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**HOUSE BILL 2666**

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**State of Washington 64th Legislature 2016 Regular Session**

**By** Representatives Santos, Walkinshaw, and Farrell

AN ACT Relating to providing transparency on the effect of tax expenditures on the state's budget; amending RCW 43.06.400, 43.88.030, and 82.33.060; reenacting and amending RCW 82.33.020; and providing an effective date.

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

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

(1) Beginning in January ((~~1984~~)) 2017, and in January of every ((~~fourth~~)) second year thereafter, the department of revenue must submit to the legislature prior to the regular session a listing of the amount of reduction for the current and next biennium in the revenues of the state or the revenues of local government collected by the state as a result of tax exemptions. The listing must include an estimate of the revenue lost from the tax exemption, the purpose of the tax exemption, the persons, organizations, or parts of the population which benefit from the tax exemption, and whether or not the tax exemption conflicts with another state program. The listing must include but not be limited to the following revenue sources:

(a) Real and personal property tax exemptions under Title 84 RCW;

(b) Business and occupation tax exemptions, deductions, and credits under chapter 82.04 RCW;

(c) Retail sales and use tax exemptions under chapters 82.08, 82.12, and 82.14 RCW;

(d) Public utility tax exemptions and deductions under chapter 82.16 RCW;

(e) Food fish and shellfish tax exemptions under chapter 82.27 RCW;

(f) Leasehold excise tax exemptions under chapter 82.29A RCW;

(g) Motor vehicle and special fuel tax exemptions and refunds under chapter 82.38 RCW;

(h) Aircraft fuel tax exemptions under chapter 82.42 RCW;

(i) Motor vehicle excise tax exclusions under chapter 82.44 RCW; and

(j) Insurance premiums tax exemptions under chapter 48.14 RCW.

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

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

(4) Beginning in January ((~~1984~~)) 2017, and every ((~~four~~)) two years thereafter, the governor is requested to review the report from the department of revenue and may submit recommendations to the legislature with respect to the repeal or modification of any tax exemption. The ways and means committees of each house and the appropriate standing committee of each house must hold public hearings and take appropriate action on the recommendations submitted by the governor.

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

(6) For purposes of the listing due in January 2012, the department of revenue does not have to prepare or update the listing with respect to any tax exemption that would not be likely to increase state revenue if the exemption was repealed or otherwise eliminated.

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

(1) The director of financial management ((~~shall~~)) must provide all agencies with a complete set of instructions for submitting biennial budget requests to the director at least three months before agency budget documents are due into the office of financial management. The budget document or documents ((~~shall~~)) must consist of the governor's budget message ((~~which shall~~)) that must be explanatory of the budget and ((~~shall~~)) must contain an outline of the proposed financial policies of the state for the ensuing fiscal period, as well as an outline of the proposed six-year financial policies where applicable, and ((~~shall~~)) must describe in connection therewith the important features of the budget. The biennial budget document or documents ((~~shall~~)) must also describe performance indicators that demonstrate measurable progress towards priority results. The message ((~~shall~~)) must set forth the reasons for salient changes from the previous fiscal period in expenditure and revenue items and ((~~shall~~)) must explain any major changes in financial policy. Attached to the budget message ((~~shall~~)) must be such supporting schedules, exhibits and other explanatory material in respect to both current operations and capital improvements as the governor ((~~shall~~)) deems to be useful to the legislature. The budget document or documents ((~~shall~~)) must set forth a proposal for expenditures in the ensuing fiscal period, or six-year period where applicable, based upon the estimated revenues and caseloads as approved by the economic and revenue forecast council and caseload forecast council or upon the estimated revenues and caseloads of the office of financial management for those funds, accounts, sources, and programs for which the forecast councils do not prepare an official forecast. Revenues ((~~shall~~)) must be estimated for such fiscal period from the source and at the rates existing by law at the time of submission of the budget document, including the supplemental budgets submitted in the even-numbered years of a biennium. However, the estimated revenues and caseloads for use in the governor's budget document may be adjusted to reflect budgetary revenue transfers and revenue and caseload estimates dependent upon budgetary assumptions of enrollments, workloads, and caseloads. All adjustments to the approved estimated revenues and caseloads must be set forth in the budget document. The governor may additionally submit, as an appendix to each supplemental, biennial, or six-year agency budget or to the budget document or documents, a proposal for expenditures in the ensuing fiscal period from revenue sources derived from proposed changes in existing statutes.

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

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

(b) The undesignated fund balance or deficit, by fund;

(c) Such additional information dealing with expenditures, revenues, workload, performance, and personnel as the legislature may direct by law or concurrent resolution;

(d) Such additional information dealing with revenues and expenditures as the governor ((~~shall~~)) deems pertinent and useful to the legislature;

(e) Tabulations showing expenditures classified by fund, function, and agency;

(f) The expenditures that include nonbudgeted, nonappropriated accounts outside the state treasury;

(g) Identification of all proposed direct expenditures to implement the Puget Sound water quality plan under chapter 90.71 RCW, shown by agency and in total; and

(h) Tabulations showing each postretirement adjustment by retirement system established after fiscal year 1991, to include, but not be limited to, estimated total payments made to the end of the previous biennial period, estimated payments for the present biennium, and estimated payments for the ensuing biennium.

