

Revenues

In November 2000, the voters approved Initiative 722 (I-722). I-722 exempted increases in property tax valuations above 2 percent per year from property taxation, limited the growth of property tax levies of taxing districts to 2 percent per year, repealed the law which allows “stockpiling” of future property tax increases, invalidated 1999 tax increases imposed without voter approval, and exempted vehicles from property taxes. It was estimated that I-722 would decrease state general fund revenues by \$35.8 million for the 2001-03 biennium and local government revenues by \$348.8 million. On November 30, 2000, the Thurston County Superior Court enjoined implementation of I-722. On February 23, 2001, the Thurston County Superior Court ruled the initiative was unconstitutional because it contained more than one subject, failed to set out amended statutes in full, violated the property tax uniformity requirement, and made gifts of public money. An appeal to the state Supreme Court is pending.

During the 2001 regular, first, second, and third special sessions, the Legislature enacted 37 bills affecting revenue. After four partial vetoes, state general fund resources were reduced by \$17.2 million.

Only four bills had revenue impacts on the state general fund in excess of \$1 million. The most significant bill, Chapter 214, Laws of 2001 (EHB 2247), was directed at the energy crisis. The bill provides a 60-month credit against the business and occupation tax for the amount of the public utility tax attributable to purchases of natural gas by a direct service industrial (DSI) firm that constructs a gas turbine electrical generating facility. A comparable 60-month deferral/exemption for the use tax on brokered natural gas purchased by the DSI firm that constructs a new power plant is also provided. The bill also provides a comparable 60-month credit for public utility tax on electrical sales to the DSI firm if a public utility constructs a new power plant to supply the power needs of the DSI firm. This credit is allowed if the public utility passes the credit on to the DSI firm in reduced rates and has a 10-year contract to supply power to the DSI firm. These credits and deferrals are capped at \$2.5 million per fiscal year and an individual firm is limited to \$1.5 million of credit or deferral per fiscal year if more than one firm participates. In addition, a public utility tax credit is established for light and power businesses and gas distribution businesses for billing discounts and qualifying contributions that are equal to or greater than 125 percent of discounts or contributions given in fiscal year 2000 or, if no contributions or discounts were given in fiscal year 2000, in the first year that they are given. The amount of the credit is equal to 50 percent of the billing discount. Finally, a sales and use tax exemption is created for the installation or acquisition of air pollution control equipment for thermal electric peaking plants smaller than 100 megawatts. In total, this bill decreases general fund revenues by \$8.3 million.

The next most significant bill in terms of impact, Chapter 16, Laws of 2001, 2nd sp.s., (ESSB 5237), provided a permanent funding mechanism for the Fair Fund. It provided for the annual transfer of \$2 million from the general fund to the Fair Fund for local fairs and youth shows.

The other two bills were aimed at aiding agriculture. Chapter 25, Laws of 2001, 2nd sp.s. (ESHB 2138) reduced the business and occupation tax rate on manufacturing dairy products and by-products from 0.484 percent to 0.138 percent and provided sales and use exemptions to farmers for propane used to heat structures that house chickens and for bedding materials for chickens. This bill decreases general fund revenues by \$3 million. Chapter 17, Laws of 2001, 2nd sp.s. (SSB 5496) exempts sales to farmers or veterinarians of animal pharmaceuticals approved by the United States Department of Agriculture or by the United States Food and Drug Administration if administered to an animal raised by a farmer for sale. This bill decreases general fund revenues by \$2.2 million.

All other revenue bills passed by the Legislature and signed by the Governor either had no revenue impacts or impacts of \$1 million or less on the state general fund.

Revenue Legislation

Tax Relief for Disasters – \$32,500 General Fund-State Revenue Decrease

Chapter 113, Laws of 2001 (HB 1018) decreases state general fund revenues by \$32,500 and local government revenues by \$5,500. The legislation creates a sales tax exemption until July 1, 2003, for labor and service charges associated with moving houses, demolishing houses, or cleaning up debris in an area that has been declared a federal landslide disaster area.

Exempting Certain Leasehold Interests – \$25,400 General Fund-State Revenue Increase

Chapter 26, Laws of 2001 (HB 1055) increases state general fund revenues by \$25,400 and local government revenues by \$285,000. The legislation exempts leases of public land consisting of at least 3,000 residential lots from the leasehold excise tax and makes them subject to the property tax. This applies to the lot only. Currently, this would only apply to the Lake Cushman Development.

Tax Exemptions for Sale or Use of Orthotic Devices – \$61,000 General Fund-State Revenue Decrease

Chapter 75, Laws of 2001 (HB 1116) decreases state general fund revenues by \$61,000 and local government revenues by \$17,000. The legislation exempts from sales and use tax orthotic devices prescribed by a podiatrist.

