

Revenues

The Economic and Revenue Forecast Council updates the General Fund - State biennial revenue estimate four times a year. The November 1995 forecast estimated \$17,668.5 million in revenues for the 1995-97 biennium. After adding the beginning balance of \$661.4 million and subtracting 1995-97 appropriations approved in the 1995 session, the estimated ending balance for the 1995-97 biennium was \$731.1 million. The Governor's supplemental budget request for the 1995-97 biennium was based on the November 1995 forecast.

A slightly lower forecast of job growth combined with weaker than expected tax collections reduced the February estimate of general fund revenue by \$109 million. The state's overall employment outlook was mitigated by a more positive aerospace employment forecast.

The 1996 Legislature adopted \$152.0 million in tax reductions. The total tax reductions summed to \$175.1 million after the Governor vetoed the delayed effective dates on the tax exemption for manufacturing research and development equipment (Chapter 247, Laws of 1996 -- HB 2484) and manufacturing repair and replacement parts (Chapter 173, Laws of 1996 -- SSB 6656).

Chapter 1, Laws of 1996 (SB6117) was the largest tax reduction bill (\$132 million). It reduced the business and occupation tax rates for service activities as follows: the selected business services rate from ~~2.0~~ percent to 2.0 percent; the financial services rate from 1.7 percent to 1.6 percent; and the other services rate from 2.0 percent to 1.83 percent. Chapter 1, Laws of 1996 (SB6117) was vetoed by the Governor on January 22. The veto was overridden by the House and Senate on January 24.

After taking into account the February forecast change, the tax reductions, budget driven revenue, and a \$23.2 million transfer from the general fund to the flood control assistance account, the estimated ending balance for the 1995-97 biennium is \$415.9 million.

1996 Revenue Adjustments
General Fund - State
(Dollars in Thousands)

			Legislature As Enacted	Reflects Gov Vetoes
TAX REDUCTION LEGISLATION				
SB	6117	B&O Tax Rate Reduction	-132,380	-132,380
SSB	6656	Repair & Replacement of Manufacturing Equip	-8,318	-19,549 *
HB	2484	Research & Development Equipment	-389	-12,441 **
SB	6511	Laser Interferometers Gravitational Wave Observatory	-3,586	-3,586
SSB	6510	Nuclear Clean-up Firms	-1,966	-2,239
HB	2290	Wind and Solar Power	-1,445	-1,445
SB	6401	Carbon Anodes Used in Aluminum Production	-1,428	-1,428
SHB	2590	Guided Tours and Charters	-1,206	-1,206
SB	6526	Naturopathic Prescriptions	-253	-253
SHB	2778	Farmworker Housing	-175	-175
HB	2337	Distressed Area Tax Relief	-133	-120 ***
HB	2593	Railroad Public Utility Tax	-113	-113
SHB	2119	Preserved Fruit and Vegetables	-92	-92
ESSB	6284	Public Records	-80	-80
HB	2440	Low-Density Light and Power	-17	-17
SSB	6279	Fermented Apple and Pear Cider	-2	-2
HB	2190	Railroad Associations Regulatory Fees	0	0
ESHB	2214	Human Tissue Research & Development	0	0
HB	2457	Senior Citizen Property Tax Exemption	0	0
HB	2589	Unclaimed Property Procedures	0	0
HB	2591	Obsolete Tax Provisions	0	0
ESHB	2592	Penalties and Interest	0	0
SHB	2708	Warehouse Study	0	0
HB	2789	Small Business Excise Tax Reporting	0	0
HB	2861	Academic Transcripts	0	0
ESSB	6241	Hotel/Motel Taxes	0	0
SB	6718	Local Government Archives	0	0
SHB	2447	Motor Vehicle Wholesale Auctions	-435	Vetoed
Total			-152,018	-175,127

* SSB 6656 was enacted with a January 1, 1997, effective date. The Governor vetoed the effective date making the bill effective June 6, 1996.

