

State and Local Revenue Challenges

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Presentation to League of Women Voters

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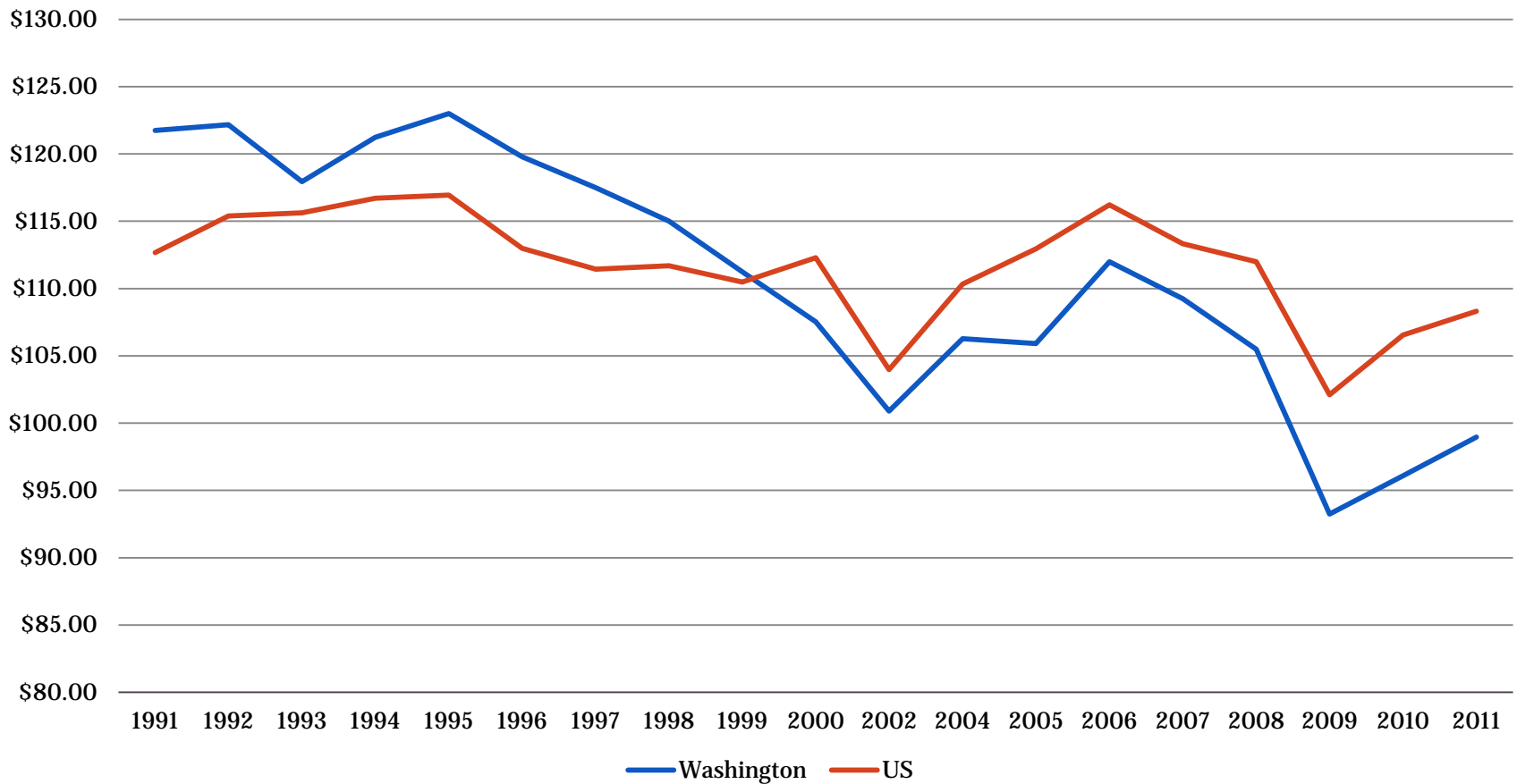


