

APPENDIX B-28: WASHINGTON



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Business Poll Ranking

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Overview

While Washington suffered a greater decline in employment than the nation as a whole during the 2001 recession and subsequent “jobless recovery”, it has also snapped back from the recovery at a faster rate than that of the nation. The state showed positive annual growth in 2003 while the US showed negative growth, and Washington continued to outpace the national growth rate through 2006. Due to its faster growth, the state regained its pre-recession employment peak in December 2004, two months faster than the US, despite having suffered sharper recessionary losses.

Most of the state’s 2006 employment growth was accounted for by construction, manufacturing, trade, professional and business services, education and health services, and leisure and hospitality. Washington’s 2006 employment growth rate of 3% ranked 9th in the nation. The nation’s growth rate for the same period was 1.7%. While the state was near the bottom of the state rankings during the recession, subsequent growth has brought the state’s five-year average rank to 13th, with a growth rate of 1.2% versus 0.6% for the nation as a whole.¹

On a scale of 1-50 (with a ranking of one being the best) *Forbes* magazine ranked Washington 5th overall as one of the best states for business:²

Washington's <i>Forbes</i> Rankings	
Overall Rank	5
2006 Rank	12
Business Costs Rank	33
Labor Rank	4
Regulatory Environment Rank	5
Economic Climate Rank	16

¹ Washington State Economic Climate Study. Washington State Economic and Revenue Forecast Council. October, 2007. 6. <http://www.erfc.wa.gov/pubs/clim1007.pdf>

² Kurt Badenhausen. “Special Report: The Best States for Business.” *Forbes Magazine*. July, 2007. http://www.forbes.com/business/2007/07/10/washington-virginia-utah-bizcz_kb_0711bizstates.html

Public Policy

The “State Competitiveness Report (SCR) 2007,”³ a study by the Beacon Hill Institute ranks a state’s ability to produce high income, and generally a better quality of life for its citizens. The rankings compare all the states and rank them 1-50 (with a ranking of one being the best). In this study Washington received a very high overall rank of 7th. Most of Washington’s ranking in the SCR was largely due to its performance in advancements in technology and infrastructure. However, when it comes to the state’s government and fiscal policy, the SCR gave the state a fairly low ranking, ranking these policies 35th nationally. A detailed discussion of some of these governmental policies continues below:

The Governor’s Global Competitiveness Council was chaired by Alan Mulally, President & CEO of Boeing Commercial Airplanes, and Judith Runstad, Attorney at Foster Pepper PLC. The council’s initial report, “Rising to the Challenge of Global Competition,” was published in March 2006.⁴

The council formed five committees to make recommendations:

- The “Infrastructure” committee made recommendations around telecommunications, water, freight, energy, and air transportation.
- The “Marketing” committee recommended a Global Business Attraction and Promotion Campaign, an inventory and expansion of marketing resources, and efforts to leverage additional activities.
- The “Political Environment” committee focused on the context for decision-making in the state and made recommendations around education and policy to reduce political conflict.
- The “Research and Innovation” committee recommended increased support for research and innovation; improved commercialization and technology transfer; broader distribution of technical knowledge; and better preparation and engagement of the workforce.
- The “Skills” committee recommended steps to improve seamlessness in the education system, raise the bar on performance, increase investment, and prepare the workforce.

Many of the Global Competitiveness Council recommendations are incorporated into a strategic plan.

³ David Tureck, Jonathan Haughton, Frank Conte, and Christopher Doyon. State Competitiveness Report 2007. Boston: Beacon Hill Institute for Public Policy Research at Suffolk University, December, 2007. 62. <http://www.beaconhill.org/Compete07/Compete2007State.pdf>.

⁴ “Governor Gregoire’s Global Competitiveness Council – Rising to the Challenge of Global Competition.” March, 2006. <http://www.governor.wa.gov/priorities/economy/council/finalreport.pdf>

The governor convened the Global Competitiveness Council in response to Washington's unique mix of globalism and regionalism. The council was asked to "rise to the challenge of global competition" and provide recommendations and competitive strategies.

