

Revenues

The March 2011 forecast for Near General Fund-State revenue is \$28.4 billion for the 2009-11 biennium and \$32.3 billion for the 2011-13 biennium. The March forecast was a reduction of \$80 million for 2009-11 and \$698 million for 2011-13 compared to the November 2010 forecast. Although current collections continue to show year over year growth they are below the forecast which resulted in another reduction in future revenue expectations.

The reduction for 2009-11 would have been \$191 million but for revenue actions taken in the December special session and an administrative shift in payment frequency for 32,600 taxpayers from quarterly to monthly tax filers. Appropriations to the Department of Revenue made in December supported increased audit activity that was expected to bring in \$19.5 million in business and occupation tax from out-of-state companies operating in Washington. Also, Chapter 2, Laws of 2010, 2nd sp.s. (SSB 6892) created a temporary program to provide amnesty on interest and penalties on past taxes owed but not yet paid. Applications were accepted until April 18, 2011. As of the March forecast, amnesty agreements were expected to net an additional \$50.8 million for the 2009-11 period. Since some of this revenue was expected to be pulled forward from the 2011-13 period, the 2011-13 forecast was reduced by \$30.1 million. On May 3, 2011, the Department of Revenue announced that nearly 8,900 businesses paid \$320.7 million in state and local tax under the program. Of the total, \$263.4 million was state general fund. The near general fund balance sheet reflects an additional \$200 million in 2009-11 revenue over the amount included in the March forecast.

In addition to the revenue efforts made in December, additional appropriations were made to the Department of Revenue to continue increased audit activity for out-of-state companies (\$39 million in 2011-13) and to increase traditional collection methods (\$14.5 million in 2011-13).

Revenue Reductions

Chapter 339, Laws of 2011 (SSB 5385) generally increases revenue to the state Wildlife Account by changing fees for recreational hunting and fishing licenses, moving all recreational hunting and fishing license revenue from the general fund, creating a new administrative surcharge for commercial hunting and fishing licenses, and allowing the Wildlife Account to retain interest from the account. The general fund reduction is about \$2.9 million for 2011-13. This is primarily from moving shellfish license revenue from the general fund to the Wildlife Account.

Chapter 322, Laws of 2011 (SB 5083) allows any real estate firm that receives a commission at the time of closing on a real estate transaction to pay the business and occupation tax only upon their respective shares of the commission. Originating and cooperating brokers were allowed this special business and occupation tax treatment under prior law. Now commissions shared with a referring real estate broker will be allowed the same treatment.

Chapter 163, Laws of 2011 (ESHB 1902) and Chapter 19, Laws of 2011 (2ESHB 1224) deal with the business and occupation tax treatment of government social services provided by nonprofit service providers. Nonprofit service providers of mental health services (2ESHB 1224) and child welfare services (ESHB 1902) are exempt from business and occupation tax on funds received from nongovernment agencies for providing services for a government funded program. This change accommodates a shift in management of these programs from direct government agency management to management by nonprofit and for profit firms. Under prior law, the exemption for nonprofit service providers depended on receiving money directly from a government. In addition, the nonprofit and for profit firms are also exempt on the funds they receive from a government that is used to pay nonprofits for these social services.

Moving Revenue to General Fund

Chapter 334, Laws of 2011 (HB 2019) removes the dedication of the additional \$0.60 cigarette tax from the Education Legacy Trust Account and moves the revenue to the general fund. Since the Education Legacy Trust Account is part of the near general fund, this move does not change the combined general fund and near general fund balance sheet. However, removing the dedication makes this cigarette revenue part of general state revenues, which provides an increase to the state debt capacity.

