State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: 8V – Lease Rate Adjustment

Budget Period: 2015-17
Budget Level: M2 – Maintenance Level

Recommendation Summary Text:

The Department of Revenue has sixteen leased buildings across the state. Of the sixteen lease contracts, nine expire during the 2015-17 biennium. Contracts for eight of these offices will be renegotiated and one is anticipated to be moved to another location. This decision package requests funding for anticipated increases in all nine office leases expiring during the 2015-17 biennium.

Fiscal Detail

Operating Expenditures	FY2016	FY2017	Total
001-1 General Fund – Basic Account – State	$123,000	$321,000	$444,000
02W-1 Timber Tax Distribution Account – State	$8,000	$12,000	$20,000
03N-1 Business Licensing Service - State	$2,000	$2,000	$4,000
196-6 Unclaimed Property – Non Appropriated	$11,000	$17,000	$28,000
Total Cost	**$144,000**	**$352,000**	**$496,000**

Package Description:

The Department of Revenue currently has three leased offices within Thurston County and thirteen located in other areas throughout Washington State. The majority of the field offices employ revenue collectors such as Revenue Auditors, Revenue Agents and Taxpayer Information Specialists, with a few locations housing Property Tax Appraisers and Foresters. Nine of the sixteen leases will be up for renewal in the 2015-17 biennium. Of those nine, one is the Department's Olympia headquarters office and will be relocated to a new building, hopefully near the other two Tumwater offices.

The state's Department of Enterprise Services (DES) acts as the leasing agent on behalf of the Department. DES's lease renewal process is initiated two years in advance of a lease renewal date. During the renewal process the Department will re-assess the space and determine whether or not it is adequate to meet business needs into the future. The Department contemplates all factors such as health and safety of employees, space needs, energy use, logistics, cost, and proximity to customers. The extensive review results in a determination as to whether or not the lease should be renewed, space should be modified, or a new location should be found.

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: 8V – Lease Rate Adjustment

The Department has submitted to the Office of Financial Management (OFM) a request to relocate their Olympia office. The new space is expected to address poor energy efficiencies and inefficient space usage in the current location. It is the desire of the Department to relocate to a space in close proximity to the Tumwater offices or the capitol campus. This package accounts for the ending of the Olympia lease and the beginning of a new estimated lease, the one-time costs of the move will be submitted in a subsequent package.

Taking into account nine lease renewals and one new lease (to replace the Olympia office), this decision package requests $496,000 in funding for anticipated increases in office lease costs during the 2015-17 biennium.

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

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?
Maintaining field office locations around the state allows the Department to be accessible, and maintain ongoing services to taxpayers. Field offices also house staff whose work is geographically dispersed.

Performance Measure Detail:

Activity:

	Incremental Changes	
	FY2016	**FY2017**

No measures submitted with this package.

Is this decision package essential to implement a strategy identified in the agency's strategic plan?
This decision package does not specifically impact any one strategy. However, increasing operational costs impact all areas of the Department.

Does this decision package provide essential support to one of the Governor's Results Washington priorities?
N/A

What other important connections or impacts are related to this proposal?
N/A

What alternatives were explored by agency and why was this alternative chosen?
The Department continually reviews its facilities to meet operational needs and minimizes cost increases when feasible.

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: 8V – Lease Rate Adjustment

What are the consequences of adopting this package?
Maintaining field office locations around the state allows the Department to be accessible, and maintain ongoing services to taxpayers. Field offices also house staff whose work is geographically dispersed. Because these costs are fixed, non-funding of this decision package will result in money being diverted from essential service and revenue producing areas, which 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 to implement the change?
N/A

Expenditure and revenue calculations and assumptions:
Additional funding requested in this proposal is calculated using scheduled increases contained in the lease contracts, or by computing an average fifteen percent lease market rate increase for contracts that have no outlook amount indicated. The projected costs for FY16 & FY17 were then compared to the funded level for FY15. The funded level for FY15 is calculated by taking the 2013-15 lease cost worksheet plus the amount of $233 thousand that was received for the FY15 decision package.

Which costs, savings, and functions are one-time? Which are ongoing? What are the budget impacts on future biennia?
Office leases are an ongoing cost.

