State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: N1 – Headquarters Office Relocation

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Budget Period: **FY16 Supplemental**
Budget Level: **PL – Performance Level**

Recommendation Summary Text:

The 2015-17 budget included funding in FY16 for relocation of the Department's headquarters office. Since that appropriation, the completion date for the new office space was extended to December 2016, which will move the majority of the one-time cost spending to FY17. In addition, during design of interior space for the new office, DES decreased the number of offices identified in the approved modified pre-design, increasing the number of cubicles. This decision package is a request to move funding from FY16 to FY17, and for additional funding to cover costs for an increase in cubicle system furniture needed to meet DES space allocation standards.

Fiscal Detail

Operating Expenditures	**FY2016**	**FY2017**	**Total**
001-1 General Fund – Basic Account – State	(793,000)	$1,507,000	714,000
02W-1 Timber Tax Distribution Account - State	(79,000)	$150,000	71,000
196-6 Unclaimed Personal Property Account	(119,000)	226,000	107,000
Total Cost	**(991,000)**	**1,883,000**	**892,000**

Package Description:

Planning for relocation of the headquarters office located at 1025 Union Avenue in Olympia began in 2013 and continued through 2015, with OFM approving the modified pre-design and DES soliciting for and approving new office space. Funds for one-time costs associated with this relocation were appropriated for use according to the original spending schedule which was anticipated to occur in FY16. The lease negotiation and space planning schedules were delayed to allow the property owner to set up a Habitat Conservation Plan with the U.S. Department of Fish & Wildlife when a portion of the property was identified as a supporting habitat for a federally protected species of pocket gopher. The lease for the new building was executed in August 2015 establishing a move in date of December 1, 2016. The adjusted spending schedule results in the majority of the one-time costs to be incurred in FY17. This decision package requests to move the appropriate funds for one-time costs from FY16 to FY17 to align with the new spending schedule.

The Department's modified pre-design for this facility relocation was approved by OFM in 2014 and provided to DES as the guidance document for the project to solicit, acquire and design new office space for DOR's headquarters. The approved pre-design included a significant reduction of private offices in the DOR space. The ratio of private office to open office space was reduced from 48% in the current leased space to 28% in the proposed leased space (101 offices reduced to 54). This space allocation was based on the Department's functional programming needs as an alternative to DES' standard allocation of 10% private office to open office space. DOR's one-time costs for furniture were based on the functional programming needs identified in the approved pre-design.

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DES and DOR began planning and design for space use in the new leased space in May 2015. DOR requested an exemption from DES' standard allocation with justification for the functional programming allocation. DES did not allow the exemption and the design was shifted to the standard allocation of 10% offices. The resulting floor plan increased the number of cubicles further as an additional 29 offices were removed from the design. DOR's one-time cost for furniture is impacted because the stock of existing cubicle systems furniture is not adequate to support the new design. This decision package requests funds for procurement of additional furniture needed to comply with the DES standard space allocation design.

For Questions Please Contact: Budget Manager, Sherry Cave (360) 704-5771

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?
In FY16, the Department has a contract to lease 53,015 square feet of space adjacent to the two existing Tumwater offices. This new office space will save nearly 50% in energy costs, meet the allowable hard-wall office space and square foot per FTE limits established by DES, improve customer service, and increase productivity and collaboration between employees.

Performance Measure Detail:
Activity:

	Incremental Changes	
	FY2016	**FY2017**

No measures submitted for this package.

Is this decision package essential to implement a strategy identified in the agency's strategic plan?
Relocation of headquarter operations is a strategy within the agency's strategic plan.

Does this decision package provide essential support to one of the Governor's Results Washington priorities?
Consolidating offices located in Thurston County on to one campus supports Goal 5 "Efficient, Effective and Accountable Government". This consolidation will be more efficient for interaction between employees and provide customers access to Department services in one stop. Moving DOR's headquarters operations to a more energy efficient building and reducing commute trips between Thurston County offices supports Goal 3 "Sustainable Energy and Clean Environment".