** HB 2484 was enacted with a July 1, 1997, effective date. The Governor vetoed the effective date making the bill effective June 6, 1996.

*** HB 2337 received a partial Governor veto.

BUDGET DRIVEN REVENUE		
Treasurers' Service Account Transfer	5,000	5,000
IMR Tax	1,494	1,494
Total	6,494	6,494

REVENUE LEGISLATION

Business and Occupation Tax Reduction -- \$132.4 Million General Fund - State Revenue Decrease

Business and occupation (B&O) tax service rate increases adopted in 1993 are reduced by half, effective January 1, 1996. The selected business service rate is reduced from 2.5 percent to 2.0 percent; the financial business service rate is reduced from 1.7 percent to 1.6 percent; and the other services rate is reduced from 2.09 percent to 1.83 percent. The tax credit for job creation in distressed areas is increased from \$1,000 to \$2,000 per job for projects approved after January 1, 1996. A new B&O credit is authorized for job training in distressed areas, equal to 20 percent of employee training costs. (Governor vetoed; veto overridden) (Chapter 1, Laws of 1996 -- SB 6117)

Repair & Replacement of Manufacturing Equipment -- \$19.5 Million General Fund - State Revenue Decrease

Extends the manufacturing sales and use exemption to include replacement parts and the costs of repairing and/or cleaning equipment used in the manufacturing process. (Governor vetoed the January 1, 1997, effective date, making the bill effective June 6, 1996.) (Chapter 173, Laws of 1996 -- SSB 6656)

Research & Development Equipment -- \$12.4 Million General Fund - State Revenue Decrease

Expands the sales and use tax exemption on machinery and equipment for manufacturers to include machinery and equipment used by manufacturers for research and development. Provides a sales and use tax exemption on materials used in designing and developing aircraft parts for taxpayers with annual gross sales less than twenty million dollars. (Governor vetoed a July 1, 1997, effective date, making the research and development exemption effective June 6, 1996.) (Chapter 247, Laws of 1996 -- HB 2484)

Laser Interferometer Gravitational Wave Observatory -- \$3.6 Million General Fund - State Revenue Decrease

Personal property used to build a laser interferometer gravitational wave observatory at Hanford is exempt from sales tax if the construction is commenced before December 1, 1996. (Chapter 113, Laws of 1996 -- SB 6511)

Nuclear Clean-Up Firms -- \$2.2 Million General Fund - State Revenue Decrease

The business and occupation tax rate for persons engaged in the business of cleaning up radioactive waste for the United States is reduced from the service rate of 1.829 percent to the retail rate of 0.471 percent. (Chapter 112, Laws of 1996 -- SSB 6510)

Wind and Solar Power -- \$1.4 Million General Fund - State Revenue Decrease

Machinery and equipment used directly in generating electricity using wind or sun energy is exempt from sales and use taxes. The costs of installing the machinery and equipment are also exempt. Only facilities capable of generating 200 kilowatts of electricity are eligible. (Chapter 166, Laws of 1996 -- HB 2290)

Carbon Anodes Used in Aluminum Production -- \$1.4 Million General Fund - State Revenue Decrease

Sales of carbon, petroleum coke, coal tar, pitch, and similar substances that become an ingredient or component of anodes or cathodes used in producing aluminum for sale are exempt from sales tax. (Chapter 170, Laws of 1996 -- SB 6401)

Guided Tours and Charters -- \$1.2 Million General Fund - State Revenue Decrease

Guided tours and guided charters are exempted from the sales tax except day trips for sightseeing purposes. Wholesale sales of day trips and other amusement and recreation services (such as golf, pool, billiards, skating, bowling, and ski lifts) are exempt from sales tax. The B&O rate for tour operators is lowered from 1.829 percent to 0.287 percent, which is the rate paid by travel agents. (Chapter 148, Laws of 1996 - SHB 2590)

Naturopathic Prescriptions -- \$253,000 General Fund - State Revenue Decrease

Provides sales and use tax exemptions for medicines of mineral, animal, and botanical origin prescribed, administered, or used in treatment of an individual by a naturopath. (Chapter 162, Laws of 1996 -- SB 6526)

