Multiple Agency Fiscal Note Summary

Bill Number: 5057 SB	**Title:** Fiscal reform

Estimated Cash Receipts

Agency Name	2003-05		2005-07		2007-09	
	GF- State	Total	GF- State	Total	GF- State	Total
Department of Revenue	(79,650,000)	(79,650,000)	(482,936,000)	(482,936,000)	(539,673,000)	(539,673,000)
Department of Natural Resources	Indeterminate					
Total $	(79,650,000)	(79,650,000)	(482,936,000)	(482,936,000)	(539,673,000)	(539,673,000)

Local Gov. Courts *						
Local Gov. Other **		(12,704,866)		(25,409,732)		(25,409,732)
Local Gov. Total		(12,704,866)		(25,409,732)		(25,409,732)

Estimated Expenditures

Agency Name	2003-05			2005-07			2007-09		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of Administrator for the Courts	Indeterminate								
Department of Retirement Systems	.5	0	440,573	.2	0	42,635	.2	0	42,635
Department of Revenue	132.8	39,732,300	39,732,300	610.0	98,861,900	98,861,900	908.0	131,653,200	131,653,200
Board of Tax Appeals	.8	133,133	133,133	1.5	227,184	227,184	1.5	234,484	234,484
Sentencing Guidelines Commission	.0	0	0	.0	0	0	.0	0	0
Department of Natural Resources	.0	0	0	.0	0	0	.0	0	0
Total	134.1	$39,865,433	$40,306,006	611.7	$99,089,084	$99,131,719	909.7	$131,887,684	$131,930,319

Local Gov. Courts *	Indeterminate								
Local Gov. Other **	Indeterminate								
Local Gov. Total									

Prepared by: Doug Jenkins, OFM	**Phone:** 360-902-0563	**Date Published:** Final 2/28/2003

* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

Judicial Impact Fiscal Note

Bill Number: 5057 SB	Title: Fiscal reform	Agency: 055-Office of Administrator for Courts

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND	FY 2004	FY 2005	2003-05	2005-07	2007-09
Counties					
Cities					
Total $					

Estimated Expenditures from:

Non-zero but indeterminate cost. Please see discussion.

The revenue and expenditure estimates on this page represent the most likely fiscal impact. Responsibility for expenditures may be subject to the provisions of RCW 43.135.060.

Check applicable boxes and follow corresponding instructions:

☐ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☒ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

Legislative Contact:	Phone:	Date: 01/13/2003
Agency Preparation: Julia Appel	Phone: (360) 705-5229	Date: 01/14/2003
Agency Approval: Janet McLane	Phone: (360) 705-5305	Date: 01/17/2003
OFM Review: Garry Austin	Phone: 360-902-0564	Date: 01/17/2003

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact on the Courts

SB 5057 proposes a flat state income tax, reduces the sales tax, and eliminates property taxes.

Part VII, Sec.701, creates 3 new crimes:

(1) Tax Evasion (a felony C)
(2) Failure to Collect Tax (a felony C)
(3) Failure to Pay Tax (a gross misdemeanor)

II. B - Cash Receipts Impact

II. C - Expenditures

As Oregon is similar in size to Washington State and has a state income tax, we have assumed that Washington's experience would be similar.

The Oregon State Court Administrator's Office tells us that they have an average of 2 cases of tax evasion per year. We are assuming that there would also be few cases filed in Washington State and that the expenditure impact to the court system, therefore, would be minimal.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

Individual State Agency Fiscal Note

Bill Number: 5057 SB	Title: Fiscal reform	Agency: 124-Department of Retirement Systems

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND					
Total $					

Estimated Expenditures from:

	FY 2004	FY 2005	2003-05	2005-07	2007-09
FTE Staff Years	0.7	0.2	0.5	0.2	0.2
Fund					
Department of Retirement Systems Expense Account-State 600-1	419,255	21,318	440,573	42,635	42,635
Total $	419,255	21,318	440,573	42,635	42,635

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date: 01/13/2003
Agency Preparation: Dave Nelsen	Phone: (360) 664-7304	Date: 01/16/2003
Agency Approval: John Charles	Phone:	Date: 01/16/2003
OFM Review: Doug Jenkins	Phone: 360-902-0563	Date: 01/21/2003

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This bill creates a flat percentage tax to be assessed on the income of residents of the state of Washington. Sections 1001-1011 apply this tax to the pension payments of all retirees in each of the systems and plans administered by the Department of Retirement Systems (DRS).

