

Revenues

The 2005 legislative session began with the Legislature facing a current level budget shortfall of \$1.8 billion in revenues. This was exacerbated by two state Supreme Court decisions.

On January 13, 2005, the state Supreme Court rendered its decision in *Agrilink Foods, Inc. v. State Department of Revenue*, 153 Wn.2d 392 (2005). The Supreme Court held that the lower business and occupation tax rate of 0.138 percent on the slaughtering, breaking, and/or processing perishable meat products applied to the processing of perishable meat products into nonperishable meat products. The Department of Revenue's (DOR's) position has been that the finished product must also be perishable. The result of the decision was a cost to the state general fund of \$60 million for the 2005-07 biennium, consisting of \$38 million in refunds and \$22 million in decreased revenues.

On February 3, 2005, the state Supreme Court rendered its decision in *Estate of Hemphill v. State*, 153 Wn.2d 544 (2005). The Supreme Court held that Washington's estate tax was a "pick-up" estate tax based on current federal law rather than the 2001 federal law. The result of the decision was a cost to the state general fund of \$431.1 million, consisting of \$152.3 million in refunds, a reduction in revenues of \$43.9 million for the 2003-05 biennium, and a reduction in revenues of \$234.9 million for the 2005-07 biennium.

The revenue forecast increased in March 2005. After taking into account the Supreme Court decisions, the revenue estimate for the 2003-05 biennium increased by \$58.2 million and the revenue forecast for the 2005-07 biennium increased by \$163.5 million.

The Legislature increased revenues by \$482.4 million for the 2005-07 biennium. The increase consisted largely of an additional cigarette tax of 60 cents per pack of 20 cigarettes (\$174.5 million), an additional tax of \$1.33 per liter on liquor sales, excluding purchases by licensees (\$47.2 million), applying the retail sales and use tax to sales of extended warranties (\$37.4 million), moving up the date on which counties remit real estate excise taxes to DOR (\$51.6 million), and reinstating and modifying the estate tax (\$138.7 million). The three bills with greatest fiscal impact were Chapter 514, Laws of 2005 (ESHB 2314), Chapter 16, Laws of 2005 (ESB 6096), and Chapter 480, Laws of 2005 (2SHB 1240).

An omnibus tax bill incorporating tax increases, tax decreases, tax exemptions, tax deferrals, tax credits, and programs, ESHB 2314:

- Imposed an additional cigarette tax of 60 cents per pack of 20 cigarettes.
- Imposed an additional tax of \$1.33 per liter on liquor sales, excluding purchases by licensees.
- Applied the retail sales and use tax to sales of warranties that are not already part of the selling price of purchased tangible property.
- Modified the business and occupation (B&O) tax credit for high-technology research and development (R&D) to correct the formula used to determine the credit and changed the formula to allow firms to ultimately calculate the credit based on an increased percentage of R&D expenditures.
- Deferred the payment of sales and use taxes on the construction of a historic automobile museum.
- Exempted leasehold interests in certain public amphitheatres from the leasehold excise tax.
- Removed the B&O and retail sales and use taxes from separately stated delivery charges for direct mail.
- Exempted nonprofit boarding homes operated by religious or charitable organizations as part of a nonprofit hospital or public hospital district from B&O taxes.
- Modified the B&O tax credit for property taxes paid by commercial airplane and component manufacturers concerning which payments are eligible.
- Exempted comprehensive cancer centers from B&O and sales and use taxes.

- Created the Washington Main Street program to provide technical assistance to communities that undertake downtown or neighborhood commercialization district revitalization initiatives, and provided financial assistance through B&O tax credits for a percentage of contributions made for the purposes of such initiatives.
- Exempted self-service laundry facilities from retail sales and use taxes and reclassified them under the B&O tax as service establishments.
- Phased-out the nursing home quality maintenance fee.
- Modified the deduction from estate value of certain farm property for the purposes of the proposed estate tax in ESB 6096.

ESB 6096 reinstated and modified the invalidated state estate tax for persons who die after May 15, 2005. Estates below \$1.5 million for persons dying from May 17, 2005, through December 31, 2005, and \$2.0 million for persons dying after December 31, 2005, are exempt. Additionally, a deduction is allowed for qualified farm property. Revenues are deposited into the Education Legacy Trust Account to fund Initiative 728 and higher education.

2SHB 1240 required counties to remit collected real estate excise tax to DOR on the last working day of the month as opposed to the 20th day of the subsequent month. In addition, the bill allowed county treasurers to assess an additional fee on real estate excise tax (REET) transactions until June 30, 2010. The fee is be used to develop and implement an electronic processing and reporting system for REET affidavits, including making the system compatible with the systems and procedures used by DOR, county assessors, and the county auditors.

Prior to the enactment of these revenue measures, the Legislature enacted Chapter 72, Laws of 2005 (SSB 6078), which temporarily suspended, until June 30, 2007, the statutory requirement of Initiative 601 that legislative measures increasing state revenue must receive a two-thirds vote of each house of the Legislature. As a result, until June 30, 2007, legislation that increases state general fund revenues can be enacted by a majority vote of the Legislature.