2011 Revenue Legislation

General Fund-State

Dollars in Thousands

Bill Number	Subject	2011-13
HB 2019	Additional Cigarette Tax	145,700
2ESHB 1087	Operating Budget 2009-11 & 2011-13 (Child Care Licenses)	993
SHB 1506	Fire Suppression Efforts	118
E2SHB 1789	DUI Accountability	118
HB 1239	Delinquent Excise Taxes/Lien	0
ESHB 1346	Tax Law Changes	0
EHB 1357	Taxes/Electronic Means	0
HB 1694	Unauthorized Insurance	0
ESHB 1826	Taxpayer Appeal Protections	0
SHB 1854	Fire Protection Authorities	0
HB 1953	Real Estate Excise Taxes	0
EHB 1969	Flood Control Zone Districts	0
SB 5044	Tax Preference Review	0
SSB 5167	Tax Statute Clarifications	0
ESSB 5253	Landscape Conservation	0
SSB 5525	Hospital Benefit Zones	0
SB 5526	Stirling Converters	0
2SSB 5595	PUD Privilege Tax	0
SB 5628	Emergency Medical Services Levy	0
2ESB 5638	Taxing District Exemptions	0
SSB 5722	Local Option Sales Tax Moneys	0
2ESSB 5742	Ferry System	0
SB 5763	Nonresident Sales Tax Exemption	0
SB 5806	Veteran Lottery Raffle	0
ESSB 5834	Lodging Tax/Arts & Heritage	0
SB 5849	Estates and Trusts	0
ESSB 5942	Spirits Distribution	0
SJR 8206	Extraordinary Revenue Growth	0
SB 5633	Unclaimed Property - Agricultural Fair Premiums	-6
SSB 5359	Contiguous Land/Property Tax	-8
HB 1582	Forest Practice Applications	-21
SHB 1793	Access to Juvenile Records	-26
SHB 2017	Master License Program	-28
HB 1347	Sales & Use Tax Exemptions	-129
SB 5289	Property Management/B&O Tax	-582
SB 5501	Taxation of Employee Meals	-666
SSB 5531	Commitments/Judicial Costs	-853
2ESHB 1224	B&O Deduction/Mental Health	-1,415
SB 5083	Real Estate Firms B&O Tax	-1,773
ESHB 1902	Child Welfare Service/B&O Tax	-1,871
SSB 5385	State Wildlife Account	-2,958
Total General Fund-State Revenue Impact		136,593

Revenue Legislation

The legislation listed below is a summary of bills passed during the 2011 session that affect state revenues or state or local government tax statutes but may not cover all revenue-related bills.

Operating Budget, 2009-11 & 2011-13 – \$993,000 General Fund-State Increase

Chapter 50, Laws of 2011, 1st sp.s., Partial Veto (2ESHB 1087), authorizes the Department of Early Learning to raise license fees for child care centers by \$52 for the first 12 children and \$4 for each additional child (section 1505 (14)).

Business & Occupation (B&O) Tax Deduction/Mental Health – \$1. 4 Million General Fund-State Decrease

Chapter 19, Laws of 2011, 1st sp.s (2ESHB 1224), allows nonprofit mental health service providers a deduction from B&O tax for amounts they receive from a Regional Support Network (RSN) for services provided under a government funded health program. A deduction to RSNs for amounts received from a government for distribution to a nonprofit health or social welfare organization for mental health services is also provided.

Delinquent Excise Taxes/Lien – No Impact to General Fund State

Chapter 131, Laws of 2011 (HB 1239), allows the Department of Revenue to file a notice of lien for any specific real property in which the taxpayer has an ownership interest in lieu of filing a tax warrant that encumbers all real and personal property.

Tax Law Changes – No Impact to General Fund-State

Chapter 20, Laws of 2011, 1st sp.s. (ESHB 1346), makes several adjustments to the tax code: clarifications to the trailing nexus statutes; removal of two redundant annual tax incentive accountability report and survey statutes; clarification that a seller has no obligation to collect use tax if federal law prohibits collection; and reduction of the scope of the January 2012 tax exemption study to include only those tax exemptions which are likely to increase state revenue if the exemption was repealed.

Taxes/Electronic Means – \$129,000 General Fund-State Decrease

Chapter 23, Laws of 2011 (HB 1347), limits the sales and use tax exemption for machinery and equipment to businesses that are taxed under the manufacturing category. A sales and use tax exemption for machinery and equipment used for research and development operations at public research institutions (the University of Washington, Washington State University, Western Washington University, Central Washington University, Eastern Washington University, and The Evergreen State College) is allowed.

Taxes/Electronic Means – No Impact to General Fund-State

Chapter 24, Laws of 2011 (EHB 1357), requires electronic filing and payment of taxes for all taxpayers, however, the Department of Revenue may waive the mandatory electronic filing and payment requirement for annual filers. Applies a 10 percent penalty for disregarding specific written instructions to taxpayers who must e-file.

Fire Suppression Efforts – \$118,000 General Fund-State Increase

Chapter 200, Laws of 2011 (SHB 1506), allows a fire protection service agency to recover actual costs of providing fire protection services to unprotected land. Costs proportionate to the fire itself, is limited to recovery.

Forest Practice Applications – \$21,000 General Fund-State Decrease

Chapter 207, Laws of 2011 (HB 1582), removes the assumption that forestland platted before 1960 will convert to a non-forestry land use and therefore need a Class IV Forest Practices application.

