
SENATE BILL 5492

State of Washington

64th Legislature

2015 Regular Session

By Senators Frockt, Kohl-Welles, Hasegawa, Billig, Conway, Keiser, Chase, Rolfes, Ranker, Jayapal, Miloscia, and McAuliffe

Read first time 01/22/15. Referred to Committee on Ways & Means.

1 AN ACT Relating to increasing tax exemption transparency and
2 accountability; amending RCW 43.06.400, 43.88.030, 43.136.035,
3 43.136.045, 43.136.055, and 43.136.065; adding new sections to
4 chapter 43.88 RCW; creating new sections; providing an effective
5 date; and declaring an emergency.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

7 NEW SECTION. **Sec. 1.** (1) Hundreds of tax exemptions and special
8 tax preferences have been granted to special interests by the
9 legislature without requiring assessment of whether those exemptions
10 and preferences would create jobs or result in increased economic
11 activity which increases state revenues. These exemptions and
12 preferences result in the entire tax system being less fair for
13 people who do not have special exemptions and preferences, and
14 increase the taxes on all other taxpayers in order to fund education
15 and other state services.

16 (2) Tax expenditures reduce revenues collected from the tax base
17 and provide preferential treatment to some at the expense of those
18 not getting a tax expenditure. Almost as much money as is collected
19 in tax revenues is not collected and is given out as tax
20 expenditures. While every expenditure of revenue must be authorized
21 and appropriated in the state budget approved by the legislature, the

1 massive amounts of funding for these tax preferences and exemptions
2 continue without any readoption by the legislature in each budget.
3 These exemptions and preferences are, therefore, tax expenditures,
4 most of which continue without any legislative action year after year
5 while the state seeks other funding to meet constitutional duties to
6 fund education and other services and obligations.

7 (3) Off-budget spending in the form of tax expenditures has
8 resulted in out of control state spending that is depleting the state
9 of needed revenue to fund essential state services like education and
10 health care. Tax expenditures as off-budget spending lack the
11 accountability of other state spending programs because they have not
12 been included in the state biennial budget process and are not
13 subject to the same biennial scrutiny.

14 (4) This measure would create a tax expenditure budget as part of
15 the biennial budget adopted by the legislature. This measure reforms
16 the tax expenditure process by including tax expenditures in a tax
17 expenditure budget in the biennial state budget process and requires
18 they be readopted every two years as part of the budget process or
19 they expire. This brings tax expenditures into the state budget
20 process to protect the public's interest, make them more transparent
21 and accountable, and help ensure they are producing results to meet
22 the priorities of government as other state spending is required to
23 do under the governor's proposed budget.

24 NEW SECTION. **Sec. 2.** A new section is added to chapter 43.88
25 RCW to read as follows:

26 (1) The omnibus operating appropriations act enacted by the
27 legislature must include:

28 (a) A tax expenditure budget detailing all discretionary state
29 tax expenditures together with an estimate of the state revenue
30 impact associated with each discretionary state tax expenditure, the
31 stated purpose of the tax expenditure, and the effectiveness of the
32 tax expenditure in meeting that purpose;

33 (b) A section stating the total estimated revenue impact from all
34 discretionary state tax expenditures, total appropriations, and total
35 state expenditures representing the sum of discretionary state tax
36 expenditures and appropriations;

37 (c) A section stating the total state revenue impact from all
38 nondiscretionary tax expenditures; and

1 (d) The purpose of the exemption or preference and criteria by
2 which its continuation is evaluated based on whether it increases
3 fairness, increases family wage jobs or other jobs, increases other
4 state revenues greater than the amount foregone, or is necessary to
5 prevent the loss of jobs via relocation to another jurisdiction.

6 (2) The sections described in subsection (1) of this section must
7 be stated in part I of the omnibus operating appropriations act.

8 (3) For the purposes of this section, "discretionary state tax
9 expenditure" means a tax preference, as defined in RCW 43.136.021,
10 which impacts revenues appropriated in the omnibus operating
11 appropriations act and that is not required by the state
12 Constitution, United States Constitution, or federal law.