Objects of Expenditure Detail

	FY2016	FY2017	Total
E – Goods and Services	$144,000	$352,000	$496,000
Total	**$144,000**	**$352,000**	**$496,000**

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: 9Q – Equipment Maintenance & Software Licenses

Budget Period: **2015-17**
Budget Level: **M2 – Maintenance Level**

Recommendation Summary Text:

Technology is a critical tool used by the Department to operate and provide services efficiently and effectively to taxpayers. Proper support and prompt repairs are crucial to ensuring system availability for the maximization of revenue collections and quality customer service. To sustain technology, the Department must contract for maintenance of equipment and systems, and acquire licenses to ensure continued use and availability of applications. The computer components, either hardware devices or software are continually requiring improvement of their technology and speed. In the 2015-17 biennium, the Department anticipates an annual increase of eight percent for hardware maintenance contracts and software licenses.

Fiscal Detail

Operating Expenditures	**FY2016**	**FY2017**	**Total**
001-1 General Fund – Basic Account – State	$139,000	$391,000	$530,000
03N-1 Business Licensing Service - State	$1,000	$3,000	$4,000
196-6 Unclaimed Property – Non Appropriated	$1,000	$2,000	$3,000
Total Cost	**$141,000**	**$396,000**	**$537,000**

Package Description:

The Department is reliant on automated systems for data collection and services. Each year technology is leveraged to offer new services and help the Department become increasingly more efficient. This increased dependence on automation requires hardware must be maintained and software licenses renewed.

Proper support and prompt repairs are crucial to ensuring system availability for the maximization of revenue collections and quality customer service. Software licenses are needed for staff to use systems and applications to conduct the Department's business. The Department uses numerous software programs to manage critical functions such as drafting, mapping, data analysis, and other technical fields. Increased reliance on these systems to maintain current standards of access and maintenance is critical. Also, hardware and software need to be sufficiently powerful to meet the demands of the current users while accommodating future unpredictable increased user demand.

This decision package includes an increase of eight percent in software licenses and hardware maintenance contracts. This estimate is based on analysis of the cost increases the Department has observed over the past several years as well as additional analysis completed on the industry with respect to the cost of hardware maintenance contracts and software licenses.

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: 9Q – Equipment Maintenance & Software Licenses

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

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?
The Department expects to be able to continue hardware maintenance and licensing of software which will ensure system availability for the maximization of revenue collections and quality customer service.

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?
As with many state agencies, the Department is heavily reliant on technology to provide services. Without a solid foundation of technology, the Department would not be able to implement many of our strategies.

Does this decision package provide essential support to one or more of the Governor's Results Washington priorities?
This package supports the Results Washington goal of "Efficient, Effective, and Accountable Government" because without adequately maintained equipment and current software license the Department would not be efficient or effective in collecting taxes and managing taxpayer accounts.

What other important connections or impacts are related to this proposal?
If the Department's systems are not maintained and licenses not renewed, other state agencies that rely on information from the Department will be impacted. Updating license agreements will allow the Department to keep up with modern technology and remain compatible with our customers.

What alternatives were explored by agency and why was this alternative chosen?
N/A

What are the consequences of funding or not funding this package?
Technology plays a major role in the Department's activities. If this decision package is not funded, the Department would shift funds from other areas, cut back on needed licenses and/or reduce maintenance of hardware. This situation would eventually have a negative impact on service levels including revenue collections.

Agency: **140 Department of Revenue**

Decision Package Code/Title: 9Q – Equipment Maintenance & Software Licenses

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 to implement the change?
N/A

Expenditure and revenue calculations and assumptions:
Hardware Maintenance Contracts: Maintenance contracts extending into the 2015-17 biennium were included as negotiated within the contract. Contracts not currently extending into the 2015-17 biennium were calculated using the eight percent increase based on actual increases experienced by the Department as well as analysis of the industry. These resulted in a $30,000 increase in fiscal year 2016 and $62,000 in fiscal year 2017.

Software Support and Licenses: Annual software support and licenses extending into the 2015-17 biennium were included as negotiated within the contract. Contracts not currently extending into the 2015-17 biennium were calculated using an eight percent increase based on actual increases experienced by the Department as well as analysis of the industry. These resulted in an increase of $111,000 in fiscal year 2016 and $334,000 in fiscal year 2017.

Which costs, savings, and functions are one-time? Which are ongoing? What are the budget impacts on future biennia?
All costs are ongoing.

