



Preliminary

Department of Revenue

# Strategic Business Plan

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July 2006 - June 2011

# WASHINGTON STATE DEPARTMENT OF REVENUE VISION, MISSION, GOALS AND VALUES

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## Department of Revenue

**“Working Together To Fund Washington’s Future”**

### Our Vision

To create an open and collaborative environment that responds to the changing needs of taxpayers, achieves the highest levels of voluntary compliance, and maximizes service delivery.

### Our Mission

To fairly and efficiently collect revenues and administer programs to fund public services, and advocate sound tax policy.

### Our Goals

- Make conducting business with the Department as clear and simple as possible
- Recruit, develop, retain, and value a high quality, diverse workforce
- Seek efficiency, improvement, innovation, and accountability in Department programs
- Build and strengthen open and collaborative relationships with each other and our customers
- Promote correct and timely reporting and payment of taxes
- Promote fairness and consistency in the development and application of tax law and policy
- Provide tax information and analysis that is forward-looking and responds to the changing business environment

### Our Values

- **Open Communication:** Listening and being clear and forthright in all communications to enhance understanding
- **Cooperation:** Working together to achieve agency goals
- **Respect:** Honoring diversity, recognizing individual contributions and treating people with courtesy
- **Integrity:** Committing to honest and ethical behavior
- **Professionalism:** Demonstrating competence, resourcefulness, and the highest standards of conduct
- **Accountability:** Taking responsibility for our actions and performance
- **Excellence:** Working effectively in a supportive and fun work environment to achieve success



## INTRODUCTION

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The Department of Revenue respectfully submits this draft Strategic Business Plan as part of the 2007-09 budget development process. This plan contains information as requested by the Office of Financial Management. We hope the information contained in this plan is helpful and relevant to the statewide results teams in developing and making their funding recommendations as part of the 2007-2009 Priorities of Government effort. We also hope the information is useful to the Office of Financial Management in preliminary budget discussions.

In addition to this draft submittal, the Department is currently finalizing a more comprehensive Strategic Business Plan. This final version of the Department's Strategic Business Plan will outline Department priorities and communicate longer term direction and the means to achieve results. Through the planning process, staff and managers engage in evaluating Department efforts and accomplishments and evaluating stakeholder input determine priorities for the future. The final plan is scheduled to be published in August 2006, and will be submitted with the Department's 2007-09 biennium budget request.

Included in this document are Department accomplishments, a discussion of the current environment, and a prioritized list of initiatives. Also included are objectives that tie to Department goals, and a segment that ties "agency activities" to strategies, goals and statewide result areas.



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## OVERVIEW

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The Department of Revenue is the state's principal tax collection agency, collecting more than 92 percent of the state's general-fund tax revenues. The Department also collects a variety of non-general fund revenues and local government sales and use tax. In FY05, more than \$15 billion was collected by the Department.

Approximately 1,060 employees work for the Department, of which more than half enforce the tax system through audits, collections, billings and tax discovery. Another significant portion of the workforce is involved in tax administration activities such as: registering taxpayers, providing taxpayer assistance, information and education, maintaining taxpayer account information, processing and analyzing tax returns, distributing tax revenues to local government, handling appeals, administering property taxes, developing tax legislation and providing policy advice and information. They also conduct research and oversee special programs such as timber, cigarette, real estate excise, leasehold estate taxes, and unclaimed property. The remaining employees support the agency by providing information technology, financial and business services and human resource support.

The majority of Department employees are located in Thurston County, but many employees work in one of 12 field offices located around the state that are open to the public. In addition, the Department employs auditors in out-of-state locations where major corporate headquarters are located.

Businesses are the largest taxpayer group since the state does not have a personal income tax. Over 400,000 businesses currently file tax returns on a monthly, quarterly, or annual basis. In fiscal year 2005, the Department collected \$6.59 billion in state and local sales and use tax, and \$2.29 billion in business and occupation tax. Other collections included \$1.4 billion in state property taxes, \$837 million in real estate excise taxes, and \$19 million in leasehold taxes. Other taxes collected by the Department include public utility, brokered natural gas, oil spill, litter, and rental car taxes.

The Department's goals have been the main driver behind communicating the top priorities that support the vision and mission. Although these goals have changed over the years, the core themes behind the goals have remained essentially the same. The current goals are:

- Make conducting business with the Department as clear and simple as possible
- Recruit, develop, retain, and value a high quality, diverse workforce
- Seek efficiencies, improvements, innovation, and accountability in Department programs
- Build and strengthen open and collaborative relationships with each other and our customers
- Promote correct and timely reporting and payment of taxes
- Promote fairness and consistency in the development and application of tax law and policy
- Provide tax information and analysis that is forward-looking and responds to the changing business environment

Many challenges have been faced by the Department over the years. One of the most constant challenges has been meeting the needs and expectations of a diverse customer base. Another challenge has been achieving Department goals while managing increasing workloads associated with more businesses paying taxes. At the same time, administrative requirements also continue to increase. Since 2001, the number of businesses has increased 25 percent while staffing levels

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increased by only 8 percent. In 2003, staffing return to 1995 levels as part of a commitment to significantly increase revenue collections through additional enforcement. To meet these challenges, the Department has been able to absorb some of the staff reductions through various efficiencies including the promotion and use of on-line services and e-business.

As a result, a major focus of the Department has been to encourage taxpayers to file and pay their taxes electronically. Electronic filing has helped reduce processing costs by reducing errors commonly made on paper returns and eliminating the need to re-key data. In 1998, the Department was one of the first states in the nation to introduce an electronic filing system, and since then has steadily gained users. The Department expects to have about 33 percent of tax returns filed electronically by the end of fiscal year 2006.

In spite of the challenges, the Department has been able to improve voluntary compliance among registered businesses. These improvements are the result of many changes including using more sophisticated data-driven decisions to target audit selection. The Department continues to improve a data warehouse application that allows it to combine and analyze various disparate internal and external data bases. The system provides the ability to identify noncompliance problems and target areas for additional enforcement while doing less enforcement where compliance is already high.

Continued employment of technology improves the Department's enforcement, collection and education efforts. One example is the deployment of an Initial Contact Team in 2003, which uses predictive dialing technology to contact delinquent taxpayers much sooner than previously was possible. This early intervention is improving collection of taxes that were at risk of never being paid. This team received the 2005 Public Service Award for Outstanding Achievement by a Work Team from the Evergreen Chapter of the American Society for Public Administration. The team was also honored with the 2004 Governor's Quality Award for Financial Results.

Other activities designed to maintain and increase taxpayer compliance include improving taxpayer knowledge through targeted education, providing more information over the internet, and implementing efficiency measures such as no longer requiring businesses to file tax returns when no business is conducted and in some instances when no tax is due.

The Department has received repeated national recognition for its tax administration, including being named by *Governing Magazine* in 2003 as one of only six states that merited a top four-star rating. Revenue also has been recognized frequently by the Federation of Tax Administrators for its innovative programs. The most recent award in 2006 was for an innovative training program in the "Best Use of Technology" category.

These accomplishments and the ability to meet ongoing challenges are representative of the Department's ongoing commitment to its vision and mission which are: Vision: "To create an open and collaborative environment that responds to the changing needs of taxpayers, achieves the highest levels of voluntary compliance, and maximizes service delivery." Mission: "To fairly and efficiently collect revenues and administer programs to fund public services, and advocate sound tax policy."



# ENVIRONMENTAL CONDITIONS AND TRENDS

## Business Environment

### National Economy

The U.S. economy, buffeted by the war on terrorism, major hurricanes, and sharp increases in oil prices during 2005 and 2006, continued to perform fairly well. Although the economy grew at only a 1.1 percent annual rate during the fourth quarter, a respectable overall annual growth of 3.5 percent was recorded for 2005. The weakness in the final quarter of 2005 reflected consumers curtailing spending, cuts in government spending, and more restrained capital spending by businesses. Most economists, however, saw the slowdown during this quarter as a temporary setback rather than as a sign of sustained economic weakness ahead.

The Gulf Coast storms were expected to reduce second-half 2005 GDP growth, and increase 2006 growth as reconstruction spending seeps into the economy. Slower growth is expected over the next two years as the economic recovery matures. Also, a long-predicted slowdown in the housing market caused by high prices and rising mortgage rates could further slow economic growth.

Higher energy prices that contributed to the increase in 2005's overall inflation rate are expected to decline by 2007, resulting in a lower rate of inflation. Employment growth is forecast to slow from 1.6 percent 2005 to 1.5 percent in 2006 and 1.2 percent in 2007. The unemployment rate is expected to remain low with rates of 4.89 percent and 4.98 percent in 2006 and 2007. National forecasts expect an inflation rate of 2.9 percent in 2005, declining to 2.5 percent and 2.2 percent in 2006 and 2007.

### Washington Economy

Washington's economy continues to recover from the recession of the early 2000s and the negative effect of the September 11, 2001 terrorist attacks on the aerospace industry. Strong orders for the Boeing Company's new 787 Dreamliner and other Boeing aircraft have translated into modest increases in hiring in the aerospace sector. Led by construction and aerospace, 80,000 jobs were created in 2005; however, the housing market has recently shown some signs of weakening.

The recovering economy was evident in tax collections for 2005. State tax collections increased 7.2 percent in Fiscal Year 2004 and 6.0 percent in FY 2005; compared to a 0.3 percent decline in FY2002 and the 2.6 percent growth in FY 2003. Higher gas taxes which began in 2004, and real estate excise tax receipts were both contributing factors.

