State of Washington

Recommendation Summary

Agency: 140 Department of Revenue

9:06:24AM
9/23/2011

Dollars in Thousands

		Annual Average FTEs	General Fund State	Other Funds	Total Funds
2011-13 Current Biennium Total					
Total Carry Forward Level					
Percent Change from Current Biennium					
Carry Forward plus Workload Changes					
Percent Change from Current Biennium					
M2 9Z	Recast to Activity				
M2 CS	Cigarette Stamp Printing		645		645
M2 PP	Property Tax Deferral Programs	0.8	1,141		1,141
Total Maintenance Level		**0.8**	**1,786**		**1,786**
Percent Change from Current Biennium					
PL AS	5% Budget Reduction		(10,431)		(10,431)
PL AT	Additional 5% Budget Reduction		(10,430)		(10,430)
PL PA	Tax Preferences Accountability	0.9	156		156
PL TS	Tax Exemption for Telephone Service	0.1	25		25
Subtotal - Performance Level Changes		**1.0**	**(20,680)**		**(20,680)**
2011-13 Total Proposed Budget		**1.7**	**(18,894)**		**(18,894)**
Percent Change from Current Biennium					

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Dollars in Thousands

	Annual Average FTEs	General Fund State	Other Funds	Total Funds

M2 CS Cigarette Stamp Printing

In FY12, the vendor (Meyercord) that provides states with cigarette tax stamps will phase out the current fuson style stamp and replace it with a new fuson oasis style stamp with an anticipated increase in cost from the current $1 per thousand, plus sales tax to $3.50 per thousand plus sales tax. There are no other known options that are a lower cost. This decision package is a request of funding to pay the increased cost of printing cigarette stamps. The stamps are required by law and cigarettes cannot be sold without them. The tax is collected through the sales of stamps, without the stamps there can be no collection of tax. Any change to this process would have a significant impact on revenue collections and the Washington licensed wholesalers.

M2 PP Property Tax Deferral Programs

FY12 Supplemental budget 5% and 10% across the board reductions include a reduction to funding available in the Senior Citizen and Disabled Persons Deferral Program. In addition, the enacted 2011-2013 operating budget inadvertently eliminated .8 FTE and funding for administration of the Limited Income Property Tax Deferral Program after legislation to eliminate the program did not pass. This FTE was being used to manage the increased workload in the Senior Citizen and Disabled Persons Deferral Program. Eliminating funding for these programs will adversely impact the Department's ability to fund all approved deferral and grant requests. This Decision Package requests restoration of the funding for the .8 FTE for administration of the senior programs and restoration of funding for payment of qualified deferrals approved under both deferral programs.

PL AS 5% Budget Reduction

In order to meet the 2011-2013 5% budget reduction target the Department will be required to take reductions that impact the agency's revenue collections and service delivery. The Department of Revenue's budget is over 70% salary and benefits and approximately 85% of the Department's staff are in revenue generating positions within our largest operating divisions, Audit, Compliance and Taxpayer Account Administration. In addition to a reduction of 16 filled positions in non-revenue producing activities throughout the Department, 19 filled positions will also be reduced in enforcement activities that produce revenue. The reduction in enforcement positions is estimated to decrease revenue collections in the 11-13 biennium by over $31.1 million dollars. The non-revenue position reductions that provide internal and external customer service may also impact voluntary collections. The revenue loss to voluntary compliance has not been quantified.

PL AT Additional 5% Budget Reduction

This packet increases the first-priority 5% reduction packet by 5% to meet the 2011-2013 10% budget reduction target. In order to meet this target the Department will be required to take reductions that impact the agency's revenue collections and service delivery. The Department of Revenue's budget is over 70% salary and benefits and approximately 85% of the Department's staff are in revenue generating positions within our largest operating divisions, Audit, Compliance and Taxpayer Account Administration. A reduction of 10% will reduce 57 filled positions in non-revenue producing activities throughout the Department, 96 filled positions will also be reduced in enforcement activities that produce revenue. The reduction in enforcement positions is estimated to decrease revenue collections in the 11-13 biennium by over $62.7 million dollars. The non-revenue position reductions that provide internal and external customer service may also impact voluntary collections. The revenue loss to voluntary compliance has not been quantified.

PL PA Tax Preferences Accountability

Recommendation Summary

Agency: 140

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Dollars in Thousands

	Annual Average FTEs	General Fund State	Other Funds	Total Funds

To help determine if certain economic development tax incentives achieve public policy objectives, businesses that receive such incentives must file an Annual Survey or an Annual Report. However, some tax incentives do not require an Annual Survey or Annual Report and some lack expiration dates. Consequently, data available to analyze or compare the effects of tax preferences, and its availability to the public, is inconsistent and often nonexistent.

The Citizen Commission for Performance Measurement of Tax Preferences, in conjunction with the Joint Legislative Audit and Review Committee (JLARC) and with the Department's technical assistance, makes recommendations about continuing the preferences. However, JLARC's recommendations lack specific legislation, and the Legislature typically takes no action.

This proposal standardizes and improves accountability for these tax preferences, while creating more transparency.

PL TS Tax Exemption for Telephone Service

In Sprint Spectrum LP v. DOR, the Thurston County Superior Court recently held that a sales tax exemption for certain residential telephone service applies to cellular services sold to non-business customers. Litigation continues but if the Superior Court's decision is sustained on appeal, the resulting state and local revenue impacts would be extremely large and detrimental to the state. If the decision is upheld, the exemption will have effectively been expanded to apply to all network telephone services sold to non-business customers, including cellular services and voice over Internet protocol (VoIP) services.