2005-07 Revenue Legislation

General Fund-State

(Dollars in Millions)

Legislation		FY 2006	FY 2007	Total 2005-07
ESHB 2314 <i>Revenue and Taxation Bill</i>	Cigarette Tax (Legacy)	88.5	86.0	174.5
	Cigarette Tax General Fund-State	-0.1	0.1	0.0
	Liquor Liter Tax	22.2	25.0	47.2
	Extended Warranty Sales Tax	17.3	20.1	37.4
	Hi Tech B&O Credit	10.9	10.6	21.5
	Historic Auto	0.0	0.0	0.0
	Amphitheaters	0.0	0.0	-0.1
	Direct Mail	-0.2	-0.2	-0.3
	Nonprofit Boarding Homes	-0.2	-0.2	-0.4
	Aerospace Credit	-0.1	-0.3	-0.4
	Comprehensive Cancer	0.0	-1.5	-1.5
	Mainstreet	0.0	-0.8	-0.8
	Self Service Laundry	-1.2	-1.2	-2.5
	Nursing Home Maintenance Fee	-6.0	-6.6	-12.6
ESHB 2314 Total		131.1	131.1	262.2
HB 1019	Veterans' Property Tax Exemption	0.0	0.0	0.0
ESHB 1031	Problem Gambling	0.0	0.0	0.0
HB 1048	Property Tax Estimates	0.0	0.0	0.0
SHB 1158	County Treasurer Administration	0.0	0.0	0.0
SHB 1189	Veterans' Property Tax Levy	0.0	0.0	0.0
2SHB 1240	Real Estate Excise Tax (REET) Payment Move Up	0.0	51.6	51.6
EHB 1241	Vehicle Licensing	0.7	1.4	2.1
SHB 1299	Outdated Tax Preferences	0.0	0.0	0.0
HB 1303	Metropolitan Park Districts	0.0	0.0	0.0
HB 1315	REET Controlling Interest	2.8	2.8	5.5
SHB 1379	Liquor Control Board Retailing Plan	1.8	3.2	5.0
SHB 1394	Business and Professional Account	-3.8	-3.9	-7.7
ESHB 1401	Property Tax Exemption for Sprinklers	0.0	0.0	0.0
HB 1407	Ban on American Beef	0.0	0.0	0.0
HB 1457	Military Department	0.0	-0.9	-0.9
SHB 1502	Natural Disaster Property	0.0	0.0	0.0
SHB 1509	Veterans' Widows	0.0	0.0	0.0
HB 1554	Farm & Agricultural Land	0.0	0.0	0.0
ESHB 1631	County Conservation Futures Levy	0.0	0.0	0.0
HB 1690	Health Care Services Levy	0.0	0.0	0.0
ESHB 1703	Public Transportation Fare Cards	0.0	0.0	0.0
SHB 1887	Litter Tax Exemptions	0.0	0.0	0.0
HB 1915	Cigarette Tax Contracts	0.0	0.0	0.0
HB 1958	Fisheries Buyback Programs	0.0	0.0	0.0
SHB 2085	Tire Fee	0.0	0.0	0.0
E2SHB 2163	Homeless Housing Program	0.0	0.0	0.0
HB 2170	REET Dedication	0.0	0.0	0.0
ESHB 2221	Fruit and Vegetable Processing	-3.3	-3.8	-7.1
ESHB 2309	Water Right Fees	0.1	0.1	0.1
SB 5039	Milk and Milk Products	0.0	0.0	0.0
SSB 5058	Vehicle Fuel Tax Payment Date	0.3	0.3	0.6
SSB 5101	Energy Incentives	0.0	-0.1	-0.1
E2SSB 5111	Solar Exemptions	0.0	0.0	-0.1
SB 5136	Fire Protection District Levies	0.0	0.0	0.0

2005-07 Revenue Legislation
General Fund-State
(Dollars in Millions)

Legislation	FY 2006	FY 2007	Total 2005-07
2SSB 5154 Historical Property Tax Exemption	0.0	0.0	0.0
SB 5175 International Companies	0.0	0.0	0.0
SSB 5177 Transportation Benefit Districts	0.0	0.0	0.0
ESSB 5396 Habitat Conservation	0.0	0.0	0.0
E2SSB 5454 Trial Court Funding Revisions	0.0	0.0	0.0
E2SSB 5581 Life Sciences	0.0	0.0	0.0
SSB 5623 Regional Transit Authority Exemption	-0.4	-0.7	-1.1
2SSB 5663 Agricultural Burning	0.7	-2.0	-1.3
SB 5713 Multi-Unit Housing in Urban Areas	0.0	0.0	0.0
E2SSB 5763 Omnibus Treatment Act	0.0	0.0	0.0
2SSB 5782 Linked Deposit Program	-0.2	-0.4	-0.6
SB 5794 Puyallup Compact	8.0	9.3	17.3
SB 5857 Nonprofit Community Health Center	-0.1	-0.1	-0.2
2SSB 5916 Alternative Fuel Vehicles	0.0	0.0	0.0
SB 5948 Unclaimed Property	13.2	1.1	14.3
SSB 5999 Parking and Business Improvement	-0.1	-0.1	-0.1
ESB 6003 Commute Trip Reduction	-1.3	0.0	-1.3
ESSB 6050 Local Government Financial Assistance	0.0	0.0	0.0
ESB 6096 Estate Tax	39.9	98.8	138.7
SB 6097 Tobacco Products	2.8	2.8	5.7
Total	192.2	290.2	482.4

Revenue Legislation

The legislation listed below is intended to be a summary of bills passed during the 2005 session affecting state revenues or tax statutes but may not cover all revenue-related bills.