13 **Sec. 3.** RCW 43.06.400 and 2013 c 225 s 605 are each amended to
14 read as follows:

15 ~~(1) ((Beginning in January 1984, and in January of every fourth
16 year thereafter, the department of revenue must submit to the
17 legislature prior to the regular session a listing of the amount of
18 reduction for the current and next biennium in the revenues of the
19 state or the revenues of local government collected by the state as a
20 result of tax exemptions. The listing must include an estimate of the
21 revenue lost from the tax exemption, the purpose of the tax
22 exemption, the persons, organizations, or parts of the population
23 which benefit from the tax exemption, and whether or not the tax
24 exemption conflicts with another state program. The listing must))~~

25 Biennially, the department of revenue must prepare a tax expenditure
26 budget detailing the amount of reduction for the current and next
27 biennium in the revenues of the state or the revenues of local
28 government collected by the state as a result of tax expenditures.
29 The tax expenditure budget must be updated as part of any
30 supplemental budget process. The tax expenditure budget must include:
31 An estimate of the revenue lost from each tax expenditure; the
32 purpose of the tax expenditure; the persons, organizations, and parts
33 of the population that benefit from the tax expenditure; whether or
34 not the tax expenditure conflicts with another state program; a
35 ranking of each tax expenditure as high, medium, or low in meeting
36 the state's priorities of government; and the expiration date of the
37 tax expenditure; and the purpose of the tax expenditure with criteria
38 for its evaluation along with results of any review by the joint
39 legislative audit and review committee and the citizen commission for

1 performance measurement of tax expenditures pursuant to RCW
2 43.136.065 per section 2(1)(d) of this act. The tax expenditure
3 budget must also include but not be limited to the following revenue
4 sources:

- 5 (a) Real and personal property tax exemptions under Title 84 RCW;
- 6 (b) Business and occupation tax exemptions, deductions, and
7 credits under chapter 82.04 RCW;
- 8 (c) Retail sales and use tax exemptions under chapters 82.08,
9 82.12, and 82.14 RCW;
- 10 (d) Public utility tax exemptions and deductions under chapter
11 82.16 RCW;
- 12 (e) Food fish and shellfish tax exemptions under chapter 82.27
13 RCW;
- 14 (f) Leasehold excise tax exemptions under chapter 82.29A RCW;
- 15 (g) Motor vehicle and special fuel tax exemptions and refunds
16 under chapter 82.38 RCW;
- 17 (h) Aircraft fuel tax exemptions under chapter 82.42 RCW;
- 18 (i) Motor vehicle excise tax exclusions under chapter 82.44 RCW;
- 19 and
- 20 (j) Insurance premiums tax exemptions under chapter 48.14 RCW.

21 (2) The department of revenue must prepare the ((listing)) tax
22 expenditure budget required by this section with the assistance of
23 any other agencies or departments as may be required.

24 ~~(3) ((The department of revenue must present the listing to the~~
25 ~~ways and means committees of each house in public hearings.~~

26 ~~(4) Beginning in January 1984, and every four years thereafter~~
27 ~~the governor is requested to review the report from the department of~~
28 ~~revenue and may submit recommendations to the legislature with~~
29 ~~respect to the repeal or modification of any tax exemption. The ways~~
30 ~~and means committees of each house and the appropriate standing~~
31 ~~committee of each house must hold public hearings and take~~
32 ~~appropriate action on the recommendations submitted by the governor.~~

33 ~~(5))~~ As used in this section, "tax ((~~exemption~~)) expenditure"
34 means an exemption, exclusion, or deduction from the base of a tax; a
35 credit against a tax; a deferral of a tax; or a preferential tax
36 rate.

37 ~~((6) For purposes of the listing due in January 2012, the~~
38 ~~department of revenue does not have to prepare or update the listing~~
39 ~~with respect to any tax exemption that would not be likely to~~

1 ~~increase state revenue if the exemption was repealed or otherwise~~
2 ~~eliminated.))~~

3 (4) The department of revenue must submit the tax expenditure
4 budget to the governor at the time biennial budget requests are due
5 under RCW 43.88.030. The governor is requested to review the tax
6 expenditure budget from the department of revenue and submit it as
7 part of the biennial budget documents under RCW 43.88.030. The tax
8 expenditure budget must categorize each tax expenditure according to
9 the program and functions each expenditure supports in the biennial
10 budget.

11 NEW SECTION. Sec. 4. A new section is added to chapter 43.88
12 RCW to read as follows:

13 (1) The tax expenditure budget prepared by the department of
14 revenue must include a detailed analysis of each expenditure and its
15 ranking of high, medium, or low in meeting the priorities of
16 government and whether each expenditure is meeting its stated goals
17 as stated in RCW 43.136.055. The tax expenditure budget is not
18 required to address tax expenditures required under the state
19 Constitution, United States Constitution, or federal law.

20 (2) The governor must coordinate the department of revenue's tax
21 expenditure budget and the governor's review with the audit review
22 process by the joint legislative audit and review committee and the
23 citizen commission for performance measurement of tax expenditures
24 and must identify each expenditure that will expire during the next
25 biennium and make a recommendation as to whether the expenditure
26 should be allowed to expire, continue, or continue with modification.
27 The governor also may submit other recommendations to the legislature
28 with respect to the repeal or modification of any tax expenditure.
29 The fiscal committees of the house of representatives and the senate
30 and the appropriate standing committee of the house of
31 representatives and the senate must hold public hearings and must
32 adopt a tax expenditure budget as part of the omnibus appropriations
33 act. Any tax expenditure not included in the tax expenditure budget
34 in the adopted omnibus appropriations act expires at the end of the
35 calendar year in which the budget is adopted.