This proposal would prevent the potential adverse fiscal impacts.

State of Washington
Decision Package

Agency: **140 Department of Revenue**

Decision Package Code/Title: AS – 5% Budget Reduction

Budget Period: **FY12 Supplemental Budget**
Budget Level: **PL – Performance Level**
Decision Package Code: **AS**

Recommendation Summary Text:

In order to meet the 2011-2013 5% budget reduction target the Department will be required to take reductions that impact the agency's revenue collections and service delivery. The Department of Revenue's budget is over 70% salary and benefits and approximately 85% of the Department's staff are in revenue generating positions within our largest operating divisions, Audit, Compliance and Taxpayer Account Administration. In addition to a reduction of 16 filled positions in non-revenue producing activities throughout the Department, 19 filled positions will also be reduced in enforcement activities that produce revenue. The reduction in enforcement positions is estimated to decrease revenue collections in the 11-13 biennium by over $31.1 million dollars. The non-revenue position reductions that provide internal and external customer service may also impact voluntary collections. The revenue loss to voluntary compliance has not been quantified.

Fiscal Detail

Operating Expenditures	FY2012	FY2013	Total
001-1 General Fund – Basic Account – State	($5,219,000)	($5,212,000)	($10,431,000)
Total Cost	**($5,219,000)**	**($5,212,000)**	**($10,431,000)**

Revenue			
001-1 General Fund – Retail Sales Tax	($15,340,000)	($15,773,000)	($31,113,000)
Total Revenue	**($15,340,000)**	**($15,773,000)**	**($31,113,000)**

Package Description:

Reduced revenue generating efforts:

- Two (2) agency-wide furlough days which are estimated to impact revenue collections by ($15,634,000).
- Elimination of 10 out-of-state contract auditors starting Oct 1st, 2011 which is estimated to impact revenue collections by ($5,096,000). In order to mitigate revenue loss and reduced audit presence, the agency will utilize staff auditors which will increase travel costs.
- In addition to staff furloughs, FY12 will require the agency to reduce revenue generating staff by approximately 19 positions. FY13 impact to revenue generating staff is estimated at 12 positions, resulting in reduced collection efforts, audits, tax discovery, and tax assessments, and a loss of ($10,383,000) in revenue.
- Reduced support staff available to Examiners and Revenue Agents will impact revenue generation.

- Reduced funding to file liens resulting in unsecured debt and an increase in the potential for additional uncollectable tax revenue.

Reduced customer service impacting voluntary compliance, including:

- Reduced hours in field offices for the front counters to be open to assist taxpayers
- Reduced multi-lingual service for taxpayers.
- Reduced support for the call center will increase customer wait time.
- Reduced travel funding will decrease speaking engagements provided for taxpayer education.
- Reduced funding for postage and printing impacting the agency's ability to send out required taxpayer mailings.

Reduced legislative, policy and research services:

- Impaired ability to effectively implement all legislation timely and a reduced ability to identify and effectively communicate problems with bills resulting in new laws that are difficult to administer and that potentially have major unintended revenue impacts for the state.
- The Department will revise and adopt fewer new rules and interpretive statements, resulting in outdated documents and inaccurate guidance for taxpayers and Department staff.
- Legal and technical advice provided to operating divisions will be reduced, which will reduce revenue collections and increase litigation and taxpayer disputes.
- Inability to complete internal Operations Research projects:
  - Initial Contact Team (ICT) studies on reducing field referrals.
  - External stakeholder surveys for divisions.
  - Statistical studies on reducing personal property appraisals.
- Statistical support of the Ratio Study for the Property Tax Division will not be available.
- Local assessors' calculations under $5.90 limit will not be replicated. Data is used for legislative purposes, data requests, and provided to the Property Tax Division's County Assessment & Tax System.
- Reduced resources for fiscal notes, fiscal estimates, bill drafting, bill proposals, and data requests will impact the timeliness, accuracy, completeness, and performance expectations of each.
- Key publications and information used by external stakeholders will not be published including:
  - Property Tax Statistics
  - Tax Reference Manual
  - Local Annexation Studies
- Reduced ability to fulfill requests for Local Sales Tax Data for a geographical area requiring the Geographic Information System (GIS).

Additional operational and administrative reductions affecting service delivery include:

- Elimination of Taxpayer Satisfaction Survey - further delays in gathering important feedback to improve service delivery. The last survey was conducted in 2007.
- Reduced funding for the senior deferral property tax program.

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Decision Package Code/Title: AS – 5% Budget Reduction

- Reduced ability to respond to IT service requests and maintain critical systems that support tax collection and revenue generation.
- Reduced ability to work on new IT programming to respond to legislative changes and other emerging issues.
- Reduced ability to conduct personnel investigations, manage the agency's safety program, administer and deliver instructed training, and collect critical human resource data.
- Reduced office support for data entry, scanning, indexing, and mail processing, resulting in an impact to internal controls and the Department's ability to maintain separation of duties.
- Reduced agency performance analysis and monitoring.
- Reduced ability to update necessary web site changes that communicate information to taxpayers.
- Reduced goods and services.
- Reduced staff training.

Overall, decreases in staff will require the Department to eliminate work. Staff morale will be negatively impacted and the Department may not have the ability to redistribute workload.