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

No impact.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

See attached.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2004	FY 2005	2003-05	2005-07	2007-09
FTE Staff Years	0.7	0.2	0.5	0.2	0.2
A-Salaries and Wages	34.604	9,454	44,058	18,908	18,908
B-Employee Benefits	8.651	2,364	11,015	4,727	4,727
C-Personal Service Contracts	75.000	9,500	84,500	19,000	19,000
E-Goods and Services	301.000		301,000		
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
Total:	$419,255	$21,318	$440,573	$42,635	$42,635

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	**Salary**	FY 2004	FY 2005	2003-05	2005-07	2007-09
Financial Analyst 3	46,992	0.2	0.2	0.2	0.2	0.2
Info Tech Applic Spec 4	57,252	0.1				
Public Information Officer 3	51,864	0.3		0.2		
Retirement Services Analyst 3	42,588	0.1		0.1		
Total FTE's		0.7	0.2	0.5	0.2	0.2

Part IV: Capital Budget Impact

No impact.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

No impact.

II. C - Expenditures

Administrative Assumptions

- DRS will withhold state income tax from the pension payments of retirees/beneficiaries who reside in the state of Washington, for each of the systems and plans administered by DRS.
- DRS will withhold state income tax from payments made by the Deferred Compensation Program.
- DRS will remit state income tax withheld to the Department of Revenue (DOR).
- Income that is subject to the state income tax corresponds to the federal definition of taxable income, except as modified in Sections 401 to 503 of this bill.
- DRS will perform balancing, reconciling, remitting, and reporting activities for state and federal income taxes, involving both payroll and pension processes.

Benefits Unit

Implementation of this bill requires significant modification to DRS' integrated information systems. An Information Technology Application Specialist and a Retirement Services Analyst will work with the programmers to identify system related business requirements and participate in user acceptance testing of the required system changes.

Tasks required to implement the bill include the following:
- Define business requirements for the system modifications
- Conduct user acceptance testing of automated system modifications
- Update policies and procedures
- Update the Retirement Services Division (RSD) Online Operations Manual
- Conduct staff training

Retirement Services Analyst 3 - 252 hours (salaries/benefits)	$ 6,426
Information Technology Application Specialist 4 – 112 hours (salaries/benefits)	$ 3,839
Total Estimated Benefits Unit Costs	**$10,265**

Member/Retiree Communications

Withholding of a state income tax from pensions and other disbursements requires communication to assure members and retirees are aware of the changes. Nearly 20 of DRS' print and Internet forms and publications will be reviewed and then modified to include this information.

Tasks required to implement the bill include the following:
- Modify all necessary publications and forms to include state tax information
- Update member handbooks to include state tax information during the regular printing cycle
- Update Web versions of the handbooks upon the effective date of the bill
- Notify members and employers of the changes via standard agency communications
- Update retirement seminars and pension workshop materials to provide the new information

Public Information Officer 3 – 663 hours (salaries/benefits)	$20,586
Retirement Services Analyst 3 – 23 hours (salaries/benefits)	$ 587
Total Estimated Communication Costs	**$21,173**

Fiscal Unit

DRS currently withholds federal income tax and remits payments as required. Implementation of a state income tax will require similar processes of balancing, reconciling, remitting and reporting.

Tasks required to implement the bill include the following:
- Develop and implement revised procedures for a state income tax
- Balance and remit state income tax payments to DOR twice monthly for employees
- Balance and remit state income tax payments to DOR for each monthly pension run, and twice weekly for other payments, for each retirement system administered by DRS
- Balance amounts withheld to amounts to be reported on employee W-2s (annually)
- Balance amounts withheld to amounts to be reported on IRS 1099-R forms for retirees and others in receipt of retirement funds, for each retirement system administered by DRS (annually)

Financial Analyst 3 – 840 hours each biennium (salaries/benefits)	$23,635
Total Estimated Fiscal Unit Costs	**$23,635**

Automated Systems

As noted above, this bill requires significant modification of DRS' integrated information systems.

Tasks required to implement the bill include the following:
- Create a new state income tax withholding calculation process
- Modify the 1099 process to report state income tax withholding
- Review, analyze and design changes for state income tax withholding to over 100 modules in the Member Information, Benefits and Disbursement Systems
- Create test plans and conduct user acceptance testing

Contracted programming for 2,800 hours @ $95/hour	$266,000
DIS cost* of $500 per week for 70 weeks	$ 35,000
Total Estimated Costs for Systems Modifications	**$301,000**

**cost for mainframe computer processing time and resources at the Department of Information Services*

Record Keeping

DRS currently contracts with separate third-party vendors to provide record keeping services for participants in the Deferred Compensation Program and for Plan 3 members of the Teachers' Retirement System, School Employees' Retirement System and Public Employees' Retirement System. This bill would require modifications to the publications, Internet benefit calculators, forms and reporting systems maintained by the record keepers.

