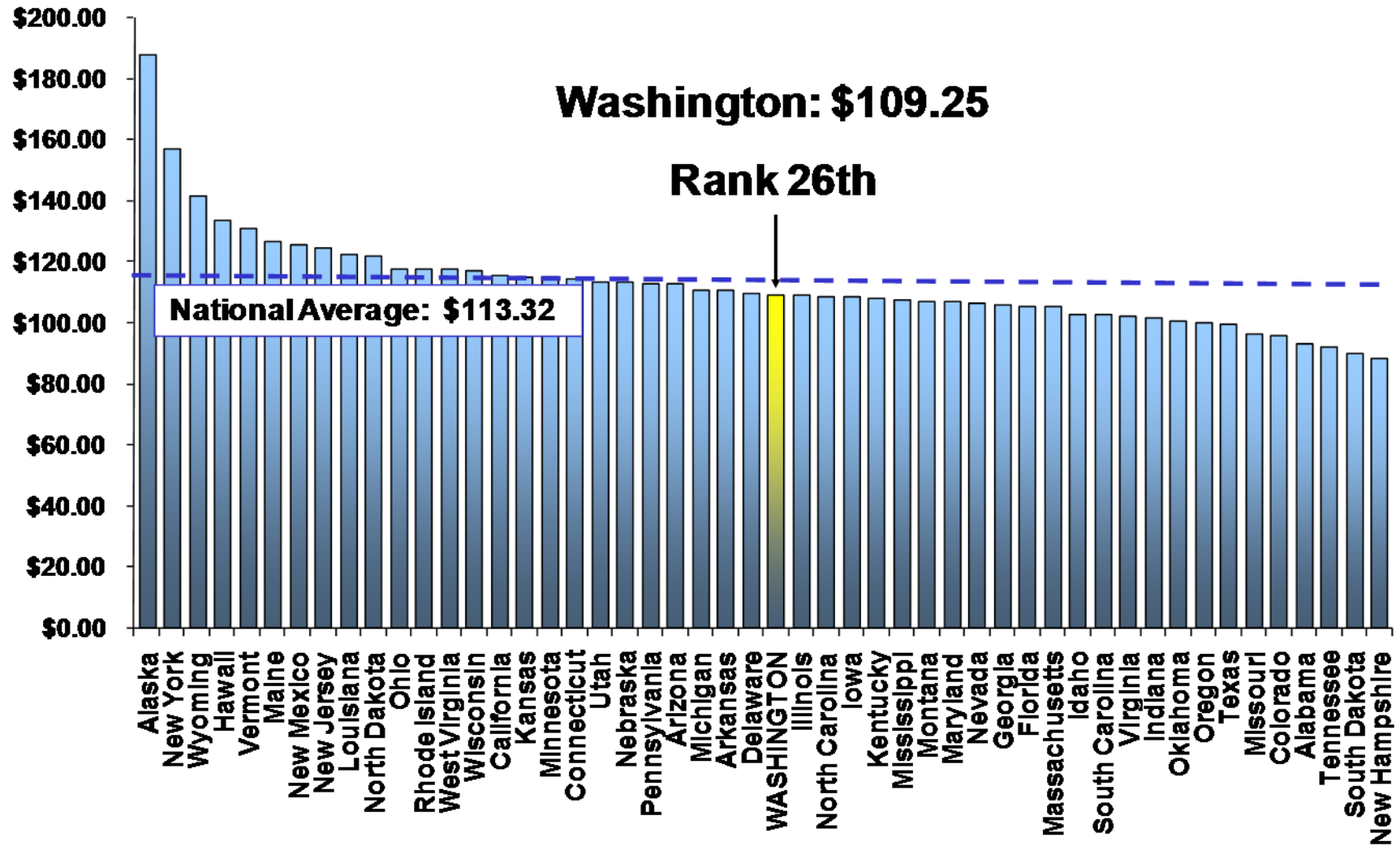
There are two principal methods for measuring tax burdens among the states. The first simply divides the total tax collections by the population of a state to obtain a per capita figure. (The calculation usually includes taxes paid by businesses, since it is not possible to separately identify business tax payments for all tax sources. In any case, these are often assumed to be passed on to individual consumers.) Based on the latest available data (Fiscal Year 2007), Washington state and local taxes per capita amounted to \$4,269. This statistic ranked 15th from the highest among all states in tax burden and was just slightly above the national average of \$4,234.

However, because there are significant differences among individual residents of the state, the per capita method only produces meaningful data for persons who are "average" in terms of income and other relevant criteria such as age, family size, geographical location, etc. For example, the household tax burden for a very large family may not simply be the statewide per capita amount multiplied by the number of persons in the family, since the tax burden attributable to children is likely somewhat lower than for adults. Likewise, actual taxes might be higher for persons during their household formation years (making purchases of a residence, household goods, etc.) than in retirement years. Further, there are significant differences in personal income among states, and hence they do not all have the same ability to finance government services.