What other important connections or impacts are related to this proposal?
A nearly 50% reduction in energy usage is expected in the new facility. Energy savings supports the Governor's Executive Order 12-06: "Reduce energy consumption and greenhouse gas emissions with respect to state operated building". This reduction in energy use will also address requirements for state agencies outlined in Executive Order 14-04: "Improving the energy efficiency of public buildings".

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What alternatives were explored by the agency, and why was this alternative chosen?
The approved modified pre-design included the reduction of private offices from 101 to 54. This design would have been supported by DOR's existing cubicle system furniture inventory and the one-time furniture costs allotted in the 2015-17 budget. This alternative did not meet DES's Space Allocation Standards and DES did not allow an exemption from their standards. With a total of 72 staff moving from offices to cubicles in the DES standard allocation plan, DOR needs to purchase additional systems furniture to maintain a consistent, fair and efficient layout of workspaces.

What are the consequences of adopting or not adopting this package?
Due to the schedule shift, the majority of relocation costs will not occur in FY16. Transferring the unused portion of the FY16 appropriation to FY17 will ensure funds are available to pay for costs when incurred. Without additional funds appropriated in FY17, the Department will ultimately pay more to move existing furniture into the new space temporarily until funds are available for cubicles that meet DES requirements.

What is the relationship, if any, to the state's capital budget? N/A

What changes would be required to existing statutes, rules, or contracts, in order to implement the change? N/A

Expenditure and revenue calculations and assumptions:
Due to the schedule shift, the majority of relocation costs will not occur in FY16. Transferring the unused portion of the FY16 appropriation to FY17 will ensure funds are available to pay for costs when incurred. Requested appropriation transfer to FY17:

- $121,000 – DES fees not yet paid (total calculated at 2.5% of total rent for first 5 years and 1.25% of total rent for second five years
- $540,000 – Tenant improvements (reduced over original request)
- $224,000 – IT infrastructure calculated at $1,000/person
- $ 38,000 – Building security and access systems costs includes limited ability to reuse hardware from current location (This is underfunded by estimated $60,000.)
- $ 68,000 – Moving vendor and supplies calculated at $300/person

New funding request for FY17 to meet DES mandated changes:

- $892,000 – Furniture costs calculated at $3,600/person

Which costs, savings, and functions are one-time? Which are ongoing? What are the budget impacts on future biennia?
This request is for one-time costs only. Funds appropriated in FY16 move to FY17; additional FY17 funding requested.

Objects of Expenditure Detail

	FY2016	FY2017	Total
E – Goods and Services	($953,000)	$953,000	$0
J - Equipment	($38,000)	$930,000	$892,000
Total	**($991,000)**	**$1,883,000**	**$892,000**

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: P1 – Property Tax Litigation

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?
Expert witnesses provide testimony that is critical in preparing a strong legal defense necessary to defend the Department's decisions and protect state and local revenue.

Performance Measure Detail:

Activity:

	Incremental Changes	
	FY2016	**FY2017**

No measures submitted for this package.

Is this decision package essential to implement a strategy identified in the agency's strategic plan?
This funding request supports the Department's goal of "Fair and consistent tax policy administration". Although the Department plans for the potential need of expert witnesses in small lawsuits, we cannot predict large challenges such as this.

Does this decision package provide essential support to one of the Governor's Results Washington priorities?
Defending the Department's decisions in property tax litigation cases supports accountability included in the Governor's priority "Efficient, Effective and Accountable Government".

What other important connections or impacts are related to this proposal?
If the Department does not defend property tax decisions, the possibility of other property tax refund lawsuits by interstate companies increases substantially.

What alternatives were explored by agency, and why was this alternative chosen?
Several alternatives to this funding request would have a larger impact to state revenue collections.