Modifying Revenue and Taxation – \$262.2 Million General Fund-State and Education Legacy Trust Account Increase

Chapter 514, Laws of 2005 (ESHB 2314), made the following revenue and tax changes:

- An additional cigarette tax of 60 cents per pack; the proceeds are deposited in the Education Legacy Trust Account for funding K-12 and higher education.
- An additional tax of \$1.33 per liter is imposed on liquor sales, excluding purchases by restaurants.
- The retail sales and use tax is imposed on sales of warranties that are not already part of the selling price of purchased tangible property.
- The B&O tax credit for high-technology R&D is modified to correct the formula used to determine the credit.
- The payment of sales and use taxes on the construction of an historic automobile museum is deferred.
- Leasehold interests in certain public amphitheaters are exempt from the leasehold excise tax.
- The B&O and sales and use taxes are removed from separately stated delivery charges for direct mail.
- Nonprofit boarding homes operated by religious or charitable organizations, or as part of a nonprofit hospital or public hospital district, are exempt from B&O taxes.
- The B&O tax credit for property taxes paid by commercial airplane and component manufacturers is modified concerning which payments are eligible.
- B&O and sales and use tax exemptions are provided for comprehensive cancer centers.
- The Washington Main Street program is created to provide technical assistance to communities that undertake downtown or neighborhood commercialization district revitalization initiatives.
- Self-service laundry facilities are exempted from retail sales and use taxes and reclassified under the B&O tax as service establishments.
- The nursing home quality maintenance fee is phased out.
- The deduction of certain farm property is modified for the purposes of the estate tax enacted in Chapter 516, Laws of 2005 (ESB 6096).
- The amount of property tax deposited to the Student Achievement Fund is reduced.

Providing a Property Tax Exemption to Veterans with Severe Disabilities – No General Fund-State Revenue Impact

Chapter 248, Laws of 2005 (HB 1019), provides that veterans of the United States armed forces with 100 percent service-connected disability are eligible for the same property tax relief as senior citizens based on their income.

Providing Long-Term Funding for Problem Gambling – No General Fund-State Revenue Impact

Chapter 369, Laws of 2005 (ESHB 1031), imposes an additional B&O tax on the "net win" (total wagers less prizes paid) received by licensed gambling entities and parimutuel horse racing. A transfer of funds from the state lottery at the same rate is also mandated. The additional tax goes into effect on July 1, 2005, at the rate of 0.10 percent of the net win. After June 30, 2006, the rate increases to 0.13 percent. The amount raised by the B&O tax, and the transfer from the state lottery, must be used to fund a prevention and treatment program, administered by the Department of Social and Health Services, for problem and pathological gamblers. The Gambling Commission is prohibited from imposing a fee for the same purpose while the tax is in effect.

Modifying the Date for Submitting Local Government Property Tax Estimates to Counties – No General Fund-State Revenue Impact

Chapter 52, Laws of 2005 (HB 1048), changes the annual deadline for local governments to certify their budgets for the following year to the county legislative authority for the purpose of levying property taxes from November 15th to November 30th.

Modifying County Treasurer Administrative Provisions – No General Fund-State Revenue Impact

Chapter 502, Laws of 2005 (SHB 1158), modifies the ways in which county treasurers handle collection of property taxes and various other duties. For property taxes, back taxes have to be paid when the certificate of delinquency is issued if there is to be any claim to excess foreclosure proceeds; no interest or penalties are charged on the back taxes of active duty military personnel serving in an armed conflict overseas; a third party's erroneous tax payment won't be refunded; and all taxes have to be paid before a boundary line adjustment. A third party's shipping date is treated the same as a postmark, the state's unclaimed property procedures no longer apply to excess foreclosure proceeds that a county is allowed to keep, and the interest rate paid on voluntary deposits will be the same as the one paid on property tax refunds.

Providing Relief for Indigent Veterans and Their Families – No General Fund-State Revenue Impact

Chapter 250, Laws of 2005 (SHB 1189), creates a veteran's assistance fund for the relief of qualifying veterans and the indigent wives, husbands, widows, widowers and minor children of such indigent or deceased veterans. The funds are to be disbursed by the county legislative authority.

Funding the Development of an Automated System to Process Real Estate Excise Taxes – \$51.6 Million General Fund-State Increase

Chapter 480, Laws of 2005 (2SHB 1240), requires counties to remit collected real estate excise tax to DOR on the last working day of the month, as opposed to the 20th day of the subsequent month. The bill increases the amount of fees that may be collected by counties on transactions where the amount of tax is less than \$5 and increases the percentage that counties may deduct from taxes collected on behalf of the state for other transactions. In addition, the bill allows county treasurers to assess an additional fee until June 30, 2010. The fee will be used to develop and implement an electronic processing and reporting system for REET affidavits, including making the system compatible with the systems and procedures used by DOR, county assessors, and the county auditors.

