

Revenues

During the 2000 regular and first and second special legislative sessions, the Legislature enacted 23 bills affecting revenue. After four partial vetoes and two full vetoes, state general fund resources were reduced by \$3.1 million.

The most significant revenue legislation in 2000 was the people's adoption of Initiative 695. Initiative 695 reduced the motor vehicle fund and other dedicated funds by \$1.1 billion. About \$576 million of the decrease was revenue distributed to local governments for purposes such as public transportation, public health, public safety, and sales tax equalization. Initiative 695 repealed excise taxes that were imposed on motor vehicles, travel trailers, and campers. (A consequence of repealing these excise taxes was that motor vehicles, travel trailers, and campers became subject to property taxes.) The Initiative also instituted an annual \$30 license tab fee for motor vehicles and required voter approval for any increases in state or local taxes, fees, or other monetary charges by government. In March, the King County Superior Court invalidated Initiative 695 in its entirety on several grounds (*Amalgamated Transit Union v. State of Washington*, March 14, 2000). The state is appealing the ruling to the Supreme Court.

In response to Initiative 695, the Legislature exempted motor vehicles, travel trailers, and campers from the property tax and made this exemption retroactive to the effective date of Initiative 695. The Legislature also adopted legislation making the repeal of excise taxes on motor vehicles, travel trailers, and campers and the imposition of \$30 license tab fees permanent, regardless of how the Supreme Court ultimately rules. Additionally, the Legislature granted local governments authority to impose up to 0.9 percent local sales and use tax for public transit purposes with voter approval; the previous limit was 0.6 percent.

In regards to legislation unrelated to Initiative 695, two bills had revenue impacts on the state general fund in excess of \$1 million. The first bill allows the Department of Community, Trade, and Economic Development to designate an additional community empowerment zone (CEZ) to complete the six zones that were initially authorized in 1993. As passed the Legislature, the bill had no impact on the state general fund. However, the Governor decreased the state general fund by \$1.5 million when he vetoed the section that made businesses located in a newly-designated CEZ ineligible for certain sales and use tax deferrals that apply to businesses located in already-existing CEZs.

The second bill deals with the taxation of electrical energy sales and decreases the state general fund by \$1.3 million. This legislation expands tax exemptions for electricity by exempting all wholesales of electricity from public utility tax and business and occupation tax, including wholesales to, or by, brokers and marketers.

All other revenue bills passed by the Legislature and signed by the Governor either had no revenue impacts or impacts of \$111,000 or less on the state general fund.

2000 Revenue Legislation
General Fund-State
(Dollars in Thousands)

			<u>1999-01</u>	<u>2001-03</u>
E2SHB	1987	Agricultural Burning Reduction	-111	-232
E2SHB	2109	Indian Housing Authorities	0	0
SHB	2398	Tax Statutes	0	0
SHB	2460	Community Empowerment Zones	-1,531	-3,311
SHB	2493	Sales and Use Tax Rate Change	0	0
HB	2505	Multiple-Unit Dwellings/Property Tax Exemption	0	0
HB	2515	Estate Tax Penalties	-110	-220
HB	2516	Successor Tax Liability	0	0
HB	2519	Excise Tax Code	0	0
HB	2590	Pollution Liability Insurance	0	0
EHB	2755	Electric Energy Sales	-1,338	-2,605
HB	2926	Coal Tax Exemptions	0	0
EHB	3068	Radioactive Waste Treatment	0	-839
EHB	3105	Zoos, Aquariums, Parks Funding	0	0
ESB	5667	Boxing, Kickboxing, Martial Arts, and Wrestling	-4	-5
2SSB	5802	Telecommunications Contractors	-11	-22
SSB	6115	Motor Vehicle Property Tax Exemption	0	4,244
SSB	6467	License Fraud	55	95
SB	6678	Parimutuel Wagering Sunset	0	-80
2E2SSB	6856	Transportation Funding	0	0
SB	6865	Vehicle License Tab Fees	0	0
Total All Bills			<u>-3,050</u>	<u>-2,975</u>