36 (3) For the purposes of this section, "tax expenditure" means an
37 exemption, exclusion, or deduction from the base of a tax; a credit
38 against a tax; a deferral of a tax; or a preferential tax rate.

1 (4) Each biennium the tax expenditure budget must be included in
2 the omnibus operating appropriations act enacted by the legislature.

3 (a) Tax expenditures in the tax expenditure budget must be
4 treated as any other state expenditure and must be reauthorized with
5 each biennial budget. Tax expenditures that have an expiration
6 provision must be included in the tax expenditure budget with the
7 expiration date stated. Tax expenditures can be expired by the
8 legislature prior to the stated expiration date in the same manner as
9 the legislature can terminate any expenditure for other state
10 funding.

11 (b) No new or existing tax expenditure may be approved or
12 reauthorized by the legislature for more than ten years.

13 (c) Any new tax expenditures must be added to the tax expenditure
14 budget and are subject to the same audit and review procedures and
15 for meeting the state's priorities of government as existing tax
16 expenditures are required to meet. New tax expenditures enacted as
17 part of the tax expenditure budget in the omnibus appropriations act
18 but which were not reviewed under all provisions of RCW 43.136.045 or
19 43.136.055 prior to enactment must be prioritized for review.

20 (d) The legislature may expire a tax expenditure earlier than its
21 authorized term by either:

22 (i) A majority vote as provided under Article II, section 22 of
23 the state Constitution; or

24 (ii) As part of the budget process in the same manner as any
25 other expenditure is approved or denied in the omnibus appropriations
26 act by a majority vote of the members of the house of representatives
27 and the senate.

28 **Sec. 5.** RCW 43.88.030 and 2006 c 334 s 43 are each amended to
29 read as follows:

30 (1) (a) The director of financial management (~~shall~~) must
31 provide all agencies with a complete set of instructions for
32 submitting biennial budget requests to the director at least three
33 months before agency budget documents are due into the office of
34 financial management.

35 (b) The budget document or documents (~~shall~~) must consist of
36 the governor's budget message which (~~shall~~) must be explanatory of
37 the budget and (~~shall~~) must contain an outline of the proposed
38 financial policies of the state for the ensuing fiscal period, as
39 well as an outline of the proposed six-year financial policies where

1 applicable, and (~~shall~~) must describe in connection therewith the
2 important features of the budget.

3 (i) The biennial budget document or documents (~~shall~~) must also
4 describe performance indicators that demonstrate measurable progress
5 towards priority results.

6 (ii) The message (~~shall~~) must set forth the reasons for salient
7 changes from the previous fiscal period in expenditure and revenue
8 items and (~~shall~~) must explain any major changes in financial
9 policy. Attached to the budget message (~~shall~~) must be such
10 supporting schedules, exhibits and other explanatory material in
11 respect to both current operations and capital improvements as the
12 governor (~~shall~~) deems to be useful to the legislature.

13 (iii) The budget document or documents (~~shall~~) must set forth a
14 proposal for expenditures in the ensuing fiscal period, or six-year
15 period where applicable, based upon the estimated revenues and
16 caseloads as approved by the economic and revenue forecast council
17 and caseload forecast council or upon the estimated revenues and
18 caseloads of the office of financial management for those funds,
19 accounts, sources, and programs for which the forecast councils do
20 not prepare an official forecast. Revenues (~~shall~~) must be
21 estimated for such fiscal period from the source and at the rates
22 existing by law at the time of submission of the budget document,
23 including the supplemental budgets submitted in the even-numbered
24 years of a biennium. However, the estimated revenues and caseloads
25 for use in the governor's budget document may be adjusted to reflect
26 budgetary revenue transfers and revenue and caseload estimates
27 dependent upon budgetary assumptions of enrollments, workloads, and
28 caseloads. All adjustments to the approved estimated revenues and
29 caseloads must be set forth in the budget document.

30 (c) The governor may additionally submit, as an appendix to each
31 supplemental, biennial, or six-year agency budget or to the budget
32 document or documents, a proposal for expenditures in the ensuing
33 fiscal period from revenue sources derived from proposed changes in
34 existing statutes.