Washington's long-term outlook appears positive. Given Washington's position on the Pacific Rim, export-oriented industries such as aerospace, forest products, and agriculture will benefit from Asian economic growth. A significant share of U.S. trade with Asia is expected to pass through Washington ports. In addition, the state's abundant knowledge-based industries such as software and biotechnology are expected to lead future economic growth.

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## **Business Climate**

In addition to trade, Washington businesses are strong competitors in global markets; Bellevue based Microsoft is a world leader in software, and Boeing plans to build its 787 Dreamliner in Everett. Washington is the fourth largest exporting state in the United States, without including exports by Microsoft. It appears that technology, aerospace, and agriculture will continue to generate economic growth in Washington in 2006 and beyond.

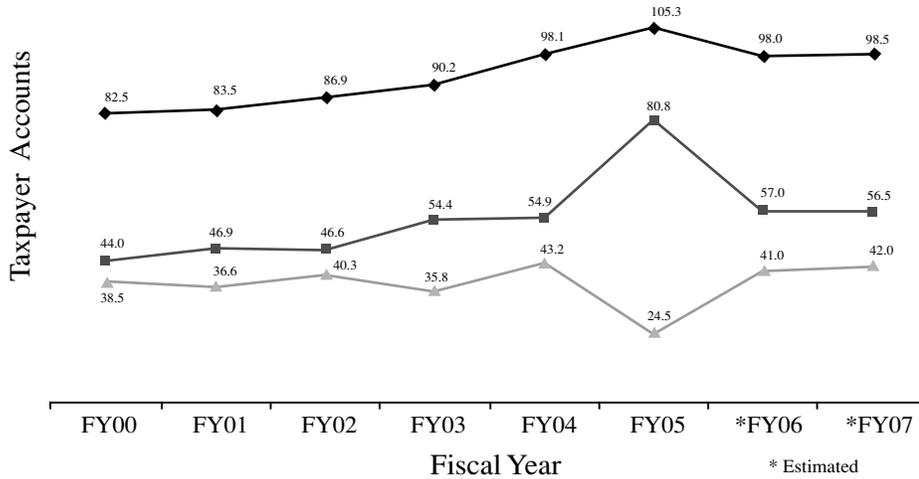
Gross business income reported by Washington businesses has resumed climbing after remaining essentially flat from 2000 through 2003. Gross business income rose 11 percent in calendar year 2004 after a slight decline from 2000 through 2003. Business income during the first half of 2005 was up 8.9 percent over the same period in 2004.

In the October 2005 issue of the annual Washington State Economic Climate Study, the Office of the Economic and Revenue Forecast Council concludes that Washington is improving in a majority of the benchmarks used to compare its economic climate against other states.

Although Washington suffered a greater percent decline in employment than the nation as a whole during the 2001 recession and subsequent “jobless recovery,” it has snapped back from the recession at a faster rate than that of the nation. While the U.S. showed negative growth in 2003, the state reflected a positive growth and again outpaced the national growth rate in 2004. As a result, even though Washington’s downturn was steeper, both the U.S. and the state regained pre-recession employment peaks at roughly the same time in early 2005. Most of the state’s annual employment growth was accounted for by construction, trade, professional and business services, education and health services, and leisure and hospitality. Even though aerospace and other manufacturing employment began to increase in late 2004, the growth was not fast enough to produce annual gains.

While businesses continue to express concern about the state’s business and occupation (B&O) tax on gross receipts, research has shown that taxes seldom are at the top of business check lists when it comes to site selection or expansion decisions. Washington places a relatively high initial tax burden on business, primarily through the B&O tax, but nonetheless has economically outpaced neighboring state, Oregon, despite its low initial tax burden on business. Washington’s gross state product has grown significantly faster than Oregon’s over the past decade, and its earnings per job and research and development (R&D) expenditures per capita are substantially higher, while its unemployment rate is lower.

**Department of Revenue**  
**Taxpayer Account Activity - Open vs Closed (In Thousands)**

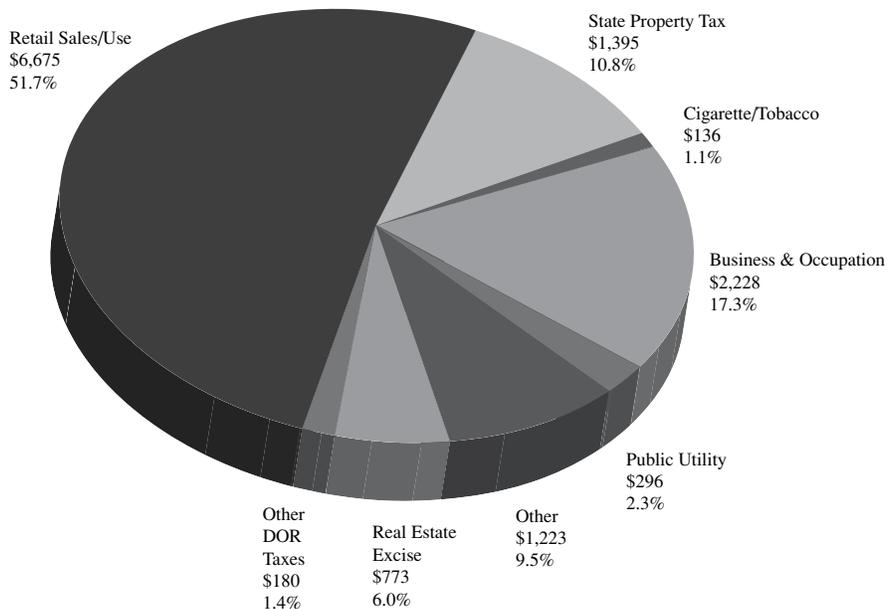


**Washington Revenue Forecast**

The Washington State Office of the Economic and Revenue Forecast Council's February 2006 forecast stated revenue collections continue to come in stronger than fundamental factors would normally indicate. Much of the strength in revenue collections can be traced to very strong real estate and construction related activity. The Council is forecasting slightly stronger Washington employment and income growth over the next two years.

The General Fund-State revenue estimate for the 2005-07 biennium is \$26.443 billion; this is a \$107.3 million increase over the November forecast after factoring in non-economic changes. Looking to the 2007-2009 biennium, the Council estimates \$29.028 billion, a 9.8 percent increase over the current biennium.

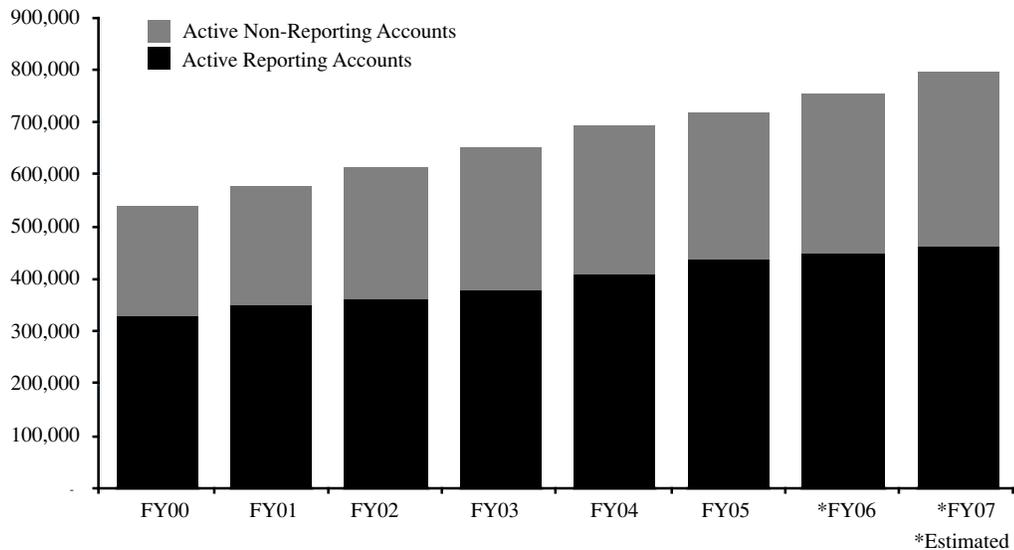
**Washington State General Fund Revenues**  
 Fiscal Year 2005 - Dollars in Millions



## Demand for Efficiencies and Productivity

The Department is continually looking for new ways to reduce spending while still meeting taxpayers' demand for high-tech government services. As the state's population continues to grow, so will the number of businesses that register with the Department, creating an even greater demand for services. This increased demand by taxpayers, along with budget reductions, makes spending decisions particularly challenging. Based on the growth rate over the last several years, it is anticipated that the number of registered businesses will grow by an average of six percent annually. This will require the Department to find new ways to be efficient and productive in order to operate within budget constraints.

### Washington State Registered Excise Tax Accounts



## Technology

Business continues to change with advances in technology. The Internet, high-speed telecommunications, powerful personal computers, and wireless technology are the most obvious outward signs of change. In order to manage increasing volumes of information, meet customer expectations, and maintain high levels of data integrity and security; the Department must invest in and deploy adequate technology.

**Demand for Information:** Technology enables the integration and management of information resources to aid businesses and government in seizing opportunities to bring “added value” to business activities. This may be through greater productivity, higher quality of service, or better decision-making.

Greater reliance is being placed on automation and electronic means of passing information between external and internal users, and providing improved data manipulation and analysis tools. This creates a need to manage information in terms of volume, security, timeliness, and integrity and; at the same time, deal with privacy and legal considerations of electronic media via the use of internet, intranet, and ethernet technology. With the increased reliance on automation, there is also the public expectation for more online services and information. This will continue to put pressure on the Department and State to enhance internet access.