The strategy has three components:

- Education and skills are the most important investment Washington can make in its economic future.
- The foundation for economic success is the strategy for traditional infrastructure investment, but also for the broader underpinnings of the modern economy; success in today's global market requires more deliberate approaches to energy, telecommunications, water and transportation.
- Washington is open for business and creating a more business-friendly environment by making it easier and less expensive to operate a business in Washington.

Regulatory Affairs

Forbes ranks Washington as one of the best regulatory environments in the nation. The state is ranked 5th out of 50 states.⁵ Regionally, it ranks as the best regulatory environment among the Western States.

The governor's Regulatory Improvement Program is working with state agencies to:⁶

- *Develop a One-Stop Business Portal.* This single, secure, online portal will make licensing, permitting, regulatory approvals or filings, and tax collection easier for business.
- *Provide Multi-Agency Reviews for Permits.* Agencies will ease the burden of dealing with multiple agencies for permits by streamlining the process with features such as multi-agency permit teams, concurrent permit reviews, offering single points of contact, and providing on-line tools, education, and outreach. State agencies also will develop permit review systems and procedures that include local and federal agencies.
- *Engage in Ongoing Regulatory Improvement.* The Director of the Office of Regulatory Assistance will work with state, local and federal agencies to make on-going improvements that will make the permitting, licensing, and regulatory processes easier and more effective. To do this, the Office of Regulatory Assistance will:
 - Consult regularly with stakeholders
 - Develop and implement innovative regulatory best practices

⁵ Badenhausen.

⁶ Christine Gregoire, "Executive Order 06-02 Regulatory Affairs – Improve Simplify and Assist."
http://www.governor.wa.gov/execorders/eo_06-02.pdf

- Work with local and federal governments to develop coordinated permitting, licensing and related regulatory systems
- Utilize the latest technology to ensure all the work of businesses and citizens with the state is as efficient and user-friendly as possible
- Report annually to the Governor on the status of regulatory improvement work plans
- *Listen to Clients.* Agencies will use surveys, focus and advisory groups, interviews, complaint tracking or other methods to understand citizen and business perspectives and to improve service design and delivery.
- *Talk Clearly to the Public.* Agencies will make their letters, instructions and processes clear and understandable to citizens and businesses. They will standardize and simplify forms and applications. They will write their processes, rules, online tools, and public information in clear language that will improve accessibility, reduce processing times and increase user-friendliness.
- *Be Accountable.* Agencies that collect taxes or provide permits, licenses, approvals, and other regulatory services will establish measurable service delivery standards to address issues such as:
 - Turnaround or response times,
 - Professionalism and helpfulness,
 - Consistency,
 - Efficiency and effectiveness, and
 - Overall quality of service outcomes;
 - Regularly measure progress;
 - Report quarterly through Governor and agency Government Management, Accountability, and Performance (GMAP) review sessions
 - Consider benchmarks from similar agencies or programs
 - Set targets for improvement
 - Use Plain Talk standards (Executive Order 05-03) for written materials

Tax Policy

The 2008 State Business Tax Climate Index ranked Washington as the 11th best state for overall business tax climates.⁷ The five main components of the study included:

- The Corporate Tax Index
- The Individual Income Tax Index
- The Sales Tax Index
- The Unemployment Tax Index
- The Property Tax Index

⁷ Chris Atkins and Curtis S. Dubay. Background Paper: 2008 State Business Tax Climate Index, October, 2007, Number 52. The Tax Foundation. 10. <http://www.taxfoundation.org/files/bp57.pdf>

Each of the 2008 rankings for Washington are listed below:

Washington	Overall Rank	Corporate Tax Index Rank	Individuals Income Tax Index Rank	Sales Tax Index Rank	Unemployment Insurance Tax Index Rank	Property Tax Index Rank
	11	31	1	50	36	28

Neighboring states ranked as follows: Oregon at 10th, Idaho at 31st and California at 47th.