Modifying Vehicle Licensing and Registration Penalties – \$2.1 Million General Fund-State Increase

Chapter 323, Laws of 2005 (EHB 1241), changes the penalty for failure to register a vehicle in this state from a misdemeanor to a traffic infraction and increases the amount from up to \$330 to \$529. The bill also adds a penalty of \$529 for licensing a vehicle in another state to avoid paying taxes and licenses in this state in addition to the current penalty that is based on a multiple of the delinquent taxes and fees.

Repealing Outdated and Unused Tax Preferences – No General Fund-State Revenue Impact

Chapter 443, Laws of 2005 (SHB 1299), repeals the following outdated or unnecessary tax preferences, revealed in DOR's 2004 Tax Exemption Report, effective July 1, 2006: (1) the property tax exemption for agricultural fair lands leased from a county; (2) the steam generated electricity plant public utility district privilege tax exemption; (3) the preferential B&O tax rate for nuclear fuel assembly manufacturing and sale; (4) the sales and use tax exemptions for motor vehicle fuel used in aircraft testing; (5) the B&O tax credit for cogeneration facilities; (6) the new manufacturers' sales and use tax deferral; (7) the insurance premiums tax credit for international services job creation provided by insurance companies; (8) the health insurance pools B&O tax deduction; (9) the sales tax exemption for apparel used solely for display; (10) the sales and use tax exemptions for sale/leaseback of food processing equipment; (11) the naval aircraft training equipment use tax exemption; and (12) the waiver of delinquency penalties for failure to pay property taxes because of Y2K.

Concerning Metropolitan Park Districts – No General Fund-State Revenue Impact

Chapter 226, Laws of 2005 (HB 1303), allows a metropolitan park district to accept property interests from any municipal corporation and assume responsibility for all existing indebtedness associated with the property. The district may levy annual property taxes, in addition to the district's regular property tax levy, to pay any refunding bonds issued in relation to the assumption of the debt.

Modifying Disclosure Requirements for the Purposes of the Real Estate Excise Tax – \$5.5 Million General Fund-State Increase

Chapter 326, Laws of 2005 (HB 1315), requires entities which are required to file annual reports with the Secretary of State to disclose any transfer of controlling interest in an entity and any interest in real property. This requirement will help DOR track transfers of controlling interest in real property to determine when the real estate excise tax is applicable. Information in the possession of DOR regarding real estate excise tax is exempt from confidentiality requirements.

Requiring the Liquor Control Board to Implement a Retail Business Plan to Improve Efficiency and Increase Revenue – \$5.0 Million General Fund-State Increase

Chapter 231, Laws of 2005 (SHB 1379), requires the Liquor Control Board to open at least 20 stores on Sunday and monitor the outcome of these openings. Agency stores will also have the option to open on Sunday. In addition, the Liquor Control Board is required to implement a plan of in-store merchandising, including point-of-sale advertising and merchandising of brands.

Creating the Business and Professions Account – \$7.7 Million General Fund-State Decrease

Chapter 25, Laws of 2005 (SHB 1394), establishes a Business and Professions Account. The fees from licensing and regulating 13 business and professions that had been deposited into the General Fund will now be deposited in this account. The business and professions are: auctioneers; landscape architects; private investigators; bail bond agents; employment agencies; sellers of travel; timeshares; cosmetologists, barbers, and manicurists; court reporters; security guards; collection agencies; camping resorts; and notaries public.

Regulating Fire Safety – No General Fund-State Revenue Impact

Chapter 148, Laws of 2005 (ESHB 1401), provides a 10-year property tax exemption to owners of buildings required to install automatic sprinkler systems in nightclubs on the increased value resulting from the installation of the sprinkler system.

Providing an Expiration Date for the Tax Deduction for Certain Businesses Impacted by the Ban on American Beef Products – No General Fund-State Revenue Impact

Chapter 150, Laws of 2005 (HB 1407), ends the B&O tax deduction for the slaughtering, breaking, processing, and wholesaling of perishable beef products for firms that slaughter cattle on December 31, 2007, or when Japan, Mexico, and the Republic of Korea all lift their ban on beef products from the United States, whichever occurs earlier.

Creating the Military Department Capital Account and Rental and Lease Account – \$0.88 Million General Fund-State Decrease

Chapter 252, Laws of 2005 (HB 1457), establishes the Military Department Capital Account and the Military Department Rental and Lease Account. Funds in both accounts are subject to appropriation. All receipts from the sale of state-owned Military Department property will be deposited into the Military Department Capital Account. The costs of Military Department capital projects will be offset by funds in the capital account. All receipts from the rental or lease of state-owned Military Department property will be deposited into the Military Department Rental and Lease Account. The funds in the rental and lease account are only to be used for military property operating and maintenance costs. The Governor vetoed the companion bill, SB 5340, which also passed the Legislature.

Modifying Tax Abatement Provisions – \$0.05 Million General Fund-State Decrease

Chapter 56, Laws of 2005 (SHB 1502), provides for a reduction in property taxes on destroyed property or property damaged by a natural disaster in the year in which the destruction or damage occurred.

