Multiple Agency Fiscal Note Summary

Bill Number: 3053 HB	**Title:** Extending tax incentives

Estimated Cash Receipts

Agency Name	2009-11		2011-13		2013-15	
	GF- State	Total	GF- State	Total	GF- State	Total
Department of Revenue	(118,000)	(118,000)	(1,828,000)	(1,828,000)	(2,100,000)	(2,100,000)
Total $	**(118,000)**	**(118,000)**	**(1,828,000)**	**(1,828,000)**	**(2,100,000)**	**(2,100,000)**

Local Gov. Courts *						
Local Gov. Other **		(40,589)		(231,302)		(265,139)
Local Gov. Total		(40,589)		(231,302)		(265,139)

Estimated Expenditures

Agency Name	2009-11			2011-13			2013-15		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Department of Revenue	.0	5,000	5,000	.0	0	0	.0	0	0
Total	**0.0**	**$5,000**	**$5,000**	**0.0**	**$0**	**$0**	**0.0**	**$0**	**$0**

Local Gov. Courts *									
Local Gov. Other **									
Local Gov. Total									

Estimated Capital Budget Impact

Agency Name						
Total $						

Prepared by: Ryan Black, OFM	**Phone:** 360-902-0417	**Date Published:** Final

* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

FNPID 25649

Department of Revenue Fiscal Note

Bill Number: 3053 HB	Title: Extending tax incentives	Agency: 140-Department of Revenue

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

Account	FY 2010	FY 2011	2009-11	2011-13	2013-15
GF-State-State 01 - Taxes 01 - Retail Sales Tax		(118,000)	(118,000)	(481,000)	(504,000)
GF-State-State 01 - Taxes 05 - Bus and Occup Tax				(1,290,000)	(1,535,000)
GF-State-State 01 - Taxes 59 - Leasehold Excise Tax				(57,000)	(61,000)
Total $		(118,000)	(118,000)	(1,828,000)	(2,100,000)

Estimated Expenditures from:

	FY 2010	FY 2011	2009-11	2011-13	2013-15
FTE Staff Years		0.1	0.0		
Account					
GF-STATE-State 001-1		5,000	5,000		
Total $		5,000	5,000		

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☒ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 01/21/2010
Agency Preparation:	Valerie Torres	Phone: 360-5706084	Date: 01/22/2010
Agency Approval:	Don Gutmann	Phone: 360-570-6073	Date: 01/22/2010
OFM Review:	Ryan Black	Phone: 360-902-0417	Date: 01/23/2010

Request # 3053-1-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This proposal extends the expiration date for the following tax incentives:

1) The reduced business and occupation (B&O) tax rate for aircraft repair facilities classified as federal aviation regulation Part 145 certificated repair stations;

2) The sales and use tax exemption for new passenger cars, light duty trucks, and medium duty passenger vehicles exclusively powered by a clean alternative fuel; and

3) The six-year leasehold excise tax exemption and the six-year property tax exemption for property used primarily in the manufacturing of alcohol fuel, wood biomass fuel, biodiesel fuel, or biodiesel feedstock.

Under current law aircraft repair facilities classified as federal aviation regulation Part 145 certificated repair stations receive a reduced B&O tax rate. Such firms are subject to B&O tax at a 0.2904 percent rate with respect to their repair activities rather than the standard 0.471 percent tax rate applicable to most other retail sales. This reduced tax rate currently expires on July 1, 2011. This proposal extends the expiration date for the reduced B&O tax rate to July 1, 2024.

Under current law new passenger cars, light duty trucks, and medium duty passenger vehicles exclusively powered by a clean alternative fuel are exempt from sales and use tax. The exemption expires January 1, 2011. This proposal extends the expiration date to July 1, 2015, for this sales and use tax exemption.

Under current law, claims for a six-year leasehold excise tax exemption and/or a six-year property tax exemption for property used primarily in the manufacturing of alcohol fuel, wood biomass fuel, biodiesel fuel, or biodiesel feedstock could be made until December 31, 2009. This proposal extends the expiration date for both of these exemptions so claims can be made through December 31, 2015.