For Questions Please Contact: Budget Manager, Sherry Cave (360) 725-7451

Narrative Justification and Impact Statement

Specific performance outcomes expected:
The Department expects a decrease of ($15,340,000) million dollars in revenue collections during the remainder of FY12, and ($15,773,000) million dollars in revenue collections in FY13.

Performance Measure Detail:
A 5% budget reduction will affect many activities and performance measures within the Department.

Activity:

	Incremental Changes	
	FY2012	**FY2013**
Enforcement Collections/Cash Commitment	($15,340,000)	($15,773,000)
Answer 80% of Incoming Calls within One Minute	(5%)	(10%)
Clear Mainstream Original Appeals that Have Not Been Placed in Hold Status Within one (1) Year of Receipt	(12%)	(6%)
Maintain the Percentage of Audit Contacts of Active Taxpayer Accounts	(0.2%)	(0.2%)
Increase the percentage of draft fiscal notes having scheduled hearing dates that are delivered to the legislature at least four hours before the hearing when the request is received at least 24 hours before the hearing.	(5%)	(5%)

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Decision Package Code/Title: AS – 5% Budget Reduction

Is this decision package essential to implement a strategy identified in the agency's strategic plan?
Funding is essential to implement all strategies in the strategic plan. Reduced staffing will cause workload to be prioritized or eliminated. Some strategies within the Department's strategic business plan may not be implemented.

Does this decision package provide essential support to one of the Governor's priorities?
This decision package reduces funding for revenue producing activities. Revenue collections are essential to fund all of the Governor's priorities.

Does this decision package make key contributions to statewide results? Would it rate as high priority in the Priorities of Government process?
Reduced revenue collections will have a negative impact on statewide results.

Connection or impact on other state programs:
This decision package reduces funding for revenue producing activities which could impact many other state programs.

Alternatives explored by agency:
N/A

Effects of non-funding:
This package reduces funding for revenue generating activities and service delivery.

Relationship to capital budget:
N/A

Required changes to existing RCW, WAC, contract, or plan:
N/A

Budget impacts in future biennia:
Reduction is ongoing.

Expenditure and Revenue Calculations and Assumptions:
Salary and benefits were calculated for 44.5 FTEs at a variety of ranges and steps. Personal service contracts include Attorney General expert witness service and 10 contract auditors. Goods and services include reductions for supplies, postage, maintenance, printing, training, subscriptions, purchased services, software, etc. Travel, motor pool, grants and subsidies, and equipment are also being reduced.

Revenue reductions are calculated by determining the average amount of revenue generated by a particular position type and multiplying that by the number of FTEs of that position type being reduced.

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Decision Package Code/Title: AS – 5% Budget Reduction

Distinction between one-time and ongoing costs:
All cost reductions are ongoing.

Objects of Expenditure Detail

	FY2012	FY2013	Total
A – Salaries and Wages	($2,476,000)	($2,387,000)	($4,863,000)
B – Benefits	($1,061,000)	($1,023,000)	($2,084,000)
C – Personal Service Contracts	($575,000)	($750,000)	($1,325,000)
E – Goods and Services	($737,000)	($768,000)	($1,505,000)
G – Travel	($37,000)	($40,000)	($77,000)
GN – Motor Pool	($17,000)	($25,000)	($42,000)
NZ – Grants and Subsidies	($200,000)	($200,000)	($400,000)
J – Equipment	($116,000)	($19,000)	($135,000)
Total	**($5,219,000)**	**($5,212,000)**	**($10,431,000)**

State of Washington
Decision Package

Agency: **140 Department of Revenue**

Decision Package Code/Title: AT – Additional 5% Budget Reduction

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Budget Period: **FY12 Supplemental Budget**
Budget Level: **PL – Performance Level**
Decision Package Code: **AT**

Recommendation Summary Text:

This packet increases the first-priority 5% reduction packet by 5% to meet the 2011-2013 10% budget reduction target. In order to meet this target the Department will be required to take reductions that impact the agency's revenue collections and service delivery. The Department of Revenue's budget is over 70% salary and benefits and approximately 85% of the Department's staff are in revenue generating positions within our largest operating divisions, Audit, Compliance and Taxpayer Account Administration. A reduction of 10% will reduce 57 filled positions in non-revenue producing activities throughout the Department, 96 filled positions will also be reduced in enforcement activities that produce revenue. The reduction in enforcement positions is estimated to decrease revenue collections in the 11-13 biennium by over $62.7 million dollars. The non-revenue position reductions that provide internal and external customer service may also impact voluntary collections. The revenue loss to voluntary compliance has not been quantified.

Fiscal Detail

Operating Expenditures	FY2012	FY2013	Total
001-1 General Fund – Basic Account – State	($5,219,000)	($5,211,000)	($10,430,000)
Total Cost	**($5,219,000)**	**($5,211,000)**	**($10,430,000)**

Revenue			
001-1 General Fund – Retail Sales Tax	($15,618,000)	($16,013,000)	($31,631,000)
Total Revenue	**($15,618,000)**	**($16,013,000)**	**($31,631,000)**

Package Description:

Reduced revenue generating efforts:

- In addition to staff furloughs and the loss of contract auditors (included in the first-priority 5% packet), at the 10% level FY12 will require the agency to reduce revenue generating staff by approximately 96 positions. At the 10% level, FY13 impact to revenue generating staff is estimated at 48 positions, resulting in reduced collection efforts, audits, tax discovery, and tax assessments, and a loss of ($42,014,000) in revenue.
- Reduced support staff available to Examiners and Revenue Agents will impact revenue generation.
- Reduced funding to file liens resulting in unsecured debt and an increase in the potential for additional uncollectable tax revenue.