Providing a Property Tax Exemption to Widows or Widowers of Members of the Military – No General Fund-State Revenue Impact

Chapter 253, Laws of 2005 (SHB 1509), establishes a grant program in DOR to provide assistance to widows and widowers of veterans for the payment of property taxes. The person must be eligible for the senior citizen property tax exemption program, other than the income limits, and a widow or widower of a veteran who died

from a service-connected disability; was 100 percent disabled for the ten years prior to death; was a prisoner of war and 100 percent disabled at least one year prior to death; or died while on active duty or in active military training status. The assistance is equal to property taxes imposed on the difference between the value eligible for exemption under the senior citizen program and: 1) \$50,000 if the income level is \$35,001 to \$40,000; 2) \$75,000 if the income level is \$30,001 to \$35,000; and 3) \$100,000 if the income level is \$30,000 or less.

Clarifying the Definition of "Farm and Agricultural Land" for Purposes of Current Use Property Taxation – No General Fund-State Revenue Impact

Chapter 57, Laws of 2005 (HB 1554), allows farms between 5 and 20 acres to include the value of agricultural products donated to nonprofit food banks or feeding programs in meeting the gross income requirements to qualify for current use valuation for property tax purposes.

Using Revenues under the County Conservation Futures Levy – No General Fund-State Revenue Impact

Chapter 449, Laws of 2005 (ESHB 1631), allows counties to use revenues from the conservation futures levy for the maintenance and operation of any property acquired with funds from the levy. Counties may use up to 15 percent of conservation futures revenues for the maintenance and operation of parks and recreational land.

Regarding the Applicability of Certain Taxes and Assessments to State-Funded Health Care Services Levy – No General Fund-State Revenue Impact

Chapter 405, Laws of 2005 (HB 1690), exempts health plans that provide health services under the General Assistance-Unemployable program or health services under a demonstration or pilot Medicaid program for elderly or disabled persons from the 2 percent tax on prepayments and assessments for the Washington State Health Insurance Pool.

Modifying the Application of the Unclaimed Property Laws to Certain Public Transportation Fare Cards – No General Fund-State Revenue Impact

Chapter 285, Laws of 2005 (ESHB 1703), relieves a public transportation agency that holds abandoned fare card value of the requirement to report the value to the state after the end of the holding period, provided that the agency honors the card containing the value if the owner ever presents it to the agency.

Modifying Exemptions to the Litter Tax – No General Fund-State Revenue Impact

Chapter 289, Laws of 2005 (SHB 1887), modifies the exemption from the state litter tax for food and beverages served at a seller's place of business such that the items must be sold for immediate consumption either indoors or outdoors, at the place of business, or indoors at an eating area adjacent to the place of business. Food and beverages sold by a caterer, if the items are for immediate consumption, are in containers designed to be used more than one time, and are at premises occupied or controlled by the customer, are exempt from the state litter tax.

Authorizing the Governor to Enter into Cigarette Tax Contracts with Additional Tribes – No General Fund-State Revenue Impact

Chapter 208, Laws of 2005 (HB 1915), extends the authority of the Governor to enter into a cigarette tax contract with Indian tribes to the Confederated Tribes of the Colville Reservation, the Cowlitz Indian Tribe, the Lower Elwha Klallam Tribe, and the Makah Tribe, increasing the total tribes authorized to enter into contracts to 25. Under a cigarette tax contract, the sales must be subject to a tribal cigarette tax equal to 100 percent of the state cigarette tax and state and local sales and use taxes and are exempt from these state and local taxes.

Extending Certain Limited Fisheries Buyback Programs – No General Fund-State Revenue Impact

Chapter 110, Laws of 2005 (HB 1958), extends the date when the sea cucumber and sea urchin \$100 license renewal fee and the portion of the excise tax dedicated to sea cucumber and sea urchin license retirements expires from 2005 until 2010.

Regarding the Cleanup of Waste Tires – No General Fund-State Revenue Impact

Chapter 354, Laws of 2005 (SHB 2085), reinstates a \$1 fee beginning July 1, 2005, on the retail sale of new vehicle replacement tires. The fees are placed in a Waste Tire Removal Account. The funds may be spent only for removal of waste tires from unauthorized sites, the cleanup and prevention of future tire accumulations, and on a detailed study to identify and collect information on existing tire cleanup sites. The Department of Ecology must immediately initiate a pilot project to clean up an existing site in Goldendale, Washington. Individuals who transport or store tires must be licensed and bonded.

Establishing a Homeless Housing Program – No General Fund-State Revenue Impact

Chapter 484, Laws of 2005, Partial Veto (E2SHB 2163), creates the Homeless Housing program to be administered by the Department of Community, Trade, and Economic Development (DCTED), including a local government funding component, a state competitive grant program, and the coordination of a statewide Homeless Census program. Funding for the Program is created by requiring a new \$10 surcharge for each document recorded by the county auditors, excluding documents of a birth, marriage, divorce, or death. After administrative expenses, 60 percent of funds will be distributed to local governments and the remainder to DCTED for a competitive grant program.

Concerning Proceeds from the Real Estate Excise Tax – No General Fund-State Revenue Impact

Chapter 486, Laws of 2005 (HB 2170), removes the dedication of the real estate excise tax going to the state general fund for common schools. This increases the amount of general state revenues used to calculate the 9 percent constitutional debt limit, which in turn increases bond capacity under the constitutional limit.