Taxation of Motor Vehicle Sales – \$1.164 Million General Fund-State Revenue Increase

Chapter 258, Laws of 2001 (SHB 1119) increases state general fund revenues by \$1.164 million. The legislation exempts from the business and occupation (B&O) tax auto dealers, licensed in Washington or another state, on wholesale sales of used motor vehicles to dealers at auto auctions. New car dealers are exempt from the B&O tax on inter-dealer sales of new vehicles for the purpose of adjusting inventory levels. In-state dealers that make courtesy deliveries of new vehicles on behalf of out-of-state vehicle dealers are deemed to be agents of the out-of-state dealers and must collect the B&O tax.

Limiting the Combined Sales Tax Rate on Lodging – No General Fund-State Revenue Impact

Chapter 6, Laws of 2001 (SHB 1125) has no state revenue impact. This legislation requires local sales taxes to provide an exemption for lodging if the total sales tax rate would exceed the greater of 12 percent or the total sales rate in effect on December 1, 2000.

Grain Warehouses – \$5,000 General Fund-State Revenue Decrease

Chapter 20, Laws of 2001 (SHB 1140) decreases state general fund revenues by \$5,000. The legislation allows grain warehouses the option of using cash accounting.

Property Tax Administration – No General Fund-State Revenue Impact

Chapter 185, Laws of 2001 (SHB 1202) has no revenue impact. This legislation makes procedures consistent for appeals of county assessor decisions.

Sales Tax Exemption Documentation – No General Fund-State Revenue Impact

Chapter 116, Laws of 2001 (SHB 1203) has no revenue impact. This legislation authorizes the Department of Revenue to enter into agreements for electronic sales tax exemption certificates.

Equity in the Taxation of Farmers – \$14,000 General Fund-State Revenue Decrease

Chapter 118, Laws of 2001 (SHB 1339) decreases state general fund revenues by \$14,000 and local government revenues by \$4,000. The legislation allows farmers who use their agricultural products in a manufacturing process to take the exemption from sales and use taxes for purchases of feed, seed, fertilizer, pollination agents, and chemical sprays. All farmers eligible for the business and occupation tax exemption on wholesales sales are also exempt under the litter tax.

Simplifying Excise Tax Application and Administration – No General Fund-State Revenue Impact

Chapter 320, Laws of 2001, Partial Veto (HB 1361) has no revenue impact. This legislation makes miscellaneous excise tax housekeeping changes. References to the Internal Revenue Code are updated, for purposes of probate and trust law and the estate and transfer tax. For purposes of the business and occupation (B&O) tax on royalties, royalties is defined to exclude the licensing of canned software to the end user. The sales and use tax exemptions for ride sharing vehicles are updated to reflect the repeal of the motor vehicle excise tax. Changes in local sales taxes that are credited against the state sales tax can be made after a 30-day advance notice and can take effect on the first day of a month rather than 75 days notice to take effect on the first day of a quarter. Businesses handling solid waste are excluded from the public utility tax and subject to the B&O tax. The enhanced food fish tax is changed to apply to the first possession after landing to clarify that the buyer is responsible for the tax. The time period for taxpayers who take the B&O tax credit for job creation in rural counties to report information is extended from December 31st to January 31st of the following year to be consistent with the more recent B&O tax credits. The requirement to report private timber purchases of over 200,000 board feet that expired July 1, 2000, is reinstated until July 1, 2004. The Department of Revenue must report to the Legislature by November 30, 2001, on the progress made in working with business to clarify the B&O tax deduction for investment income. (The Governor vetoed a provision that affected the application of the B&O tax deduction for investment income.)

Linen and Uniform Supply Services – \$1.377 Million General Fund-State Increase

Chapter 186, Laws of 2001 (HB 1385) increases state general fund revenues by \$1.377 million and local government revenues by \$403,000. The legislation changes state and local sales taxation of linen and uniform supply services from the location of the laundering activity to the place of delivery to the customer.

Tax Increment Financing – No General Fund-State Revenue Impact

Chapter 212, Laws of 2001 (ESHB 1418) has no state revenue impact but decreases local government revenues by an indeterminate amount. This legislation allows the diversion of portions of regular property tax levies from local governments that imposed the taxes to the government that financed community revitalization facilities and programs.