35 (d) The budget document or documents (~~shall~~) must also contain:

36 (~~(a)~~) (i) Revenues classified by fund and source for the
37 immediately past fiscal period, those received or anticipated for the
38 current fiscal period, and those anticipated for the ensuing
39 biennium;

1 ~~((b))~~ (ii) The tax expenditure budget prepared under RCW
2 43.06.400;
3 (iii) The undesignated fund balance or deficit, by fund;
4 ~~((c))~~ (iv) Such additional information dealing with
5 expenditures, revenues, workload, performance, and personnel as the
6 legislature may direct by law or concurrent resolution;
7 ~~((d))~~ (v) Such additional information dealing with revenues and
8 expenditures as the governor ~~((shall))~~ deems pertinent and useful to
9 the legislature;
10 ~~((e))~~ (vi) Tabulations showing expenditures classified by fund,
11 function, and agency;
12 ~~((f))~~ (vii) The expenditures that include nonbudgeted,
13 nonappropriated accounts outside the state treasury;
14 ~~((g))~~ (viii) Identification of all proposed direct expenditures
15 to implement the Puget Sound water quality plan under chapter 90.71
16 RCW, shown by agency and in total; and
17 ~~((h))~~ (ix) Tabulations showing each postretirement adjustment
18 by retirement system established after fiscal year 1991, to include,
19 but not be limited to, estimated total payments made to the end of
20 the previous biennial period, estimated payments for the present
21 biennium, and estimated payments for the ensuing biennium.
22 ~~((2))~~ (e) The budget document or documents ~~((shall))~~ must
23 include detailed estimates of all anticipated revenues applicable to
24 proposed operating ~~((or))~~, capital, and tax expenditures and
25 ~~((shall))~~ must also include all proposed operating ~~((or))~~, capital,
26 and tax expenditures. The total of beginning undesignated fund
27 balance and estimated revenues less working capital and other
28 reserves ~~((shall))~~ must equal or exceed the total of proposed
29 applicable expenditures.
30 (f) The budget document or documents ~~((shall))~~ must further
31 include:
32 ~~((a))~~ (i) Interest, amortization and redemption charges on the
33 state debt;
34 ~~((b))~~ (ii) Payments of all reliefs, judgments, and claims;
35 ~~((c))~~ (iii) Other statutory expenditures;
36 ~~((d))~~ (iv) Expenditures incident to the operation for each
37 agency;
38 ~~((e))~~ (v) Revenues derived from agency operations;
39 ~~((f))~~ (vi) Expenditures and revenues ~~((shall))~~ must be given in
40 comparative form showing those incurred or received for the

1 immediately past fiscal period and those anticipated for the current
2 biennium and next ensuing biennium;

3 ~~((g))~~ (vii) A showing and explanation of amounts of general
4 fund and other funds obligations for debt service and any transfers
5 of moneys that otherwise would have been available for appropriation;

6 ~~((h))~~ (viii) Common school expenditures on a fiscal-year basis;

7 ~~((i))~~ (ix) A showing, by agency, of the value and purpose of
8 financing contracts for the lease/purchase or acquisition of personal
9 or real property for the current and ensuing fiscal periods; and

10 ~~((j))~~ (x) A showing and explanation of anticipated amounts of
11 general fund and other funds required to amortize the unfunded
12 actuarial accrued liability of the retirement system specified under
13 chapter 41.45 RCW, and the contributions to meet such amortization,
14 stated in total dollars and as a level percentage of total
15 compensation.

16 ~~((3))~~ (2) The governor's operating budget document or documents
17 ~~((shall))~~, including the tax expenditure budget, must reflect the
18 statewide priorities as required by RCW 43.88.090.

19 ~~((4))~~ (3) The governor's operating budget document or documents
20 ~~((shall))~~, including the tax expenditure budget, must identify
21 activities that are not addressing the statewide priorities.

22 ~~((5))~~ (4)(a) A separate capital budget document or schedule
23 ~~((shall))~~ must be submitted that will contain the following:

24 ~~((a))~~ (i) A statement setting forth a long-range facilities
25 plan for the state that identifies and includes the highest priority
26 needs within affordable spending levels;

27 ~~((b))~~ (ii) A capital program consisting of proposed capital
28 projects for the next biennium and the two biennia succeeding the
29 next biennium consistent with the long-range facilities plan.
30 Insomuch as is practical, and recognizing emergent needs, the capital
31 program ~~((shall))~~ must reflect the priorities, projects, and spending
32 levels proposed in previously submitted capital budget documents in
33 order to provide a reliable long-range planning tool for the
34 legislature and state agencies;

35 ~~((c))~~ (iii) A capital plan consisting of proposed capital
36 spending for at least four biennia succeeding the next biennium;

37 ~~((d))~~ (iv) A strategic plan for reducing backlogs of
38 maintenance and repair projects. The plan ~~((shall))~~ must include a
39 prioritized list of specific facility deficiencies and capital
40 projects to address the deficiencies for each agency, cost estimates

1 for each project, a schedule for completing projects over a
2 reasonable period of time, and identification of normal maintenance
3 activities to reduce future backlogs;