Tasks required to implement this bill include the following:
- Modify the reporting systems to accommodate new tax changes
- Modify Internet-based benefit calculators
- Modify publications and forms in normal reprint cycles
- Include state income tax in annual remittance and reconciliation services

Cost for development and implementation	$75,000
Additional annual cost for expanded remittance and reconciliation services	$ 9,500
Total Estimated Record Keeping Costs	**$84,500**

ESTIMATED TOTAL COST TO IMPLEMENT THIS BILL:

	2003-05	2005-07	2007-09
BENEFITS UNIT	$10,265	$0	$0
COMMUNICATIONS	$21,173	$0	$0
FISCAL UNIT	$23,635	$23,635	$23,635
AUTOMATED SYSTEMS	$301,000	$0	$0
RECORD KEEPING	$84,500	$19,000	$19,000
ESTIMATED TOTAL COSTS	$440,573	$42,635	$42,635

Department of Revenue Fiscal Note

Bill Number: 5057 SB	Title: Fiscal reform	Agency: 140-Department of Revenue

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND	FY 2004	FY 2005	2003-05	2005-07	2007-09
GF-STATE-State 00 - 00 -		1,878,842,000	1,878,842,000	9,448,020,000	10,341,495,000
GF-STATE-State 01 - Taxes 01 - Retail Sales Tax		(1,284,372,000)	(1,284,372,000)	(6,689,667,000)	(7,455,935,000)
GF-STATE-State 01 - Taxes 50 - Property Tax		(674,120,000)	(674,120,000)	(3,241,289,000)	(3,425,233,000)
Total $		(79,650,000)	(79,650,000)	(482,936,000)	(539,673,000)

Estimated Expenditures from:

	FY 2004	FY 2005	2003-05	2005-07	2007-09
FTE Staff Years	100.5	165.0	132.8	610.0	908.0
Fund					
GF-STATE-State 001-1	14,779,800	24,952,500	39,732,300	98,861,900	131,653,200
Total $	14,779,800	24,952,500	39,732,300	98,861,900	131,653,200

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date: 01/13/2003
Agency Preparation: Stan Woodwell	Phone: 360-570-6074	Date: 02/28/2003
Agency Approval: Don Taylor	Phone: 360-570-6083	Date: 02/28/2003
OFM Review: Doug Jenkins	Phone: 360-902-0563	Date: 02/28/2003

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

SB5057 imposes a net income tax on individuals, trusts, and estates. The tax does not apply to corporations. This bill has a single income tax rate of 3.8%. For individuals, the tax base is federal adjusted gross income ("AGI"), with certain modifications (for example, income from municipal bonds of other states is added to AGI). A standard deduction and exemptions are allowed. The standard deduction is $5,000 for single and married filing separate returns and $7,000 for head of household filers. For joint returns with only one spouse with earned income, the deduction is also $7,000. However, joint returns with two incomes can claim a standard deduction of up to $10,000.

The bill creates rules for dividing the Washington modifications among "pass-through" entity stakeholders. Business and occupation tax and public utility tax are deductible against income from activities subject to business and occupation or public utility tax. The bill establishes a withholding system, and requires payments of estimated taxes.

The state retail sales tax is reduced from 6.5% to 3.5%. The state regular property tax levy is eliminated, and the aggregate levy limit of 1% on the true and fair value of properties is reduced to 0.64% (by statute). The income tax replaces the state property tax as the funding source for the student achievement fund at RCW 84.52.068.

The bill has a contingent effective date. Voters must adopt a constitutional amendment authorizing an income tax or the bill will not take effect. SJR 8200 would authorize a net income tax, and would require a 60% approval by voters of any future increases to the income tax rates. It would also require a 60% vote in each house before any bill including "an exemption for tax, an exclusion or deduction from the base of a tax, a credit against a tax, a deferral of tax, or a preferential rate of tax" could pass.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS/DATA SOURCES

For purposes of the revenue estimate, it is assumed that the voters would approve the constitutional amendment authorizing implementation of the income tax.

Income tax estimates are based on microsimulation modeling using IRS personal income tax data. These estimates also assume that the cash flow from withholding and estimated payments would equal the income tax liability.

An effective date of January 1, 2005 is assumed for implementation of the income tax, reduction of the state sales tax and elimination of the state property tax levy.

AUDIT ASSESSMENTS (Impact resulting from recent audit activity)

N.A.

CURRENTLY REPORTING TAXPAYERS (Impact for taxpayers who are known or estimated to be currently paying the tax in question)

Citizens, businesses and others paying retail sales tax will realize savings of almost $1.3 billion in FY 2005 and $6.7 billion for the 2005-07 biennium. Individuals and businesses paying property tax will save $674 million in FY 2005 and over $3.2 billion for the 2005-07 biennium.