Linked Deposit Program – \$518,000 General Fund-State Revenue Decrease

Chapter 316, Laws of 2001, Partial Veto (2SHB 1445) decreases state general fund revenues by \$518,000. The legislation retains the linked deposit program under which low-interest loans are made available for women and minority-owned businesses. (The Governor vetoed provisions that would have directed the program to socially and economically disadvantaged business enterprises, deleting all references to women or minority-owned businesses.)

Property Tax Relief for Certain Land Transfers – \$91,000 General Fund-State Revenue Decrease

Chapter 305, Laws of 2001 (SHB 1450) decreases state general fund revenues by \$91,000 and local government revenues by \$272,000. The legislation exempts from payment of back taxes property that is removed from a current use valuation program if the property is sold or transferred within two years of the death of an owner of at least 50 percent interest in the property and the property has been in current use programs continuously since 1993.

Improving Property Tax Administration by Correcting Terminology and Deleting Obsolete Provisions – No General Fund-State Revenue Impact

Chapter 187, Laws of 2001 (SHB 1467) has no revenue impact. This legislation makes miscellaneous property tax housekeeping changes. The value-averaging provisions of Referendum 47 that were invalidated by the Supreme Court are removed from the statutes. The multiple exemptions for business inventories are consolidated into one statute. In order to secure release of a performance bond, a purchaser of Department of Natural Resources timber need only present proof of payment of property taxes rather than all taxes. The 1967 property tax exemption for real property beneath air space dedicated to a public body for a stadium or related parking facility is repealed. The six-year property tax exemption for alcohol fuel manufacturing facilities that expired in 1992 is repealed. The two 1999 session laws that amended the homes for the aging property tax exemption statute without reference to each other are integrated.

Exempting Certain Motorcycles Used For Training From the Use Tax – No General Fund-State Revenue Impact

Chapter 121, Laws of 2001 (HB 1582) has no revenue impact. This legislation provides an exemption from the use tax for motorcycles that are loaned to the Department of Licensing or to persons contracting with the Department for use in the motorcycle operator training and education program.

Nonprofit and Public Hospital Taxation – No General Fund-State Revenue Impact

Chapter 23, Laws of 2001, 2nd sp.s., Partial Veto (SHB 1624) has no general fund revenue impact. This legislation authorizes a business and occupation tax deduction for amounts received by a non-profit hospital or a public hospital from organizations under contract with the federal or state government to manage health benefits for Medicare, medical assistance, children's health, or the Basic Health Plan. (The Governor vetoed a provision that would have applied the deduction to reporting periods prior to the effective date of this act.) The bill does reduce Health Services Account revenue by \$12.6 million.

Authorizing the Department of Revenue to Issue Direct Pay Permits – No General Fund-State Revenue Impact

Chapter 188, Laws of 2001 (HB 1706) has no revenue impact. This legislation authorizes the Department of Revenue to grant a direct pay permit to a taxpayer required to use electronic funds transfer in paying taxes or making taxable purchases over \$10 million per year.

Water Resource Management – \$895,000 General Fund-State Revenue Decrease

Chapter 237, Laws of 2001 (ESHB 1832) decreases state general fund revenues by \$895,000. The legislation modifies provisions concerning water management, including a public utility tax deduction for 75 percent of water conservation expenditures.

Electric Generating Facilities – \$312,000 General Fund-State Revenue Decrease

Chapter 213, Laws of 2001 (HB 1859) decreases state general fund revenues by \$312,000 and local government revenues by \$92,000. The legislation expands the sales and use tax exemption for machinery and equipment used in generating at least 200 kilowatts of electricity using wind, solar energy, and landfill gas. The exemption is expanded to include fuel cells and facilities generating at least 200 watts.

Property Tax Exemption for Farm Equipment – No General Fund-State Revenue Impact

Chapter 24, Laws of 2001, 2nd sp.s., Partial Veto (SHB 1906) has no revenue impact. This legislation exempts from the state property tax machinery and equipment owned by a farmer and used exclusively to grow agricultural products. The farmer continues to pay local property taxes on the machinery and equipment. (The Governor vetoed a reduction in the state property tax that would have prevented the exemption from causing tax shifts to other taxpayers.)

Wine and Cider Provisions – \$20,000 General Fund-State Revenue Increase

Chapter 124, Laws of 2001 (SHB 1915) increases state general fund revenues by \$20,000 and local government revenues by \$6,000. The legislation continues the wine tax that funds a portion of the Washington Wine Commission activities.

Very Low-Income Property Tax Exemption – No General Fund-State Revenue Impact

Chapter 7, Laws of 2001, 1st sp.s. (HB 2098) has no state revenue impact but decreases local government revenues by \$36,000. This legislation makes administrative changes to the exemption program for very low-income property, including adding mobile home parks to the property tax exemption for very low-income housing.