If passed, these extensions would be effective 90 days after the end of the session.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS/DATA SOURCES

Data for this fiscal note comes from:
- Department of Revenue business & occupation tax information
- Department of Revenue leasehold excise tax information and property tax information
- Economic and Revenue Forecast Council, November 2009 Forecast
- Energy Information Administration, Alternatives to Traditional Transportation Fuels 2006 and 2007 Reports
- Global Insight, Light Vehicle Sales November Forecast
- County parcel-level property tax information

In Fiscal Year 2009, 21 firms benefitted from the reduced B&O tax rate for aircraft repair firms. This estimate assumes aircraft repair trends are based on previous sales of aircraft.

In the most recent Alternatives to Traditional Transportation Fuels Report (2007), Washington had 2.1 percent of the U.S. alternative fueled vehicles in use. However, a high percentage of Washington's alternative fueled vehicles are hybrids, which do not qualify for the exemption. Therefore, this estimate assumes that since Washington State's population is two percent of the U.S. population, two percent of the vehicles exclusively powered by a clean alternative fuel that are made available for sale in the U.S. will be purchased in Washington State.

This estimate assumes there will be three new companies producing biodiesel established between Fiscal Year 2011 and 2013. Two of these companies are assumed to be on private property. Of these, one company is assumed to apply for a property tax exemption in Fiscal Year 2011 and one is assumed to apply for a property tax exemption in Fiscal Year 2013. One of the three new companies is assumed to locate on public land and therefore to apply for a leasehold excise tax exemption in Fiscal Year 2012.

Approved property tax exemptions are valid for six assessment years following the year the new or expanded manufacturing facility becomes operational. An assessment year is the year a property is assessed for property taxes due in the following year. Thus, property tax exemption claims granted in 2012 would apply to assessment years 2013 through 2018 for taxes due in 2014 through 2019.

Approved leasehold excise tax exemptions are valid for six years from the date that the new manufacturing facility or the expanded manufacturing facility becomes operational. Thus, leasehold excise tax exemption claims granted in 2012 apply to taxes due in 2012 through 2017 and for part of 2018 ending on the date that is six years following the date that the new or expanded manufacturing facility becomes operational.

REVENUE ESTIMATES

The state revenue decrease from the extension of the reduced B&O rate is $577,000 for the 11 months of collections in Fiscal Year 2012, and $713,000 in Fiscal Year 2013, the first full fiscal year.

The state revenue decrease from the extension of the sales and use tax exemption is $118,000 for the second half of Fiscal Year 2011and $238,000 for Fiscal Year 2012, the first full fiscal year.

The local revenue decrease from the extension of the sales and use tax exemption is $41,000 for the second half of Fiscal Year 2011and $83,000 for Fiscal Year 2012, the first full fiscal year.

The state property tax levy is predicted to remain below the $3.60 statutory rate limit throughout the 2013-15 Biennium. Therefore, extending the property tax exemption will not reduce the state school levy but will result in a shift of state property taxes to other taxpayers of an estimated $13,000 for Fiscal Year 2012 and $26,000 in Fiscal Year 2013, the first full fiscal year.

The state leasehold excise tax collections would decrease by $28,000 for Fiscal Year 2012, a full fiscal year's collections. The local loss for Fiscal Year 2012 would be $30,000.

TOTAL REVENUE IMPACT:

State Government (cash basis, $000):

FY 2010 - $ 0
FY 2011 - $ (118)
FY 2012 - $ (843)
FY 2013 - $ (985)
FY 2014 - $ (1,028)
FY 2015 - $ (1,072)

Local Government, if applicable (cash basis, $000):

FY 2010 - $ 0
FY 2011 - $ (41)
FY 2012 - $ (113)
FY 2013 - $ (121)
FY 2014 - $ (130)
FY 2015 - $ (138)

DETAIL OF REVENUE IMPACT FOR PROPERTY TAX BILLS, Calendar Year Basis

Only property tax revenue impacts are included in this section.

State Government, Impact on Revenues ($000): None

State Government, ($000), Shift of Tax Burden

CY 2010 - $ 0
CY 2011 - $ 0
CY 2012 - $ 26
CY 2013 - $ 26
CY 2014 - $ 51
CY 2015 - $ 52

Local Government, Impact on Revenues ($000)

CY 2010 - $ 0
CY 2011 - $ 0
CY 2012 - $ (10)
CY 2013 - $ (11)
CY 2014 - $ (21)
CY 2015 - $ (22)