TAXPAYERS NOT CURRENTLY REPORTING (Although some taxpayers may not now be paying the tax in question, some of them will become aware of their liability in the future, as a result of normal enforcement activities or education programs by the Department. The impact for such taxpayers is based on the Department's studies of average tax compliance)

Nearly 2.8 million households or individuals would be required to file personal income tax returns. Of these, approximately 2.2 million would owe tax. The personal income tax would raise nearly $1.9 billion in FY 2005 and over $9.4 billion for the 2005-07 biennium.

TOTAL REVENUE IMPACT:

State Government (cash basis, $000): Net Impact on State Revenues

FY 2004	-	0
FY 2005	-	$(79,650)
FY 2006	-	(236,987)
FY 2007	-	(245,949)
FY 2008	-	(257,892)
FY 2009	-	(281,781)

Local Government, if applicable (cash basis, $000): None. However, with such a significant reduction in the state retail sales/use tax rate, there could be some reduction in sales/use tax avoidance, thereby having a positive effect on local sales tax collections.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

(Contact: Jim Thomas, 570-6128)

Approximately 3,970,000 individuals would be subject to tax as a result of this bill. For the first year approximately 3 million persons would be subject to income tax withholding through their employer, and of these 2.8 million would submit tax returns (some would file joint returns). Information on returns would have to be entered into the agency's tax return processing system. This information would be correlated to withholding reports and returns submitted by employers. Copies of the returns would be filed electronically to conserve filing space and to provide accessible records for future reference and cross checking. This volume of return information plus monthly reports/returns from employers would necessitate a very large staff to handle the returns, enter data, manage address files for both individuals and employers, and to audit returns and compare filings to information provided by other state agencies and federal internal revenue service.

If enacted this bill would require the Department of Revenue to recruit and hire additional personnel to set up the administrative systems to implement the income tax. In addition, approximately twenty million dollars would be spent over the first two years for contractors to design the main processing system, while agency personnel develop reporting and management systems necessary to administer the tax. While current personnel systems positions are used to illustrate the types of personnel required, new personnel categories would have to be created. Staffing would begin at 100 FTEs the first year and expand to nearly 170 FTEs in the second year. Over the first two years approximately $40 million dollars would be spent to get the new tax up and running. Preplanning and programming would have to start prior to the passage of the tax measure at the polls. If this preplanning and preparation work does not occur, the tax could not be implemented in 2005. The Department would need an appropriation to begin work on the tax systems.

Development of follow-on systems would continue into the third fiscal year. During the second biennium over 600 FTEs would be needed to administer the tax, with some initial development positions ending and new auditing positions beginning. By the third biennium a little over 900 FTEs would be needed to administer the income tax at a cost of a little over $100 million.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2004	FY 2005	2003-05	2005-07	2007-09
FTE Staff Years	100.5	165.0	132.8	610.0	908.0
A-	4,654,000	6,774,200	11,428,200	45,724,500	71,486,800
B-	1,210,000	1,761,200	2,971,200	11,888,100	18,586,500
E-	8,098,800	15,868,800	23,967,600	35,678,800	39,754,600
G-	3,000	14,300	17,300	417,000	660,000
J-	814,000	534,000	1,348,000	5,153,500	1,165,300
Total $	$14,779,800	$24,952,500	$39,732,300	$98,861,900	$131,653,200

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2004	FY 2005	2003-05	2005-07	2007-09
Excise Tax Examiner 2	35,135	2.0	2.0	2.0	79.0	117.0
Excise Tax Examiner 3	41,520	2.0	2.0	2.0	12.0	12.0
Excise Tax Examiner 4	45,816	1.0	1.0	1.0	14.0	14.0
Fiscal Mgmt Analyst 2	50,592		0.5	0.3	7.5	9.0
Forms/Records Analyst 3	39,492				1.0	1.0
HEARINGS SCHEDULER	30,900	0.0	0.0			
Info Tech Application Spec 1	36,708	15.0	15.0	15.0	15.0	15.0
Info Tech Application Spec 2	42,588	15.0	15.0	15.0	15.0	15.0
Info Tech Application Spec 3	46,992	15.0	15.0	15.0	15.0	15.0
Info Tech Application Spec 5	57,252	13.0	13.0	13.0	13.0	13.0
Info Tech Systems Spec 2	42,588	6.0	6.0	6.0	6.0	6.0
Info Tech Systems Spec 3	46,992	5.0	5.0	5.0	5.0	5.0
Info Tech Systems Spec 4	51,864	17.0	17.0	17.0	17.0	17.0
Info Tech Systems Spec 5	57,252	2.0	2.0	2.0	2.0	2.0
Info Tech Systems/Appl Spec 6	63,192	2.0	2.0	2.0	2.0	2.0
Office Assistant	25,200	1.0	1.0	1.0	21.0	21.0
Office Assistant Lead	28,248	1.0	9.0	5.0	19.0	19.0
Office Assistant Senior	26,988	1.0	41.0	21.0	141.0	141.0
Property Tax Auditor 4	41,520				(1.0)	(1.0)
Revenue Agent 2	34,932				52.0	104.0
Revenue Agent 3	42,588				17.0	34.0
Revenue Agent 4	47,000	2.0	8.0	5.0	31.0	42.0
Revenue Auditor 2	45,000				20.0	90.0
Revenue Auditor 3	47,000				20.5	86.0
Revenue Auditor 4	49,000		7.5	3.8	10.0	22.5
RULES MANAGER	69,500	0.0	0.0			
RULES POLICY SPECIALIST	68,598	0.0	0.0			
Tax Information Specialist 3	49,380		1.0	0.5	6.5	10.0
Tax Information Specialist 4	51,864				2.5	4.0
TAX POLICY SPEC 2	52,839	0.0	0.0		6.3	15.0
Tax Policy Specialist 1	42,588				5.5	9.5
Tax Policy Specialist 2	50,592				10.0	18.0
TAX POLICY SPECIALIST 3	59,740	0.4	1.9	1.1	6.2	6.0
Tax Service Rep 1	29,616				37.0	37.0
wms 1	52,000				2.0	3.0
wms2	62,000					4.0
Total FTE's		100.5	165.0	132.7	610.0	908.0