**Concerns of Security:** Expanded use of the internet environment increases the need for more sophisticated security measures. The demand for more on-line public services requires that technology is deployed to ensure secure communications for the public, as well as making information accessible only to authorized personnel. With the ever increasing frequency of more sophisticated virus attacks, hacker intrusions, spyware, and spamming, it is imperative that organizations take necessary precautions to ensure business is not disrupted and trust is maintained with customers.

**Balance with Personal Service:** Automation improves service delivery and creates opportunities for efficiency. However, in many instances, customers still want to talk to a person to conduct their business. The balance for all organizations is to provide full service through the utilization of technology, while offering personalized service when needed.

**Customer Expectations:** Citizens and businesses expect the Department to be able to conduct business on their terms. In response, the Department will continue to design and develop new and better technologies to meet this demand when financially feasible. This situation is made even more challenging by the rapid changes in the technological environment that make for a dynamic decision-making atmosphere. Additional challenges are created because different expectations exist among different customer groups. These expectations range from basic needs for paper-based processing to the most sophisticated technological solutions and processing.

## **National Tax Policy**

The Department is an active member of national organizations such as the Multistate Tax Commission and the Federation of Tax Administrators. In conjunction with these organizations the Department works at the national level to advocate sound tax policy. The Department keeps current on, and influences, national issues that impact our state. These issues include business activity tax legislation, the moratorium on taxation of internet access, telecommunications tax reform and simplification, and legislation to permit member states of the Streamlined Sales and Use Tax Agreement to compel remote sellers to collect tax. All these issues are extremely important to state and local jurisdictions because of their potential impact on the ability to fund vital public services. The Department continues its active involvement with the Streamlined Sales Tax effort. Although Washington will not be a member state until conforming legislation is passed, the Department continues its leadership role with the Director of DOR Participating on the Steering Committee of the State and Local Government Advisory Council. This council advises the Streamlined Governing Board on matters of interest to the states. The DOR director is also on the executive committee of the Multistate Tax Commission and the board of trustees of the Federation of Tax Administrators.

## **Public Perceptions of Government**

The public has long viewed the performance of government with skepticism. Many see government as wasteful, inefficient, cumbersome, and intrusive, a view that has been perpetuated and exacerbated by negative media coverage. Many citizens question the level of taxes and fees they pay to federal, state, and local governments and how these dollars are spent. Rising taxes, particularly property taxes, have triggered a series of initiatives to reduce or limit the growth of taxes. The perceptions belie statistics that show that Washingtonians pay a lower percentage of their income in taxes than most other states. Paradoxically, voters also have approved measures to spend more tax dollars on what they perceive as desirable services such as education and transportation. However, these initiatives, typically promoted by special interests, do not always come with additional funding sources. Two education initiatives, for example, directed the state to spend more money to increase teacher pay and reduce class sizes without providing any new source of revenue. This situation has forced government to make tough decisions on which services it can afford to provide, with the likelihood that a further reduction in services will generate additional negative publicity that further erodes public confidence.

## **Complexity of Tax Law**

Washington's excise tax code was adopted in 1935 when the United States was primarily a manufacturing economy. Many businesses operated solely within Washington and the taxability of their activities was clear. Seventy years later, the United States has shifted to a service economy and many businesses operate in multiple states and over the internet. Our 1930s tax code does not adequately address the borderless economy. At the same time, competition among the states to attract and retain desirable businesses has become intense. Numerous tax credits, deductions, and exemptions have been enacted over the years to address our tax code's shortcomings and improve Washington's business climate, and each legislative session results in new amendments to the tax code. This piecemeal approach has resulted in one of the most complex tax codes in the nation. Taxpayers have difficulty understanding and complying with reporting requirements and rely on the Department to provide clear, concise rules and instructions. They also expect the Department to take the lead in resolving conflicts that arise regarding tax issues. Meanwhile, the continuing globalization of business has multi-state and multi-national businesses demanding more uniformity in tax laws to reduce the burden of compliance.

## **Intergovernmental Cooperation**

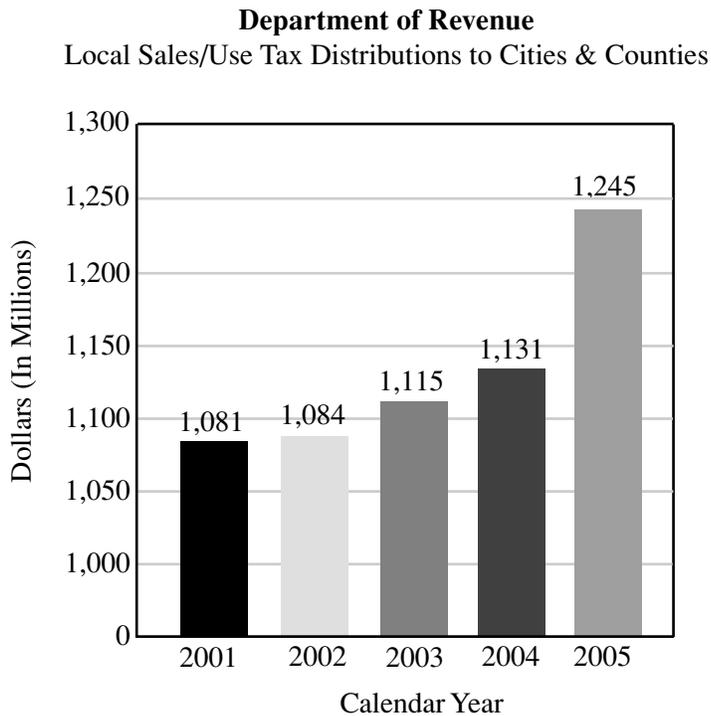
Cooperation among government entities is important and necessary in providing needed services. The Department is working with several state agencies to provide a Business Portal within the web site "Access Washington." The goal of the portal project is to provide one place where businesses can go to access information relevant to operating a business in Washington. The Department works cooperatively with a variety of other agencies, associations, customer groups, and governments in order to:

- Collect and distribute taxes correctly
- Develop sound tax policy
- Enhance the understanding of tax law and policy
- Promote positive relationships

## Local Tax Administration

Local option sales and use taxes continue to increase in both number and type, and they continue to be a substantial revenue source for most local taxing jurisdictions. More than 320 taxing jurisdictions exist in Washington at this time. New taxing jurisdictions continue to be formed that create tax boundaries in nontraditional ways. These include voting precincts, community empowerment zones, lodging districts, and transportation districts. Local governments want more data from businesses to ensure taxes are distributed accurately and fairly. The Department is working towards providing more local tax administration information via online applications for our local government customers. Businesses indicate that accounting for local tax, even in its current form, is very costly. Washington State is participating in a national effort, the Streamlined Sales Tax Project, to streamline the reporting of sales taxes by making the different states' sales tax reporting structure more uniform. Some of these efforts may require changes to current methods of local tax administration.

Property taxes, which have been the subject of several citizen initiatives, are collected by the counties for distribution to many local jurisdictions and the state. As a result of these initiatives, some counties are experiencing funding issues and increased difficulty in the administration of the tax.



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## Workforce Issues

Despite ongoing changes in the workforce and general population demographics, and legislated changes to the state's personnel system, Washington has been experiencing a more competitive employment market within the improved economy. These demographic, economic, and legislative factors continue to create significant challenges for both the management of the state's workforce as well as the Department of Revenue's. Such challenges include:

- Maximizing the performance and productivity of our workforce while reducing expenditures and size of the Department's management service.
- Seeking to reflect the diversity of the state's changing population in the composition of the Department's workforce.
- Developing innovative, competitive methods for recruiting and retaining qualified employees in an increasingly complex job market.
- Finding ways at a state level to fund competitive salaries for government workers.
- Responding to changing social circumstances of both the population in general, as well as the work place in particular; addressing the growing emphasis on the balance between work and family to ensure a stable, productive workforce.
- Addressing the aging of the Department's workforce and the corresponding increase in retirements, in particular that of the Department's most experienced, knowledgeable employees.
- Ensuring compliance with the growing complexity of interacting and overlapping employment laws, regulations, and court decisions affecting every aspect of workforce management.

These challenges demand innovative, flexible employment programs and systems in order to continue to build and retain the quality and diversity of the state's and Department's workforce.

## Civil Service Reform

The implementation of the Personnel System Reform Act of 2002 continues to significantly affect the Department of Revenue's operations and workforce management. Impacts have been, and will continue to be, felt by every employee, either as a result of collective bargaining, competitive contracting, evolving civil service rules, or implementation of the new human resources management system. The Department will continue to work on implementation of civil service reform, identify and address employee and workload issues; and improve communication to employees about emerging impacts and changes.

## Our Customers

Taxpayers are the Department of Revenue's primary customer. Additional customers include; the Governor's Office, the Office of Financial Management, the Legislature, citizens, other state agencies, as well as local and federal agencies and governments.

**Taxpayers:** The majority of taxes the Department collects are business taxes, as opposed to personal or corporate income taxes. Therefore, the majority of our dealings with taxpayers are with business owners or their representatives. However, there are some instances, such as the estate tax and escheat estates, where the Department deals directly with individuals.