4 ~~((e))~~ (v) A statement of the reason or purpose for a project;

5 ~~((f))~~ (vi) Verification that a project is consistent with the
6 provisions set forth in chapter 36.70A RCW;

7 ~~((g))~~ (vii) A statement about the proposed site, size, and
8 estimated life of the project, if applicable;

9 ~~((h))~~ (viii) Estimated total project cost;

10 ~~((i))~~ (ix) For major projects valued over five million dollars,
11 estimated costs for the following project components: Acquisition,
12 consultant services, construction, equipment, project management, and
13 other costs included as part of the project. Project component costs
14 ~~((shall))~~ must be displayed in a standard format defined by the
15 office of financial management to allow comparisons between projects;

16 ~~((j))~~ (x) Estimated total project cost for each phase of the
17 project as defined by the office of financial management;

18 ~~((k))~~ (xi) Estimated ensuing biennium costs;

19 ~~((l))~~ (xii) Estimated costs beyond the ensuing biennium;

20 ~~((m))~~ (xiii) Estimated construction start and completion dates;

21 ~~((n))~~ (xiv) Source and type of funds proposed;

22 ~~((o))~~ (xv) Estimated ongoing operating budget costs or savings
23 resulting from the project, including staffing and maintenance costs;

24 ~~((p))~~ (xvi) For any capital appropriation requested for a state
25 agency for the acquisition of land or the capital improvement of land
26 in which the primary purpose of the acquisition or improvement is
27 recreation or wildlife habitat conservation, the capital budget
28 document, or an omnibus list of recreation and habitat acquisitions
29 provided with the governor's budget document, ~~((shall))~~ must identify
30 the projected costs of operation and maintenance for at least the two
31 biennia succeeding the next biennium. Omnibus lists of habitat and
32 recreation land acquisitions ~~((shall))~~ must include individual
33 project cost estimates for operation and maintenance as well as a
34 total for all state projects included in the list. The document
35 ~~((shall))~~ must identify the source of funds from which the operation
36 and maintenance costs are proposed to be funded;

37 ~~((q))~~ (xvii) Such other information bearing upon capital
38 projects as the governor deems to be useful;

39 ~~((r))~~ (xviii) Standard terms, including a standard and uniform
40 definition of normal maintenance, for all capital projects;

1 (~~(s)~~) (xix) Such other information as the legislature may
2 direct by law or concurrent resolution.

3 **(b)** For purposes of this subsection (~~(5)~~) (4), the term
4 "capital project" (~~shall~~) must be defined subsequent to the
5 analysis, findings, and recommendations of a joint committee
6 comprised of representatives from the house capital appropriations
7 committee, senate ways and means committee, legislative evaluation
8 and accountability program committee, and office of financial
9 management.

10 (~~(6)~~) (5) No change affecting the comparability of agency or
11 program information relating to expenditures, revenues, workload,
12 performance, and personnel (~~shall~~) may be made in the format of any
13 budget document or report presented to the legislature under this
14 section or RCW 43.88.160(1) relative to the format of the budget
15 document or report (~~which~~) that was presented to the previous
16 regular session of the legislature during an odd-numbered year
17 without prior legislative concurrence. Prior legislative concurrence
18 (~~shall~~) must consist of:

19 (a) A favorable majority vote on the proposal by the standing
20 committees on ways and means of both houses if the legislature is in
21 session; or

22 (b) A favorable majority vote on the proposal by members of the
23 legislative evaluation and accountability program committee if the
24 legislature is not in session.

25 **Sec. 6.** RCW 43.136.035 and 2006 c 197 s 3 are each amended to
26 read as follows:

27 (1) The citizen commission for performance measurement of tax
28 (~~preferences~~) expenditures is created.

29 (2) The commission has seven members as follows:

30 (a) One member is the state auditor, who is a nonvoting member;

31 (b) One member is the chair of the joint legislative audit and
32 review committee, who is a nonvoting member;

33 (c) The chair of each of the two largest caucuses of the senate
34 and the two largest caucuses of the house of representatives
35 (~~shall~~) must each appoint a member. None of these appointees may be
36 members of the legislature; and

37 (d) The governor (~~shall~~) must select the seventh member.

38 (3) Persons appointed by the caucus chairs should be individuals
39 who represent a balance of perspectives and constituencies, and have

1 a basic understanding of state tax policy, government operations, and
2 public services. These appointees should have knowledge and expertise
3 in performance management, fiscal analysis, strategic planning,
4 economic development, performance assessments, or closely related
5 fields.