Modifying the Excise Taxation of Fruit and Vegetable Processing and Storage – \$7.1 Million General Fund-State Decrease

Chapter 513, Laws of 2005 (ESHB 2221), exempts fresh fruit and vegetable processing from the B&O tax starting July 1, 2005. In addition, beginning July 1, 2007 and lasting through June 30, 2012, exemptions are provided for the sales and use tax on the construction of machinery and equipment used in fresh fruit and vegetable processing facilities and cold storage warehouses. A permanent exemption from the state portion of the sales and use tax is provided for the construction of cold storage warehouses larger than 25,000 square feet and the acquisition of material handling and racking equipment for these warehouses. Persons claiming exemptions under the bill must file an annual report with DOR, and the amount of exemption may be publicly disclosed.

Modifying Water Right Fees – \$0.14 Million General Fund-State Increase

Chapter 412, Laws of 2005 (ESHB 2309), amends fees associated with acquiring or changing a water right. Certain actions are exempted from imposition of fees. Relief is provided from dam safety inspection fees for newly-constructed dams. Twenty percent of the fee revenue must be used for a water rights tracking system.

Regulating the Processing of Milk and Milk Products – \$0.002 Million General Fund-State Decrease

Chapter 414, Laws of 2005 (SB 5039), increases the annual license fee for a milk and milk products processing plant from \$25 to \$55. A facility that processes food products in addition to milk and milk products is required to pay only the milk processor fee and not the food processor fee.

Modifying Fuel Tax Payment Requirements – \$0.56 Million General Fund-State Increase

Chapter 260, Laws of 2005 (SSB 5058), moves the payment date for motor vehicle fuel taxes and special fuel taxes from the 10th of the second month following the reporting period to the 26th of the month following the reporting period when remitting payment by electronic funds transfer. Also, a distributor is allowed to remit fuel tax payments to a supplier seven business days before the 26th day of the month following the reporting period instead of two days before the last business day of the month following the reporting period.

Providing Incentives to Support Renewable Energy – \$0.13 Million General Fund-State Decrease

Chapter 300, Laws of 2005 (SSB 5101), allows individuals, businesses, and local governments to receive incentive payments from their light and power business for electricity they generate on their own property from wind, solar, or anaerobic digesters if such private energy systems are not interconnected to the public electric

distribution system. Each light and power business is allowed a credit against their public utility tax for incentives payments made limited to 0.0025 percent of its taxable power sales, or \$25,000, whichever is greater.

Providing Tax Incentives for Solar Energy Businesses – \$0.07 Million General Fund-State Decrease

Chapter 301, Laws of 2005 (E2SSB 5111), reduces the B&O tax rate for businesses manufacturing solar energy systems or the silicon components of these systems from 0.484 percent to 0.2904 percent until June 30, 2014. Taxes paid to other states in manufacturing these systems are allowed as a B&O tax credit.

Modifying Fire Protection District Property Tax Levies – No General Fund-State Revenue Impact

Chapter 122, Laws of 2005 (SB 5136), protects 25 cents of the property tax levy for fire protection districts from the proration process applied to junior taxing districts.

Providing a Leasehold Excise Tax Exemption for Certain Historical Property – \$0.03 Million General Fund-State Decrease

Chapter 170, Laws of 2005 (2SSB 5154), makes leases of city property that are listed on a federal or state register of historical sites and are within a national historic reserve exempt from the leasehold excise tax.

Declaring that International Companies Investing in Washington are Eligible for Tax Incentives – No General Fund-State Revenue Impact

Chapter 135, Laws of 2005 (SB 5175), includes international companies investing in Washington within the definition of person for purposes of tax incentives.

Modifying Transportation Benefit District Provisions – No General Fund-State Revenue Impact

Chapter 336, Laws of 2005, Partial Veto (SSB 5177), expands the authority of transportation benefit districts, which are special taxing districts established to finance certain transportation improvement projects. A local option sales and use tax of up to 0.2 percent is authorized for up to ten years with voter approval. An additional ten years is authorized with subsequent voter approval.

Expanding the Criteria for Habitat Conservation Programs – No General Fund-State Revenue Impact

Chapter 303, Laws of 2005 (ESSB 5396), adds two new categories to the Washington Wildlife and Recreation Program (WWRP) for farmlands preservation and riparian protection and establishes a formula for allocating moneys to the new accounts. The WWRP funding allocations for categories under the Habitat Conservation Account and the Outdoor Recreation Account are changed. The Department of Natural Resources and the Department of Fish and Wildlife must make a payment in lieu of property taxes and an additional amount for weed control for lands acquired using funds from the Habitat Conservation Account. All state agencies acquiring land under the Riparian Protection Account must make these payments.

Revising Trial Court Funding Provisions – No General Fund-State Revenue Impact

Chapter 457, Laws of 2005 (E2SSB 5454), increases superior and district court filing fees and other court fees. Revenue to the state from the increased fees must be deposited into a newly created Equal Justice Account of the Public Safety and Education Account and appropriated for: (a) trial-level criminal indigent defense, including a pilot project; (b) parent representation in dependency and termination cases; (c) civil legal services; and (d) district and elected municipal court judge salary contributions. Of the revenue generated in the 2005-07 biennium, 25 percent less \$1 million must go towards judges' salaries and 50 percent to judges' salaries in subsequent biennia. The following appropriations are made: (a) \$2.3 million for criminal indigent defense, with \$1 million going toward a pilot program; (b) \$5 million for parent representation in dependency and termination cases; (c) \$3 million to civil legal services; and (d) \$2.4 million for judges' salaries. Cities and counties receiving state contribution for judges' salaries are required to establish local trial court improvement accounts and deposit into their accounts an amount equal to 100 percent of the state's contribution to the judges' salaries.