Tax or Cost	Basis / Agency
Income Tax	None
Inventory Tax	None
Tax on Interest, Dividends, Capital Gains	None
Business and Occupation Tax	Gross receipts Manufacturing: .00484 Wholesaling: .00484 Retailing: .00471 Service and other activities: .015 Washington State Dept. of Revenue
Retail Sales and Use Tax	6.5% base + 0.5% to 1.7% local levy Washington State Dept. of Revenue
Property Tax	Avg. \$7.32 - \$15.75 per \$1,000 assessed value
Workers' Compensation	Based on hours worked; rates vary by industry Washington State Dept. of Labor and Industries Washington State Employment Security Dept.

Business and Occupation Tax⁸

Washington State's business and occupation tax (B&O) is based on gross receipts. Virtually all businesses are subject to B&O tax, including corporations, partnerships, sole proprietors, and nonprofit corporations. The only major exempt activities are farming and the sale or rental of real estate.

Expanding businesses may receive B&O tax credits for hiring and training in some areas. There is also a high technology B&O tax credit.

Retail Sales and Use Tax

The state sales tax is 6.5%. Local governments may also levy the sales tax, adding 0.5 to 1.7% to the base rate. In addition to the most tangible products, the following services are subject to retail sales tax: cleaning, repairing, altering or improving real property, and

⁸ "State Data: Taxes. 2007." Washington State.

http://www.choosewashington.com/state_data/Taxes.asp

landscaping. Manufacturers, high-tech firms, warehousing and distribution firms locating or expanding in distressed areas may qualify for a Sales and Use Tax Exemption.

Property Tax

Property taxes have state and local tax components. Rates vary by location and taxes are based on the assessed value of property. Some categories of property exempt from property tax include business inventories; intangibles, such as currency, bank deposits, stocks and bonds; household goods and personal items; and certain agricultural, timber, mineral or metallic products manufactured in other states to be transported out of Washington State.

Statewide, the average property tax rate dropped by over \$1.25 per \$1,000 assessed value between 1999 and 2003. The average rate in 2003 was \$12.33, with county averages ranging from \$7.32 to \$15.75.

Workers' Compensation

Washington is the only state with Workers' Compensation tax rates based on the hours worked. Workers' compensation is not paid for hours the worker is off the job, including sick leave, vacation, holidays, and leaves of absence.

Unemployment Insurance

Unemployment premium rates are based on the company's or industry's actual experience with unemployment. The lowest rates are assigned to businesses with the lowest unemployment costs. New employers enrolling in the state's unemployment insurance program are initially assigned the average experience rating for their industry. Experience ratings are received after three years.

Business & Occupation Tax Credit Incentives Statewide⁹

High Technology Business & Occupation Credit: An annual credit of up to \$2 million for high technology businesses that perform R&D in specific high technology categories.

Business & Occupation Tax Credit for New Jobs: A \$2,000 or \$4,000 (if wages exceed \$40,000) credit against the business and occupation tax is available for each new employment position created and filled by specific industries in rural counties and community empowerment zones.

Business & Occupation Tax Credit for Job Training Services: 20% of the cost spent on job training, limited to \$5,000 annually.

Business & Occupation Tax Credit for New Jobs in Programming or Software Manufacturing: Eligible for \$1,000 per year for every new employment position, up to five years.

⁹ "Tax Incentives Overview." Washington State. Department of Revenue. June, 2007.

http://www.dor.wa.gov/Docs/Pubs/Incentives/TaxIncentivesOverview_web.pdf

Information Technology Help Desk Services Business & Occupation Tax Credit: Third party help desk service firms in rural counties are eligible for a 100% tax credit on income received.