Reduced customer service impacting voluntary compliance, including:

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- Reduced hours in field offices for the front counters to be open to assist taxpayers.
- Reduced multi-lingual service for taxpayers.
- Reduced support for the call center will increase customer wait time.
- Reduced travel funding will decrease speaking engagements provided for taxpayer education.
- Reduced funding for postage and printing impacting the agency's ability to send out required taxpayer mailings.

Reduced legislative, policy and research services:

- Impaired ability to effectively implement all legislation timely and a reduced ability to identify and effectively communicate problems with bills resulting in new laws that are difficult to administer and that potentially have major unintended revenue impacts for the state.
- The Department will revise and adopt fewer new rules and interpretive statements, resulting in outdated documents and inaccurate guidance for taxpayers and Department staff.
- Legal and technical advice provided to operating divisions will be reduced, which will reduce revenue collections and increase litigation and taxpayer disputes.
- Inability to complete internal Operations Research projects:
  - Initial Contact Team (ICT) studies on reducing field referrals.
  - External stakeholder surveys for divisions.
  - Statistical studies on reducing personal property appraisals.
- Statistical support of the Ratio Study for the Property Tax Division will not be available.
- Local assessors' calculations under $5.90 limit will not be replicated. Data is used for legislative purposes, data requests, and provided to the Property Tax Division's County Assessment & Tax System.
- Reduced resources for fiscal notes, fiscal estimates, bill drafting, bill proposals, and data requests will impact the timeliness, accuracy, completeness, and performance expectations of each.
- Key publications and information used by external stakeholders will not be published including:
  - Property Tax Statistics
  - Tax Reference Manual (after the 2012 version)
  - Local Annexation Studies
- Reduced ability to fulfill requests for Local Sales Tax Data for a geographical area requiring the Geographic Information System (GIS).

Additional operational and administrative reductions affecting service delivery include:

- Elimination of Taxpayer Satisfaction Survey - further delays in gathering important feedback to improve service delivery. The last survey was conducted in 2007.
- Reduced funding for the senior deferral property tax program.
- Reduced staffing in Property tax which will:
  - Shift local sales and use tax boundary workload to other areas.
  - Shift levy audits to the State Auditor's Office and shift administration of PUD privilege tax assessments/distributions to other divisions within DOR.

- Increase the risk that inaccurate data will be used to calculate county ratios, resulting in incorrect equalization of utility values.
- Reduced ability to respond to IT service requests and maintain critical systems that support tax collection and revenue generation.
- Reduced ability to work on new IT programming to respond to legislative changes and other emerging issues.
- Reduced ability to conduct personnel investigations, manage the agency's safety program, administer and deliver instructed training, and collect critical human resource data.
- Reduced office support for data entry, scanning, indexing, and mail processing, resulting in an impact to internal controls and the Department's ability to maintain separation of duties.
- Reduced agency performance analysis, and monitoring.
- Reduced ability to update necessary web site changes that communicate information to taxpayers.
- Reduced goods and services.
- Reduced staff training.

Overall, decreases in staff will require the Department to eliminate work. Staff morale will be negatively impacted and the Department may not have the ability to redistribute workload.

For Questions Please Contact: Budget Manager, Sherry Cave (360) 725-7451

Narrative Justification and Impact Statement

Specific performance outcomes expected:
At a 10% reduction, the Department expects a decrease of ($30,958,000) million dollars in revenue collections during the remainder of FY12, and ($31,786,000) million dollars in revenue collections in FY13.

Performance Measure Detail:
An additional 5% budget reduction will affect many activities and performance measures within the Department.

Activity:

	Incremental Changes	
	FY2012	**FY2013**
Enforcement Collections/Cash Commitment	($15,618,000)	($16,013,000)
Answer 80% of Incoming Calls within One Minute	(25%)	(25%)
Clear Mainstream Original Appeals that Have Not Been Placed in Hold Status Within one (1) Year of Receipt	(12%)	(7%)
Maintain the Percentage of Audit Contacts of Active Taxpayer Accounts	(0.1%)	(0.1%)
Increase the percentage of draft fiscal notes having scheduled hearing dates that are delivered to the	(5%)	(5%)

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legislature at least four hours before the hearing when the request is received at least 24 hours before the hearing.

Is this decision package essential to implement a strategy identified in the agency's strategic plan?
Funding is essential to implement all strategies in the strategic plan. Reduced staffing will cause workload to be prioritized or eliminated. Some strategies within the Department's strategic business plan may not be implemented.

Does this decision package provide essential support to one of the Governor's priorities?
This decision package reduces funding for revenue producing activities. Revenue collections are essential to fund all of the Governor's priorities.

Does this decision package make key contributions to statewide results? Would it rate as high priority in the Priorities of Government process?
Reduced revenue collections will have a negative impact on statewide results.

Connection or impact on other state programs:
This decision package reduces funding for revenue producing activities which could impact many other state programs.

Alternatives explored by agency:
N/A

Effects of non-funding:
This package reduces funding for revenue generating activities and service delivery.