Establishing the Life Sciences Discovery Fund Authority – No General Fund-State Revenue Impact

Chapter 424, Laws of 2005 (E2SSB 5581) creates the Life Sciences Discovery Fund Authority as an agency of the state to promote life sciences research and exempts income of the authority from the state B&O tax.

Sales Tax Exemption for Regional Transit Authorities – \$1.1 Million General Fund-State Decrease

Chapter 515, Laws of 2005 (SSB 5623), removes maintenance services for bus, rail, or rail fixed guideway equipment performed for a regional transit authority by another transit agency from the definition of a retail sale, thus exempting the services from the sales tax. The B&O rate on such services will increase from 0.471 percent to 1.5 percent.

Changing the Tax Exemptions for Machinery and Equipment Used to Reduce Agricultural Burning – \$1.3 Million General Fund-State Decrease

Chapter 420, Laws of 2005 (2SSB 5663), provides a sales and use tax exemption for machinery and equipment used to reduce the practice of field stubble burning for cereal grains and turf grass grown for seed production. The exemption also applies to the construction of hay sheds. The exempt machinery and equipment are specifically identified. The exemption expires January 1, 2011. The property tax exemption for machinery and equipment and the B&O tax credit for field burning costs set to expire January 1, 2006, are each repealed.

Assisting Tenants in Multiple-Unit Housing Proposed for Rehabilitation – No General Fund-State Revenue Impact

Chapter 80, Laws of 2005 (SB 5713), removes the requirement that property be vacant for one year before submitting an application to qualify for a property tax exemption for the rehabilitation of multi-family housing in urban centers.

Creating the Omnibus Treatment of Mental and Substance Abuse Disorders Act of 2005 – No General Fund-State Revenue Impact

Chapter 504, Laws of 2005, Partial Veto (E2SSB 5763), an omnibus bill relating to the treatment of mental disorders, chemical dependency disorders, and co-occurring mental and chemical dependency disorders, authorizes county legislative authorities to levy a 0.1 percent sales tax dedicated to new and expanded therapeutic court programs for dependency proceedings and new and expanded mental health and chemical dependency treatment services.

Modifying Provisions of the Linked Deposit Program – \$0.58 Million General Fund-State Decrease

The linked deposit program provides state certified minority-owned and women-owned businesses reduced interest rate loans for the purpose of increasing their access to capital. Chapter 302, Laws of 2005 (2SSB 5782), increases the amount of state-invested funds available for the Program from \$50 million to \$100 million. The bill also eliminates the sunset date of the linked deposit program and transfers the responsibility for monitoring the performance of the program loans from DCTED to the Office of the Minority and Women's Business Enterprises.

Authorizing the Governor to Enter into a Cigarette Tax Agreement with the Puyallup Tribe of Indians – \$17.3 Million General Fund-State Increase

Chapter 11, Laws of 2005 (SB 5794), authorizes the Governor to enter into an agreement with the Puyallup Tribe of Indians regarding the taxation of cigarettes under which the tribe must impose a tax of \$11.75 per carton, in lieu of state cigarette and state and local sales and use taxes. The state receives 30 percent of the tribal tax revenue.

Authorizing a Business and Occupation Tax Deduction for Certain Nonprofit Community Health Centers – \$0.24 Million General Fund-State Decrease

Chapter 86, Laws of 2005 (SB 5857), extends the deduction under the B&O tax for amounts received as compensation for health care services covered under Medicare, medical assistance, children's health, and the Basic Health Plan to nonprofit community health centers and networks of nonprofit community health centers.

Exempting Clean Alternative Fuel Vehicles from Sales and Use Tax – No General Fund-State Revenue Impact

Chapter 296, Laws of 2005 (2SSB 5916), provides a sales and use tax exemption for new passenger cars, light duty trucks, and medium duty passenger vehicles, which are exclusively powered by a clean alternative fuel or which use hybrid technology. The exemption takes effect from January 1, 2009, through January 1, 2011.

Modifying Unclaimed Property Provisions – \$14.3 Million General Fund-State Increase

Chapter 367, Laws of 2005 (SB 5948), allows DOR to redeem mutual funds and other dividend reinvestment plans that have been deemed unclaimed property. The bill also removes the requirement that the Department print in the newspaper each name of persons with claims to unclaimed property. Instead, the Department must publish summary information of how owners may obtain this information.

Exempting Service Contracts to Administer Parking and Business Improvement Areas from Excise Taxation – \$0.15 Million General Fund-State Decrease

Chapter 476, Laws of 2005 (SSB 5999), exempts from state and city B&O taxes amounts received by a chamber of commerce or similar business association from cities or counties to administer a parking and business improvement area.

Modifying the Commute Trip Reduction Tax Credit – \$1.3 Million General Fund-State Decrease

Chapter 297, Laws of 2005 (ESB 6003), requires applications for the Commute Trip Reduction (CTR) tax credit to be filed in January following the calendar year in which the expenditures for CTR incentives were made. The total amount of state credit available is increased by \$1 million per biennium. If the total amount of approved credits exceeds the total state limit, credits for all applicants are proportionally reduced. After July 1, 2005, a tax credit may be carried over until it is used.