Farmworker Housing -- \$175,000 General Fund - State Revenue Decrease

Provides sales and use tax exemptions for labor and material used to construct, repair, decorate, or improve agricultural employee housing. The housing must be used for agricultural employees for a minimum of five years and must be built in conformance with the Uniform Building Code if used year round. The exemption does not apply to housing built for the employer or family members. (Chapter 117, Laws of 1996 -- SHB 2778)

Distressed Area Tax Relief -- \$120,000 General Fund - State Revenue Decrease

Expands distressed area tax relief to include counties with a median household income that is less than 75 percent of the state median household income for the previous three years. Based on current household income data, Asotin and Whitman counties will join the list of counties eligible for distressed area tax relief. Distressed area tax relief includes a \$2,000 business and occupation tax credit for each new job and a sales and use tax exemption for building construction and expansion. (Governor vetoed a provision extending sales tax exemption for manufacturing equipment to include equipment used to deliver building trusses by firms in towns with a population of less than 1,200 persons within a timber impact area.) (Chapter 290, Laws of 1996 -- HB 2337)

Railroad Public Utility Tax -- \$113,000 General Fund - State Revenue Decrease

The public utility tax rate for railroads and railroad car businesses is reduced from 3.852 percent to 1.926 percent. The rental of rail cars is removed from the public utility tax and made subject to the sales tax. (Chapter 150, Laws of 1996 -- HB 2593)

Preserved Fruit and Vegetables -- \$92,000 General Fund - State Revenue Decrease

The B&O tax rate on the sale of wholesale fresh fruits and vegetables that are canned, preserved, frozen, or dehydrated by the seller and sold to purchasers who take delivery in Washington, but transport the product out-of-state, is reduced to 0.33 percent. This is the same rate as is applied to sales of these products to purchasers located out-of-state. (Chapter 115, Laws of 1996 -- SHB 2119)

Public Records -- \$80,000 General Fund - State Revenue Decrease

Sales and use taxes do not apply to copying of public records under a request for the record for which no fee is charged other than a statutorily set fee or a fee to reimburse the agency for its copying costs. This includes a request for a document not available to the public but available to those persons who by law are allowed access to the document, such as requests for fire reports, law enforcement reports, taxpayer information, and academic transcripts. (Chapter 63, Laws of 1996 -- ESSB 6284)

Low-Density Light and Power -- \$17,000 General Fund - State Revenue Decrease

The portion of wholesale power costs a low-density light and power company may deduct from taxable gross receipts under the public utility tax is doubled. (Chapter 145, Laws of 1996 -- HB 2440)

Fermented Apple and Pear Cider -- \$2,100 General Fund - State Revenue Decrease

Lowers the wine tax rate for fermented apple and pear cider from 22.92 cents per liter to 6.11 cents per liter until July 1, 1997, and 8.14 cents per liter thereafter. It also dedicates a portion of the revenue to the Health Services Account. (Chapter 118, Laws of 1996 -- SSB 6279)

Railroad Associations Regulatory Fees -- No General Fund - State Revenue Impact

Provides an exemption from the 1.5 percent annual Utilities and Transportation Commission fee for railroad associations that qualify as not-for-profit charitable organizations. (Chapter 196, Laws of 1996 -- HB 2190)

Human Tissue Research & Development -- No General Fund - State Revenue Impact

Provides a sales and use tax exemption for human blood, tissue, organs, bodies, or body parts for medical research and quality control testing purposes. (Chapter 141, Laws of 1996 -- ESHB 2214)

Senior Citizen Property Tax Exemption -- No General Fund - State Revenue Impact

The valuation of the residences of persons eligible for the senior citizens and disabled persons property tax exemption program is frozen at the assessed value, rather than the market value, of the residence on January 1st of the year the person first qualifies under for the program or January 1, 1995, whichever is later. (Chapter 146, Laws of 1996 -- HB 2457)