- Do not respond to the lawsuit and forego the state revenues at issue. This would reduce local revenues, and shift state and local tax burdens to areas where property tax rates are not at their limits. It would also invite other property tax refund lawsuits by interstate companies.
- Require Attorney General staff currently assigned to other Department activities and programs to respond to this new workload. This would result in a variety of legal complications in the other revenue-producing activities.
- The Attorney's General Office can contract with private law firms to act as SAAGs to represent the state in these matters. Because of the highly specialized nature of these ongoing valuation issues, it would be extremely difficult to find the necessary legal expertise, and the cost of the legal services would be higher.

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: P1 – Property Tax Litigation

Budget Period: **FY16 Supplemental**
Budget Level: **PL – Performance Level**

Recommendation Summary Text:

A large telecommunications company and four of its subsidiaries have filed a lawsuit alleging the Department of Revenue's property valuation includes intangible personal property exempted in 1997 legislation. The Department will incur expenses for pretrial preparation and trial of this utility property case, in which DOR and 36 counties are engaged in as defendants, to adequately prepare a defense for the state against this lawsuit. The consequences of a decision adverse to the state and counties extends beyond the tax dollars immediately at issue since this litigation involves challenges to the Department's valuation methodologies and related assessment practices.

Fiscal Detail

Operating Expenditures	FY2016	FY2017	Total
001-1 General Fund – Basic Account – State	0	$500,000	$500,000
Total Cost	**0**	**$500,000**	**$500,000**

Package Description:

The Department's Property Tax Division ensures 100% of equalized state-assessed property values are reported to county assessors each year for inclusion on their assessment rolls. This process allows the Assessor to calculate levy rates and certify the tax roll to the county treasurer for the collection of property taxes.

The pending lawsuit brought by a large telecommunications company is significant, in that it challenges the valuation of exempt intangible personal property. Trial currently is likely to occur in early 2017. This pending case is a major challenge to the 1997 legislation exempting intangible personal property. The consequences of a decision adverse to the state extends beyond the tax dollars immediately at issue, since this litigation involves challenges to the Department's valuation methodologies and related assessment practices on approximately 180 additional utility companies. A fundamental change in the Department's valuation process would potentially impact all centrally assessed industries, including railroad, airline, electric, gas, pipeline, telecommunication and wireless telecommunication companies. Consequently, a decision in favor of the plaintiff would result in lowering the level of assessment for utility property overall with resulting shifts of the tax burden to residential and other commercial and business taxpayers, and it also likely would encourage future lawsuits which would put additional millions of state and local revenues at risk.

In order for the Attorney's General to prepare the state's defense, DOR will need to provide funding for the cost of expert witness assistance. Expert witness assistance and testimony is critical in preparing the strong legal defense necessary to protect this important source of state and local revenue.

For Questions, Please Contact: Budget Manager, Sherry Cave (360) 704-5771

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Decision Package Code/Title: P1 – Property Tax Litigation

What are the consequences of adopting or not adopting this package?
If the Department does not have adequate funding to defend property tax decisions and respond to cases, the possibility of other property tax refund lawsuits by interstate companies increases substantially, tax burdens will shift and revenues will be lost. Diverting funds from essential services and revenue producing areas, could negatively impact revenue collections.

What is the relationship, if any, to the state's capital budget?
N/A

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?
N/A

Expenditure and revenue calculations and assumptions:
Preparation for trial itself involves review and analysis of information from hundreds, if not thousands, of documents. Expert witnesses are required not only for the actual trial but in pretrial consultations with counsel as the cases are prepared. The Department anticipates expert witness services to cost over $500,000 in fiscal year 2017.

Which costs, savings, and functions are one-time? Which are ongoing? What are the budget impacts on future biennia?
Barring additional lawsuits, the costs for this particular lawsuit is one-time.

Objects of Expenditure Detail

	FY2016	FY2017	Total
C – Consulting Services	0	$500,000	$500,000
Total	**0**	**$500,000**	**$500,000**