

Fiscal Impact Statement for Initiative 1366

Summary

If the Legislature does not refer a constitutional amendment to voters for consideration at the November 2016 general election, over the next six fiscal years, sales tax revenue for the state General Fund would decrease \$8 billion. Sales tax revenue for the state Performance Audit Account would decrease \$12.8 million. State business and occupation (B&O) tax revenue would increase \$39.9 million. Local tax revenue would increase \$226.1 million. State expenditures would be \$598,000. If an amendment is referred to voters, fiscal year 2017 state election expenditures would increase \$101,000. There would be an unknown increase in local government election expenditures.

General Assumptions

- The effective date of the initiative is December 3, 2015.
- Estimates use the state's fiscal year of July 1 through June 30. Fiscal year 2016 is July 1, 2015, to June 30, 2016.
- As the phrase is used in Section 3(2) of the initiative, "prior to April 15, 2016, refers to the ballot" means that the Legislature passes the constitutional amendment described in Section 3(2) of the initiative before April 15, 2016, and submits it to the voters for their consideration on the November 2016 general election ballot.

Analysis

The initiative presents the Legislature with a choice that leads to two possible and mutually exclusive scenarios. The Office of Financial Management (OFM) cannot predict how the Legislature will act. For the purposes of this fiscal impact statement, OFM describes the fiscal impact of each scenario.

Scenario 1 – The Legislature does not refer a constitutional amendment to voters prior to April 15, 2016. On April 15, 2016, the state retail sales tax rate would decrease from 6.5 percent to 5.5 percent.

State and Local Government Revenue Assumptions

Changes in the state retail sales tax rate could affect the amount of goods consumers purchase, which would affect state and local tax revenue. The Department of Revenue (DOR) prepared the revenue estimates assuming a price elasticity of 0.99. Price elasticity is a method used to calculate the change in consumption of a good when price increases or decreases.

State Revenue

Reducing the state retail sales tax from 6.5 percent to 5.5 percent would decrease revenues deposited in two funds: the state General Fund and the state Performance Audit Account.

Table 1 provides estimates of the retail sales tax reductions over the next six fiscal years to the state General Fund. State revenues deposited in the state General Fund may be used for any government purpose such as education; social, health and environmental services; and other general government activities.

Table 1 – Reductions in state retail sales tax revenue deposited in the state General Fund

FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
(\$163,804,000)	(\$1,432,025,000)	(\$1,504,173,000)	(\$1,571,928,000)	(\$1,653,576,000)	(\$1,686,820,000)

Table 2 provides estimates of the retail sales tax reductions over the next six fiscal years to the state Performance Audit Account. State revenues deposited in the state Performance Audit Account are used by the Washington State Auditor to conduct comprehensive performance audits required under RCW 43.09.470.

Table 2 – Reductions in state retail sales tax revenue deposited in the state Performance Audit Account

FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
(\$263,000)	(\$2,295,000)	(\$2,411,000)	(\$2,519,000)	(\$2,650,000)	(\$2,703,000)

Table 3 provides estimates of the increases in state B&O taxes deposited in the state General Fund over the next six fiscal years. The state B&O tax is a gross receipts tax. It is measured on the value of products, gross proceeds of sales or gross income of the business. Due to price elasticity, state B&O tax revenue could increase with the change in the state retail sales tax rate.

Table 3 – Increases in state B&O tax revenue deposited in the state General Fund

FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
\$818,000	\$7,149,000	\$7,509,000	\$7,847,000	\$8,255,000	\$8,421,000

Local Government Revenue

Due to price elasticity, local B&O tax revenue and local retail sales tax revenue could increase with the change in the state retail sales tax rate. Table 4 provides estimates of the increased local revenues collected over the next six fiscal years.

Table 4 – Increases in local B&O tax and local sales tax revenue

FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
\$4,623,000	\$40,414,000	\$42,451,000	\$44,363,000	\$46,667,000	\$47,605,000

State Expenditure Assumptions

- The effective date of the retail sales tax decrease is April 15, 2016.

State Expenditures

To implement a reduced retail sales tax rate that takes effect on April 15, 2016, DOR expenditures would increase an estimated \$598,000 over the first six fiscal years. Table 5 provides cost estimates by fiscal year, rounded to the nearest thousand.

Table 5 – DOR implementation costs

FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
\$315,000	\$167,000	\$51,000	\$51,000	\$7,000	\$7,000

The timing of the rate change and the number of businesses affected by the rate change contribute to DOR’s costs. A change in the state retail sales tax rate would affect about 200,000 businesses that file monthly, quarterly or annual tax returns. These businesses collect retail sales tax from customers and then pass the sales tax revenue to the state when filing a return.

A rate change that occurs on April 15, 2016, would be reflected on tax returns due May 25, 2016. These tax returns should reflect a sales tax rate of 6.5 percent for transactions that occur April 1 to April 14, 2016. Transactions that occur April 15, 2016, or later should reflect a sales tax rate of 5.5 percent. Based on experience, returns filed immediately after a rate change have more errors than other returns. It is assumed that a high number of tax returns submitted in May 2016 will contain errors. DOR staff must manually process and resolve each return that is in error, is out-of-balance or amends a previous return.

In addition to increased labor costs for processing a higher number of incorrect returns, DOR would experience other expenditures, as follows.

Fiscal year 2016:

- Programming and testing computer system changes.
- Printing and mailing a special notice to affected taxpayers.
- Updating other notices, publications and webpages.

Fiscal years 2016 through 2021:

- Preparing additional refunds and assessments.
- Responding to more questions from affected taxpayers submitted through normal processes and a secure DOR system.

Scenario 2 – The Legislature refers a constitutional amendment to voters prior to April 15, 2016. The constitutional amendment would appear on the November 2016 general election ballot.

State and Local Government Expenditure Assumptions

- The state would not pay the cost of including a constitutional amendment on the ballot.
- County governments would pay the cost of including a constitutional amendment on the ballot.
- The amendment and other required information would be included in the state Voters’ Pamphlet and Online Voters’ Guide.

State Expenditures

The Office of the Secretary of State's expenditures for the 2016 general election Voters' Pamphlet could increase by as much as \$101,000.

Voters' Pamphlet costs are based on the number of pamphlets printed, the number of pages in each regional edition of the pamphlet, layout and composition work, distribution, postage, translating the pamphlet into minority languages as required by federal law and producing the pamphlet in accessible formats for voters with disabilities. The content required by Chapter 29A.32 RCW also contributes to the expense. For constitutional amendments, the Secretary is required to include the text of the amendment, pro and con arguments, the legal identification of the amendment, the official ballot title, an explanatory statement prepared by the Attorney General and the total number of votes cast for and against the amendment in the Legislature.

Based on historical Voters' Pamphlet expenses, the estimated cost of the 2016 Voters' Pamphlet is \$12,625 per page. Due to constraints in the printing process and the minimum contents required by state and federal law, the Secretary generally assumes each amendment or measure will use eight pages in the pamphlet. If the amendment described in this initiative uses eight pages, it would add \$101,000 to the total cost of the pamphlet.

Local Government Expenditures

County governments will experience greater expenditures for the 2016 general election. The cost to county governments cannot be estimated prior to the election.

The 39 counties in Washington incur costs for conducting elections, including printing ballots and ballot materials, distributing blank ballots, and canvassing and tabulating voted ballots. A jurisdiction with candidates or measures on the ballot reimburses counties for its prorated share of election costs. However, as provided for in RCW 29A.04.420, the state reimburses counties only for its share of election costs when federal and state races or state measures and constitutional amendments appear on the ballot in an odd-numbered year.