Unclaimed Property Procedures -- No General Fund - State Revenue Impact

Makes technical changes to the unclaimed property procedures of the Department of Revenue. (Chapter 45, Laws of 1996 -- HB 2589)

Obsolete Tax Provisions -- No General Fund - State Revenue Impact

Repeals specific obsolete or unnecessary tax provisions relating to mobile home park fees, the petroleum products tax, and the ride sharing tax exemption. (Chapter 88, Laws of 1996 -- HB 2591)

Penalties and Interest -- No General Fund - State Revenue Impact

Provides for clear and consistent penalty and interest administration by the Department of Revenue. (Chapter 149, Laws of 1996 -- ESHB 2592)

Warehouse Study -- No General Fund - State Revenue Impact

Directs the Department of Revenue to study the warehousing and distribution industry in the state. (Chapter 299, Laws of 1996 -- SHB 2708)

Small Business Excise Tax Reporting -- No General Fund - State Revenue Impact

The tax exemption threshold for the public utility tax is increased from \$6,000 to \$24,000 per year, and the threshold for filing business and occupation tax and public utility tax returns is increased from \$12,000 to \$24,000 per year. (Chapter 111, Laws of 1996 -- HB 2789)

Academic Transcripts -- No GF-S Revenue Impact

The sale and use of academic transcripts is exempted from the business and occupation tax and the sales and use tax. (Chapter 272, Laws of 1996 -- HB 2861)

Hotel/Motel Taxes -- No GF-S Revenue Impact

Makes a number of changes to the hotel/motel tax statutes. Based upon current populations: allows Winthrop to levy an additional 3 percent tax for tourism promotion; allows Kennewick and Richland to levy an additional 2 percent tax for a convention center; allows La Conner to levy an additional 2 percent tax for a convention center; and expands the allowable uses of the state shared hotel/motel tax proceeds to include historic maritime vessels and street banners. (Chapter 159, Laws of 1996 -- ESSB 6241)

Local Government Archives -- No GF-S Revenue Impact

County auditors are directed to impose a \$1 surcharge on each document filed with the auditor. This surcharge is transmitted to the State Treasurer for deposit in the Archives and Records Management Account and may be used solely for local government archives and records services. (Chapter 245, Laws of 1996 -- SB 6718)

Motor Vehicle Wholesale Auctions -- \$435,000 General Fund - State Revenue Decrease

Wholesale auctions of motor vehicles to dealers are exempt from business and occupation tax. (SHB 2447 -- Governor vetoed.)

BUDGET DRIVEN REVENUE

IMR Tax -- \$1.4 Million General Fund - State

A 1995 federal audit of the special excise tax on intermediate care facilities for the mentally retarded (IMR's) determined that departmental indirect costs need to be included in the IMR tax base at the state residential habilitation centers. Reimbursing the cost of this tax requires additional state and federal expenditures, but will result in a net gain in state revenues.

Transfer from Treasurer's Service Account -- \$5.0 Million General Fund - State

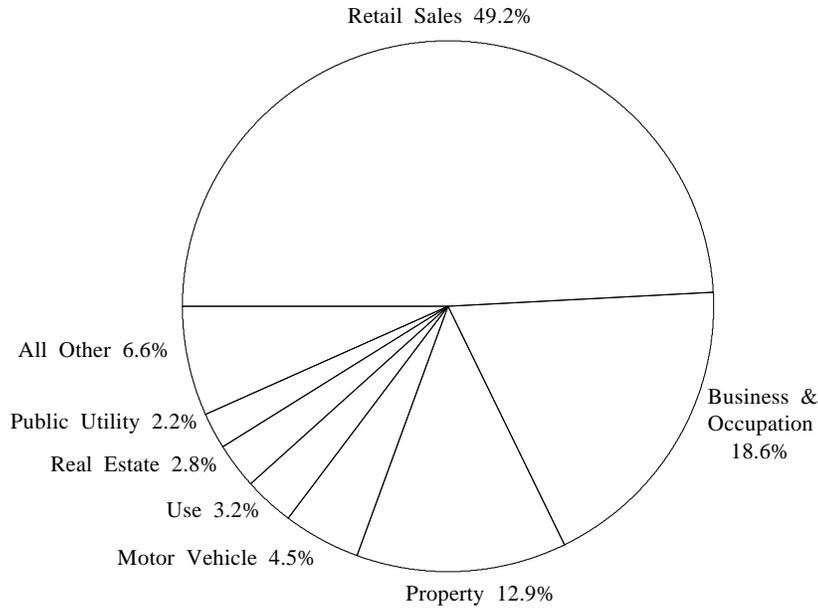
The amount of \$5.0 million is transferred from the Treasurer's Service Account to the General Fund. The account is used to fund the operations of the Office of the State Treasurer, and the transfer represents surplus funds in the account that are in excess of the biennial appropriation to the State Treasurer.