Part IV: Capital Budget Impact

None.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

The Department anticipates creating a new chapter of rules in Title 458 WAC to provide for the administration of the income tax. Interested parties would include individuals, tax practitioners, and persons owning sole proprietor businesses.

Individual State Agency Fiscal Note

Bill Number: 5057 SB	Title: Fiscal reform	Agency: 142-Board of Tax Appeals

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

FUND					
Total $					

Estimated Expenditures from:

	FY 2004	FY 2005	2003-05	2005-07	2007-09
FTE Staff Years	0.0	1.5	0.8	1.5	1.5
Fund					
General Fund-State 001-1	0	133,133	133,133	227,184	234,484
Total $	0	133,133	133,133	227,184	234,484

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☒ Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date: 01/13/2003
Agency Preparation: Susan Riddle	Phone: 360-753-5446	Date: 01/28/2003
Agency Approval: Richard Virant	Phone: 360-753-5446	Date: 01/28/2003
OFM Review: Doug Jenkins	Phone: 360-902-0563	Date: 01/29/2003

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

The function of the Board of Tax Appeals (Board) will be impacted by the expansion of its jurisdiction as noted in Part IX, Appeals. The addition of the responsibilities under RCW 82.03.130(1)(k)(1) will require one additional Tax Referee (Administrative Law Judge) and a half-time Legal Secretary 1 as authorized under RCW 82.03.070. Without the total and complete removal of taxes and levies against real and personal property, we envision little or no reduction in property tax appeals to the Board. Therefore, the present staffing will not allow for the added responsibilities. Additionally, the Tax Referee hired will have to be experienced in the field of income taxes, whereas the present staff's expertise lies mainly in property and excise taxes. The Department of Revenue forecasts that approximately 3,300 income tax appeals will be filed each fiscal year with the Department. As a result, this Board anticipates that it will receive approximately 165 new appeals each fiscal year beginning in Fiscal Year 05 necessitating the addition of one Tax Referee and a half-time Legal Secretary 1.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

As noted earlier, the addition of 165 income tax appeals per fiscal year to this Board will necessitate the addition of one Tax Referee and one half-time Legal Secretary 1 to the Board's staff. In addition to the salaries and benefits required for these new positions, there will be associated costs for equipment, furniture, and installation in FY05. There will also be ongoing costs for items such as supplies, communications, copying, training, and information technology upgrades. A review of the bill and its added responsibilities when compared to the functions of the Board indicate there will be no cost savings. However, by adding these responsibilities to the Board rather than allowing the court system to assume the responsibilities, there is a cost avoidance to the Washington State taxpayer in general. In either case, there seems to be no appropriations or funding included in the bill to offset the cost of these added responsiblities.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2004	FY 2005	2003-05	2005-07	2007-09
FTE Staff Years		1.5	0.8	1.5	1.5
A-Salaries and Wages		84,234	84,234	168,468	168,468
B-Employee Benefits		20,216	20,216	40,432	40,432
C-Personal Service Contracts					
E-Goods and Services		28,683	28,683	18,284	25,584
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
Total:	$0	$133,133	$133,133	$227,184	$234,484

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2004	FY 2005	2003-05	2005-07	2007-09
Legal Secretary 1	28,956		0.5	0.3	0.5	0.5
Tax Referee (EMS Band 2)	69,756		1.0	0.5	1.0	1.0
Total FTE's			1.5	0.8	1.5	1.5

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

As the Board's rules (Chapters 456-09 and 456-10 WAC) are directed toward appeals dealing with the state's present tax structure, they will have to be revised, amended, and otherwise changed to accommodate appeals relating to the income tax. As no other agency has authority over the same subject matter, we believe our rule change procedures should proceed without too much difficulty.