King County

Revenue Context

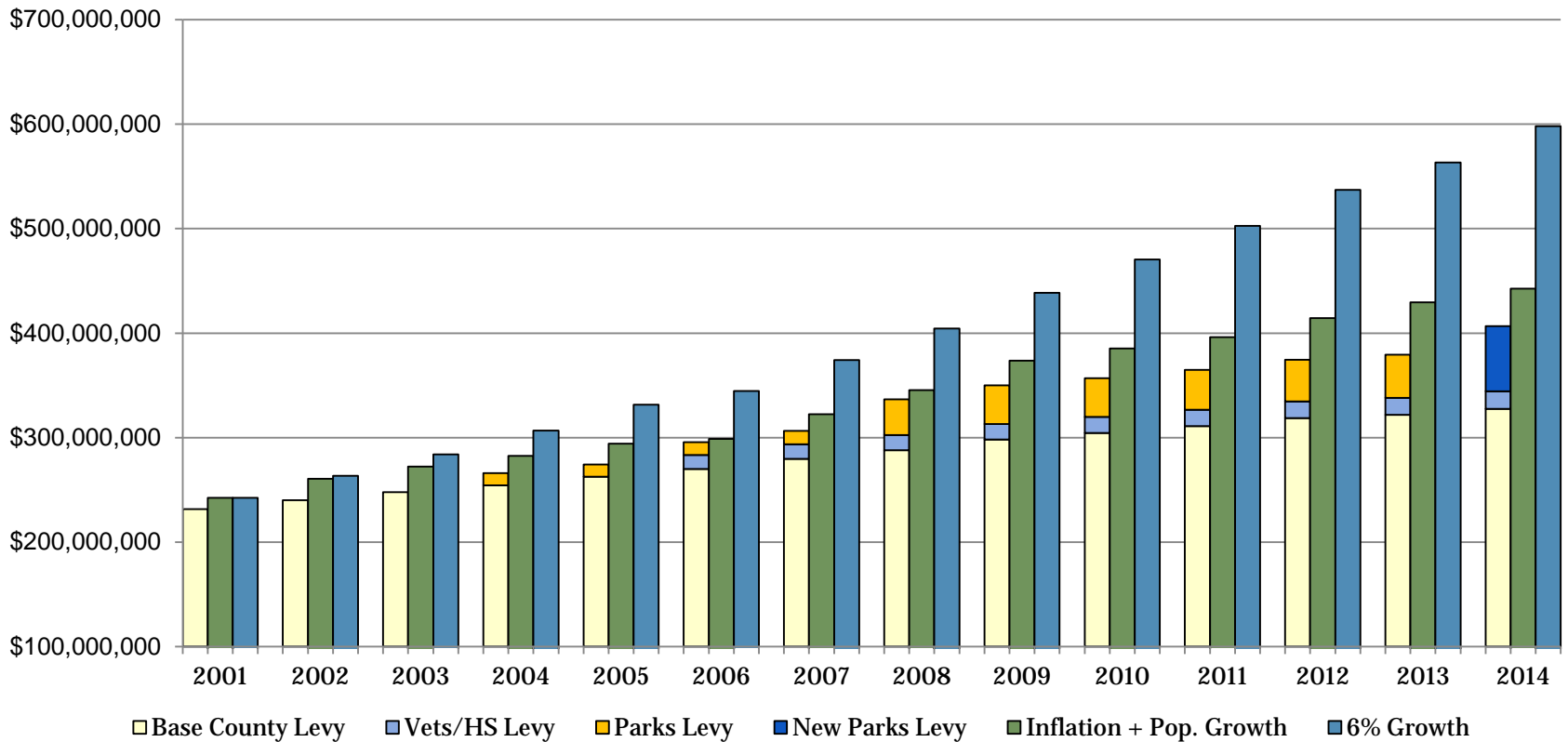
- Washington's tax structure is based on the 1930s (property taxes, sales taxes, excise taxes) but we live in a 21st century economy
- The state and local tax burden in Washington has declined steadily over the last two decades
- For most local governments, the 1% property tax revenue growth limit has led to service and staffing reductions, except where voters have approved levy lid lifts
- Sales tax revenues are volatile and are a declining percentage of personal income due to shifts in spending patterns
- Other "volume-based" excise taxes, notably gasoline taxes, aren't growing because of changes in technology and use patterns
- Younger residents may have different spending patterns (student loans, housing choices, transportation), further limiting revenue growth