OTHER TRANSFERS

Transfer to Flood Control Assistance Account -- \$23 Million General Fund - State

The amount of \$23 million is transferred from the General Fund to the Flood Control Assistance Account. The account is used to provide assistance to local governments for comprehensive flood control management plans and for flood control maintenance projects.

Washington State Revenue Forecast -- February 1996
1995-97 General Fund - State Revenues by Source
(Dollars in Millions)

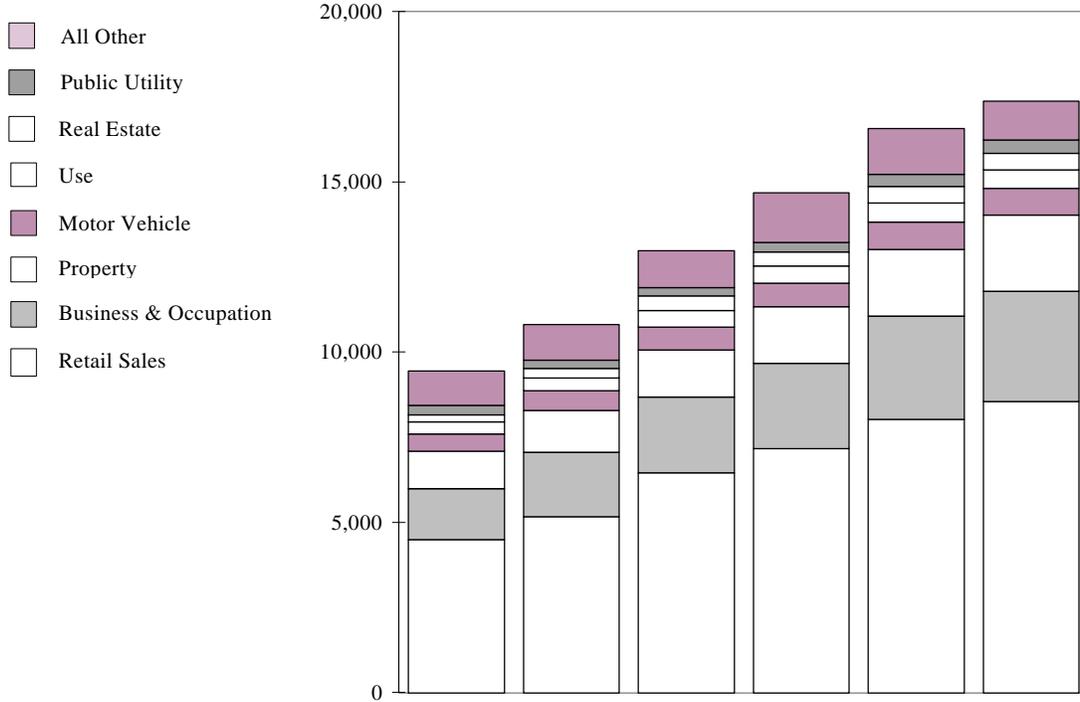


Sources of Revenue	
Retail Sales	8,536.2
Business & Occupation	3,231.7
Property	2,242.9
Motor Vehicle Excise	788.4
Use	548.0
Real Estate Excise	486.1
Public Utility	385.5
All Other	1,148.6
Total *	17,367.4

* Updated for the 1996 Legislative Session; reflects the February 1996 forecast and Governor vetoes.