Individual State Agency Fiscal Note

Bill Number: 5057 SB	Title: Fiscal reform	Agency: 325-Sentencing Guidelines Commission

Part I: Estimates

☒ **No Fiscal Impact**

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☐ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 01/13/2003
Agency Preparation:	Ed Vukich	Phone: (360) 956-2143	Date: 01/13/2003
Agency Approval:	Ida Leggett	Phone: (360) 956-2130	Date: 01/13/2003
OFM Review:	Randi Warick	Phone: 360-902-0570	Date: 01/15/2003

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Please see the attachment.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

None.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Please see the attachment.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

None.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

None.

SB 5057
FISCAL REFORM
325 – Sentencing Guidelines Commission
January 13, 2003

SUMMARY

A brief description of what the measure does that has fiscal impact.

Section 701 establishes a new Class C felony offense for attempting to evade the tax imposed under the bill.

Section 701 additionally establishes a new Class C felony offense for failing to collect, truthfully account for or pay over the tax imposed under the bill.

Section 701 establishes a new gross misdemeanor offense for failing to pay tax, failing to pay estimated tax, failing to make returns, failing to keep records or failing to supply information as required under the bill.

EXPENDITURES

Assumptions.
None.

Impact on the Sentencing Guidelines Commission.
This bill would require modification of the Commission's database and data entry programs. These recurring costs are included in the agency's budget.

Impact on prison and jail beds.
This bill:

- Establishes two new Class C felony offenses; and
- Establishes a new gross misdemeanor offense.

The felony offenses established under this bill are currently not felony offenses under Washington State law. As such, the Sentencing Guidelines Commission has no information about their expected incidence or the sentences that might actually be imposed. However, since the offenses are both Class C felonies not ranked on the adult felony sentencing grid, they are each punishable by a standard term of confinement of 0 to 12 months in jail. Therefore, any impact will be on jail beds only.

Ed Vukich, Research Investigator (360) 956-2143
Washington State Sentencing Guidelines Commission edv@sgc.wa.gov

The Sentencing Guidelines Commission's database does not include gross misdemeanor offenses. As such, the Commission cannot predict how the changes proposed under the bill will affect the number of sentences per fiscal year or the sentence lengths that might actually be imposed for the new gross misdemeanor offense and, therefore, cannot reliably estimate jail bed and prison bed impacts resulting from the bill. However, since gross misdemeanor offenses are punishable by a term of confinement of 0 to 12 months in jail, any impact from the bill would be on jail beds only.

Individual State Agency Fiscal Note

Bill Number: 5057 SB	Title: Fiscal reform	Agency: 490-Department of Natural Resources

Part I: Estimates

- [X] **No Fiscal Impact**

Estimated Cash Receipts to:

Non-zero but indeterminate cost. Please see discussion.

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- [ ] If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- [ ] If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- [ ] Capital budget impact, complete Part IV.
- [ ] Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 01/13/2003
Agency Preparation:	Marcia Wendling	Phone: (360) 902-1259	Date: 01/13/2003
Agency Approval:	Bonnie Bunning	Phone: (360) 902-1603	Date: 01/21/2003
OFM Review:	Linda Steinmann	Phone: 360-902-0573	Date: 01/22/2003

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

SB 5057 proposes to establish a flat rate income tax in Part II, reduce sales tax in Part XI, and eliminate the state property tax in Part XII. The Department of Natural Resources is directly impacted in Part XII, section 1217, which modifies the distribution of revenue derived from state forest land.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

For purposes of this request, indeterminate cash receipts has been checked, although a net impact of zero would be realized by the department. This bill will not impact revenue collected, only the distribution. Currently, fifty percent of the revenue generated from state forest land is distributed to the state general fund for public schools and the county in which the land is located according to their proportions of tax levies. The portion distributed to the state general fund is currently based on regular school levy rates. The new language would have the state general fund portion distributed based on amounts appropriated for common schools by the legislature. If the legislative appropriations do not mirror the current regular school levy rates, some districts will see an increase and others a decrease, thus prohibiting us from determining the impact of this action until legislative appropriations are made.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Section 1217, which modifies the distribution of revenue, will not have a significant impact on staff. Currently staff uses percentages and tables to prepare the distribution of revenue, the only difference is what percentages to plug into the table to compute the distribution.