Unauthorized Insurance – No Impact to General Fund-State

Chapter 31, Laws of 2011 (HB 1694), conforms insurance statutes to Dodd-Frank Act including the apportionment of taxes on surplus lines insurance.

DUI Accountability – \$118,000 General Fund-State Increase

Chapter 293, Laws of 2011 (E2SHB 1789), increases the fee on DUI offenders from \$125 to \$200. Of the fee, \$175 is distributed in the same manner as the current fee (including a portion to the general fund.) Also, \$25 of the fee is distributed into the Highway Safety Account to fund Washington Traffic Safety Commission grants to reduce statewide collisions caused by DUI accidents.

Access to Juvenile Records – \$26,000 General Fund-State Decrease

Chapter 333, Laws of 2011 (SHB 1793), prohibits a consumer reporting agency from disseminating to third parties information contained in any juvenile record that it has obtained thereby reducing usage of the Administrative Office of the Court's JIS-Link system.

Taxpayer Appeal Protections – No Impact to General Fund-State

Chapter 84, Laws of 2011 (ESHB 1826), requires that a county Board of Equalization to waive the property tax valuation appeal deadline if a request is made within a reasonable time after the normal filing deadline and the taxpayer's property was in the revaluation area, but the taxpayer was not sent a property value change notice and the property value did not change from the previous year.

Fire Protection Authorities – No Impact to General Fund-State

Chapter 271, Laws of 2011 (SHB 1854), establishes a process through which a fire protection jurisdiction may be annexed by a fire service protection authority. The property tax levy rate of a fire protection district, city, town, or port district that is annexed into an authority by the levy rate imposed by the authority is reduced.

Child Welfare Service/B&O Tax – \$1.9 Million General Fund-State Decrease

Chapter 163, Laws of 2011 (ESHB 1902), allows a deduction from B&O tax for amounts received as compensation for providing child welfare services provided under a government-funded program. Also allows a deduction for amounts passed through a for-profit or nonprofit entity to a health or social welfare organization.

Real Estate Excise Taxes – No Impact to General Fund-State

Chapter 354, Laws of 2011 (HB 1953), allows a portion of local real estate excise taxes to be used for maintenance and operation expenditures of existing capital facilities through calendar year 2016.

Flood Control Zone Districts – No Impact to General Fund-State

Chapter 275, Laws of 2011 (EHB 1969), allows flood control districts with boundaries that are coextensive with a county of greater than 775,000 persons to protect up to 25 cents of their 50 cent levy from pro-rationing under the \$5.90 levy limit for taxes levied for collection in 2012 through 2017.

Master License Program – \$28,000 General Fund-State Decrease

Chapter 298, Laws of 2011 (SHB 2017), transfers the administration of the Master License Service Program from the Department of Licensing to the Department of Revenue. The license fee for commercial telephone solicitors moves from the general fund to the Master License Fund.

Additional Cigarette Tax – \$145.7 Million General Fund-State Increase

Chapter 334, Laws of 2011 (HB 2019), moves the \$0.60 cigarette tax from the Education Legacy Trust Account to the general fund.

Tax Preference Review – No Impact to General Fund-State

Chapter 335, Laws of 2011 (SB 5044), makes changes to the tax preference review process: replaces scheduling tax preference reviews in the order in which tax preferences were enacted with a modified approach that also considers grouping preferences for review by type of industry, economic sector, or policy area in determining the schedule; allows an expedited review for any tax preference, not just those with fiscal impact of \$10 million or less; and allows JLARC to determine which factors should be included in the review of a particular preference based on the factor's relevance to that preference.

Real Estate Firms B&O Tax – \$1.8 Million General Fund-State Decrease

Chapter 322, Laws of 2011 (SB 5083), provides that any real estate firm which receives a commission at the time of closing on a real estate transaction pays the B&O tax only upon their respective shares of the commission.

Tax Statute Clarifications – No Impact to General Fund-State

Chapter 174, Laws of 2011 (SSB 5167), makes technical corrections and clarifications to the tax code, including updating statutory references, merging double amendments, and combining redundant statutes. The requirement in the 1 percent county car rental tax that no more than 25 percent of tax revenues can be used for youth or amateur sport activities or facilities is eliminated.

Landscape Conservation – No Impact to General Fund-State

Chapter 318, Laws of 2011 (ESSB 5253), authorizes qualifying cities to create local infrastructure project areas within their boundaries and to finance public improvements through property taxes imposed by the city and the county within the project area. This is limited to cities within a county with population of 600,000 or more, that borders Puget Sound and has an established transfer of development rights program. The city must agree to accept its portion of transferable development rights.