Washington State General Fund - State Revenues By Source

(Dollars in Millions)



	1985-87	1987-89	1989-91	1991-93	1993-95	1995-97 *
Retail Sales	4,490.5	5,152.8	6,446.3	7,163.0	8,020.5	8,536.2
Business & Occupation	1,482.5	1,894.3	2,217.7	2,503.5	3,031.5	3,231.7
Property	1,109.5	1,233.7	1,399.4	1,661.8	1,960.4	2,242.9
Motor Vehicle Excise	497.3	586.2	665.9	687.9	793.5	788.4
Use	357.8	372.6	481.9	515.1	569.4	548.0
Real Estate Excise	221.0	280.9	436.8	399.0	493.0	486.1
Public Utility	266.5	244.9	244.0	292.9	345.2	385.5
All Other	1,006.7	1,029.7	1,080.1	1,441.6	1,351.1	1,148.6
Total	9,431.8	10,795.1	12,972.1	14,664.8	16,564.6	17,367.4

1995-97 Washington State Operating Budget General Fund - State Revenues By Source

Dollars in Millions

	<u>1985-87</u>	<u>1987-89</u>	<u>1989-91</u>	<u>1991-93</u>	<u>1993-95</u>	<u>1995-97 *</u>
Retail Sales	4,490.5	5,152.8	6,446.3	7,163.0	8,020.5	8,536.2
Business & Occupation	1,482.5	1,894.3	2,217.7	2,503.5	3,031.5	3,231.7
Property	1,109.5	1,233.7	1,399.4	1,661.8	1,960.4	2,242.9
Motor Vehicle Excise	497.3	586.2	665.9	687.9	793.5	788.4
Use	357.8	372.6	481.9	515.1	569.4	548.0
Real Estate Excise	221.0	280.9	436.8	399.0	493.0	486.1
Public Utility	266.5	244.9	244.0	292.9	345.2	385.5
All Other	1,006.7	1,029.7	1,080.1	1,441.6	1,351.1	1,148.6
Total	9,431.8	10,795.1	12,972.1	14,664.8	16,564.6	17,367.4

Percent of Total

Retail Sales	47.6%	47.7%	49.7%	48.8%	48.4%	49.2%
Business & Occupation	15.7%	17.5%	17.1%	17.1%	18.3%	18.6%
Property	11.8%	11.4%	10.8%	11.3%	11.8%	12.9%
Motor Vehicle Excise	5.3%	5.4%	5.1%	4.7%	4.8%	4.5%
Use	3.8%	3.5%	3.7%	3.5%	3.4%	3.2%
Real Estate Excise	2.3%	2.6%	3.4%	2.7%	3.0%	2.8%
Public Utility	2.8%	2.3%	1.9%	2.0%	2.1%	2.2%
All Other	10.7%	9.5%	8.3%	9.8%	8.2%	6.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Percent Change from Prior Biennium

Retail Sales	14.7%	25.1%	11.1%	12.0%	6.4%
Business & Occupation	27.8%	17.1%	12.9%	21.1%	6.6%
Property	11.2%	13.4%	18.8%	18.0%	14.4%
Motor Vehicle Excise	17.9%	13.6%	3.3%	15.4%	-0.6%
Use	4.1%	29.3%	6.9%	10.5%	-3.8%
Real Estate Excise	27.1%	55.5%	-8.7%	23.6%	-1.4%
Public Utility	-8.1%	-0.4%	20.0%	17.9%	11.7%
All Other	2.3%	4.9%	33.5%	-6.3%	-15.0%
Total	14.5%	20.2%	13.0%	13.0%	4.8%

* Updated for the 1996 Legislative Session; reflects the February 1996 forecast and Governor vetoes.