Any increased costs or savings driven by implementing the remainder of this bill are anticipated to be covered by the lead agency – Department of Revenue.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

None

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

None

LOCAL GOVERNMENT FISCAL NOTE

Department of Community, Trade and Economic Development

Bill Number: 5057 SB	**Title:** Fiscal reform

Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- [ ] Cities:
- [x] Counties:
- [ ] Special Districts:
- [ ] Specific jurisdictions only:
- [ ] Variance occurs due to:

Part II: Estimates

- [ ] No fiscal impacts.
- [ ] Expenditures represent one-time costs:
- [ ] Legislation provides local option:
- [ ] Key variables cannot be estimated with certainty at this time:

Estimated revenue impacts to:

Jurisdiction	FY 2004	FY 2005	2003-05	2005-07	2007-09
City					
County		(12,704,866)	(12,704,866)	(25,409,732)	(25,409,732)
Special District					
TOTAL $		(12,704,866)	(12,704,866)	(25,409,732)	(25,409,732)
GRAND TOTAL $					(63,524,330)

Estimated expenditure impacts to:

Non-zero but indeterminate cost. Please see discussion.

Part III: Preparation and Approval

Fiscal Note Analyst: Linda Kercher	Phone: (360) 725-5038	Date: 01/13/2003
Leg. Committee Contact:	Phone:	Date: 01/13/2003
Agency Approval: Louise Deng Davis	Phone: (360) 725-5034	Date: 01/21/2003
OFM Review: Doug Jenkins	Phone: 360-902-0563	Date: 01/24/2003

Part IV: Analysis

A. SUMMARY OF BILL

Provide a clear, succinct description of the bill with an emphasis on how it impacts local government.

This bill implements a state income tax, reduces the state sales tax and eliminates the state property tax.

Section 601 requires employers paying wages or salaries earned in state to withhold income tax.

Section 602 holds liable those required to withhold income tax for payment of the amount deducted and withheld.

Section 701 establishes a new Class C felony offense for attempting to evade the tax imposed under the bill. The section also establishes a new Class C felony offense for failing to collect, truthfully account for or pay over the tax imposed under the bill. Sect. 701 also establishes a new gross misdemeanor offense for failing to pay tax, failing to pay estimated tax, failing to make returns, failing to keep records or failing to supply information as required under the bill.

Section 1101 reduces the state sales tax to from 6.5 percent to 3.5 percent of selling price.

Section 1201 eliminates the state property tax by authorizing the state to levy property tax only through 2003, for collection in 2004. The state shall not levy a property tax for collection in 2005 and beyond, under this section.

Section 1202 directs that property tax proceeds through 2004 and state income tax proceeds beyond 2004 will go to school districts.

Section 1203 removes language that allowed the state to levy property tax of up to $3.60 per $1,000 of assessed value.

Section 1204 reduces the aggregate of all tax levies on property by all taxing districts from 1 percent to .64 percent of fair value.

Section 1304 provides that, pending amendment of the state constitution to authorize income taxes, Section 1201 takes effect Jan. 1, 2004, and rest of the act takes effect Jan. 1, 2005.

B. SUMMARY OF EXPENDITURE IMPACTS

Briefly describe and quantify the expenditure impacts of the legislation on local governments, identifying the expenditure provisions by section number, and when appropriate, the detail of expenditures. Delineate between city, county and special district impacts.

No significant, determinable expenditure impact is expected for local governments as a result of this bill.

DISCUSSION:

INCOME TAX (Section 601)
ADMINISTRATIVE COSTS TO LOCAL GOVERNMENT AS EMPLOYER
Some cities and counties, as employers, may encounter an administrative expense in reconfiguring payroll systems so that they can begin withholding state income tax. However, those expenses would be negligible. Additionally, cities and counties using payroll software that already includes a state income tax feature would encounter no cost to begin using such a feature.

POTENTIAL CRIMINAL JUSTICE COSTS (Section 701)
Currently there are no laws for the crimes related to the tax imposed under the bill. The bill would establish three new crimes, two of which are Class C felonies and one of which is a gross misdemeanor.

The costs for local government related to the criminal provisions in the bill are likely to be minimal because of the low incidence of tax crime cases in states that impose an income tax. For example, in Oregon there were seven tax evasion cases from 1999 to 2002, which is an average of two cases per year. (Source: Administrative Office of the Courts)

However, if new criminal cases occur then the costs would be borne primarily by local government. Potential costs, not including court costs, include prosecution costs ($220/case on average to plea a case, $721/case on average to try a case, $2,272/case on average for appeals) and jail costs ($55/day on average multiplied by the number of days served).

REDUCTION OF SALES TAX (Section 1101)
No expenditure impact is expected because sellers collect all sales tax, and the administration of all sales tax is handled at the state level.