Revenue Legislation

Motor Vehicles and Transportation Tax Legislation

License Tab Tax Limitations – No General Fund-State Revenue Impact

Chapter 1, Laws of 2000 (Initiative 695 to the People), has no revenue impact on the state general fund, but it decreases the Motor Vehicle Fund and other dedicated funds by \$1.1 billion. About \$576 million of the decrease is revenue distributed to local governments for public transportation, public health, public safety, sales tax equalization, and other purposes. The Initiative repeals excise taxes that are imposed on motor vehicles, travel trailers, and campers. It also institutes an annual license tab fee of \$30 for motor vehicles, regardless of year, value, make, or model, beginning January 1, 2000. Voter approval is required for any increase in a state or local tax, fee, or other monetary charge by government, but voter approval is not required to increase tuition, civil and criminal fines, and restitution. (On March 14, 2000, the King County Superior Court invalidated Initiative 695 in its entirety on several grounds. The state is appealing the ruling to the Supreme Court. See the next paragraph for a description of legislation making the repeal of motor vehicle excise taxes and the imposition of \$30 license tab fee permanent regardless of how the Supreme Court ultimately rules.)

Replacing Vehicle Excise Taxes with a Fixed License Fee – No General Fund-State Revenue Impact

Chapter 1, Laws of 2000, 1st sp. s. (SB 6865), has no revenue impact on the state general fund. The legislation repeals excise taxes that are imposed on motor vehicles, travel trailers, and campers. It also institutes an annual license tab fee of \$30 for motor vehicles, regardless of year, value, make, or model, beginning January 1, 2000. (On March 14, 2000, the King County Superior Court invalidated Initiative 695 in its entirety on several grounds. The state is appealing the ruling to the Supreme Court. This legislation ensures that the repeal of the excise taxes and the imposition of the \$30 annual license tab fee are permanent regardless of how the Supreme Court ultimately rules.)

Reinstating the Property Tax Exemption for Motor Vehicles, Travel Trailers, and Campers – No General Fund-State Revenue Impact for the Current Biennium

Chapter 136, Laws of 2000 (SSB 6115), has no impact on the state general fund this biennium, but increases revenue next biennium by \$4.2 million. When voters adopted Initiative 695, the motor vehicle excise tax was repealed and the property tax applied once again to motor vehicles, travel trailers, and campers. The total valuation of motor vehicles, travel trailers, and campers is estimated at \$37.4 billion for calendar year 2000. This legislation exempts motor vehicles, travel trailers, and campers from the property tax retroactively to the effective date of Initiative 695. The \$4.2 million increase in revenue during the next biennium results from the complex formula used to compute the state property tax levy and how the value of new construction is multiplied by the previous year's levy rate in that formula.

Revising Transportation Funding – No General Fund-State Revenue Impact

Chapter 4, Laws of 2000, 2nd sp. s., Partial Veto (2E2SSB 6856), has no revenue impact on the state general fund, but local governments are given authority to impose up to a 0.9 percent local sales and use tax for public transit purposes with the voters' approval. Previously, the cap on a local sales and use tax for transit purposes was 0.6 percent. The legislation also creates a new multimodal transportation account, and funds from this account may be used only for transportation purposes, including rail, ferries, high capacity transit, highway construction, and other multimodal purposes. Revenue from the sales and use tax on rental cars, previously distributed in the same manner as motor vehicle excise tax revenue, is deposited into the multimodal transportation account. Other revenue deposited into the account includes two dollars from each combined vehicle licensing fee and penalties imposed for the evasion of motor vehicle and special fuel taxes. (The Governor vetoed a section modifying the membership and duties of the Transportation Revenue Forecast Council and a section that the Governor indicated was inadvertently copied from an earlier version of the bill.)