Washington's tax system is driven largely by consumption, and consumption depends most directly upon income. Thus, comparing tax burdens to income yields a more representative tax burden indicator for most households. Total tax collections divided by a state's aggregate personal income (a statistic developed by the Bureau of Economic Analysis of the U.S. Department of Commerce) produces such a comparison. In Fiscal Year 2007 Washington's state and local taxes amounted to \$109.25 per \$1,000 of personal income. This was significantly lower than the national average of \$113.32. By this measure Washington ranks 26th from the highest in overall tax burden. The latest tax burdens for all states are compared graphically in the following chart.

## Comparison of Tax Burdens in All States

### State/Local Taxes per \$1,000 Personal Income - Fiscal Year 2007



## Impact of the Recession on Tax Revenues

As noted above in Table 2, total state tax collections in Fiscal Year 2009 were lower than the previous year by 7.8 percent. An across-the-board decline in state revenues of this magnitude is unprecedented. The last time total state tax receipts failed to record positive growth was in Fiscal Year 2002 when collections fell by 0.3 percent during an economic downturn. Only one other time has this occurred in the past 50 years – in 1985 when a major accounting change was made which counted only 11 months of tax collections in that fiscal year. Even during the last severe recession of the early 1980s, total state tax collections increased each year because of a variety of tax rate increases and extension of tax bases.

The largest state tax source is the retail sales tax; local sales taxes are also a major source of funding for local government jurisdictions. Typically, the base of the sales tax grows each year by about 6 percent. Over the 20-year period from 1988 to 2007, the average annual growth in taxable retail sales tax was 6.2 percent. For the latest full calendar year, taxable retail sales in calendar year 2008 actually declined by 4.2 percent statewide, as consumers significantly reduced spending on sales-taxable items.

Another measure of the decline in sales tax revenues is the local sales tax which, in most local jurisdictions, is the second largest source of tax revenue. The basic 0.5 percent tax is levied in all cities and counties; distributions of this tax are a good barometer of sales tax activity in the various local areas. Combined receipts for the county and all cities in the same county fell by 9.3 percent from Fiscal Year 2008 to 2009, compared with an increase of 4.6 percent the prior year. Only seven counties experienced positive growth in the basic local sales tax. The remaining 32 counties suffered large reductions, many in the double-digit range. For example, the basic 0.5 percent local sales tax fell by 10.9 percent in King County, by 9.9 percent in Pierce County, and by 12.6 percent in Snohomish County.

To illustrate the difficulty of governmental budgeting during recessionary times, Table 4 traces the quarterly forecast of state general fund revenues over the past two years. The state budget is predicated upon the forecast of tax receipts; it is required to be “balanced” since the state cannot engage in deficit financing for its general operations. This table shows the downward revisions in the anticipated revenues as the impact of the recession deepened. Initially, state general fund receipts for the 2007-09 Biennium were predicted to be in excess of \$30 billion. Each quarter for the past two years the estimate was revised lower until the final figures for that period had been reduced by \$2.8 billion to \$27.2 billion. Similarly, the anticipated receipts for the current biennium, 2009-11, have declined from \$31.9 billion to \$28.2 billion – a drop of \$3.7 billion.

**TABLE 4**  
**FORECAST OF STATE GENERAL FUND REVENUES**  
**OVER THE PAST TWO YEARS**

Quarterly Forecast for 2007-09 and 2009-11 Biennia  
Dollars in Millions

<u>Date of Forecast</u>	<u>2007-09 Biennium</u>	<u>2009-11 Biennium</u>
June 2007	\$29,419	n.a.
September 2007	30,017	n.a.
November 2007	29,886	n.a.
February 2008	29,463	\$31,918
June 2008	29,402	31,755
September 2008	29,129	31,498
November 2008	28,627	30,070
March 2009	27,891	27,945
June 2009	27,706	29,834
September 2009	27,700	29,603
November 2009	27,229	28,208

Source: Office of the Economic and Revenue Forecast Council.

The real estate excise tax is one of Washington's more volatile tax sources, but it is a good barometer of the state's housing market, because the tax applies to the selling price of real estate. Although the tax includes sales of bare land, farm land, and commercial and industrial property, the majority of the sales reflect residential property. This tax was one of the harbingers of the current recession, because housing prices and the volume of sales were among the first economic indicators to be adversely impacted in Washington. The following chart traces the monthly receipts for the state general fund portion of the tax for the most recent four-plus fiscal years. Collections have declined from more than \$1 billion in Fiscal Year 2007 (\$1,069.4 million) to barely one-third of that amount in Fiscal Year 2009 (\$389.1 million).

Monthly Real Estate Excise Tax (REET) Collections  
General fund portion of state tax  
July 2005 - November 2009