Relationship to capital budget:
N/A

Required changes to existing RCW, WAC, contract, or plan:
N/A

Budget impacts in future biennia:
Reduction is ongoing.

Expenditure and Revenue Calculations and Assumptions:
Salary and benefits were calculated for 110.7 FTEs at a variety of ranges and steps. Personal service contracts include Attorney General expert witness service and 10 contract auditors. Goods and services include reductions for supplies, postage, maintenance, printing, training, subscriptions, purchased services, software, etc. Travel, motor pool, grants and subsidies, and equipment are also being reduced.

State of Washington
Decision Package

Agency: **140 Department of Revenue**

Decision Package Code/Title: AT – Additional 5% Budget Reduction

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Revenue reductions are calculated by determining the average amount of revenue generated by a particular position type and multiplying that by the number of FTEs of that position type being reduced.

Distinction between one-time and ongoing costs:
All cost reductions are ongoing.

Objects of Expenditure Detail

	FY2012	FY2013	Total
A – Salaries and Wages	($3,058,000)	($3,254,000)	($6,312,000)
B – Benefits	($1,311,000)	($1,395,000)	($2,706,000)
C – Personal Service Contracts	($50,000)	($50,000)	($100,000)
E – Goods and Services	($577,000)	($294,000)	($871,000)
G – Travel	($72,000)	($66,000)	($138,000)
NZ – Grants and Subsidies	($150,000)	($150,000)	($300,000)
J – Equipment	($1,000)	($2,000)	($3,000)
Total	**($5,219,000)**	**($5,211,000)**	**($10,430,000)**

State of Washington
Decision Package

Agency: **140 Department of Revenue**

Decision Package Code/Title: CS – Cigarette Stamp Printing

Budget Period: **FY12 Supplemental Budget**
Budget Level: **ML2 – Maintenance Level**
Decision Package Code: **CS**

Recommendation Summary Text:

In FY12, the vendor (Meyercord) that provides states with cigarette tax stamps will phase out the current *fuson* style stamp and replace it with a new *fuson oasis* style stamp with an anticipated increase in cost from the current $1 per thousand, plus sales tax to $3.50 per thousand plus sales tax. There are no other known options that are a lower cost. This decision package is a request of funding to pay the increased cost of printing cigarette stamps. The stamps are required by law and cigarettes cannot be sold without them. The tax is collected through the sales of stamps, without the stamps there can be no collection of tax. Any change to this process would have a significant impact on revenue collections and the Washington licensed wholesalers.

Fiscal Detail

Operating Expenditures	FY2012	FY2013	Total
001-1 General Fund – Basic Account – State	167,000	478,000	645,000
Total Cost	**167,000**	**478,000**	**645,000**

Package Description:

Meyercord is the only vendor that supplies states with heat applied cigarette tax stamps. They are phasing out their current stamp and replacing it with a higher cost version. There are no other options that are lower in cost. The additional funding will buy a replacement cigarette stamp with increased security features. The additional security is more difficult to counterfeit and can be applied by our licensed distributors existing equipment.

For Questions Please Contact: Budget Manager, Sherry Cave (360) 725-7451

Narrative Justification and Impact Statement

Specific performance outcomes expected:
This proposal is the lowest cost stamp and only option available. The increased security features may reduce the risk or opportunities for contraband products or stamps. In addition, funding will allow us to continue the current administrative processes of this tax program. The tax is collected through the sales of stamps, without the stamps there can be no collection of tax. Any change to this process would have a significant impact on revenue collections and the Washington licensed wholesalers.

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: CS – Cigarette Stamp Printing

Performance Measure Detail:

Activity:

	Incremental Changes	
	FY2012	FY2013

There is no change to Performance Measures.

Is this decision package essential to implement a strategy identified in the agency's strategic plan?
Yes, funding the stamp printing contributes to the goal "Make Conducting Business with the Department Clear, Simple, and Efficient". It also furthers the goal "Promote Fairness and Consistency in the Development and Application of Tax Law". The tax stamp is currently required by statute and necessary to administer the program.

Does this decision package provide essential support to one of the Governor's priorities?
Funding this package will contribute to maintaining a positive relationship with our vendor and Washington licensed wholesalers.

Does this decision package make key contributions to statewide results? Would it rate as high priority in the Priorities of Government process?
Yes, the sale of cigarette tax stamps is the method used for collection of the cigarette excise tax (over $400 million in FY11).

Connection or impact on other state programs:
The tax stamps are recognized as a critical compliance tool in cigarette tax and law enforcement. Not providing this tool would have a significant impact on the Liquor Control Board, and law enforcement statewide.

Alternatives explored by agency:
Meyercord/SICPA is the only known provider of cigarette tax stamps in the nation. We have reviewed the possibility of an alternative stamp (also provided by Meyercord/SICPA) and it appears any know alternatives would be significantly more expensive.

Effects of non-funding:
Not funding this would result in the agency not being able to properly administer this tax program. This would directly impact the revenue ($400 million in FY11) associated with the collection of cigarette excise tax. The law requires that every pack of cigarettes be affixed with a stamp, without the stamp, cigarettes cannot be sold and tax cannot be collected. The new stamp will increase compliance by making it more difficult to duplicate or remove and reapply the stamp. This reduces the risk and possible loss of revenue that are associated with contraband cigarettes.