International Services Business & Occupation Tax Credit: May receive a tax credit of \$3,000 per year for every new employment position, for up to five years. Firms must be located in community empowerment zones or designated contiguous groups of census tracts within the city or cities.

Non-Manufacturer Aerospace B&O Credit: Provides a B&O tax credit for expenditures for aerospace preproduction development.

Reduced B&O Rate for FAR Part 145 Repair Stations: Lower B&O tax rate for persons performing repair and maintenance on commercial airplanes.

B&O tax credit for workforce training: Establishes a new program for customized employment training through the community and technical colleges. Participating employers may claim a B&O tax credit for half of the amount repaid for the cost of employee training.

Sales & Use Tax Exemptions & Deferrals Statewide

Manufacturing Machinery Sales & Use Tax Exemption: Exempts sales and use tax on machinery and equipment used directly in manufacturing or research operations, including installation, maintenance, and repairs in most cases.

Rural County Sales & Use Tax Deferral: Defers or waives sales and use tax on machinery and equipment, cost of expansion or modernization of existing facility if floor space or production capacity is increased; construction costs for qualified leased building.

High-Technology Sales & Use Tax Deferral: Defers or waives sales and use tax associated with new R&D or pilot scale manufacturing operations, or expanding, renovating or equipping an existing facility to current operation.

Electricity Generating Equipment Sales & Use Tax Exemption: Provides a sales and use tax exemption for machinery and equipment used directly in generating electricity using fuel cells, wind, solar or landfill gas energy, and for the labor and services necessary to install such equipment, but only if the purchaser develops a facility capable of generating not less than 200 watts of electricity.

Non-Manufacturer Aerospace Sales & Use Tax Exemption: Sales and use tax exemption for purchases of computer hardware, software and computer, peripherals, and charges for labor and services related to the installation of such equipment.

Biotechnology & Medical Device Manufacturing Sales & Use Tax Deferral/Waiver: Defers or waives sales and use tax on machinery and equipment, construction costs for new or expanded facility.

Other Tax Incentives Statewide

Warehouse Tax Incentive: A remittance of 100% of state sales tax (6.5%) paid on construction of qualifying structures; 50% remittance for state sales tax paid on qualifying equipment.

Custom Computer Software Property Tax Exemption Software: Designed for a specific need for a single person or group of persons is exempt from property tax. Included in the definition is modification of canned computer software.

Bio-fuel Tax Deduction & Exemptions Tax: Benefits for sellers of bio-diesel fuel, wood biomass fuel, alcohol and wood biomass fuel blends.

Food Processing Tax Incentives: Tax exemption for goods destined for outside Washington. Defers or waives sales and use tax on machinery and equipment, construction costs for new or expanded facility. (Effective 1-1-07) Expands the warehouse remittance program to include cold storage warehouses or fresh fruit & vegetables, dairy products, and seafood products.

Timber & Wood Products Industry Incentive: Provides a two-step reduction in the tax rate for extracting and wholesaling of timber and manufacturing of timber or wood products. Partially offsetting these rate reductions is a new surcharge tax rate that takes effect July 1, 2007.

Extension of Tax Incentives for Aluminum Smelters: Extends, through 2011, incentives established in 2004 to encourage investment in aluminum smelting in Washington.

Motion Picture Competitiveness Program Tax Credit: Provides a B&O tax credit for businesses that make cash contributions to the Motion Picture Competitiveness Program and file their taxes electronically.

Innovation

The New Economy Index¹⁰ (NE) rates the states according to advancements in innovation (with a rating of one being the best). In this study, Washington ranked exceptionally well at 4th in the nation. In addition the SCR ranks Washington highly at 12th for technological innovation. The SCR ranked the state 7th for the number of patents and 5th for having a large number of scientists in their workforce.¹¹

Washington is home to two industries that are clearly competitive on a national and international basis - Aerospace and Software. Both of these industries are dependent on research and technology innovation. Within these industries, Boeing and Microsoft are clearly the dominant market leaders. Within the electronics and telecommunications industries, subsidiaries of large corporations such as Hewlett Packard, Sharp and AT&T

¹⁰ Robert Atkinson and Daniel K. Correa. The 2007 State New Economy Index.: Benchmarking Economic Transformation in the States. Innovation Technology and Innovation Foundation. February, 2007. 13. http://www.kauffman.org/pdf/2007_State_Index.pdf

¹¹ Tureck, et al, 62.