Promoting Rural Economic Development – \$3.041 Million General Fund-State Revenue Decrease

Chapter 25, Laws of 2001, 2nd sp.s. (ESHB 2138) decreases state general fund revenues by \$3.041 million and local government revenues by \$81,000. The legislation reduces the business and occupation tax rate on manufacturing dairy products and by-products from 0.484 percent to 0.138 percent. Sales and use exemptions are

provided for sales to farmers of propane or natural gas used to heat structures that house chickens and bedding materials for chickens, such as wood shavings, straw, and similar materials.

Park Model Trailers – \$350,000 General Fund-State Revenue Decrease

Chapter 282, Laws of 2001 (SHB 2184) decreases state general fund revenues by \$350,000 and local government revenues by \$111,000. The legislation exempts from sales and use taxes and subjects to the real estate excise tax sales of used park model trailers that are fixed in location.

Property Tax Exemptions for Property Leased by Public Entities – No General Fund-State Revenue Impact

Chapter 126, Laws of 2001 (ESHB 2191) has no state revenue impact but decreases local government revenues by \$164,000. This legislation exempts from property tax real and personal property owned by nonprofit foundations of institutions of higher education that is leased to an institution of higher education if actively used by enrolled students. Real and personal property leased to a hospital owned by public hospital district is exempt from property tax.

Managing Energy Supply and Demand – \$8.248 Million General Fund-State Revenue Decrease

Chapter 214, Laws of 2001 (EHB 2247) decreases state general fund revenues by \$8.248 million and local government revenues by \$168,000. The legislation makes a number of significant energy related tax and regulatory changes. The threshold for siting new stationary thermal power plants through the Energy Facility Site Evaluation Council is raised from 250 megawatts to 350 megawatts. Tax credits and deferrals are provided to direct service industries customers who currently purchase electricity from the Bonneville Power Administration. A credit is available against the public utility tax due from gas and electric utilities for qualifying contributions and billing discounts offered to qualifying low-income customers. The concept of energy management systems is introduced into the development of life cycle cost analysis for the construction or renovation of major public buildings. A sales and use tax exemption is created for the installation or acquisition of air pollution control equipment for thermal electric peaking plants smaller than 100 megawatts. Electric utilities (other than small electric utilities) must offer their consumers, at least quarterly, a voluntary choice to purchase electricity generated from alternative energy resources.

Grocery Distribution Coops – No General Fund-State Revenue Impact

Chapter 9, Laws of 2001, 1st sp.s. (EHB 2260) has no revenue impact. This legislation taxes certain grocery distribution cooperatives under the business and occupation tax at 1.5 percent on sales to their customer-owners rather than at 0.484 percent. A deduction is allowed equal to the cost of goods sold. In addition, grocery distribution cooperatives are exempt from the litter tax.

Consumer Protection – \$605,000 General Fund-State Revenue Increase

Chapter 159, Laws of 2001 (SSB 5101) increases state general fund revenues by \$605,000. The legislation protects consumers in contractor transactions.

Short Rotation Hardwoods – No General Fund-State Revenue Impact

Chapter 97, Laws of 2001 (SB 5108) has no revenue impact. This legislation increases the maximum length of the growing cycle for exemption from the timber excise tax and the Forest Practices Act of short-rotation hardwoods from the current ten-year period to 15 years. The definition of agricultural product is extended to specifically include short-rotation hardwoods.

Annual Monetary Transfers into the Fair Fund – \$4.0 Million General Fund-State Revenue Decrease

Chapter 16, Laws of 2001, 2nd, sp.s. (ESSB 5237) decreases state general fund revenues by \$4.0 million. The legislation provides for the transfer of \$2.0 million from the general fund at the beginning of each fiscal year to the Fair Fund to be distributed by the State Fairs Commission to local fairs and youth shows.

Authorizing Cooperative Agreements Concerning the Taxation of Cigarette Sales on Indian Lands – \$155,000 General Fund-State Revenue Decrease

Chapter 235, Laws of 2001 (ESSB 5372) decreases state general fund revenues by \$155,000. This legislation allows the Governor to make cigarette tax contracts with Indian tribes concerning sales of cigarettes. The tribal cigarette tax rate must be equal to 100 percent of the state cigarette and sales tax rates after a phase-in period.

Sales Tax Exemption for Conifer Seed – \$58,000 General Fund-State Revenue Decrease

Chapter 129, Laws of 2001 (SSB 5484) decreases state general fund revenues by \$58,000 and local government revenues by \$12,000. The legislation provides sales and use tax exemptions for sales of conifer seed that is placed into freezer storage by the seller and used to grow timber outside Washington or sold to an Indian tribe for growing timber in Indian country.