Agency: **140 Department of Revenue**

Decision Package Code/Title: CS – Cigarette Stamp Printing

Relationship to capital budget:
N/A

Required changes to existing RCW, WAC, contract, or plan:
N/A

Budget impacts in future biennia:
These costs are on-going and the agency expects the costs associated with this process to increase at a minimum rate of 5.5% each year.

Expenditure and Revenue Calculations and Assumptions:
Historical annual cigarette stamp purchase volumes multiplied by the estimated price per thousand, plus sales tax.

Distinction between one-time and ongoing costs:
This will be an ongoing cost as part of administering the cigarette tax program.

Objects of Expenditure Detail

	FY2012	FY2013	Total
E – Goods and Services	167,000	478,000	645,000
Total	**167,000**	**478,000**	**645,000**

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: PP – Property Tax Deferral Programs

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Budget Period: FY12 Supplemental Budget
Budget Level: ML2 – Maintenance Level
Decision Package Code: PP

Recommendation Summary Text:

FY12 Supplemental budget 5% and 10% across the board reductions include a reduction to funding available in the Senior Citizen and Disabled Persons Deferral Program. In addition, the enacted 2011-2013 operating budget inadvertently eliminated .8 FTE and funding for administration of the Limited Income Property Tax Deferral Program after legislation to eliminate the program did not pass. This FTE was being used to manage the increased workload in the Senior Citizen and Disabled Persons Deferral Program. Eliminating funding for these programs will adversely impact the Department's ability to fund all approved deferral and grant requests. This Decision Package requests restoration of the funding for the .8 FTE for administration of the senior programs and restoration of funding for payment of qualified deferrals approved under both deferral programs.

Fiscal Detail

Operating Expenditures	FY2012	FY2013	Total
001-1 General Fund – Basic Account – State	555,800	585,100	1,140,900
Total Cost	**555,800**	**585,100**	**1,140,900**

Staffing			
FTE's	0.8	0.7	0.8

Package Description:

Property tax deferrals and property tax deferral payments are intended to help limited income homeowners, low income seniors, disabled persons, and widows or widowers of veterans to remain in their homes when they have trouble paying their property taxes. The Department of Revenue maintains a current accounts receivables balance for the two property tax deferral programs of approximately $11.8 million, of which approximately $11.5 million is associated with the Senior Citizen and Disabled Person Property Tax Deferral. Since FY 2008, the amount of deferred taxes paid has increased by 118%, and the number of applicants has increased by 37%.

Applications for the Senior Citizen and Disabled Person Property Tax Deferral have dramatically increased in number and complexity. More applications are for households that are in foreclosure or are at risk of foreclosure action. The decline in assessed property value is reducing the equity that secures the state's interest for deferred taxes. This increases the risk for the $11.8 million in account receivables. To handle the additional workload and reduce this risk we assigned resources to audit existing accounts and ensure timely collection and repayment when a cancelling event occurs.

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: PP – Property Tax Deferral Programs

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For Questions Please Contact: Budget Manager, Sherry Cave (360) 725-7451

Narrative Justification and Impact Statement

Specific performance outcomes expected:
The Department needs sufficient funding and staff to continue making property tax deferral payments and property tax assistance payments on behalf of low income households.

Performance Measure Detail:

Activity:

	Incremental Changes	
	FY2012	**FY2013**

There is no change to Performance Measures.

Is this decision package essential to implement a strategy identified in the agency's strategic plan?
Yes, this package is essential to the goal "Promote Correct and Timely Reporting and Payment of Taxes". In the case of property tax deferrals, the Department pays the taxes on behalf of qualified applicants, helping them to avoid delinquency and foreclosure.

Does this decision package provide essential support to one of the Governor's priorities?
Security of vulnerable children or adults.

Does this decision package make key contributions to statewide results? Would it rate as high priority in the Priorities of Government process?
N/A

Connection or impact on other state programs:
N/A

Alternatives explored by agency:
N/A

Effects of non-funding:
- DOR will potentially run out of appropriated funds for the payment of approved deferrals/grants to senior citizens in April or May of 2012. There is no appeal process or other legal remedy for seniors to challenge the non-payment of an approved deferral
- FY 2012 payments delayed until the following year may cause additional penalties and interest be charged to low income senior citizens.
- Delay or nonpayment of approved deferrals may cause increased foreclosures or force senior citizens to attempt to sell their property in a very unfavorable market.

Agency: **140 Department of Revenue**

Decision Package Code/Title: PP – Property Tax Deferral Programs

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- Failure to restore the .8 FTE to the deferral program may result in reduced compliance and fewer voluntary repayments of deferred amounts when cancelling events occur.
- Failure to restore the .8 FTE will limit the assistance that the Department can provide to local assessors and treasurers in administration of all senior citizen exemption and deferral programs.

Relationship to capital budget:
N/A

Required changes to existing RCW, WAC, contract, or plan:
N/A

Budget impacts in future biennia:
These costs are on-going.

Distinction between one-time and ongoing costs:
These will be ongoing costs.

Expenditure and Revenue Calculations and Assumptions:
Our expenditures have increased for all three property tax relief programs with outgoing payments. The most significant increase has been in the Senior/Disabled Deferral, which had expenditure increases of 51% from 2008 to 2009, 16% from 2009 to 2010, and 24% from 2010 to 2011. We predict expenditures will increase by 25% for both FY 2012 and FY 2013. Of the three relief programs requiring expenditures, Senior Deferrals represent 85% of the total expenditures. Historical data reflects the volatility of the payment amounts, with increases in deferred amounts of up to 28%. However, some trends can be identified. The current trend approximately follows the 1993 to 2002 data, which reached peak payments of over $1.5 million in 1998 before decreasing over the next 4 years. Payments have again increased since 2007 and we believe we have not reached the peak.