The use of technology is fast becoming a preferred method of communication with the Department as evidenced through increasing internet visits and use of electronic filing and payment options. In response, the Department offers a variety of electronic services which allows taxpayers to update their account information, file returns, make payments, and access current forms and publications on-line. Personal assistance to taxpayers is available through our help desk. The toll-free telephone line offers additional electronic services, such as Tax Express; a series of pre-recorded information on various tax topics, Fax-On-Demand, and the ability to telefile business excise tax returns. The Department deals with a broad spectrum of taxpayers. In order to meet diverse needs and expectations, a variety of options are offered for communicating and providing information. These options range from supporting paper-based reporting to electronic reporting and payment options.

**Demand for Services:** Based on the growth rate of the state's population and corresponding growth in registered businesses over the last several years, it is anticipated that the number of registered businesses will increase by an average of six percent annually. This will increase the demand for services and require greater collection efforts. At the same time, the Department recognizes the pressure and demands for Government to improve services with fewer resources. To meet these challenges, the Department is constantly seeking innovative processes and efficiencies in programs and activities.

## **Assessment of Customer Needs**

### **Taxpayer Surveys and Participation**

Every three years the Department of Revenue conducts a taxpayer survey to help assess the varying needs of customers and to help determine how efficiently and effectively work is done. The survey contains questions regarding all areas of the Department's operations and keeps some key questions the same in order to compare responses over time.

#### **Smaller surveys are also conducted:**

- The Audit Process Survey requests information from the taxpayer once an audit has been completed.
- Periodic surveys are conducted in field offices and through the Telephone Information Center to gain insight into why a taxpayer uses a particular service and whether or not they were satisfied with a particular service.
- Feedback is also obtained through an online survey on the Department's internet web site.

#### **Other means of soliciting input include:**

- Asking taxpayers to participate in committees, focus groups, and panel discussions to resolve specific issues or discuss policy matters.
- Conducting new business workshops to provide startup companies the opportunity to gather information on tax policy and requirements.
- Meeting with industries to discuss tax issues of specific importance to them and gather ideas for improvements and possible legislative proposals.

Information obtained from these surveys and solicitations are analyzed and actions are taken to improve services.



# STATEWIDE RESULTS

## GOALS, STRATEGIES AND RELATED ACTIVITIES

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### Goal

Make conducting business with the Department as clear and simple as possible

### Objectives

- Increase the number of returns filed electronically
- Increase the dollar amount of taxes paid electronically
- Sustain an 80 percent response rate for answering phone calls within 2 minutes by the Telephone Information Center
- Reduce taxpayer time spent preparing and filing tax information
- Increase the number of visits to the Department's Web Site

### Strategies

- Ensure customers have access to information and educational materials that are clear and easy to understand
- Promote and participate in statewide approaches for delivery of state services
- Use technology to make it easier for customers to conduct business in a secure environment
- Make it easier for taxpayers to report and pay their taxes

### DOR Activity

State and Local Revenue Collection and Distribution; Tax Auditing; Property Tax Administration; Tax Policy Research, Analysis, and Interpretation; Taxpayer Appeals; Unclaimed Property Management; and Administration.

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### Goal

Recruit, develop, retain, and value a high quality, diverse workforce

### Objectives

- Increase employee satisfaction
- Improve the overall diversity profile of the agency
- Improve employee retention rates
- Improve Taxpayer's rating of employee courtesy and helpfulness

### Strategies

- Use proactive methods to attract and retain highly qualified and diverse employees
- Develop employees' skills, knowledge, and abilities through training and education
- Prepare for workforce transitions through succession planning

### DOR Activity

State and Local Revenue Collection and Distribution; Tax Auditing; Property Tax Administration; Tax Policy Research, Analysis, and Interpretation; Taxpayer Appeals; Unclaimed Property Management; and Administration.

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**Goal**

**Seek efficiency, improvement, innovation, and accountability in Department programs**

**Objectives**

- Complete taxpayer refunds within 10 business days of receipt
- Minimize the cost per \$100 collected
- Increase the percent of taxpayer appeals decided through the small claims process
- Process and post tax information within 48 hours of receipt
- Correct tax reporting errors within 10 days

**Strategies**

- Enhance organizational efficiency and continuity through process improvements and technology
- Develop and use data and information to make better decisions
- Make information readily accessible to employees and customers
- Develop creative and innovative solutions while maintaining Department accountability

**DOR Activity**

State and Local Revenue Collection and Distribution; Tax Auditing; Property Tax Administration; Tax Policy Research, Analysis, and Interpretation; Taxpayer Appeals; Unclaimed Property Management; and Administration.

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**Goal**

**Build and strengthen open and collaborative relationships with each other and our customers**

**Objectives**

- Increase taxpayer satisfaction
- Improve taxpayer satisfaction with customer contacts as measured by professionalism, courtesy, and responsiveness
- Respond to 100 percent of taxpayer rights inquiries within one business day
- Increase the percentage of taxpayer appeals decisions issued within 12 months of filing
- Improve employee rating of morale factors with the Department

**Strategies**

- Foster a culture of open communication, teamwork, collaboration, and respect
- Create and strengthen collaborative local government and stakeholder partnerships
- Resolve issues in a fair and timely manner

**DOR Activity**

State and Local Revenue Collection and Distribution; Tax Auditing; Property Tax Administration; Tax Policy Research, Analysis, and Interpretation; Taxpayer Appeals; Unclaimed Property Management; and Administration.

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**Goal**

**Promote correct and timely reporting and payment of taxes**

**Objectives**

- Increase the number (or percent) of returns filed timely
- Increase the number (or percent) of returns filed accurately
- Meet revenue collection goals from enforcement efforts
- Provide answers to 75 percent of written ruling requests within 10 business days
- Maintain the registered taxpayer voluntary compliance rate for reporting and payment of taxes
- Meet targeted education revenue recovery goal of \$2 million per year

**Strategies**

- Ensure taxpayers have access to accurate and concise information regarding the taxes they owe
- Assist taxpayers with reporting and payment responsibilities through education
- Reduce the amount of unreported tax through education and enforcement
- Encourage use of electronic transactions at every opportunity

**DOR Activity**

State and Local Revenue Collection and Distribution; Tax Auditing; Property Tax Administration; Tax Policy Research, Analysis, and Interpretation; Taxpayer Appeals; Unclaimed Property Management; and Administration.

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**Goal**

**Promote fairness and consistency in the development and application of tax law and policy**

**Objectives**

- Annually review 25% of agency rules for potential amendment or repeal

**Strategies**

- Timely develop and communicate clear, consistent interpretation of tax law
- Expand taxpayer involvement in tax policy
- Improve tax policy communication and tax law training within the agency
- Partner with other government and state agencies to simplify tax regulations
- Provide timely tax information and advice to the governor, legislature, and other stakeholders

**DOR Activity**

State and Local Revenue Collection and Distribution; Tax Auditing; Property Tax Administration; Tax Policy Research, Analysis, and Interpretation; Taxpayer Appeals; Unclaimed Property Management; and Administration.

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## **Goal**

**Provide tax information and analysis that is forward-looking and responds to the changing business environment**

## **Objectives**

- Meet requested timeliness for providing bill analysis
- Process fiscal notes within prescribed timelines
- Complete tax accountability studies within prescribed timelines

## **Strategies**

- Identify long range industry trends and practices to help develop policies that foster economic growth
- Actively participate in national and regional efforts to streamline and simplify taxes
- Provide timely tax information and advice to the Governor, Legislature and other stakeholders

## **DOR Activity**

State and Local Revenue Collection and Distribution; Tax Auditing; Property Tax Administration; Tax Policy Research, Analysis, and Interpretation; Taxpayer Appeals; Unclaimed Property Management; and Administration.



# SUPPORT OF STATEWIDE RESULTS

## Activity Links

Of the Department's seven activities, six have been designated as supporting the Statewide Results Category of "Improve the ability of state government to achieve results efficiently and effectively," and one to "Improve the economic vitality of businesses and individuals." However, because the Department administers tax and other programs that result in revenue collection, it supports every Statewide Result category as well as programs at the local government level.

General fund money collected by the Department in Fiscal Year 2005 totaled \$12.9 billion. These collections support various state services including all levels of education, correctional facilities, social services, general government activities, and other programs (activities) that rely on general fund dollars. In addition, the Department also collects a variety of dedicated taxes and fees to fund efforts conducted by the Department of Ecology, Community Trade and Economic Development, the Pollution Liability Reinsurance Trust program, the State Convention and Trade Center, and Military Department. Among others, these taxes include oil spill, E-911, brokered natural gas, tobacco and cigarette taxes, litter tax, refuse collection, hazardous substance, and petroleum products tax.

**These collections support all other statewide results categories, which are:**

- Improve student achievement in elementary, middle, and high schools
- Improve the value of postsecondary learning
- Improve the health of Washington citizens
- Improve the security of Washington's vulnerable children and adults
- Improve the economic vitality of businesses and individuals
- Improve statewide mobility of people, goods, information and energy
- Improve the safety of people and property
- Improve the quality of Washington's natural resources
- Improve cultural and recreational opportunities throughout the state

In Fiscal Year 05, the Department also collected and distributed \$2.2 billion in local government sales tax revenues to fund local programs.

## Major Partnerships

The Department works cooperatively with a variety of other agencies, associations, customer groups, and governments in order to collect and distribute taxes, participate in the development of tax policy, enhance the understanding of tax law and policy, benefit from collaborative quality improvement efforts, and promote positive relationships.

The Department works closely with, and provides assistance to, the Governor's Office, the Office of Financial Management and the Legislature on tax policy issues and proposals, and the Forecast Council to generate non-general fund revenue estimates and provide data for the State, General Fund forecast. The Department also works with other agencies on quality efforts and joint projects.

These partnerships and activities relate to ongoing activities and operations of the Department.