Other Tax Legislation

Addressing Economic Revitalization – \$1.5 Million General Fund-State Revenue Decrease

Chapter 212, Laws of 2000, Partial Veto (SHB 2460), decreases the state general fund by \$1.5 million and local governments' revenue by \$376 thousand. The legislation allows the Department of Community, Trade, and Economic Development (DCTED) to designate an additional community empowerment zone (CEZ) to complete the six zones that were initially authorized in 1993. The legislation also makes some administrative changes to the CEZ program. The \$1.5 million reduction in the state general fund results from the Governor's veto of a section pertaining to the sales and use tax deferral for labor and materials used in the construction or expansion of a manufacturing or research and development facility in a CEZ. Under this section, businesses in new CEZs would not have been eligible for sales and use tax deferrals that are available to businesses located in existing CEZs.

Clarifying the Taxation of Electrical Energy Sales – \$1.3 Million General Fund-State Revenue Decrease

Chapter 245, Laws of 2000 (EHB 2755), decreases the state general fund by \$1.3 million. This legislation expands tax exemptions for electricity by exempting all wholesales of electricity from public utility tax and business and occupation tax, including wholesales to, or by, brokers and marketers. Previously, public utility tax exemptions were limited to wholesales of electricity by one utility to another utility and sales of electricity for consumption outside the state. There were no previous business and occupation tax exemptions for wholesales of electricity.

Providing Tax Exemptions and Credits to Encourage a Reduction in Agricultural Burning of Cereal Grains and Field and Turf Grass Grown for Seed – \$111 Thousand General Fund-State Revenue Decrease

Chapter 40, Laws of 2000 (E2SHB 1987), decreases the state general fund by \$111 thousand and local governments' revenue by \$80 thousand. The legislation creates tax exemptions in order to encourage alternatives to field burning of cereal grains and field and turf grass grown for seed.

Simplifying Estate Tax Penalties – \$110 Thousand General Fund-State Revenue Decrease

Chapter 105, Laws of 2000 (HB 2515), decreases the state general fund by \$110 thousand. The legislation reduces penalties imposed for the late filing of an estate tax return.

Telecommunications Contractors – \$11 Thousand General Fund-State Revenue Decrease

Chapter 238, Laws of 2000, Partial Veto (2SSB 5802), decreases the state general fund by \$11 thousand. The legislation creates a new registration and inspection program for telecommunications contractors. It also requires permits and inspections for most non-residential installations of telecommunications systems. The revenue impact on the state general fund is due to the fact that some registration fee revenue will be deposited into a newly-created telecommunications fund instead of the state general fund. The net revenue impact of this legislation is a \$1.6 million revenue increase for the new telecommunications fund. (The Governor vetoed a legislative intent section that limited authority delegated to the Electrical Board and the Department of Labor and Industries for implementation of this legislation.)

Untaxed Complimentary Tickets for Boxing, Kickboxing, Martial Arts, and Wrestling – \$4 Thousand General Fund-State Revenue Decrease

Chapter 151, Laws of 2000 (ESB 5667), decreases the state general fund by \$4 thousand. The legislation allows 10 percent of all tickets for a wrestling, boxing, or martial arts event to be issued as tax-exempt, complimentary tickets. The number of complimentary tickets, however, may not exceed 1,000 tickets per event. Previous limit was 5 percent of all tickets, not to exceed 300 tickets per event.

Authorizing Tax Exemptions for Properties of Indian Housing Authorities Designated for Low-Income Housing Program Uses – No General Fund-State Revenue Impact

Chapter 187, Laws of 2000 (E2SHB 2109), has no revenue impact. The legislation provides a property tax exemption for property of a tribal government, tribal housing authority, or inter-tribal housing authority that has been designated for use as housing for low-income tribal members. A tribal government, tribal housing authority, or inter-tribal housing authority may reimburse local governments for services provided.

Making Technical Corrections to Tax Statutes – No General Fund-State Revenue Impact

Chapter 103, Laws of 2000 (SHB 2398), has no revenue impact. The legislation makes technical corrections to various sections of the excise and property tax statutes.

Simplifying Implementation of Sales and Use Tax Rate Changes – No General Fund-State Revenue Impact

Chapter 104, Laws of 2000 (SHB 2493), has no impact on the state general fund. The legislation allows sales and use tax rate changes to take effect only on the first day of January, April, July, or October. The Department of Revenue is also required to hold taxpayers harmless for sales and use tax rate computation errors if the taxpayers properly use technology provided by the Department to compute taxes due.