Objects of Expenditure Detail

	FY2012	FY2013	Total
A – Salaries and Wages	41,900	40,200	82,100
B – Benefits	12,600	12,100	24,700
E – Goods and Services	9,100	8,800	17,900
G – Travel	1,500	1,500	3,000
J – Equipment	700	500	1,200
NZ - Grants and Subsidies Reduced Low Income Senior Citizen & Disabled Persons	275,000	275,000	550,000
NZ – Grants and Subsidies Reduced Omnibus Budget Reduction (LIDS Funding)	215,000	247,000	462,000
Total	**555,800**	**585,100**	**1,140,900**

State of Washington
Decision Package

Agency: **140 Department of Revenue**

Decision Package Code/Title: PA – Tax Preferences Accountability

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Budget Period: **FY12 Supplemental Budget**
Budget Level: **PL – Performance Level**
Decision Package Code: **PA**

Recommendation Summary Text:

To help determine if certain economic development tax incentives achieve public policy objectives, businesses that receive such incentives must file an Annual Survey or an Annual Report. However, some tax incentives do not require an Annual Survey or Annual Report and some lack expiration dates. Consequently, data available to analyze or compare the effects of tax preferences, and its availability to the public, is inconsistent and often nonexistent.

The Citizen Commission for Performance Measurement of Tax Preferences, in conjunction with the Joint Legislative Audit and Review Committee (JLARC) and with the Department's technical assistance, makes recommendations about continuing the preferences. However, JLARC's recommendations lack specific legislation, and the Legislature typically takes no action.

This proposal standardizes and improves accountability for these tax preferences, while creating more transparency.

Fiscal Detail

Operating Expenditures	**FY2012**	**FY2013**	**Total**
001-1 General Fund – Basic Account – State	32,200	123,400	155,600
Total Cost	**32,200**	**123,400**	**155,600**

Staffing			
FTE's	0.3	1.4	0.9

Package Description:

To improve and standardize accountability for tax incentives and preferences, the proposed legislation would amend existing statutes and create a new statute to:

- Replace the Annual Report with the Annual Survey, thereby creating a uniform tax incentive accountability reporting document.
- Expand the Annual Survey to include information about a taxpayer's capital investment and relative tax burden.
- Provide that all Annual Survey information may be disclosed to the public, except for amounts claimed under the aerospace product development B&O tax credit.
- Establish a five-year sunset date for any new tax preferences enacted by the Legislature, unless the Legislature specifically provides for a different sunset date or that the tax preference is exempt from expiring.
- Require JLARC to review a tax preference requiring an Annual Survey the earlier of every five years or one year before the tax preference expires.

Agency: **140 Department of Revenue**

Decision Package Code/Title: PA – Tax Preferences Accountability

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- Require JLARC to submit to the Legislature draft legislation for any tax preference recommended for modification or termination for consideration by the House and Senate fiscal committees at a joint public hearing during the first two weeks of any regular legislative session.

This package requests funding to revise forms, answer questions, notify taxpayers of the change to the annual survey, make system changes and test. This will improve the quality and consistency of data received so that the Legislature has better data to analyze or compare the effects of tax preferences.

For Questions Please Contact: Budget Manager, Sherry Cave (360) 725-7451

Narrative Justification and Impact Statement

Specific performance outcomes expected:
If the Tax Preferences bill is funded, the bill would streamline and improve accountability for tax preferences and allow the Department to amend the administrative rules, revise forms, and notify taxpayers of the change.

Performance Measure Detail:

Activity:

	Incremental Changes	
	FY2012	**FY2013**

There is no change to Performance Measures.

Is this decision package essential to implement a strategy identified in the agency's strategic plan?
N/A

Does this decision package provide essential support to one of the Governor's priorities?
N/A

Does this decision package make key contributions to statewide results? Would it rate as high priority in the Priorities of Government process?
All Department activities have been designed to support the Statewide Results Category of "Improve the ability of state government to achieve results efficiently and effectively." However, the Department supports all Statewide Results categories, as well as programs at the local government level through the administration of tax and other programs that result in revenue collection. Therefore, this decision package supports all Statewide Results Categories.

Connection or impact on other state programs:
N/A

State of Washington
Decision Package

Agency: **140 Department of Revenue**

Decision Package Code/Title: PA – Tax Preferences Accountability

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Alternatives explored by agency:
N/A

Effects of non-funding:
If the legislation passes but is not funded, staff would need to be diverted from other essential activities, which could negatively impact revenue collections.

Relationship to capital budget:
N/A

Required changes to existing RCW, WAC, contract, or plan:
Should this draft legislation become law, the Department will use the expedited process to amend WAC 458-20-267, titled: "Annual reports for certain tax adjustments" and WAC 458-20-268, titled: "Annual surveys for certain tax adjustments." Persons affected by this rule-making would include those who claim tax incentives that require an annual report or survey.

Budget impacts in future biennia:
These are one-time costs.

Expenditure and Revenue Calculations and Assumptions:
The expenditure information below was calculated as follows:

- Salary and benefit costs were calculated using OFM's salary projection system - assuming .3 and 1.4 FTEs, respectively, at varying ranges and steps.