Wireless are based in Washington and provide strength in certain market segments. In energy and bioscience there are pockets of strength. In addition, in each industry there are smaller, rapidly growing innovative companies supported by the same workforce. Listed in order of total industry employment, the major innovation-based technology industries in Washington are:¹²

Aerospace: Boeing is one of the top three aerospace companies in the world and Boeing Airplane Company is the largest manufacturer of commercial airplanes. The industry provides the most jobs and exports. It is hoped that the new 737 project may create opportunities for innovative technology in light weight materials for aircraft.

Software: Microsoft is the largest software company in the world with revenues of \$32 billion. Washington has hundreds of smaller companies, some of which have spun off from Microsoft. Amazon is the largest of these at \$5.7 billion. Itron, based in Spokane, is a distant third at \$220 million in revenues. Several innovative software segments that will see major growth in Washington over the next few years include electronic games and security.

Electronics: The computer-related electronics manufacturing industry is one of the few manufacturing segments showing real growth. It is concentrated in Vancouver, near the Portland chip manufacturing and design industry. Established companies such as Hewlett Packard and Sharp continue innovation as evidenced by the many patents issued, especially in printer development. A new research base in micro- and nano-technology is emerging.

Wireless and telecommunications: Telephone Communications is the 4th largest industry in the state and has shown growth in wireless contrasted with declines in wired communications. Major companies have grown and been acquired and these mergers have caused major company headquarters to move out of state. Pioneering efforts in mobile telephones have provided an innovative community that continues to create new business opportunities.

Energy: Energy in Washington has a history of large power generation at low cost. Now there is a focus on new technologies for power generation as well as efficient use of the grid. New energy segments addressing power systems technologies, fuel cells and solar photovoltaics are opportunity areas for the Northwest.¹³

Bioscience: Washington State is ranked in the top ten for the biotechnology industry and has some successful companies and subsidiaries. Research funding from NIH, and the Bill and Melinda Gates and Paul G. Allen Foundations have built research strength in genomics and infectious disease. Molecular diagnostics and infectious disease prevention and treatment represent strategic opportunities for economic growth if a strong path to commercialization can be developed.

¹² Lee Cheatham, *Washington State Innovation Assessment* Washington Technology Center. 16.
http://www.watechcenter.org/downloads/wsia_final.pdf

¹³ Cheatham, 14.

Workforce

Washington receives an above average ranking when it comes to its workforce. The SCR ranks the quality of its workforce in its “Human Resources” category. In this category Washington ranks 20th in the country.¹⁴ A major influence on the state’s workforce ranking is its workers with a high school degree at 9th. However due to the fact that the SCR only mentions specific categories that are particularly good or bad for a state, the fact that the SCR does not mention the number of adults in the workforce or the number with advanced degrees, suggests that Washington’s rank in these categories fell somewhere in the middle. Finally, while it doesn’t have a direct impact in the “Human Resources” category, it should be noted that the state has the worst minimum wage rating in the country, which does lower the state’s overall competitive ranking

Workforce Size and Availability

Statewide, the annual average unemployment rate in August 2007 was 4.9%. County averages range from 3% to 9.5%.¹⁵

Educational Level

Washington has a higher concentration of adults with at least 12 years of education than any Western state, and it ranks 6th among all states (according to the US Census Bureau, 2002). The state also ranks well above average for adults with bachelor's degrees, particularly in the counties with a heavy concentration of highly technical occupations.