**The following is a brief summary of other business relationships:**

**UBI Agencies:** In the 1980s, five agencies worked together to provide a one-stop registration process for businesses. This partnership still exists today providing expedited service to taxpayers.

**Business Portal:** The Department and other agencies continue to work together to improve services where possible and combine information to enhance enforcement efforts. Recent efforts involve providing an Internet-based Master Application and business information center.

**Multi-state Tax Commission (MTC):** The Department has belonged to the association sponsored by MTC for several years. Involvement has included participation with other member states on issues at a national level. The Department has also utilized MTC's audit function to supplement Department activities. This can be done because MTC conducts multi-state audits of businesses.

**Federation of Tax Administrators (FTA):** The Department has been involved in addressing tax issues at a national level. One of the most recent efforts has surrounded streamlining sales tax administration. FTA also enables members to share best practices and work jointly on other tax or administrative issues.

**Other State Revenue Departments:** The Department has worked with several other state revenue Departments on a variety of issues. The most recent was the exchange of information with Oregon State Department of Revenue to assist in enforcement efforts. Other contacts have been for the purpose of sharing information on organizational structure and procedures to identify better ways of conducting business.

**Internal Revenue Service:** The Department has a data sharing agreement with the IRS to mutually benefit each organization and their education and enforcement efforts.

**Attorney General's Office:** The Department works closely with the Office of the Attorney General on bankruptcy cases and the prosecution of fraud. Even though the Department pays for services, the relationship goes well beyond this level. Staff from both offices have worked together to streamline processes and reduce duplication.

**Local Government:** Local government has contracted the Department to collect several local taxes including sales and use, and lodging. And although the Department does not currently collect local B&O taxes, this possibility has been discussed. In addition, the Department and local governments have worked cooperatively to improve processes and information in the areas of property taxes and taxpayer registration, among others.

**Business Associations:** Several business associations exist, and the Department works with many of them. Efforts range from soliciting ideas and feedback from business on policy changes that would affect them, to engaging them on how best to educate their membership.

**Tax Executive Institute:** The Department partners with this organization to conduct joint tax workshops twice a year. This facilitates open communications and the sharing of information with this group of tax executives representing major companies.

**Washington Bar Association and Washington State Society of Certified Public Accountants:** Professional organizations also represent key partnerships for the Department. Through these associations the Department can keep a pulse on issues that arise and can also provide education to their membership.

**Tribal Governments:** Following the spirit of the 1989 Centennial Accord, the Department is negotiating and signing contracts with tribes regarding cigarette tax collections.

# PERFORMANCE ASSESSMENT

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The Department is proud of its many accomplishments. These achievements testify to employee incorporation of innovation and process improvement into their way of doing business. Outlined below is a sampling of some of the most recent improvements or assessments of the Department's performance.

In an effort to maintain the highest possible performance, the Department is actively involved in efforts such as:

## Recognition of Achievements

### **Federation of Tax Administrators Awards**

The Department has been the recipient of several Federation of Tax Administrators (FTA) awards. Most recently, the FTA named the Department of Revenue winner of its 2006 FTA Award for Training in the Best Use of Technology category. Every year this award is presented to a state revenue Department that demonstrates excellence in the creative development and implementation of effective, innovative, and efficient training programs. This award followed two awards granted in March of 2004 when the Department received awards for the achievements associated with improving taxpayer compliance and innovation in managing the state's tax system.

### **Four Star Agency Rating From Governing Magazine**

In 2003, the Department received a Four Star rating from Governing Magazine in the area of tax administration. The Department was one of only six states that received this highest rating, and its analytical ability was described as a model for other states.

### **Baldrige Assessment**

In calendar year 2004, the Department conducted a new Baldrige assessment to score itself in seven different categories. This was part of a larger effort promoted by the Governor's Office. The seven categories were leadership, strategic planning, customer focus, information and analysis, human resource focus, process management, and performance results. Overall the Department scored very well with the highest ratings in performance results, information and analysis, and strategic planning. The agency plans to participate in the Washington State Quality Award program assessment in 2006.

### **Clean Audit Reports**

The Department received its FY05 audit report issued by the State Auditor's Office. The report contained no audit findings for the Department. This report represented the fourteenth straight year in which the Department has received a clean audit report.

### **Government Management, Accountability, and Performance (GMAP)**

The Department has engaged in internal GMAP sessions that have been held throughout fiscal year 2006. Internal sessions are held monthly. These sessions provide management the opportunity to identify successes and issues and also identify solutions and ways to work together more effectively. The agency has also presented information at the Governor's GMAP session.

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### **Governor's Award - Data Warehouse Quality Team**

In the fall of 2004, the Data Warehouse Project Team received the Governor's Award for Quality and Performance in the area of Financial Management. The Data Warehouse makes it easier to access and compile data used to investigate businesses that underreport their taxes or fail to register their business. The team generated recommendations that lead to the formation of the data warehouse which has resulted significant gain for the Department such as audit recovery increasing by an average of \$302 per hour.

### **Selected Performance Measures**

The Department has used performance measures to manage performance, workloads, and changing business requirements for many years. Over time, the measures have changed and evolved due to the Department's ongoing attempt to track, communicate and use the right measures to improve performance. Therefore, the purpose behind a particular performance measure may differ over time. Measures may be designed to manage a particular process, communicate workloads, or to set forth new goals for anticipated outcomes. Measures are also captured at different levels, from being very project specific to monitor work and processes, or are used at the Department level to provide an overall view of the health of agency operations.

Below are a selection of high level outcome measures that relate to the Department's vision, mission, and goals. Several of these measures have been articulated in the form of an objective in an effort to strive for continued improvement even though improved results have already been achieved.

#### **Voluntary Compliance Rate**

This measure represents the ultimate goal of tax administration – increasing the percent of registered taxpayers that report and pay their taxes accurately and timely. The Department has received attention from revenue agencies across the nation for its ability to reasonably measure this rate. The last study, conducted in 2005, measured this rate at 97.8 percent of taxes due. This was an improvement over the 97.5 percent in 2002, and the 97.2 percent compliance found during a 1996 study. The next study on the voluntary compliance rate will be completed in 2006.

#### **Taxpayer Satisfaction**

Every three years the Department administers a statistically valid Taxpayer Satisfaction Survey. When completing this survey, taxpayers are asked to answer many questions about services, materials, and programs provided by the Department. Taxpayers are also asked to rate the quality of services they receive. One benchmark question is also asked in the survey process – overall satisfaction with the Department. In the last survey, fewer than 14% of respondents showed any level of dissatisfaction.

#### **Employee Satisfaction**

Employees are surveyed every two years to determine their level of satisfaction in several aspects of their employment. As with the taxpayer satisfaction survey, the employee satisfaction survey contains one overall satisfaction rating as a benchmark. The last survey administered in 2005 showed a 76 percent overall satisfaction rate.

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### **Cost of Collections**

For many years, the Department has tracked the cost of collecting every \$100 in revenue. While both expenditure and revenue changes affect this measure, the Department believes it represents an overall indicator of efficiency when taken in context with other factors. The calculation also includes Department expenditures for non-revenue collecting activities such as legislation and research. The cost of collection for FY05 was 72 cents per every \$100 collected.

### **Enforcement Revenue Production Goal**

The Department has committed to generating \$423 million in general fund revenue from enforcement activities for FY06. Currently, the Department is meeting this commitment, which is the highest goal the Department has attempted to achieve to date. During the 05-07 biennium the Department is committed to an enforcement collections of \$849 million.

### **E-file Use**

E-file use by taxpayers is measured to show progress toward meeting taxpayer expectations and because it is a more efficient means of conducting business. In FY05, 567, 874 returns were filed using E-file – a 41% growth rate over FY04. The target for FY06 is 710,000 returns filed via E-file.

### **Customer and Stakeholder Feedback**

The agency conducts a variety of surveys to improve performance. Among others, surveys are conducted with Internet users to determine satisfaction with the Web site; the telephone assistance center conducts surveys to obtain input about staff assistance; and a survey was recently conducted with taxpayers who visited a Department field office. The agency also solicited stakeholder feedback to consider while developing the Strategic Business Plan.



# ASSESSMENT OF INTERNAL CAPACITY AND FINANCIAL HEALTH

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The Department conducts internal resource and operational reviews on an ongoing basis. These reviews are conducted in a variety of ways including Government Management Accountability Program sessions, management assessments, divisional reviews, special studies, or budget discussions. Through these and other internal reviews, management staff evaluate resource requirements to ensure operational, taxpayer and customer needs are being met. After careful consideration, resources may be adjusted where appropriate and within budget constraints. The Department also identifies critical areas where additional funding is needed to perform services identified in the Strategic Business Plan. These needs will be identified in the Department's 2007-09 biennial budget request.

## Management

**Department Management:** The Department management team is comprised of both experienced staff with a historical perspective, and newer members who bring different views. Experienced managers help the Department respond quickly and insightfully to legislative, taxation, and operational issues. Newer managers provide a different perspective to keep the Department from falling into "because that's the way it's always been done" mentality. All managers offer insight and expertise in managing the agency. The diversity of knowledge and management perspective provides solid leadership for meeting taxpayer expectations and carrying out the Department's mission.

**Management and Employee Relations:** Historically, the Department has maintained excellent relations between management and employees. Maintaining this positive relationship continues to be a priority. Nonstop efforts to maintain open communication continue. Over the past year, this relationship has been tested with the implementation of Civil Service reform. But, relations seem to be intact as evidenced by the results of both the Departments Employee Satisfaction Survey and the Department of Personnel's "Climate" survey.