6 (4) The commission (~~shall~~) must elect a chair from among its
7 voting or nonvoting members. Decisions of the commission must be made
8 using the sufficient consensus model. For the purposes of this
9 subsection, "sufficient consensus" means the point at which the vast
10 majority of the commission favors taking a particular action. If the
11 commission determines that sufficient consensus cannot be reached, a
12 vote must be taken. The commission must allow a minority report to be
13 included with a decision of the commission, if requested by a member
14 of the commission.

15 (5) Members serve for terms of four years, with the terms
16 expiring on June 30th on the fourth year of the term. However, in the
17 case of the initial terms, the members appointed by the chairs of
18 senate caucuses (~~shall~~) must serve four-year terms, the members
19 appointed by the chairs of house of representatives caucuses
20 (~~shall~~) must serve three-year terms, and the member appointed by
21 the governor (~~shall~~) must serve a two-year term, with each of the
22 terms expiring on June 30th of the applicable year. Appointees may be
23 reappointed to serve more than one term.

24 (6) The joint legislative audit and review committee (~~shall~~)
25 must provide clerical, technical, and management personnel to the
26 commission to serve as the commission's staff. The department of
27 revenue (~~shall~~) must provide necessary support and information to
28 the joint legislative audit and review committee.

29 (7) The commission (~~shall~~) must meet at least once a quarter
30 and may hold additional meetings at the call of the chair or by a
31 majority vote of the members of the commission. The members of the
32 commission (~~shall~~) must be compensated in accordance with RCW
33 43.03.220 and reimbursed for travel expenses in accordance with RCW
34 43.03.050 and 43.03.060.

35 **Sec. 7.** RCW 43.136.045 and 2011 c 335 s 2 are each amended to
36 read as follows:

37 (1) The citizen commission for performance measurement of tax
38 (~~preferences~~) expenditures must develop a schedule to accomplish an
39 orderly review of tax (~~preferences~~) expenditures at least once

1 every ten years. In determining the schedule, the commission must
2 consider the order the tax ((preferences)) expenditures were enacted
3 into law, in addition to other factors including but not limited to
4 grouping ((preferences)) expenditures for review by type of industry,
5 economic sector, or policy area. The commission ((may elect to
6 include, anywhere in the schedule, a tax preference that has a
7 statutory expiration date. The commission must omit from the schedule
8 tax preferences that are required by constitutional law, sales and
9 use tax exemptions for machinery and equipment for manufacturing,
10 research and development, or testing, the small business credit for
11 the business and occupation tax, sales and use tax exemptions for
12 food and prescription drugs, property tax relief for retired persons,
13 and property tax valuations based on current use, and may omit any
14 tax preference that the commission determines is a critical part of
15 the structure of the tax system. As an alternative to the process
16 under RCW 43.136.055, the commission may recommend to the joint
17 legislative audit and review committee an expedited review process
18 for any tax preference)) must include, in a timely manner, in the
19 schedule, a tax expenditure that has a statutory expiration date. The
20 commission must omit from the schedule tax expenditures that are
21 required by constitutional law. As an alternative to the process
22 under RCW 43.136.055, the commission, as well as the governor or the
23 state legislature, may recommend to the joint legislative audit and
24 review committee an expedited review process for any tax expenditure
25 or group of expenditures.

26 (2) The commission must revise the schedule as needed each year,
27 taking into account newly enacted or terminated tax ((preferences))
28 expenditures. The commission must deliver the schedule to the joint
29 legislative audit and review committee by September 1st of each year.

30 (3) The commission must provide a process for effective citizen
31 input during its deliberations and must allow comments to be
32 submitted and posted online.

33 **Sec. 8.** RCW 43.136.055 and 2011 c 335 s 3 are each amended to
34 read as follows:

35 (1) The joint legislative audit and review committee must review
36 tax ((preferences)) expenditures according to the schedule developed
37 under RCW 43.136.045. The committee must consider, but not be limited
38 to, the following factors in the review as relevant to each
39 particular tax ((preference)) expenditure:

1 (a) ~~The classes ((of individuals, types of organizations, or~~
2 ~~types of industries whose state tax liabilities are directly affected~~
3 ~~by the tax preference;~~

4 (b) ~~Public policy objectives that might provide a justification~~
5 ~~for the tax preference, including but not limited to the legislative~~
6 ~~history, any legislative intent, or the extent to which the tax~~
7 ~~preference encourages business growth or relocation into this state,~~
8 ~~promotes growth or retention of high wage jobs, or helps stabilize~~
9 ~~communities;~~

10 (c) ~~Evidence that the existence of the tax preference has~~
11 ~~contributed to the achievement of any of the public policy~~
12 ~~objectives;~~

13 (d) ~~The extent to which continuation of the tax preference might~~
14 ~~contribute to any of the public policy objectives;~~

15 (e) ~~The extent to which the tax preference may provide unintended~~
16 ~~benefits to an individual, organization, or industry other than those~~
17 ~~the legislature intended;~~