Labor Costs

Wages for Washington workers are becoming increasingly competitive. Employment opportunities in the state attract out-of-state workers, which tend to hold down wage increases while assuring a plentiful labor supply. Washington’s minimum wage is \$7.93 as of January 1st, 2007. The Washington State Department of Labor and Industries makes an annual cost of living adjustment to the minimum wage as the result of an initiative approved by Washington voters in 1998. Workers' Comp Rates rank among the lowest in the nation.

Education

According to the US Chamber of Commerce’s “*Leaders and Laggards: A State by State Report Card on Educational Effectiveness*” study, Washington performs especially well in providing secondary education to its residents. In this study, Washington was one of only ten states to receive an overall rating of an “A” for the quality of its education system¹⁶ In particular the state won high marks for the quality of its teachers. These

¹⁴ Tureck, et al, 62.

¹⁵ “State Data: Workforce.” Washington State. 2007.

http://www.choosewashington.com/state_data/Workforce.asp

¹⁶ The Institute for a Competitive Workforce. *Leaders and Laggards: A State by State Report Card on*

teachers are required to pass subject matter tests, thereby ensuring that students will be learning from an individual with subject matter expertise.¹⁷ In addition the state also receives high marks for academic achievement of low income students, data quality, and return of rate of return on tax payer investment. However, the state received lower rankings for preparing students for the workforce, credibility of student proficiency, and rigor of standards.

Fourth Grade Reading and Mathematics

The National Assessment of Education Progress (NAEP) program, sponsored by the US Department of Education, is the only testing program that provides valid uniform educational achievement indicators allowing for state comparisons. The NAEP assesses students in grades four, eight, and 12 in various academic subjects. These subjects include the arts, geography, reading, science, civics, mathematics, US history, and writing. The Washington State Economic Climate Study tracks the average scale score of fourth grade reading and mathematics by state.¹⁸

Prior to the 2002-03 school year, participation in the NAEP tests was voluntary, with single-subject tests held every two years, alternating subjects every two years. As such, states that either declined to participate or had an insufficient number of participating schools to create a valid average state score are excluded from the state rankings. Washington did not participate in the inaugural 1992 mathematics and reading tests, and had insufficient voluntary participation in the 2000 mathematics test. As of the 2002-03 school year, however, participation in the NAEP test is mandatory due to the provisions of the “No Child Left Behind Act”, which was passed by the Federal Government in 2001. Under the act, the NAEP tests in both reading and mathematics will be given to students in the fourth and eighth grades every two years, starting in the 2002-03 school year.

NAEP scores can be interpreted using the achievement level thresholds and their corresponding definitions outlined below. Reading achievement is measured with exercises that require students to read material for two different purposes, literary experience and knowledge retention. In 2007, Washington’s rank among the states declined from 12th to 18th even though its average reading score rose one point to 224. Washington’s average since the 1998 test is 222 points, ranking 16th, while the average national score was 217 over the same period.

In the mathematics exam, the skills and content covered include spatial sense, data analysis, statistics, probability, algebra and functions. While Washington’s 2007 score increased to 243 from 2005’s score of 242, the state slipped in rank, moving from 12th to 18th. Washington’s average score for the years 1996-2007 is 237, ranking 13th among the states, while the average national score was 231 over the same period.

Tenth Grade WASL Scores

Educational Effectiveness. US Chamber of Commerce, 2007.

<http://www.uschamber.com/icw/reportcard/default>

¹⁷ US Chamber of Commerce.

¹⁸ Washington State Economic Climate Study. Washington State. Economic and Revenue Forecast Council. October, 2007. 64. <http://www.erfc.wa.gov/pubs/clim1007.pdf>

The Washington Assessment of Student Learning (WASL) is a statewide assessment designed to measure critical thinking skills and how well students can apply knowledge. Unlike traditional standardized tests, takers are required to answer a variety of types of questions including multiple choice, short answer and essay.