Modifying the Definition of a City for the Multiple-Unit Dwellings Property Tax Exemption – No General Fund-State Revenue Impact

Chapter 242, Laws of 2000 (HB 2505), has no impact on the state general fund. The legislation expands the areas included in the 10-year property tax exemption for multiple-unit housing projects by lowering the eligible city population threshold from 100,000 to 50,000.

Regarding the Disclosure of Information to Persons Against Whom Successor Tax Liability Is Asserted – No General Fund-State Revenue Impact

Chapter 173, Laws of 2000 (HB 2516), has no impact on the state general fund. The legislation permits the Department of Revenue to disclose tax return or tax information to successors.

Simplifying the Excise Tax Code – No General Fund-State Revenue Impact

Chapter 106, Laws of 2000, Partial Veto (HB 2519), has no impact on the state general fund. The legislation makes several changes to excise tax statutes. The Department of Revenue is allowed to disclose tax owed on properties involved in real estate transactions. Deadlines for remitting state 911 taxes are made the same as the deadlines for remitting other excise taxes. A change in ownership does not affect the deferral of sales and use taxes on facilities constructed under various tax incentive programs. Help desk or software/programming businesses located in rural counties do not lose their eligibility for business and occupation tax credits if they fail to file annual reports with the Department of Revenue. (The Governor vetoed a section allowing the Department of Revenue to collect unpaid watercraft excise taxes. Similar language allowing the Department to collect unpaid watercraft excise taxes is enacted in another bill, see Chapter 229, Laws of 2000.)

Extending the Expiration Date on Certain Pollution Liability Insurance Programs – No General Fund-State Revenue Impact

Chapter 16, Laws of 2000 (SHB 2590), has no impact on the state general fund. The pollution liability insurance program is designed to upgrade underground storage tanks. A petroleum products tax funds the program, but the tax is only collected when the pollution liability insurance program trust account falls below a threshold amount. The last time that the account balance was low enough to trigger collection of the tax was in 1992. Both the program and the tax were scheduled to expire on June 1, 2001. This legislation extends the program and the tax until June 1, 2007.

Repealing Certain Coal Tax Exemptions – No General Fund-State Revenue Impact

Chapter 4, Laws of 2000 (HB 2926), has no impact on the state general fund. The legislation modifies the sales and use tax exemption provided for coal used in a thermal electric generating facility by repealing an eligibility criterion that required 70 percent of the coal consumed by a facility to be from a mine in the same county or an adjacent county.

Exempting Personal Property Used in Connection with Privatization Contracts for the Treatment of Radioactive Waste and Hazardous Substances from Property Tax – No General Fund-State Revenue Impact for the Current Biennium

Chapter 246, Laws of 2000 (EHB 3068), has no impact on the state general fund this biennium but reduces the general fund by \$839 thousand next biennium. The legislation exempts private property used for tank waste cleanup at Hanford from the state property tax for years 2002 through 2005. Beginning in the year 2006, the property tax exemption applies to both state and local property taxes.

Apportioning a Sales and Use Tax for Zoos, Aquariums, Wildlife Preserves, and Regional Parks – No General-Fund State Revenue Impact

Chapter 240, Laws of 2000 (EHB 3105), has no impact on the state general fund. The legislation requires a county to submit to voters a ballot proposition authorizing no more than 1/10 of 1 percent local sales and use tax if a joint request is made by a metropolitan park district, a city with a population over 150,000, and the legislative authority of a county with a national park and a population between 500,000 and 1,500,000. The joint request and ballot proposition may be worded to spend either all of the tax revenue on zoo, aquarium, and wildlife preservation and display facilities or half of the tax revenue on those facilities and the other half on parks located throughout the county.

Pari-mutuel Wagering – No General Fund-State Revenue Impact for the Current Biennium

Chapter 145, Laws of 2000 (SB 6678), has no impact on the state general fund this biennium but reduces revenue by \$80 thousand next biennium. The legislation repeals a sunset date, allowing the reduced pari-mutuel tax rate and tax distribution to remain in effect.