18 (f) ~~The extent to which terminating the tax preference may have~~
19 ~~negative effects on the category of taxpayers that currently benefit~~
20 ~~from the tax preference, and the extent to which resulting higher~~
21 ~~taxes may have negative effects on employment and the economy;~~

22 (g) ~~The feasibility of modifying the tax preference to provide~~
23 ~~for adjustment or recapture of the tax benefits of the tax preference~~
24 ~~if the objectives are not fulfilled;~~

25 (h) ~~Fiscal impacts of the tax preference, including past impacts~~
26 ~~and expected future impacts if it is continued. For the purposes of~~
27 ~~this subsection, "fiscal impact" includes an analysis of the general~~
28 ~~effects of the tax preference on the overall state economy,~~
29 ~~including, but not limited to, the effects of the tax preference on~~
30 ~~the consumption and expenditures of persons and businesses within the~~
31 ~~state;~~

32 (i) ~~The extent to which termination of the tax preference would~~
33 ~~affect the distribution of liability for payment of state taxes;~~

34 (j) ~~The economic impact of the tax preference compared to the~~
35 ~~economic impact of government activities funded by the tax for which~~
36 ~~the tax preference is taken at the same level of expenditure as the~~
37 ~~tax preference. For purposes of this subsection the economic impact~~
38 ~~shall be determined using the Washington input-output model as~~
39 ~~published by the office of financial management;~~

1 ~~(k) Consideration of similar tax preferences adopted in other~~
2 ~~states, and potential public policy benefits that might be gained by~~
3 ~~incorporating corresponding provisions in Washington.~~

4 ~~(2) For each tax preference, the committee must provide a~~
5 ~~recommendation as to whether the tax preference should be continued~~
6 ~~without modification, modified, scheduled for sunset review at a~~
7 ~~future date, or terminated immediately. The committee may recommend~~
8 ~~accountability standards for the future review of a tax preference))~~
9 and number of individuals, organizations, and industries whose state
10 tax liabilities are directly affected by the tax expenditure;

11 (b) Public policy objectives that provide the justification for
12 the tax expenditure budget, including but not limited to the
13 legislative history, legislative intent, priorities of government,
14 and the extent to which the tax expenditure encourages business
15 growth, relocation into this state, promotes growth or retention of
16 high wage jobs, and helps stabilize communities and local economies;

17 (c) Evidence that the existence of the tax expenditure has
18 contributed to the achievement of any of the public policy objectives
19 of the state and its priorities of government;

20 (d) The extent to which continuation of the tax expenditure would
21 contribute to any of the public policy objectives and priorities of
22 government;

23 (e) The extent to which the tax expenditure may provide
24 unintended benefits to an individual, organization, or industry other
25 than those the legislature intended;

26 (f) The extent to which terminating the tax expenditure may have
27 negative effects on the category of taxpayers that currently benefit
28 from the tax expenditure, the extent to which there may be negative
29 or positive effects on employment, the economy, the state budget, and
30 other taxpayers;

31 (g) The feasibility of modifying or terminating the tax
32 expenditure to provide for adjustment or recapture of the tax
33 benefits of the tax expenditure if the economic benefits, jobs, or
34 other objectives are not fulfilled;

35 (h) Fiscal impacts of the tax expenditure, including past impacts
36 and expected future impacts if it is continued. For the purposes of
37 this subsection, "fiscal impact" includes an analysis of the general
38 effects of the tax expenditure on the overall state economy, jobs,
39 the state budget, and other taxpayers including, but not limited to,

1 the effects of the tax expenditure on the consumption and
2 expenditures of persons and businesses within the state;

3 (i) The extent to which termination of the tax expenditure would
4 affect the distribution of liability for payment of state taxes;

5 (j) The economic impact of the tax expenditure compared to the
6 economic impact of government activities that could be funded by the
7 tax for which the tax expenditure is taken, comparing the projected
8 results at the same level of expenditure as the tax expenditure. For
9 purposes of this subsection, the economic impact must be determined
10 using the Washington input-output model as published by the office of
11 financial management and/or other economic models accepted by the
12 office of financial management that may provide more accurate
13 information;

14 (k) The extent to which the tax expenditure promotes a
15 sustainable nonpolluting economy and contributes to protecting the
16 environment and our quality of life;

17 (l) A ranking of high, medium, or low priority as to the tax
18 expenditure meeting the most recent "priorities of government" as
19 developed by the office of financial management;

20 (m) The extent to which the tax expenditure contributes to tax
21 fairness and a reduction in the regressive impacts of the current tax
22 system in Washington state;

23 (n) Opportunities and feasibility to use direct budget
24 expenditures instead of tax expenditures to accomplish economic goals
25 more efficiently, effectively, and within a set time frame;

26 (o) Whether the tax expenditure is necessary to accomplish its
27 stated goal or if finances, funds, other resources, or other
28 opportunities are available to the recipient to accomplish the same
29 result.