Property Management/B&O Tax – \$582,000 General Fund-State Decrease

Chapter 26, Laws of 2011 (SB 5289), permits a B&O tax deduction for the following: amounts which a nonprofit property management company receives for compensating on-site employees from the owner of property; and amounts which a for profit or nonprofit property management company receives from a housing authority or receives from a limited liability company or limited partnership of which the sole managing member or sole general partner is a housing authority.

Contiguous Land/Property Tax – \$8,000 General Fund-State Decrease

Chapter 101, Laws of 2011 (SSB 5359), allows parcels owned by members of the same family to be aggregated for purposes of the property tax current use programs including legal entities wholly owned by members of the same family, or a combination of individuals and entities that are wholly owned by members of the family.

State Wildlife Account – \$3.0 Million General Fund-State Decrease

Chapter 339, Laws of 2011 (SSB 5385), increases revenue to the state Wildlife Account by: changing fees for recreational hunting and fishing licenses; moving all recreational hunting and fishing license revenue from the general fund; creating a new administrative surcharge for commercial hunting and fishing licenses; and allowing the Wildlife Account to retain interest from the account.

Taxation of Employee Meals – \$666,000 General Fund-State Decrease

Chapter 55, Laws of 2011 (SB 5501), provides B&O tax and sales and use tax exemptions to restaurants for meals provided to employees without a specific charge to the employee.

Hospital Benefit Zones – No Impact to General Fund-State

Chapter 363, Laws of 2011 (SSB 5525), makes several modifications to the existing Hospital Benefit Zone Program: amends the definition of public improvements to include state highways connected to the zone; allows the sponsoring local government to modify the public improvements to be financed, so long as the project cost does not increase; includes amounts expended by a hospital as "local public sources"; excludes from the calculation of "local public sources" funds derived from the state-subsidized portion loans or grants; and removes requirements that the local tax credited against the state taxes imposed under zone be expended in the fiscal year in which the taxes are received.

Stirling Converters – No Impact to General Fund-State

Chapter 179, Laws of 2011 (SB 5526), reduces the B&O tax rate to 0.275 percent for businesses that manufacture stirring converters. Allows solar projects that generate electricity from a stirring converter manufactured in Washington to receive an incentive payment for each kilowatt-hour produced.

Commitments/Judicial Costs – \$853,000 General Fund-State Decrease

Chapter 343, Laws of 2011 (SSB 5531), allows a county to apply to its Regional Support Network on a quarterly basis for reimbursement of judicial costs for civil commitment cases. The imposition or collection of a filing fee for civil commitment cases subject to reimbursement of which a portion is currently deposited in the state general fund is prohibited.

Public Utility District Privilege Tax – No Impact to General Fund-State

Chapter 361, Laws of 2011 (2SSB 5595), allocates a portion of the state public utility district (PUD) privilege tax to a city where property of another county's PUD is located in the city but the PUD does not distribute electricity within the city. This applies when the city adjoins a reservoir on the Columbia River wholly or partially created by the district's hydroelectric facility, which began power generation in 1967.

Emergency Medical Services Levy – No Impact to General Fund-State

Chapter 365, Laws of 2011 (SB 5628), excludes property in the King County portion of Milton from the King County emergency medical services (EMS) levy. It is clarified that a fire protection district may levy the full amount of its EMS levy throughout the entire area of the city.

Unclaimed Property -Agricultural Fair Premiums – \$6,000 General Fund-State Decrease

Chapter 116, Laws of 2011 (SB 5633), exempts agricultural fairs from reporting unclaimed fair premiums to the Department of Revenue under the unclaimed property program.

Taxing District Exemptions – No Impact to General Fund-State

Chapter 28, Laws of 2011 (2ESB 5638), allows Metropolitan Park Districts in King County, by a vote of the people, to move a portion of their levy outside the \$5.90 aggregate limit if it would otherwise have been pro-rated.

Local Option Sales Tax Moneys – No Impact to General Fund-State

Chapter 347, Laws of 2011 (SSB 5722), modifies non-supplant restrictions with respect to the local mental health and chemical dependency sales and use tax.

Ferry System – No Impact to General Fund-State

Chapter 16, Laws of 2011, 1st sp.s., Partial Veto (2ESSB 5742), exempts fuel purchased for Washington State Ferries and county ferry vessels from state and local retail sales and use taxes starting July 1, 2013.

Nonresident Sales Tax Exemption – No Impact to General Fund-State

Chapter 7, Laws of 2011 (SB 5763), provides that no resident of Canada or any other jurisdiction may take the nonresident sales tax exemption if the jurisdiction has any type of tax at retail of more than 3 percent.