The test is designed to measure achievement in meeting the state's Essential Academic Learning Requirements in reading and mathematics in grades three through ten, writing in grades four, seven and ten, and science in grades five, eight, and ten. The WASL is administered each spring. Beginning in 2008, high school students will be required to meet the standards it sets in reading and writing in order to graduate. Beginning in 2013, high school students will also be required to meet the WASL mathematics standards in order to graduate.

As the WASL is unique to Washington, test results cannot be compared to those in other states. The results are included here, however, as they provide an indication of Washington's progress in maximizing the number of students who are able to pass the WASL by the tenth grade. The tenth-grade WASL scores for 2006 showed an improvement in two of the four categories: science and writing. Of the tenth-graders that took the test, 80.6% met the standards in reading, 50.2% met the standards in mathematics, 83.6% met the standards in writing and 36.3% met the standards in science.

Student to Teacher Ratios

Since the early 1990s there has been a nationwide movement to lower the student to teacher ratios in public schools. The success of this movement to date is evident in the steady decline of the national ratio from 17.4 students per teacher in the 1992-93 school year to 15.8 in 2004-05. While Washington has shared in this movement, its progress has been somewhat slower, with a decline from 20.2 to 19.2 over the same period.

Washington's student-teacher ratio decreased slightly from 19.3 in the 2003-04 school year back down to 19.2 in the 2004-05 school year. Its rank remained 46th.

Education Attainment: Completed Four Years of High School or More

As part of its annual Current Population Survey, the US Bureau of the Census tabulates the percent of the population aged 25 years or older that has completed four years of high school or more. As one indication of the economic relevance of this measure, the 2006 survey found that the average annual wage for person 18 years of age or older who did not graduate from high school was only \$17,299 in 2005 while that of a person with a high school diploma or GED was \$26,933.

The 2006 survey reported that 91% of Washington's population aged 25 years or older completed four or more years of high school, a slight decrease from 2005's value of 91%. The state's 2006 rank, however, remained constant at 6th. The state's five-year average value of 90% ranked 8th among the states. Washington has consistently ranked well above the US average in this measure.

Cost of Market Entry

The Milken Institute releases an annual study in which it ranks the states with the highest cost of doing business on a scale of 1-50 (with a ranking of 50 being best for business).¹⁹ In this study, Washington was given a low ranking with the 15th highest cost of doing business.

State and Local Tax Collections per \$1,000 Personal Income

The Census Bureau of the US Department of Commerce annually collects data in order to compare tax burdens across states. Using this figure, tax burdens are then calculated using several different methods; this report compares tax collections per \$1000 personal income. This measure is computed by dividing the total state and local taxes by total state personal income.²⁰

As the Census Bureau did not compile state and local tax data for fiscal years 2001 and 2003, data for those years are unavailable for this report. For fiscal year 2005, Washington collected \$23 billion in state and local tax revenues. This corresponds to a state and local tax burden of \$105.91 for each \$1,000 of personal income. This amount is the 14th lowest in the nation and is \$6.93 below the national average. In addition, it is the 4th lowest tax burden in Washington since this measure first began being recorded in the 1960s, the lowest being \$100.45 per \$1,000 personal income in 1981. A large part of this decline can be attributed to the elimination of the state motor vehicle excise tax in January of 2000. While the elimination of this tax only affected tax receipts for half of fiscal 2000, its full impact can be seen in fiscal 2002.

The “initial incidence” of a tax refers to the party from whom the tax is collected. Initial incidence does not always indicate who actually bears the tax burden, because taxes initially paid by businesses may be recovered in the form of higher prices or lower wages, shifting the tax burden to consumers or workers. The Washington Department of Revenue estimates that in fiscal year 2006, businesses directly paid 45% of major state and local taxes, government paid 4.3% and households paid 50.7%.