Local Government, ($000), Shift of Tax Burden

CY 2010 - $ 0
CY 2011 - $ 0
CY 2012 - $ 109
CY 2013 - $ 112
CY 2014 - $ 222
CY 2015 - $ 228

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing

To implement this legislation, the Department of Revenue (Department) will incur costs of approximately $5,000 in Fiscal Year 2011. These costs are for amendment of one administrative rule.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2010	FY 2011	2009-11	2011-13	2013-15
FTE Staff Years		0.1	0.0		
A-Salaries and Wages		3,200	3,200		
B-Employee Benefits		800	800		
E-Goods and Services		700	700		
J-Capital Outlays		300	300		
Total $		$5,000	$5,000		

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2010	FY 2011	2009-11	2011-13	2013-15
HEARINGS SCHEDULER	32,688		0.0	0.0		
TAX POLICY SP 3	69,756		0.0	0.0		
WMS BAND 3	88,546		0.0	0.0		
Total FTE's	190,990		0.1	0.0		

Part IV: Capital Budget Impact

NONE.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the Department will use the expedited process to amend WAC 458-20-279, titled: "Clean alternative fuel vehicles and high gas mileage vehicles". Persons affected by this rule-making would include retail dealers selling, and prospective purchasers of, qualified vehicles.

LOCAL GOVERNMENT FISCAL NOTE

Department of Community, Trade and Economic Development

Bill Number: 3053 HB	**Title:** Extending tax incentives

Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- [X] Cities: Decrease in tax revenue
- [X] Counties: Same as above
- [X] Special Districts: Same as above
- [ ] Specific jurisdictions only:
- [ ] Variance occurs due to:

Part II: Estimates

- [ ] No fiscal impacts.
- [ ] Expenditures represent one-time costs:
- [ ] Legislation provides local option:
- [ ] Key variables cannot be estimated with certainty at this time:

Estimated revenue impacts to:

Jurisdiction	FY 2010	FY 2011	2009-11	2011-13	2013-15
City		(15,371)	(15,371)	(95,147)	(106,751)
County		(15,018)	(15,018)	(89,169)	(101,801)
Special District		(10,200)	(10,200)	(46,986)	(56,587)
TOTAL $		(40,589)	(40,589)	(231,302)	(265,139)
GRAND TOTAL $					(537,030)

Estimated expenditure impacts to:

Jurisdiction	FY 2010	FY 2011	2009-11	2011-13	2013-15
City					
County					
Special District					
TOTAL $					
GRAND TOTAL $					0

Part III: Preparation and Approval

Fiscal Note Analyst: Darleen Muhly	Phone: (360) 725-5030	Date: 01/28/2010
Leg. Committee Contact:	Phone:	Date: 01/21/2010
Agency Approval: Steve Salmi	Phone: (360) 725 5034	Date: 01/28/2010
OFM Review: Ryan Black	Phone: 360-902-0417	Date: 01/28/2010

Part IV: Analysis

A. SUMMARY OF BILL

Provide a clear, succinct description of the bill with an emphasis on how it impacts local government.

This bill would change the following tax incentive expiration or deadline dates:
-- the expiration date from July 1, 2011 to July 1, 2024 for the reduced state business and occupation (B&O) tax rate for law aircraft repair facilities classified as federal aviation regulation Part 145 certificated repair stations receive a reduced B&O tax rate. Such firms are subject to B&O tax at a 0.2904 percent rate with respect to their repair activities rather than the standard 0.471 percent tax rate applicable to most other retail sales.
-- the expiration date from January 1, 2011 to July 1, 2015 for the sales and use tax exemption on new passenger cars, light duty trucks, and medium duty passenger vehicles exclusively powered by a clean alternative fuel.
-- the deadline from December 31, 2009 to December 31, 2015 for claims for a six-year leasehold excise tax exemption and/or a six-year property tax exemption for property used primarily in the manufacturing of alcohol fuel, wood biomass fuel, biodiesel fuel, or biodiesel feedstock.

B. SUMMARY OF EXPENDITURE IMPACTS

Briefly describe and quantify the expenditure impacts of the legislation on local governments, identifying the expenditure provisions by section number, and when appropriate, the detail of expenditures. Delineate between city, county and special district impacts.

This bill is not expected to have expenditure impacts to local governments. The changes to state B&O are not expected to impact the model ordinance, governing city B&O taxes, the sales and use tax is administered at the state and taxpayer levels, and the claims for property tax and leasehold excise tax exemptions are administered by the Department of Revenue.