License Fraud – \$55 Thousand General Fund-State Increase

Chapter 229, Laws of 2000 (SSB 6467), increases the state general fund by \$55 thousand. In 1999, the Legislature decriminalized license fraud and enacted civil penalties for intentionally licensing a vehicle in another state. The 1999 legislation also authorized the Washington State Patrol to use an administrative process to enforce the civil penalties. As a result of establishing that process, local law enforcement officials no longer had the authority to issue citations for license fraud and the Department of Revenue lost its ability to collect unpaid watercraft excise taxes. This year's legislation disbands the Washington State Patrol's license fraud task force that was created in 1999. Authority for enforcing license plate violations is returned to local law enforcement officials. The revenue increase for the state general fund stems from restoring the Department of Revenue's authority to collect unpaid watercraft excise taxes.

Full Vetoes of Tax Legislation

Providing a Sales and Use Tax Deferral for Natural Gas-Fired Energy Generating Facilities Sited in Rural Areas

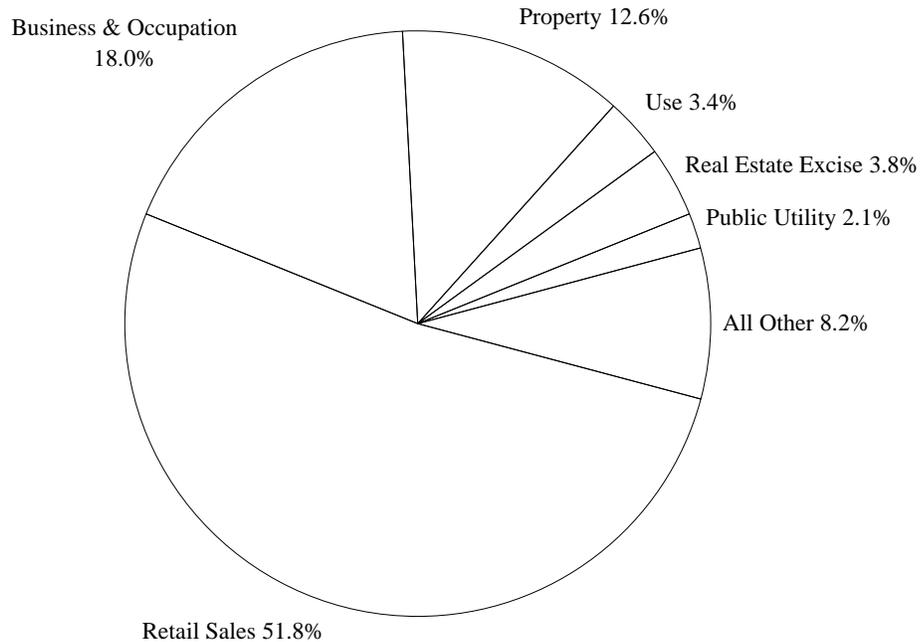
The Governor vetoed SSB 6062, which would have allowed sales and use taxes to be deferred on 600 megawatt or larger natural gas-fired generating facilities constructed in rural areas. If the legislation had taken effect, there would have been a \$3.9 million reduction in the state general fund.

Modifying the Tax Treatment of Linen and Uniform Supply Services

The Governor vetoed SHB 2850, which would have specified that the retail sale of linen and uniform supply services occurs at the place where delivery is made to the customer. If the legislation had taken effect, collection of sales tax on deliveries made by out-of-state linen suppliers to Washington customers would have resulted in a \$617 thousand increase in the state general fund and a \$161 thousand increase for local governments.

Washington State Revenue Forecast - February 2000
1999-01 General Fund-State Revenues by Source

(Dollars in Millions)



Sources of Revenue	
Retail Sales	10,805.3
Business & Occupation	3,760.2
Property	2,635.3
Use	709.2
Real Estate Excise	791.2
Public Utility	432.7
All Other	1,709.0
Total	20,842.9

Note: Reflects the February 2000 Revenue Forecast.