((~~(2)~~)) (3) The budget document or documents ((~~shall~~)) must include detailed estimates of all anticipated revenues applicable to proposed operating or capital expenditures and shall also include all proposed operating or capital expenditures. The total of beginning undesignated fund balance and estimated revenues less working capital and other reserves ((~~shall~~)) must equal or exceed the total of proposed applicable expenditures. The budget document or documents ((~~shall~~)) must further include:

(a) Interest, amortization and redemption charges on the state debt;

(b) Payments of all reliefs, judgments, and claims;

(c) Other statutory expenditures;

(d) Expenditures incident to the operation for each agency;

(e) Revenues derived from agency operations;

(f) Expenditures and revenues shall be given in comparative form showing those incurred or received for the immediately past fiscal period and those anticipated for the current biennium and next ensuing biennium;

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

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

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

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

((~~(3)~~)) (4) The governor's operating budget document or documents ((~~shall~~)) must reflect the statewide priorities as required by RCW 43.88.090.

((~~(4)~~)) (5) The governor's operating budget document or documents ((~~shall~~)) must identify activities that are not addressing the statewide priorities.

((~~(5)~~)) (6) The governor's operating budget document or documents must clearly state a baseline revenue estimate in the operating budget balance sheet that excludes the impact of any current tax preferences and a revenue adjustment that includes the estimated impact of current tax preferences. The baseline revenue estimates must be clearly and transparently adjusted to reflect the impact of all current tax preferences. The revenue adjustment must be labeled as "currently required tax expenditures." If the governor chooses to expand any current tax preference, including the extension of existing preferences, or authorize a new tax preference, those amounts must also be clearly displayed and labeled as "additional proposed tax expenditures." Supporting documents must include a link to the listing required under RCW 43.06.400, published by the department of revenue, detailing the revenue impact of all individual tax preferences. For purposes of this section, tax preference has the same meaning as in RCW 43.136.021.

(7) A separate capital budget document or schedule ((~~shall~~)) must be submitted that ((~~will~~)) contains the following:

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

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

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

(d) A strategic plan for reducing backlogs of maintenance and repair projects. The plan ((~~shall~~)) must include a prioritized list of specific facility deficiencies and capital projects to address the deficiencies for each agency, cost estimates for each project, a schedule for completing projects over a reasonable period of time, and identification of normal maintenance activities to reduce future backlogs;

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

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

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

(h) Estimated total project cost;

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

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

(k) Estimated ensuing biennium costs;

(l) Estimated costs beyond the ensuing biennium;

(m) Estimated construction start and completion dates;

(n) Source and type of funds proposed;

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

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

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

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

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

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

((~~(6)~~)) (9) No change affecting the comparability of agency or program information relating to expenditures, revenues, workload, performance and personnel ((~~shall~~)) may be made in the format of any budget document or report presented to the legislature under this section or RCW 43.88.160(1) relative to the format of the budget document or report ((~~which~~)) that was presented to the previous regular session of the legislature during an odd-numbered year without prior legislative concurrence. Prior legislative concurrence ((~~shall~~)) must consist of (a) a favorable majority vote on the proposal by the standing committees on ways and means of both houses if the legislature is in session or (b) a favorable majority vote on the proposal by members of the legislative evaluation and accountability program committee if the legislature is not in session.

**Sec.**  RCW 82.33.020 and 2015 c 3 s 14 are each reenacted and amended to read as follows:

(1) Four times each year the supervisor must prepare, subject to the approval of the economic and revenue forecast council under RCW 82.33.010:

(a) An official state economic and revenue forecast;

(b) An unofficial state economic and revenue forecast based on optimistic economic and revenue projections; and

(c) An unofficial state economic and revenue forecast based on pessimistic economic and revenue projections.

(2) The supervisor must submit forecasts prepared under this section, along with any unofficial forecasts provided under RCW 82.33.010, to the governor and the members of the committees on ways and means and the chairs of the committees on transportation of the senate and house of representatives, including one copy to the staff of each of the committees, on or before November 20th, February 20th in the even-numbered years, March 20th in the odd-numbered years, June 27th, and September 27th. In fiscal year 2015, the March 20th forecast ((~~shall~~)) must be submitted on or before February 20, 2015. All forecasts must include both estimated receipts and estimated revenues in conformance with generally accepted accounting principles as provided by RCW 43.88.037. In odd-numbered years, the period covered by forecasts for the state general fund and related funds must cover the current fiscal biennium and the next ensuing fiscal biennium. In even-numbered years, the period covered by the forecasts for the state general fund and related funds ((~~shall~~)) must be current fiscal and the next two ensuing fiscal biennia.