Veteran Lottery Raffle – No Impact to General Fund-State

Chapter 325, Laws of 2011 (SB 5806), authorizes the Lottery Commission to conduct a statewide raffle to benefit veterans and their families. Deposits net revenue (estimated to be \$660,480 in the 2011-13 biennium) into the Veterans Innovations Program Account for purposes of serving veterans and their families.

Lodging Tax/Arts & Heritage – No Impact to General Fund-State

Chapter 38, Laws of 2011, 1st sp.s. (ESSB 5834), distributes the state shared hotel/motel tax in King County beginning in 2021 as follows: 37.5 percent for arts, heritage and cultural programs; 37.5 percent for affordable workforce housing and for services to homeless youth; and 25 percent for tourism purposes. Allows the principal on the arts endowment fund to be used beginning in 2012. The "double dip" of the state shared hotel/motel tax continues in Yakima until 2035.

Estates and Trusts – No Impact to General Fund-State

Chapter 113, Laws of 2011 (SB 5849), accommodates the recent change in the federal estate tax exemption amount from \$3.5 million to \$5 million. No impact on state estate tax since the state estate tax is not tied to the federal exemption amounts.

Spirits Distribution – No Impact to General Fund-State

Chapter 45, Laws of 2011 (ESSB 5942), directs the Office of Financial Management (OFM) to conduct a competitive process for the selection of a private sector entity to lease and modernize the state's spirits warehousing and distribution facilities and related operations and authorizes the Liquor Control Board to enter into a long-term contract for the lease of the warehousing and distribution of liquor within 60 days after the recommendation of a proposal by OFM.

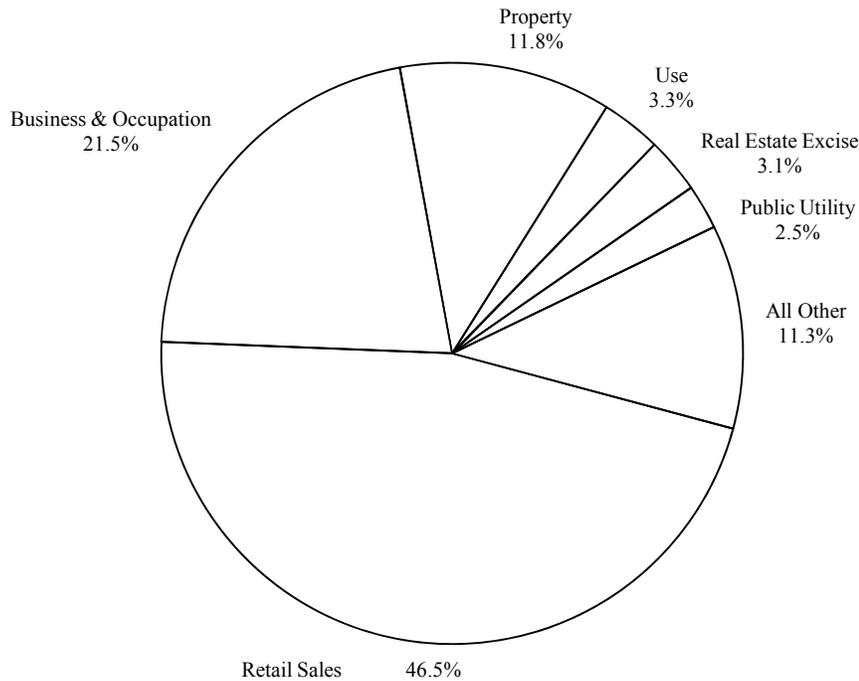
Extraordinary Revenue Growth – No Impact to General Fund-State

Senate Joint Resolution 8206 (SJR 8206), transfers three quarters of any extraordinary growth in state revenue to the Budget Stabilization Account. Defines "extraordinary revenue growth" as the amount by which the growth in general state revenues exceeds, by one-third, the average biennial growth in general state revenues over the prior five biennia. Limits the transfer of extraordinary revenue growth to the amount that exceeds the automatic 1 percent transfer of general state revenues.

Washington State Revenue Forecast - March 2011

2011-13 Near General Fund-State Revenues by Source

(Dollars in Millions)



Sources of Revenue	
Retail Sales	14,848.9
Business & Occupation	6,862.8
Property	3,769.3
Use	1,065.3
Real Estate Excise	990.9
Public Utility	795.1
All Other	3,620.3
Total *	31,906.8

Note: Reflects the March 2011 Revenue Forecast.