30 (2) For each tax expenditure, the committee must provide a
31 recommendation as to whether the tax expenditure should be continued
32 without modification, modified, scheduled for sunset review at a
33 future date, or terminated immediately. The committee must recommend
34 accountability standards for the future review of a tax expenditure.

35 (3)(a) Review of tax expenditures by the committee must include,
36 but is not limited to, whether the expenditure has a purpose
37 identified pursuant to RCW 43.06.400 in the tax expenditure budget.

38 (i) If the purpose is to generate additional state and/or local
39 revenue pursuant to the tax expenditure budget by generating
40 additional gross sales subject to business and occupation tax, retail

1 sales tax, or other taxes exceeding the amount of estimated revenue
2 lost from enactment of the tax expenditure, the review must include
3 how much additional revenue has been generated in comparison to the
4 reduction in revenue from the tax expenditure.

5 (ii) If the purpose is to create or preserve jobs pursuant to the
6 tax expenditure budget the committee must include the following in
7 the tax expenditure review:

8 (A) A comparison of the projected total earnings per job, for
9 each job created or preserved, to the estimated amount of lost
10 revenue from the tax expenditure;

11 (B) Whether the jobs are family wage jobs, defined as jobs which
12 provide health and other benefits, and earnings of at least fifty
13 percent of the median wage for the local economic region of the state
14 where the jobs were created or preserved; and

15 (C) Whether the industry sector or business would likely move
16 such jobs to another state or country, taking into consideration
17 factors including, but not limited to, comparative tax structures of
18 other jurisdictions and access to an educated and trained workforce.

19 (b) If the review of a tax expenditure pursuant to (a)(ii) of
20 this subsection does not demonstrate that the net earnings of the
21 jobs created or preserved in Washington, attributed to the
22 availability of the tax expenditure, or exceed the amount of lost
23 revenue from the tax expenditure, the committee must recommend that
24 the tax expenditure be terminated.

25 **Sec. 9.** RCW 43.136.065 and 2006 c 197 s 6 are each amended to
26 read as follows:

27 (1) ~~The joint legislative audit and review committee ((shall~~
28 ~~report its findings and recommendations for scheduled tax preferences~~
29 ~~to the citizen commission for performance measurement of tax~~
30 ~~preferences by August 30th of each year. The commission may review~~
31 ~~and comment on the report of the committee. The committee may revise~~
32 ~~its report based on the comments of the commission. The committee~~
33 ~~shall prepare a final report that includes the comments of the~~
34 ~~commission and submit the final report to the finance committee of~~
35 ~~the house of representatives and the ways and means committee of the~~
36 ~~senate by December 30th.~~

37 (2) ~~The joint legislative audit and review committee shall submit~~
38 ~~a special report reviewing all tax preferences that have statutory~~
39 ~~expiration dates between June 30, 2005, and January 1, 2007. For the~~

1 special report, the committee shall complete a review under RCW
2 43.136.055, and obtain comments of the citizen commission for
3 performance measurement of tax preferences under subsection (1) of
4 this section, to the extent possible. The committee shall submit the
5 special report to the finance committee of the house of
6 representatives and the ways and means committee of the senate by
7 January 12, 2006.

8 ~~(3))~~ must report its findings and recommendations for scheduled
9 tax expenditures to the citizen commission for performance
10 measurement of tax expenditures by June 30th of each year. The
11 commission must review and comment on the report of the committee.
12 The committee may revise its report based on the comments of the
13 commission. The committee must prepare a final report that includes
14 the comments of the commission and submit the final report to the
15 finance committee of the house of representatives and the ways and
16 means committee of the senate, the department of revenue, and the
17 governor's office by September 30th. The governor and the department
18 of revenue must consider and incorporate the findings of the final
19 report in their preparation of their tax expenditure budget required
20 under section 2 of this act.

21 (2) Following receipt of a report under this section, the finance
22 committee of the house of representatives and the ways and means
23 committee of the senate (~~shall~~) must jointly hold a public hearing
24 to consider the final report and any related data.

25 NEW SECTION. Sec. 10. If any provision of this act or its
26 application to any person or circumstance is held invalid, the
27 remainder of the act or the application of the provision to other
28 persons or circumstances is not affected.

29 NEW SECTION. Sec. 11. This act may be known and cited as the
30 tax exemption transparency and accountability act.

31 NEW SECTION. Sec. 12. Except for section 3 of this act, which
32 takes effect July 1, 2015, this act is necessary for the immediate
33 preservation of the public peace, health, or safety, or support of
34 the state government and its existing public institutions, and takes
35 effect immediately.

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