C. SUMMARY OF REVENUE IMPACTS

Briefly describe and quantify the revenue impacts of the legislation on local governments, identifying the revenue provisions by section number, and when appropriate, the detail of revenue sources. Delineate between city, county and special district impacts.

This bill would result in a tax revenue loss to local governments of 41,000 in Fiscal Year 2011, increasing to 138,000 in Fiscal Year 2015. This revenue loss includes sales and use tax, leasehold excise tax, and property tax losses as detailed below.

SALES AND USE TAX LOSS:
This bill would result in the following decrease in local sales and use tax revenue, according to the Department of Revenue:
FY 2011: (41,000)
FY 2012: (83,000)
FY 2013: (85,000)
FY 2014: (87,000)
FY 2015: (89,000)

The decreased revenue distributions among counties, cities and special districts is as follows:

	County	City	Special District
FY 2011	$(15,018)	$(15,371)	$(10,200)
FY 2012	$(30,403)	$(31,118)	$(20,649)
FY 2013	$(31,136)	$(31,868)	$(21,147)
FY 2014	$(31,868)	$(32,617)	$(21,644)
FY 2015	$(32,601)	$(33,367)	$(22,142)

LEASEHOLD EXCISE TAX LOSS:
This bill would result in the following decrease in local leasehold excise tax revenue, according to the Department of Revenue:
FY 2012: (25,000)
FY 2013: (26,000)
FY 2014: (27,000)
FY 2015: (28,000)

The decreased revenue distributions among counties and cities is as follows:

	County	City
FY 2012:	$(10,883)	$(13,617)
FY 2013:	$(11,318)	$(14,162)
FY 2014:	$(11,753)	$(14,707)

FY 2015: $(12,189) $(15,251)

PROPERTY TAX LOSS:

This bill would result in the following decrease in local property tax revenue and shift to taxpayers, according to the Department of Revenue:
FY 2012: (5,000)
FY 2013: (10,000)
FY 2014: (16,000)
FY 2015: (21,000)

The decreased revenue distributions among counties, cities and special districts is as follows:

	County	City	Special District
FY 2012:	$(1,810)	$(1,461)	$(1,730)
FY 2013:	$(3,619)	$(2,921)	$(3,460)
FY 2014:	$(5,790)	$(4,674)	$(5,536)
FY 2015:	$(7,600)	$(6,135)	$(7,265)

Local Government Shift of Tax Burden by Calendar Year:

	County	City	Special District
CY 2012:	22,960	18,533	67,507
CY 2013:	23,592	19,043	69,365
CY 2014:	46,763	37,747	137,491
CY 2015:	48,026	38,767	141,207

METHODOLOGY:
The sales and use tax distributions in this note for cities, counties, and special districts are based on DOR data for local sales and use tax distributions from 2008. Mitigation payments and distributions to hospital benefit zones are not factored into this distribution. This results in a distribution of 37.00 percent to counties, 37.87 percent to cities and 25.13 percent to special districts. The 1 percent DOR administrative fee has also been deducted.

Leasehold excise tax distributions for counties and cities are based on DOR 2009 local leasehold excise tax distribution data. A 2 percent DOR administrative fee has also been deducted.

Property Tax Shift and Revenue Loss:
Tax exemptions lower the taxable value against which taxing districts levy their taxes. When exemptions are enacted, taxing districts may compensate for the loss in taxable value by increasing the tax rate for taxpayers who are not eligible for the exemptions. Consequently, taxpayers who do not benefit from the exemption would pay a higher tax. This higher tax results in a tax shift from the exempt taxpayers to the non-exempt taxpayers. However, when a taxing district is restricted from increasing the tax rate due to a levy limit, the taxing district incurs a revenue loss. Local government revenue losses were computed by taking the DOR Fiscal Note data and multiplying the result by the property tax distribution for counties, cities and special districts. These percentages are derived from the DOR publication, Property Tax Statistics 2009.

Calendar Year vs. Fiscal Year:
Note that a tax shift is presented by calendar year (CY) and a revenue loss is presented by fiscal year (FY). Taxes are assessed and collected by the counties on a calendar-year basis. When a tax shift occurs, it is computed for the calendar year. Because revenue and expenditures are reported on a fiscal year basis, the revenue loss is also for a fiscal year.

SOURCES:
Department of Revenue fiscal note
Department of Revenue
Department of Revenue Local Tax Distributions
Department of Revenue Property Tax Statistics 2009