State and Local Taxes per \$1000 of Personal Income



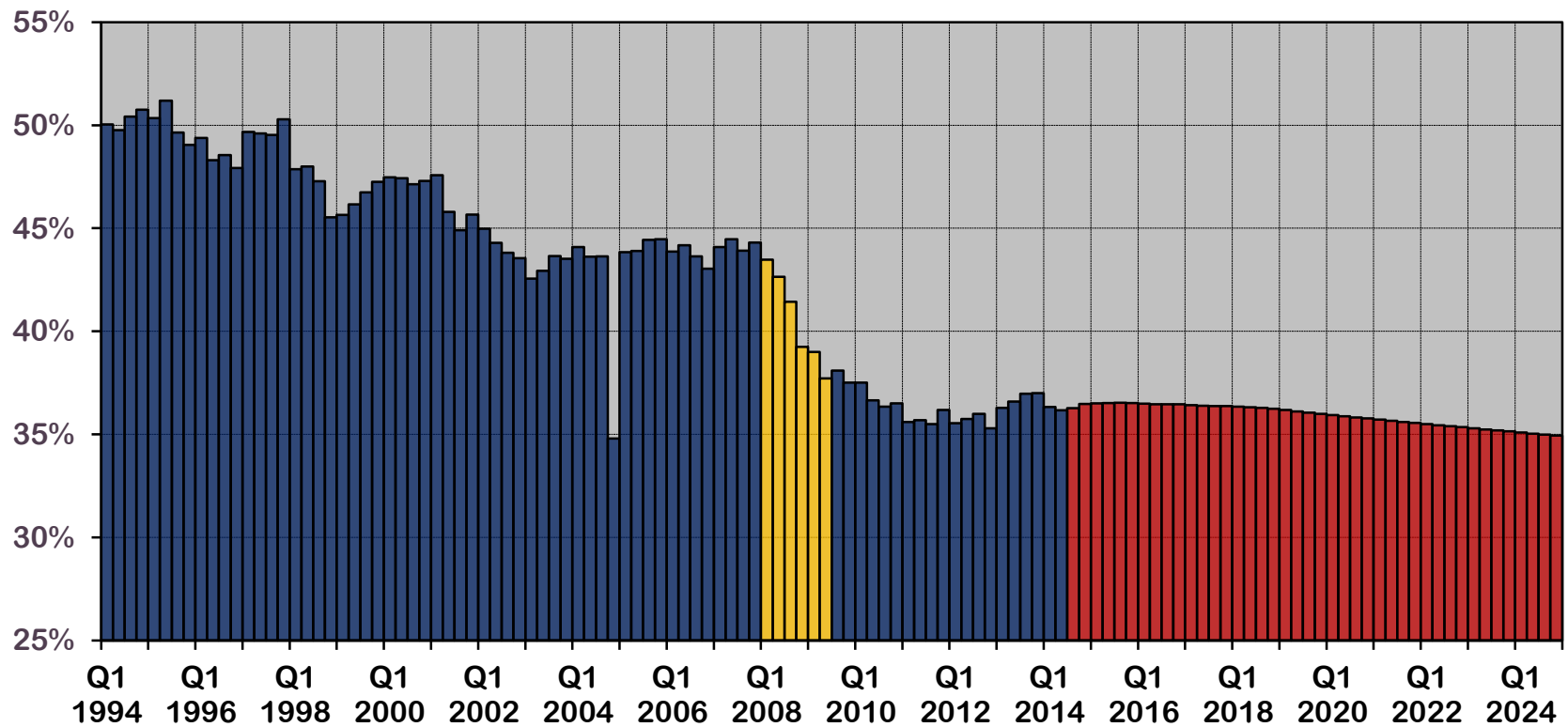
Effect of 1% Property Tax Revenue Growth Limit

King County Property Tax Levy (Regular)



Taxable Sales to Income Ratio is Declining

(King County figures, but general pattern is the same)



Property Tax: How It Affects King County

- **Countywide property assessed value (AV) is forecast to increase by 11.7% for 2015**
- **AV growth is broadly distributed geographically, reflecting recovery in housing markets**
- **Current forecast is that previous peak in AV (\$387 billion in 2009) will be exceeded in 2016**
- **Countywide new construction is forecast to be \$4.2 billion for 2015, with further growth in subsequent years**
- **This is still far below the peak of \$8.0 billion in 2009**
- **The 1% revenue growth limit means that County General Fund property tax revenue growth will be only 2.1% for 2015 and 2.2% for 2016**

Sales Tax: How It Affects King County

- **Countywide sales tax base is forecast to increase by 5.0% for 2015 and 4.9% for 2016**
- **Growth rates are well below previous peaks (e.g. 8.5% or more annually between 2005 and 2007)**
- **The lack of a tax base in the unincorporated area means that County General Fund sales tax revenue growth will be only 3.7% for 2015 and 4.1% for 2016**
- **Transit sales tax is forecast to grow by 4.9% annually in 2015 and 2016**

General Observations

- State and local governments in Washington have few revenue sources that grow as much as the economy grows (B&O taxes are one example)
- Existing consumption-based taxes are applied to bases that don't reflect current spending patterns (no sales tax on services, no fuel tax on electric vehicles)
- Widening income disparity means consumption-based taxes generate less than they otherwise would (high income individuals spend proportionately less on taxed consumption)
- Too many governments relying on property taxes creates more risk of tax pro-rationing