The Human Resources Division coordinates much of the communication between management and the Washington Public Employees Association and other labor relations groups. These efforts in conjunction with employee feedback sessions, quality improvement efforts, and management site visits, provide employees with many forums for discussion of work issues and changes.

## Technology

**Current and Emerging Technology:** Technology continues to be more and more pervasive in business and everyday life. This reliance on technology brings benefits and challenges. Benefits are derived when technology is implemented that increase the efficiency, relevance, and effectiveness of business activities. Challenges arise from the constant change, cost, training, and other resources needed to implement and sustain the technology.

The Department relies on an array of technology to conduct its business including large tax systems, local and wide area networks, personal computers, the internet and intranet, and other technologies such as phone systems and specialized software applications. This technology has enabled the Department to better meet taxpayer and customer needs and expectations as well as providing employees the tools needed to effectively conduct their jobs.

The Department is committed to investing in technology tools that will simplify processes and reduce administrative burden. Examples of such tools include active directory services that allow for improved network resource management, Internet application development that minimizes installation requirements, content management software that allow for better web-site management, and enhanced security and monitoring technology to help ensure uninterrupted secure services.

Other ongoing projects include improvements to the Geographic Information System (GIS) used for local tax coding, Data Warehouse enhancements that will continue to improve enforcement activities, implementation of the Forest Tax Computer System that will enhance operational efficiency, and continued development of the state's Portal to improve access to government.

This variety and complexity of information technology needed to meet business demands is a normal situation in today's business environment. Taxpayers and other customers expect automated services and access to government. This situation will require continued management of the measured implementation of technology. Many initiatives in the Department's new strategic business plan involve technology.

## **Workforce**

**Compensation:** Even with the cost-of-living adjustments approved by the legislature in the spring of 2005, compensation continues to be an issue among employees. Pay levels for professional, para-professional, and skilled positions in the private and local community are higher than the Department in several classifications. This makes it more difficult to compete for skilled workers, which results in aggressive recruitment efforts by employers competing for new employees and more aggressive retention efforts to keep skilled employees. The Department is experiencing more difficulty in competing for new employees as pay levels have continued to rise, especially in the private sector. This issue needs to be addressed at a state-level through compensation levels and practices.

**Retention:** The inability to compete for and retain a qualified diverse workforce based on pay and benefits, increases the importance of the Department's ability to respond to changes in worker demographics, workplace environments, and quality of life demands. Employees increasingly expect flexibility in establishing work schedules and locations. This presents a management challenge in balancing work requirements and employee expectations. New challenges are also created by these alternative arrangements in maintaining effective communications, knowledge levels, and creating a team environment.

**Succession Planning:** Aging of the workforce will be the most important single demographic event in the next few decades. As employees retire, they will take an expansive knowledge base with them. As a part of the July 2006 - June 2011 Strategic Business Plan, a Succession Planning initiative has been included to prepare the Department for this shift.

**Training:** Increased dependence on technology and other challenges of today's complex work environment calls for a technically and professionally trained staff to effectively and efficiently carry out their job responsibilities. The Department recognizes this need and is committed to the ongoing development and training of employees.

The Department prepares a training plan every two years that identifies where training is needed. Employees also complete a training development plan annually as a component of the performance evaluation process. These individual plans provide an opportunity for managers and employees to focus on training based on job responsibilities and individual development, as well as linking the employee's resulting performance to agency goals, strategies, and initiatives.

To provide training that is cost effective, the Department conducts in-house training, partners with other agencies and the Department of Personnel, and contracts trainers when appropriate. In-house training includes leadership and management development, effective supervision, team facilitation, project management, workforce management, communications skills, interpersonal skills, diversity, ethics, sexual harassment prevention, information technology courses, and safety and wellness courses. Employees are also offered opportunities for individual cross training, job rotations, and job development and shadowing assignments. New employee orientation and the Department's formal cross training courses are also offered to new employees to help familiarize them with various Department functions.

The Department also offers career counseling, tuition reimbursement, and the tuition waiver program to employees. "E-learning" educational opportunities for employees are also offered in collaboration with the Department of Personnel.

**Physical Work Environment:** When employees are equipped with the necessary tools to do their jobs, productivity and employee moral is enhanced, which contributes to employee retention. Over the past three years, the Department has focused on upgrading equipment, as well as remodeling and relocating facilities to better meet the needs of customers and staff. In the future, the Department will continue to assess the condition and usefulness of facilities, supplies, and equipment and make replacement decisions based on need and available resources.

**Staffing Levels:** The Department has worked hard to minimize the amount of resource dedicated to internal support and administrative activities. By taking this approach, a greater percentage of agency resource has been directed at activities directly supporting the Department's mission. Over time, administrative requirements have continued to expand. The Department is currently evaluating many of the requirements and is examining the need to request additional resource in the 2007-09 budget submittal. Among others, areas under review include: emergency preparedness, homeland security, wellness, commute trip reduction, risk management, and sustainability.

## **Cost Reduction Strategies**

The Department has a long history of engaging in process improvement and quality efforts. Systems and processes are reviewed regularly to determine if they are effective from both a cost and functional perspective. Staff is encouraged to offer ideas for process improvements and their suggestions are analyzed and considered. By taking this approach, managers and employees have exhibited the "can do" attitude of maintaining or improving needed services while being more efficient. The Department has also been willing to curtail or eliminate functions that were no longer relevant or that could be reduced with no significant impact on services.

## Past Successes

Various operational efficiencies have been attained through the use of automation. By automating manual processes, the Department has been able to reduce or maintain staffing in many areas that are experiencing workload increases. Examples include automating audit templates to free up auditor time, deploying imaging systems, improving workflow, and implementing data capture technology to reduce data entry efforts and eliminate work involved with out-of-balance returns. The Department also has continued to automate its major tax systems to eliminate manual calculations to provide more accurate and timely information to staff and taxpayers. In addition, the Department developed a Geographic Information System that allows taxpayers the ability to look up addresses to determine the proper code for local sales and use taxes, created a streamlined sales tax exemption application process, and developed a schedule that simplified the taxpayer's calculation of the small business credit.

The Department is still realizing the benefits of creating an "active, non-reporting" category of taxpayer that reduced postage and printing costs by eliminating the need to send returns and information to taxpayers with no tax liability to report or pay. Posting reference materials and data on the internet also reduced postage and printing costs.

Over the last few years, quality team results submitted to the Governor's Office have included:

- Initial Contact Team Formed To Accelerate and Improve Collections. Through implementation of a predictive dialer phone system, the Department contacts delinquent taxpayers during the first penalty phase, educates them, and works to collect the taxes due more quickly.
- Implementing Training Technology for Out-of-State Auditors. By providing interactive training via a CD, auditors located out-of-state no longer have to travel to Olympia for all training.
- Straight Talk Initiative. The Department borrowed an initiative from Labor & Industries and began a Department-wide effort to write letters in plain English. This approach has been used in education materials and letters to taxpayers including targeting industries to educate them on tax laws.
- Automated Software and Virus Patch Distribution. Through this technology, the Department has automated software installations, saving staff time and travel expense. Software is now installed in less than a week instead of the three months it used to take. The automated virus patches also achieve incalculable savings by ensuring immediate protection against viruses which could potentially compromise data or deny services to the public and/or staff

## Future Efforts

**Tax Administration:** E-business activities continue to be high on the Department's priority list. This includes on-line processing and access to tax information. E-file continues to gain users, making processing easier for the taxpayer as well as the Department, and provides more immediate access to tax information for employees. Expansion of the e-file arena will also involve the addition of amended and supplemental returns. Electronic payment options will also be expanded to the ability for taxpayers to pay tax assessments and warrants electronically by using Bill Pay, and to taxes not represented on the excise tax return. These as well as other efforts will help the Department meet taxpayer expectations while creating internal efficiencies. This allows staffing levels to be kept at a minimum and redirecting resources to other front-line customer interactions.

The Department also intends to further utilize imaging, data capture, and workflow technology to further eliminate paper handling and the data entry efforts. In addition, the Department is looking to further utilize data warehouse technology to enhance enforcement efforts.

**Program Enhancements:** Various automation efforts are being proposed in the new Strategic Business Plan to enhance programs. These include expanded use of secure messaging, self service applications for local governments and other customers, on-line training for taxpayers, and enhancing Geographic Information System information to aid both Department and other agency efforts

**Administrative Processes:** In an effort to improve organizational efficiency, administrative processes are continually under review. By having efficient administrative processes and job related information readily accessible, to management and front-line staff more time and energy can be spent on customer service and direct job responsibilities. Examples of ongoing efforts include better access to administrative policies and procedures and enhancements to performance measurement and complaint tracking.

**Quality Program:** The Department of Revenue will apply for the Washington State Quality Award in 2007, which is modeled after the Malcolm Baldrige National Quality Award. The Department is ready for this evaluation as it follows several self assessments that were conducted internally.

In addition, the Department is looking at ways to revitalize its Quality Program to exploit in-house knowledge and talent. This effort will be complemented by new training in order to maximize this opportunity for improvement and quality improvement efforts will continue to be implemented at the divisional and agency levels.

**Tax Law Simplification:** Tax law simplification has been and continues to be a Department priority. Department staff is involved in national efforts regarding simplification, and actively participate in several national organizations focused on increasing efficiency and uniformity of tax systems, such as the Multistate Tax Commission and the Federation of Tax Administrators

In support of the Governor, the Department continues to work toward passage of legislation that will allow Washington to be a member of the Streamlined Sales and Use Tax Agreement, which simplifies and makes the sales tax system across the country more uniform.