Unemployment Insurance Costs

In 2006, Washington had the second highest unemployment insurance cost as a percent of total wages of employees covered by unemployment insurance in the country with an average rate of 1.43%, down almost 15% from the previous year. The national average rate for 2006 was much lower at 0.76%, a 7% decrease from 2005. While the state and national costs decreased in 2006, they are still at elevated levels due to the increased unemployment insurance payouts during the 2001 recession and subsequent slow job recovery. Washington’s five-year average of 1.48% also ranked 49th in the nation.

Washington, however, has one of the most generous unemployment insurance programs in the country in terms of benefits, eligibility and duration.

¹⁹ “2007 Cost of Doing Business Index.” Milken Institute. December, 2006.

<http://www.milkeninstitute.org/pdf/2007CostofDoingBusiness.pdf>

²⁰ Washington State Economic Climate Study, 90.

Workers' Compensation Premium Costs

In 2006, Washington's premium costs for the industries examined by the study were \$2.17 per \$100 of payroll, ranking 15th among the states. Washington's average rate of \$2.00 per \$100 of payroll for the period from 1998 through 2006 ranked 13th among the states and was well below that national average of \$2.54.

Washington's compensation system is atypical of other states' systems as employees pay a portion of their industrial premiums into a state fund and the Department of Labor and Industries acts as both the insurer and administrator of the workers' compensation system.

Electricity Prices

Due to the state's abundant hydrological resources, Washington long enjoyed some of the lowest electricity prices in the country, ranking either 1st or 2nd in lowest electricity prices among the states in the years 1990 through 1999. Drought and problems related to California's energy market, however, caused electricity prices to soar from late 2000 through 2002. Though prices across the nation increased by 10.9% on average over that time span, prices on the West Coast increased dramatically more than that, 62.9% in California, 34.5% in Oregon and 26.5% in Washington. As the effects of the disruptions diminished around 2003, however, Washington's costs began to moderate compared to the rest of the nation. After sinking to a ranking of 22nd in 2001, the state's ranking has steadily improved, reaching a ranking of 10th in 2005 with a cost of 5.41 cents per kilowatt-hour. The state's rank remained at 10th in 2006 even though the cost per kilowatt-hour increased to 5.66 cents. The state's five-year average price of 5.45 cents per kilowatt-hour, well below the national average of 7.06 cents, ranked 11th overall.

Average Wage by Sector

The Occupational Employment Statistics (OES) program, produced by the US Department of Labor, Bureau of Labor Statistics, conducts a yearly mail survey designed to produce estimates of employment and wages for specific occupations in states and metropolitan areas. The OES program collects data on wage and salary workers in non-farm establishments in order to produce employment and wage estimates for over 800 occupations. Data from self-employed persons are not collected and are not included in the estimates.

Under the OES program, occupations are classified under the Standard Occupational Classification (SOC) system. This system includes 22 major occupational groups, which can be broken down into 821 specific occupations. Wages for the 821 specific occupations can be found at the BLS web site (www.bls.gov).

In 18 of the 22 categories, Washington is ranked within the top ten of national wages, reaching a high ranking of 3rd in "Protective Services" and "Production", "Management", "Installation, Maintenance, & Repair", and "Transportation & Material Moving."

While information on average state wage levels alone can be useful in some business decisions, care must be taken in using them to analyze actual business costs. This is because the OES survey does not attempt to account for differences in productivity or industry mix between the states. A higher-than-average wage level may simply indicate a larger concentration of high-productivity jobs within an occupational group, or higher productivity levels in the same occupation due to differences in average state levels of capital or training. For example, Washington's relatively high average wage in Healthcare Practitioners and Technical may be due to a higher-than-average number of higher-paid workers in biotechnology labs rather than having higher paid doctors and nurses. There are also considerable differences in wage levels between different parts of the state, with the highly populated areas affecting the average wage more than more sparsely populated areas that may have lower wages. The specific occupational and metropolitan area data available from the BLS can present a clearer picture of the range of labor costs in the states.