ELIMINATION OF STATE PROPERTY TAX (Section 1201)
No expenditure impact is expected, because county assessors and treasurers must already input a rate for state property tax in calculating local rates. Entering zero for the state rate will not create administrative costs, according to representatives from assessors and treasurers

associations.

C. SUMMARY OF REVENUE IMPACTS

Briefly describe and quantify the revenue impacts of the legislation on local governments, identifying the revenue provisions by section number, and when appropriate, the detail of revenue sources. Delineate between city, county and special district impacts.

Counties are estimated to lose $12.7 million a year beginning in calendar year 2005, as elimination of the state property tax will lower overall property tax bills and result in a decline in county revenue derived from interest and fees on delinquent property tax payments.

INCOME TAX (Section 601)
No local revenue impact is expected because revenue from a state income tax would go to school districts, according to Section 1202.

STATE SALES TAX REDUCTION (Section 1101)
No local revenue impact is expected because revenue from the state portion of the sales tax is distributed to the state general fund, according to the Department of Revenue (DOR).

ELIMINATION OF STATE PROPERTY TAX (Section 1201)
The state portion of property tax is distributed to the general fund, not to local governments. Therefore, local governments will not directly lose revenue on state property tax collections. However, counties earn revenue from penalties and interest on delinquent property tax payments. The fees and interest are assessed on the entire tax levy, including the state portion, and such revenue is retained solely by counties. For property tax levies due for collection in 2001, the state accounted for 24.5 percent of total levies, according to DOR. Revenue from penalties and interest on delinquent payments in 2001 totaled $51.9 million for 36 of 39 counties. (See attached table of individual county collections.) If elimination of the state property tax reduces total levies by 24.5 percent, then revenue generated from delinquent tax bills would proportionally decline, with counties losing approximately $12.7 million per year. (See “Assumptions and Methodology”)

ASSUMPTIONS AND METHODOLOGY

Criminal Prosecution:
Regarding caseloads, the average number of cases per year for tax evasion in Oregon would be similar to the number of cases in Washington.

Property Tax:
The rate of delinquent property tax payments will remain the same as that for 2000 levies.

The county revenue loss of $12.7 million on delinquent payments was calculated as follows:
State levy rate = 24.5 percent
Penalty fees and interest on delinquent payments collected in 2001 = $51,856,599
$51,856,599 x .245 = $12,704,866

The $51.9 million figure above is the total penalty and interest collection in 2001 reported for all counties except Columbia, Island and Pacific counties. The county totals were compiled from the Budgeting, Accounting and Reporting System (BARS) data and a January 2003 survey of county treasurers conducted by the Washington State Association of County Treasurers.

Note: All figures are for calendar year rather than fiscal year, because property tax levies and delinquent fee and interest collections are reported on a calendar-year basis.

SOURCES:
Association of Washington Cities
Washington State Association of County Assessors
Washington State Association of County Treasurers
Department of Revenue
Sentencing Guidelines Commission
Administrative Office of the Courts
Budgeting, Accounting and Reporting System -- State Auditor's Office

Interest and Penalty Collections on Delinquent Property Tax Payments by County, 2001

County	Interest	Penalty	Total
Adams*			$192,877
Asotin*			$112,830
Benton*			$1,230,848
Chelan	365,821	202,745	$568,566
Clallam	297,876	154,215	$452,091
Clark*			$2,949,563
Columbia			
Cowlitz	660,086	386,506	$1,046,592
Douglas*			$274,383
Ferry	28,976	65,797	$94,773
Franklin*			$458,436
Garfield*			$11,458
Grant	512,142	273,339	$785,481
Grays Harbor	570,515	318,033	$888,548
Island			
Jefferson	165,151	90,387	$255,538
King*			$13,249,448
Kitsap	1,505,753	903,678	$2,409,431
Kittitas*			$325,406
Klickitat*			$252,498
Lewis	284,000	513,000	$797,000
Lincoln	62,247	34,153	$96,400
Mason	79,427	63,283	$142,710
Okanogan*			$701,313
Pacific			
Pend Oreille	101,681	56,913	$158,594
Pierce*			$6,959,095
San Juan*			$322,106
Skagit*			$901,217
Skamania*			$143,121
Snohomish	3,437,065	2,479,536	$5,916,601
Spokane*			$3,619,196
Stevens	280,842	157,537	$438,379
Thurston	1,300,000	713,000	$2,013,000
Wahkiakum	29,094	15,287	$44,381
Walla Walla*			$268,097
Whatcom	1,005,071	613,855	$1,618,926
Whitman	118,800	79,200	$198,000
Yakima	1,211,432	748,264	$1,959,696
TOTAL			**$51,856,599**

Source: Data gathered from Budget, Accounting and Reporting System (BARS) and a January 2003 survey by the Washington State Association of County Treasurers

* County did not report interest and penalty separately.