Goods and Services, and equipment are the cost to accommodate that portion of the FTEs supplies, postage, communications, utilities, leases, maintenance, printing, training, personnel services, software support and equipment.

Distinction between one-time and ongoing costs:
These are one-time costs.

Objects of Expenditure Detail

	FY2012	FY2013	Total
A – Salaries	19,700	71,600	91,300
B – Benefits	5,900	21,500	27,400
E – Goods and Services	4,600	21,100	25,700
J - Equipment	2,000	9,200	11,200
Total	**32,200**	**123,400**	**155,600**

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: TS – Telephone Services Tax Exemption

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Budget Period: **FY12 Supplemental Budget**
Budget Level: **PL – Performance Level**
Decision Package Code: **TS**

Recommendation Summary Text:

In *Sprint Spectrum LP v. DOR*, the Thurston County Superior Court recently held that a sales tax exemption for certain residential telephone service applies to cellular services sold to non-business customers. Litigation continues but if the Superior Court's decision is sustained on appeal, the resulting state and local revenue impacts would be extremely large and detrimental to the state. If the decision is upheld, the exemption will have effectively been expanded to apply to all network telephone services sold to non-business customers, including cellular services and voice over Internet protocol (VoIP) services.

This proposal would prevent the potential adverse fiscal impacts.

Fiscal Detail

Operating Expenditures	FY2012	FY2013	Total
001-1 General Fund – Basic Account – State	24,500	0	24,500
Total Cost	**24,500**	**0**	**24,500**
Staffing			
FTE's	0.2	0.0	0.1

Package Description:

The proposed legislation would clarify both retroactively and prospectively, that only a residential class of service that is offered under a tariff required to be filed with the Washington Utilities and Transportation Commission under Title 80 RCW qualifies for exemption from sales tax. The proposed legislation would supersede the May 2011 Thurston County Superior Court decision in *Sprint Spectrum LP v. DOR*. As a result, the state and local governments would not experience the significant revenue losses that would occur if the decision stands.

In 1983, the Legislature divided all telephone service into "residential" and "business" classifications, as defined by regulatory tariffs filed with the WUTC. Since that time, the Department has limited the exemption for certain residential telephone services to landline telephone service provided under a regulatory tariff.

The Department's longstanding interpretation, published in an administrative rule and in two excise tax advisories, is that the exemption does not apply to telecommunications services that are not provided under a similar regulatory structure. Examples of telecommunications services that are not provided under a regulatory tariff include cellular and VoIP services.

Agency: 140 Department of Revenue

Decision Package Code/Title: TS – Telephone Services Tax Exemption

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Despite the Department's published guidance, cellular carriers object to the Department's interpretation limiting the exemption to traditional telephone service. As a result, the suit brought by carriers against the Department continues.

This package requests funding to amend one administrative rule and issue two new excise tax advisories. These will reflect legislation clarifying that the exemption for residential telephone service is limited to landline telephone service provided under a regulatory tariff.

For Questions Please Contact: Budget Manager, Sherry Cave (360) 725-7451

Narrative Justification and Impact Statement

Specific performance outcomes expected:
If the Telephone Services Tax Exemption bill is funded, the bill would clarify the exemption and allow the Department to amend the administrative rule and issue advisories.

Performance Measure Detail:

Activity:

	Incremental Changes	
	FY2012	FY2013

There is no change to Performance Measures.

Is this decision package essential to implement a strategy identified in the agency's strategic plan?
N/A

Does this decision package provide essential support to one of the Governor's priorities?
N/A

Does this decision package make key contributions to statewide results? Would it rate as high priority in the Priorities of Government process?
All Department activities have been designed to support the Statewide Results Category of "Improve the ability of state government to achieve results efficiently and effectively." However, the Department supports all Statewide Results categories, as well as programs at the local government level through the administration of tax and other programs that result in revenue collection. Therefore, this decision package supports all Statewide Results Categories.

Connection or impact on other state programs:
N/A

Alternatives explored by agency:
N/A

State of Washington
Decision Package

Agency: **140 Department of Revenue**

Decision Package Code/Title: TS – Telephone Services Tax Exemption

Effects of non-funding:
If the legislation passes but is not funded, staff would need to be diverted from other essential activities, which could negatively impact revenue collections.

Relationship to capital budget:
N/A

Required changes to existing RCW, WAC, contract, or plan:
Should this legislation become law, the Department of Revenue will use the standard process to amend WAC 458-20-245, title: "Telephone business, telephone service". Persons affected by this rule-making would include telecommunication firms that provide telephone services but the service is not defined to be local telephone network services for the purposes of qualifying for the residential telephone service exemption in RCW 82.08.0289.

Budget impacts in future biennia:
These are one-time costs.

Expenditure and Revenue Calculations and Assumptions:
The expenditure information below was calculated as follows:

- Salary and benefit costs were calculated using OFM's salary projection system - assuming .2 FTEs at varying ranges and steps.

Goods and Services, and equipment are the cost to accommodate that portion of the FTEs supplies, postage, communications, utilities, leases, maintenance, printing, training, personnel services, software support and equipment.

Distinction between one-time and ongoing costs:
These are one-time costs.

Objects of Expenditure Detail

	FY2012	FY2013	Total
A – Salaries	15,100	0	15,100
B – Benefits	4,500	0	4,500
E – Goods and Services	3,400	0	3,400
J - Equipment	1,500	0	1,500
Total	**24,500**	**0**	**24,500**