The above items represent only a portion of the ongoing enhancement efforts that are happening within the Department. Some efforts are only at the idea stage, while others are on their way to full implementation. New ideas and strategies are continually being introduced and tested. History tells us that pursuing new concepts is essential to improving our services and being more efficient at the work we do.

The above items represent only a fraction of the ongoing efforts within the Department to do business better. Some efforts are only at the idea stage. Some may not have even been conceived of yet. But, history tells us that there is always a new idea being born to improve our services or be more efficient at our job.



# APPENDIX



## INITIATIVES RANKED BY TIER

As a planning and evaluation tool, each of the new initiatives included within our Strategic Business Plan are prioritized based on the following scale:

- |                     |  |
|---------------------|--|
| Tier 1 – Essential  | Initiatives with the Agency’s highest level of commitment; may require current activities to be adjusted.                                |
| Tier 2 – Important  | Initiatives that are very important but must be considered against other ongoing initiatives and activities if funds are not sufficient. |
| Tier 3 – Beneficial | Initiatives that are beneficial to Agency programs, but will only be pursued if they do not infringe upon higher level priorities.       |

Based on the criteria above, the Department’s Strategy Team reviewed the initiatives and decided upon the following ranking:

- |                      |   |
|----------------------|---|
| Tier 1 – Initiatives | Enterprise Business Portal<br>Information Technology Architecture<br>Streamlined Sales Tax<br>Department Internet Web site Enhancement<br>E-file Application Upgrade<br>Enterprise Risk Management<br>Agency Communication<br>Local Government Partnership<br>Long Term Trends in Industry Practices<br>Tax Application Training<br>Diversity Program<br>Data Warehouse Enhancements<br>Electronic Case Management System<br>E-file for Employee Use<br>Quality Program Enhancement<br>Fiscal Note and Bill Tracking Reporting System |
| Tier 2 – Initiatives | Alternative Language Educational Materials<br>Appeals Program Review<br>Brokered Natural Gas Addition to the Excise Tax Return<br>Tax Billing Simplification for Multiple Periods<br>Uninterrupted Access to Online Services<br>Property Tax Tutorials and Accreditation Data<br>Property Tax County Assessment and Tax System<br>Succession Management and Strategic Workforce Development<br>Training Program Coordination  |

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Unclaimed Property Holder Account Management System  
Tax Warrant Electronic Filing with Counties  
Employee Intranet Resource Center Redesign  
Taxpayer Payment Option Expansion in Field Offices  
Bill Pay Application Expansion  
Advance Legislative Work  
Taxpayer Involvement in Tax Policy Development  
Real Estate Excise Tax Automation  
Geographic Information System Enhancement  
Tax Assessment Tracking System (Phase 2)  
Estate Tax Reporting System Enhancements

Tier 3 – Initiatives

Resale Certificate Plan  
Cigarette Distributor Reporting Automation  
New Business Packet Process Analysis  
Electronic Billing of Assessments  
Information Analysis to Improve Tax Policy Decisions  
Electronic Filing of Nonprofit Exemption Renewals  
Taxpayer Account Status Online Information  
Noncompliance Study of Unregistered Taxpayers  
Taxpayer Correspondence Workflow  
Automated Collection System Modernization Study  
Telecommunications Review  
Unclaimed Property E-claim System Enhancement  
Financial Programs and Systems Improvement  
Integrated Appeals Case Management System  
Forest Tax Return Processing System Rewrite



# DEPARTMENT OF REVENUE AGENCY ACTIVITY INVENTORY (Budget Numbers Reflect FY06 Supplemental)

## State and Local Revenue Collection and Distribution

The Department of Revenue is responsible for the fair, efficient, and uniform administration of state tax laws. Primary activities include taxpayer registration, tax return processing and collection activities, accounting for and distributing state and local tax revenues, and promotion of voluntary compliance through taxpayer education, information, and assistance. These activities are conducted from offices throughout the state and are supported by a statewide computer network.

Total Budget	\$100,213,200
GFS Budget	\$90,324,500
Other Funds	\$9,888,700
FTEs	564.1

### Statewide Result

Improve the ability of state government to achieve results efficiently and effectively.

**Expected Results:** The Department provides ongoing education, information, and assistance to taxpayers to promote voluntary compliance, while maximizing the collection of taxes owed on delinquent accounts. Total dollars collected from delinquent accounts and through tax discovery efforts totaled \$344 million in Fiscal Year 2005, and are projected to be \$346 million in Fiscal Year 2006. Balance due notices paid in Fiscal Year 2005 totaled \$149 million, and are projected to be \$150 million in Fiscal Year 2006. In Fiscal Year 2005, 87 percent of the 374,422 total calls received were provided assistance. An estimated 302,000 total calls are anticipated in Fiscal Year 2006. \$2.3 billion in local tax was collected on behalf of local jurisdictions in Fiscal Year 2005. Local tax collections are estimated to be \$2.5 billion, of the \$15.8 billion total taxes estimated to be collected in Fiscal Year 2006. At the end of Fiscal Year 2005, there were 718,224 registered accounts on record. 756,599 registered accounts are estimated by the end of Fiscal Year 2006.

**Performance Measure:** Total enforcement collections (In Thousands).

FY02 Actual	FY03 Actual	FY04 Actual	FY05 Actual	FY06 Proposed	FY07 Proposed
\$315,399	\$366,309	\$406,202	\$419,633	\$423,000	\$426,000

## Tax Auditing

The Department's audit function is carried out across Washington State and throughout the United States. Auditors are given one of three assignments: permanent in-state locations, permanently assigned out-of-state locations, or short-term out-of-state tours. The auditors review the records of registered businesses for the proper reporting and payment of taxes. Taxes routinely audited include sales and use, business and occupation, and public utility taxes.

Total Budget	\$48,444,000
GFS Budget	\$48,318,900
Other Funds	\$125,100
FTEs	290.0

## Statewide Result

Improve the ability of state government to achieve results efficiently and effectively.

**Expected Results:** The Department's auditing function seeks to provide fair and uniform application of tax laws, and promote an optimal level of accurate tax reporting and payment through continuing auditing presence and taxpayer education. The gross dollar value of tax assessments in Fiscal Year 2005 totaled \$229.2 million, and is projected at \$233.4 million for Fiscal Year 2006.

**Performance Measure:** Percentage of active reporting taxpayer accounts contacted through audit enforcement efforts.

FY02 Actual	FY03 Actual	FY04 Actual	FY05 Actual	FY06 Proposed	FY07 Proposed
1.5%	2.8%	1.7%	2.6%	2.5%	2.5%

## Property Tax Administration

The Department of Revenue has a statutory obligation to ensure uniformity within the state's property tax system and oversee the administration of property taxes at both the state and local level. The Department also determines the state school levy; conducts complex appraisals on commercial, industrial, and special use properties; administers property tax exemptions and deferral programs; and provides guidance, training, and assistance on property tax issues to county officials.

Total Budget	\$12,009,500
GFS Budget	\$11,981,400
Other Funds	\$ 28,100
FTEs	53.2

### Statewide Result

Improve the ability of state government to achieve results efficiently and effectively.

**Expected Results:** The Property Tax Division strives to ensure fair and uniform application of property tax law. In calendar year 2005, a total of \$6.9 billion was collected from property tax levies. In calendar year 2006, \$1.6 billion state and \$5.5 billion local are projected to be collected.

**Performance Measure:** Process, at a minimum, 85% of all exempt property applications and issue determinations within 30 days of receiving all necessary information.

FY02 Actual	FY03 Actual	FY04 Actual	FY05 Actual	FY06 Proposed	FY07 Proposed
N/A	87%	85%	83%	85%	85%

## Tax Policy Research, Analysis, and Interpretation

Tax policy activities involve coordinating inter Departmental services and providing information and guidance to the public, employees, and all levels of government. Specific functions include preparation of fiscal notes, analysis and drafting of legislation, rule revisions and drafting, forecasting non-General Fund revenues, analysis of proposed changes to tax statutes, and the analysis of tax law changes on small business.

Total Budget	\$ 8,047,400
GFS Budget	\$ 8,002,400
Other Funds	\$45,000
FTEs	43.5

### Statewide Result

Improve the ability of state government to achieve results efficiently and effectively.

**Expected Results:** The Department's objective is to provide accurate, timely, and clear information to enable informed tax policy decisions. One activity that supports this objective is the preparation of accurate and complete fiscal notes. In Fiscal Year 2005, 479 fiscal notes were delivered to the Office of Financial Management, and 270 are estimated in Fiscal Year 2006.

**Performance Measure:** Review the 471 agency rules in existence on July 1, 2005 by the close of the fiscal year ending June 30, 2009 (four year cycle). Identify those that require amendment or repeal as a result of legislative changes, court decisions, or business changes.

FY02 Actual	FY03 Actual	FY04 Actual	FY05 Actual	FY06 Proposed	FY07 Proposed
27.9%	25.5%	27.6%	27.0%	25.0%	25.0%

## Unclaimed Property Management

The Department administers the provisions of the State Uniform Unclaimed Property Act. The Department receives abandoned property transferred to the state and attempts to locate the owners through advertising and providing public access to abandoned property information. The Department's role is to act in the interest of the property owners and return the abandoned property to the rightful owners whenever possible. Examples of abandoned property include utility deposits, insurance policies, safety deposit box contents, dividends, and savings accounts. (Unclaimed Personal Property Account-Non appropriated)

Total Budget	\$6,209,000
GFS Budget	\$0
Other Funds	\$6,209,000
FTEs	27.7

### Statewide Result

Improve the economic vitality of businesses and individuals.