Providing Financial Assistance to Cities, Towns, and Counties – No General Fund-State Revenue Impact

Chapter 450, Laws of 2005 (ESSB 6050), reduces the portion of the Real Estate Excise Tax (REET) deposited in the Public Works Assistance Account from 7.7 percent to 6.1 percent and deposits 1.6 percent of the REET into the new City-County Assistance Account. The level of funding will be split equally between cities and counties and will be distributed to jurisdictions with poor sales or property tax bases.

Generating New Tax Revenues to Provide Education Funding – \$138.7 Million Education Legacy Trust Account-State Increase

Chapter 516, Laws of 2005 (ESB 6096), reinstates and modifies the recently invalidated state estate tax for persons who die after the effective date of the act. Estates below \$1.5 million for calendar year 2005 and \$2.0 million thereafter are exempt. Additionally, a deduction is allowed for qualified farm property. Revenues are deposited into the Education Legacy Trust Account to fund Initiative 728 and higher education.

Regarding Other Tobacco Products – \$5.7 Million General Fund-State Increase

Chapter 180, Laws of 2005 (SB 6097), creates several enforcement provisions for the tobacco products tax, similar to the cigarette tax provisions, to help limit the amount of illegal or untaxed tobacco products in the state. In addition, the tax on tobacco products is reduced from 129 percent to 75 percent. Cigars have a maximum tax rate of 50 cents per cigar.

Budget Driven Revenue

(Dollars in Millions)

	FY 2006	FY 2007	2005-07
Continue Liquor Surcharge	9.60	9.80	19.40
Department of Revenue Enhancement	6.10	9.10	15.20
Liquor Control Board Shipping Capacity	2.90	6.10	9.00
Liquor Control Board Budget Revision	1.33	1.33	2.66
Total	19.93	26.33	46.26

Continuation of Liquor Surcharge – \$19.4 Million General Fund-State Increase

The \$0.42 surcharge on a liter of spirits imposed in the 2003-05 biennium operating budget is continued for the 2005-07 biennium.

Department of Revenue Enhancement – \$15.2 Million General Fund-State Increase

Additional resources are provided to the Department of Revenue to increase real estate excise tax audits, out-of-state audits, and desk audits as well as increased out-of-state compliance enforcement.

Liquor Control Board Shipping Capacity – \$9.0 Million General Fund-State Increase

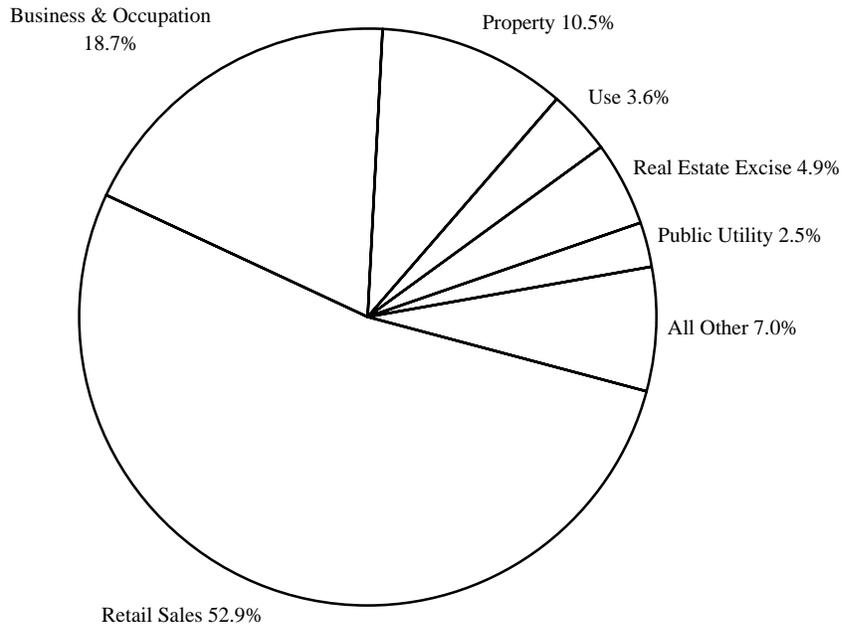
The Liquor Control Board has reached its maximum shipping and storage capacity at its distribution center in Seattle. Increasing the shipping capacity will allow the Liquor Control Board to meet the demand for liquor sales.

Liquor Control Board Budget Revision – \$2.66 Million General Fund-State Increase

This revenue is derived from cuts in the Liquor Control Board's agency request budget.

Washington State Revenue Forecast - March 2005
2005-07 General Fund-State Revenues by Source

(Dollars in Millions)



Sources of Revenue	
Retail Sales	13,165.9
Business & Occupation	4,643.7
Property	2,623.4
Use	894.2
Real Estate Excise	1,208.9
Public Utility	613.7
All Other	1,735.5
Total *	24,885.3

* The state levy forecast reflects only the General Fund portion. The portion of the state levy that is transferred to the Student Achievement Account by Initiative 728 is excluded.

Note: Reflects the March 2005 Revenue Forecast.