Sales Tax Exemption for Animal Pharmaceuticals – \$2.206 Million General Fund-State Revenue Decrease

Chapter 17, Laws of 2001, 2nd sp.s. (SSB 5496) decreases state general fund revenues by \$2.206 million and local government revenues by \$307,000. The legislation provides sales and use tax exemptions for sales to farmers or veterinarians of animal pharmaceuticals approved by the United States Department of Agriculture or by the United States Food and Drug Administration if administered to an animal raised by a farmer for sale.

Forest Lands Taxation – No General Fund-State Revenue Impact

Chapter 249, Laws of 2001 (SSB 5702) has no revenue impact. This legislation simplifies administration and harmonizes current use taxation of forest land. Classified forest land is merged with designated forest land. Up to 10 percent of the forest land can be used for incidental uses. A reasonable processing fee may be required with an application. Land cannot be removed from classification based on governmental restrictions preventing harvest. On removal, the land is revalued to market value as of January 1 of the year of removal and is subject to a pro rata share of taxes for the balance of the year based on the new value instead of being revalued as of January 1 of the following year. The maximum period for the compensating tax is reduced from ten years to nine years.

Tax Relief for Dairy Farmers and Anaerobic Digesters – \$408,000 General Fund-State Revenue Decrease

Chapter 18, Laws of 2001, 2nd sp.s. (SSB 5947) decreases state general fund revenues by \$408,000 and local government revenues by \$118,000. The legislation provides sales and use tax exemptions for the maintenance and repair of dairy nutrient management equipment and facilities. Sales and use tax exemptions are provided for the purchase, construction, and repair of an anaerobic digester used primarily to treat dairy manure.

Requesting a Joint Oregon-Washington Committee on Taxation be Established – No General Fund-State Revenue Impact

Senate Joint Memorial 8008 has no revenue impact. This legislation requests the Governor and Legislature of Oregon to establish a joint committee on taxation, consisting of an equal number of legislators from both states, to study the issue of tax fairness for residents residing in one state who are employed, conduct business, or make purchases in the other state.

2001 Revenue Legislation

General Fund-State

(Dollars in Thousands)

			<u>2001-03</u>	<u>2003-05</u>
HB	1018	Disaster Relief	-33	0
HB	1055	Leasehold Tax/Lake Cushman	25	-144
HB	1116	Orthotic Devices	-61	-153
SHB	1119	Motor Vehicle Sales	1,164	-90
SHB	1125	Lodging Combined Sales Tax	0	0
SHB	1140	Grain Warehouses	-5	0
SHB	1202	Property Tax Administration	0	0
SHB	1203	Sales & Use Tax Electronic Certificates	0	0
SHB	1339	Taxation of Farmers	-14	-14
HB	1361	Excise Tax Administration	0	0
ESHB	1385	Linen and Uniform Supply	1,377	1,560
2SHB	1418	Community Revitalization Tax Increment	0	0
SHB	1445	Time Certificate Investment	-518	0
HB	1450	Property Tax Land Transfer	-91	-66
SHB	1467	Property Tax Administration	0	0
HB	1582	Motorcycles Training Use Tax	0	0
SHB	1624	Hospital B&O (Health Services)	0	-15,210
HB	1706	Direct Pay Permits	0	0
ESHB	1832	Water Resources Management	-895	0
HB	1859	Electric Generating Facilities	-312	-418
SHB	1906	Farm Equipment Tax Exemption	0	-6,991
SHB	1915	Wine and Cider Taxation	20	20
HB	2098	Property Tax Exemption (Very Low-Income Housing)	0	0
ESHB	2138	Rural Economic Development	-3,041	-3,749
SHB	2184	Park Model Trailers	-350	-423
ESHB	2191	Property Tax Exempt Leased Property	0	0
EHB	2247	Energy Package	-8,248	-10,000
EHB	2260	Grocery Distribution Cooperatives	0	0
SSB	5101	Consumer/Contractors	605	0
SB	5108	Short-Rotation Hardwoods Taxation	0	0
ESSB	5237	Providing Fair Funding	-4,000	-4,000
ESSB	5372	Tribal Cigarette Tax Compact	-155	0
SSB	5484	Conifer Seeds/Tax Exemption	-58	-32
SSB	5496	Animal Health Products	-2,206	-2,206
SSB	5702	Forest Lands/Taxation	0	0
2SSB	5947	Dairy Farmers	-408	-408
SJM	8008	Oregon and Washington Committee on Taxation	0	0
			<u>-17,204</u>	<u>-42,324</u>