**Expected Results:** In Fiscal Year 2005, 56,473 claims were processed out of the 836,471 names reported to be owners of unclaimed property. In Fiscal Year 2006, an estimated 323,894 names will be reported of persons that own unclaimed property, with an estimated 58,249 claims projected to be processed.

**Performance Measure:** Percentage of monetary claims processed within 10 days of receipt.

FY02 Actual	FY03 Actual	FY04 Actual	FY05 Actual	FY06 Proposed	FY07 Proposed
N/A	N/A	86%*	47%*	80%	80%

\*Percentage of monetary claims processed within 30 days of receipt.

**Performance Measure:** Percentage of unclaimed property dollars returned.

FY02 Actual	FY03 Actual	FY04 Actual	FY05 Actual	FY06 Proposed	FY07 Proposed
39%	37%	29%	25%	40%	35%

## Taxpayer Appeals

The Department hears taxpayer appeals, issues written determinations, renders formal and informal tax law interpretations, mediates and negotiates settlements of tax disputes, and executes settlement closing agreements when appropriate.

Total Budget	\$4,205,400
GFS Budget	\$4,193,000
Other Funds	\$12,400
FTEs	21.7

### Statewide Result

Improve the ability of state government to achieve results efficiently and effectively.

**Expected Results:** The Appeals Division goal is to timely resolve tax appeals and provide written guidance on Washington state tax laws. In Fiscal Year 2005, 492 of the 525 appeals received were cleared. The target goal for 2006 is to clear 90 percent of the estimated 1,230 appeals to be received.

**Performance Measure:** Clear 90% of mainstream regular appeals that have not been placed in hold status within 1 year of receipt.

FY02 Actual	FY03 Actual	FY04 Actual	FY05 Actual	FY06 Proposed	FY07 Proposed
48%*	29% *	81%	58%	90%	90%

\*Percentage of mainstream regular appeals that have not been placed in hold status within 6 months of receipt.

## Administration

Internal services include the cost of overall management of the Department, internal audit, accounting, budget, cash management, facilities management, purchasing, human resources, employee training, quality improvement, and legal services provided by the Office of Attorney General. A significant portion of the costs in this category represent the legal costs associated with the defense of the state's tax system.

Total Budget	\$20,353,500
GFS Budget	\$20,243,800
Other Funds	\$109,700
FTEs	71.2

## Statewide Result

Improve the ability of state government to achieve results efficiently and effectively.

**Expected Results:** Administrative activities help support successful achievement of the Department's vision, mission, and goals through a variety of internal support functions. In addition, the Department protects the state's interest through successful litigation of tax issues.

**Performance Measure:** Percentage of taxpayers with a favorable opinion of Department of Revenue employees; includes courtesy and helpfulness ratings.

FY02 Actual	FY03 Actual	FY04 Actual	FY05 Actual	FY06 Proposed	FY07 Proposed
67%	67%	71%	71%	71%	75%

**Performance Measure:** Minimize the Department's cost of collecting revenue (Stated in cents per \$100 of revenue collected).

FY02 Actual	FY03 Actual	FY04 Actual	FY05 Actual	FY06 Proposed	FY07 Proposed
0.71	0.74	0.73	0.72	.071	0.69



## STATUTORY AUTHORITY REFERENCES

<b>RCW Reference</b>	<b>Title/Explanation</b>
<b>Title 82 – Excise Taxes</b>	
82.01	Department of Revenue
82.02	General Provisions
82.03	Board of Tax Appeals
82.04	Business and Occupation Tax
82.08	Retail Sales Taxes
82.12	Use Taxes
82.14	Local- Retail Sales and Use Taxes
82.14A	Cities and Towns- License Fees/Taxes on Financial Institutions
82.14B	Counties- Tax on Telephone Access Line Use
82.16	Public Utility Tax
82.18	State Waste Collection Tax
82.19	Litter Tax
82.21	Hazardous Substance Tax- Model Toxics Control Act
82.23A	Petroleum Products-Underground Storage Tank Funding
82.23B	Oil Spill Response Tax
82.24	Cigarette Tax
82.26	Tobacco Products Tax
82.27	Enhanced Food Fish Tax
82.29A	Leasehold Excise Tax
82.32	General Administration Provisions
82.32A	Taxpayers Rights and Responsibilities
82.33	Economic and Revenue Forecasts
82.33A	Economic Climate Control
82.34	Pollution Control Facilities - Tax Exemptions and Credits
82.35	Co-generation Facilities- Tax Credits
82.36	Motor Vehicle Fuel Tax
82.38	Special Fuel Tax
82.41	Multistate Motor Fuel Tax Agreement
82.42	Aircraft Fuel Tax
82.44	Motor Vehicle Excise Tax
82.45	Real Estate Excise Tax
82.46	Counties and Cities- Excise Tax on Real Estate Sales
82.47	Border Area Motor & Special Fuel Tax
82.48	Aircraft Excise Tax
82.49	Watercraft Excise Tax
82.50	Travel trailers and campers excise tax
82.52	Extension of Excises to Federal Areas
82.56	Multi-state Tax Compact
82.58	Simplified Sales and Use Tax Administration

<b>RCW Reference</b>	<b>Title/Explanation</b>
82.60	Tax Deferrals for Investment Projects in Distressed Areas
82.61	Tax Deferrals for Manufacturing, Research, and Development
82.62	Tax Credits for Eligible Business Projects Statutory Authority References
82.63	Tax Deferrals for High Technology Businesses
82.64	Soft Drink Syrup
82.65A	Intermediate Care Facilities For The Mentally Retarded
82.66	Tax Deferrals For New Thoroughbred Race Tracks
82.70	Commute Trip Reduction Incentives
82.71	Quality Maintenance Fee On Nursing Facilities
82.72	Telephone Program Excise Tax Administration
82.73	Washington Main Street Program Tax Incentives
82.74	Tax Deferrals For Fruit and Vegetables Businesses
82.80	Local Option Transportation Taxes
82.98	Construction

#### **Title 84 – Property Taxes**

84.04	Definitions
84.08	General Powers and Duties of Department of Revenue
84.09	General Provisions
84.12	Assessment and Taxation of Public Utilities
84.14	New and Rehabilitated Multiple-Unit Dwelling in Urban Centers
84.16	Assessment and Taxation Of Private Car Companies
84.20	Easement of Public Utilities
84.26	Historic Property
84.33	Timber and Forest Lands
84.34	Open Space, Agriculture, Timber Land - Current Use - Conservation Futures
84.36	Exemptions
84.38	Deferral of Special Assessments and/or Property Taxes
84.39	Property Tax Exemption - Widows and Widowers of Veterans
84.40	Listing of Property
84.41	Revaluation Of Property
84.44	Taxable Situs
84.48	Equalization of Assessments
84.52	Levy of Taxes
84.55	Limitations Upon Regular Property Taxes
84.56	Collection of Taxes
84.60	Lien of Taxes

<b>RCW Reference</b>	<b>Title/Explanation</b>
84.64	Lien Foreclosures
84.68	Recovery Of Taxes Paid or Property Sold For Taxes
84.69	Refunds (Property Tax)
84.70	Destroyed Property - Abatement Or Refund
84.72	Federal Payment In Lieu Of Taxes Construction
84.98	Construction
<b>Miscellaneous Ancillary Tax Laws</b>	
4.24.140-.141	Reciprocal Enforcement of Taxes
9.41.098-.135	Firearms and Dangerous Weapons
11.08	Escheats
11.28.120	Persons Entitled to Letters
19.91	Unfair Cigarette Sales Below Cost Act
19.150.606,.080	Self-Service Storage Facilities
35.21.714-.715	Local Business & Occupation Tax -Telephone Service for Resale
35.21.717	Taxation of Internet Services - Moratorium
35.58.560	Metro Credits Against State Taxes
35A.82.060-.065	Local Business & Occupation Tax - Telephone Service for Resale
35.95.040	Local Business and Occupation - Transit
36.100	Special Hotel/Motel Tax
36.102.070	Stadium/Deferral of Taxes
40.07.070	Advertising in State Publications - Prerequisites for Advertisers
43.10.067	Employment of Attorneys by Others Restricted
43.31A.400	Economic Assistance Authority Abolished - Transfer of Duties to DOR
46.12	Certificates of Ownership and Registration
46.16	Vehicle Licenses
46.70	Unfair Business Practices - Dealer's Licenses
46.74.010	Rideshare Definitions
46.85	Reciprocal or Proportional Registration of Vehicles
48.14.020	Premium Tax in Lieu of Other Forms
54.28	PUD Privilege Tax
60.28	Retained Percentage - Public Works
63.29	Uniform Unclaimed Property Act
67.28	Hotel/Motel Sales Tax - Stadium, Convention Centers
67.40	Convention Center Funding
69.50.520	Violence Reduction and Drug Enforcement Account
70.94.161.483	Air Pollution Fees/Wood Stove Fee

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**RCW Reference****Title/Explanation****Miscellaneous Ancillary Tax Laws - continued**

70.95 (Portions)	Solid Waste Management – Recovery and Recycling
74.08A.350	Questionnaires/Job Opportunities/Welfare
74.13.085	Child Care Facilities Development - Employee Involvement
83.110A	Washington Uniform Estate Tax Apportionment Act
88.02	Watercraft Registration
89.08	Conservation Districts