(3) The submitted forecast document or documents must clearly state a baseline revenue estimate that excludes the impact of any current tax preferences and a revenue adjustment that includes the estimated impact of current tax preferences. The baseline revenue estimates and forecast must be clearly and transparently adjusted to reflect the impact of all current tax preferences. The revenue adjustment must be labeled as "currently required tax expenditures." Supporting documents must include a link to the listing required under RCW 43.06.400, published by the department of revenue, detailing the revenue impact of all individual tax preferences. For purposes of this section, tax preference has the same meaning as provided in RCW 43.136.021.

(4) All agencies of state government must provide to the supervisor immediate access to all information relating to economic and revenue forecasts. Revenue collection information must be available to the supervisor the first business day following the conclusion of each collection period.

((~~(4)~~)) (5) The economic and revenue forecast supervisor and staff must colocate and share information, data, and files with the tax research section of the department of revenue but may not duplicate the duties and functions of one another.

((~~(5)~~)) (6) As part of its forecasts under subsection (1) of this section, the supervisor must provide estimated revenue from tuition fees as defined in RCW 28B.15.020.

((~~(6)~~)) (7) The economic and revenue forecast council must, in consultation with the economic and revenue forecast work group created in RCW 82.33.040, review the existing economic and revenue forecast council revenue model, data, and methodologies and in light of recent economic changes, engage outside experts if necessary, and recommend changes to the economic and revenue forecast council revenue forecasting process to increase confidence and promote accuracy in the revenue forecast. The recommendations are due by September 30, 2012, and every five years thereafter.

**Sec.**  RCW 82.33.060 and 2012 1st sp.s. c 8 s 4 are each amended to read as follows:

(1) To facilitate compliance with, and subject to the terms of, RCW 43.88.055, the state budget outlook work group ((~~shall~~)) must prepare, subject to the approval of the economic and revenue forecast council under RCW 82.33.010, an official state budget outlook for state revenues and expenditures for the general fund and related funds. In odd‑numbered years, the period covered by the November state budget outlook shall be the current fiscal biennium and the next ensuing fiscal biennium. In even‑numbered years, the period covered by the November state budget outlook ((~~shall~~)) must be the next two ensuing fiscal biennia. The revenue and caseload projections used in the outlook must reflect the most recent official forecasts adopted by the economic and revenue forecast council and the caseload forecast council for the years for which those forecasts are available.

(2) The outlook must:

(a) Estimate revenues to and expenditures from the state general fund and related funds. The estimate of ensuing biennium expenditures must include maintenance items including, but not limited to, continuation of current programs, forecasted growth of current entitlement programs, and actions required by law, including legislation with a future implementation date. Estimates of ensuing biennium expenditures must exclude policy items including, but not limited to, legislation not yet enacted by the legislature, collective bargaining agreements not yet approved by the legislature, and changes to levels of funding for employee salaries and benefits unless those changes are required by statute. Estimated maintenance level expenditures must also exclude costs of court rulings issued during or within fewer than ninety days before the beginning of the current legislative session;

(b) Address major budget and revenue drivers, including trends and variability in these drivers;

(c) Clearly state the assumptions used in the estimates of baseline and projected expenditures and any adjustments made to those estimates;

(d) Clearly state the assumptions used in the baseline revenue estimates and any adjustments to those estimates; ((~~and~~))

(e) The baseline revenue estimate must be calculated and displayed before the impact of any current tax preference. The baseline revenue must be clearly and transparently adjusted to reflect the impact of all current tax preferences, with this adjustment labeled as "currently required tax expenditures";

(f) For purposes of this section, tax preference has the same meaning as in RCW 43.136.021; and

(g) Include the impact of previously enacted legislation with a future implementation date.

(3) The outlook must also separately include projections based on the revenues and expenditures proposed in the governor's budget documents submitted to the legislature under RCW 43.88.030.

(4) The economic and revenue forecast council ((~~shall~~)) must submit state budget outlooks prepared under this section to the governor and the members of the committees on ways and means of the senate and house of representatives, including one copy to the staff of each of the committees, as required by this section.

(5) Each January, the state budget outlook work group ((~~shall~~)) must also prepare, subject to the approval of the economic and revenue forecast council, a state budget outlook for state revenues and expenditures that reflects the governor's proposed budget document submitted to the legislature under chapter 43.88 RCW. Within thirty days following enactment of an operating budget by the legislature, the work group ((~~shall~~)) must prepare, subject to the approval of the economic and revenue forecast council, a state budget outlook for state revenues and expenditures that reflects the enacted budget.

(6) All agencies of state government ((~~shall~~)) must provide to the supervisor immediate access to all information relating to state budget outlooks.

(7) The state budget outlook work group must publish its proposed methodology on the economic and revenue forecast council web site. The state budget outlook work group, in consultation with the economic and revenue forecast work group and outside experts if necessary, must analyze the extent to which the proposed methodology for projecting expenditures for the ensuing fiscal biennia may be reliably used to determine the future impact of appropriations and make recommendations to change the outlook process to increase reliability and accuracy. The recommendations are due by December 1, 2013, and every five years thereafter.

NEW SECTION. **Sec.**  Section 1 of this act takes effect July 1, 2016.

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