Objects of Expenditure Detail

	FY2016	FY2017	Total
E – Goods and Services	$141,000	$396,000	$537,000
Total	**$141,000**	**$396,000**	**$537,000**

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: 9S – Equipment Replacement Costs

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Budget Period: **2015-17**
Budget Level: **M2 – Maintenance Level**

Recommendation Summary Text:

Taxpayers depend upon the Department's electronic systems to access their accounts and pay taxes 24 hours a day, 7 days a week. Department staff rely on technology to manage taxpayer accounts and engage in enforcement efforts. Without up-to-date servers, network equipment and storage devices the Department cannot operate effectively, maximize ongoing efficiencies and meet customer expectations. This decision package requests the inflationary increase for equipment scheduled for replacement in the 2015-17 biennium.

Fiscal Detail

Operating Expenditures	**FY2016**	**FY2017**	**Total**
001-1 General Fund – Basic Account – State	$121,000	$134,000	$255,000
03N-1 Business License Services - State	$5,000	$7,000	$12,000
02W-1 Timber Tax Distribution Account – State	$3,000	$3,000	$6,000
196-6 Unclaimed Property – Non Appropriated	$4,000	$4,000	$8,000
Total Cost	**$133,000**	**$148,000**	**$281,000**

Package Description:

Information technology is essential in the Department's daily business activities. It provides taxpayers with a quick, efficient way of paying taxes and communicating with the Department. DOR staff also depend heavily on technology to manage taxpayer accounts and engage in enforcement efforts. Without equipment capable of handling up-to-date software programs and increased usage and storage demands, Department employees and taxpayers alike will eventually experience a variety of challenging issues. These issues will impede staff efficiency as well as taxpayer ability to pay online, thus negatively impacting voluntary compliance.

Servers, network equipment, and storage devices have a replacement cycle that is based on the useful life guidelines established by OFM. Each year, a portion of the Department's equipment reaches maturity and the cost of replacement increases. Funding is needed to ensure this equipment remains current and at accepted standards.

Since fiscal year 2009, the Department has used the following replacement cycle:

- Five years for servers
- Seven years for network equipment
- Five years for storage devices

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: 9S – Equipment Replacement Costs

Replacing equipment cyclically has helped the agency meet ongoing business demands, maintained service standards and allowed the Department to remain compatible with other state agencies and taxpayers.

This decision package requests the inflationary increase for equipment scheduled for replacement in the 2015-17 biennium.

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

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?
The Department expects to replace equipment as it becomes outdated, worn, or inoperable to ensure taxpayers and staff have access to the Department systems. This decision package will allow the Department to keep its technology equipment current.

Performance Measure Detail:

Activity:

	Incremental Changes	
	FY2016	**FY2017**

No measures submitted with this package.

Is this decision package essential to implement a strategy identified in the agency's strategic plan?
As with many state agencies, the Department is heavily reliant on technology to provide services. Without up-to-date equipment, taxpayer payments and communications with the Department would be impeded.

Does this decision package provide essential support to one of the Governor's Results Washington priorities?
This package supports the Results Washington goal of "Efficient, Effective, and Accountable Government" because without up-to-date equipment the Department would not be efficient or effective in collecting taxes and managing taxpayer accounts.

What other important connections or impacts are related to this proposal?
N/A

What alternatives were explored by agency and why was this alternative chosen?
N/A

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: 9S – Equipment Replacement Costs

What are the consequences of not adopting this package?
If the technological upgrades are not adopted, the Department would continually fund temporary improvements to outdated equipment. The benefits of replacing the equipment are increased efficiency and work flow internally, reduced downtime with the added benefit new replaced equipment will accommodate new versions of software that offers taxpayers fast and efficient ways to file and pay their taxes online. Without upgrading equipment, revenue collection efforts would be negatively impacted.

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 to implement the change?
N/A

Expenditure and revenue calculations and assumptions:
Servers, network equipment and storage devices are scheduled for replacement on cycles from five to seven years. Personal computers and laptops are not included in this request.

The projected replacement cost for the above equipment assumes a two percent annual rate of inflation over the original purchase price. The two percent average inflation is based on the U.S. Department of Labor, Bureau of Labor Statistics: Seattle-Tacoma-Bremerton Consumer Price Index table. This funding request only includes the two percent rate of price inflation for the equipment to be replaced in the 2015-17 biennium.

Which costs, savings, and functions are one-time? Which are ongoing? What are the budget impacts on future biennia?
This funding request is for on-going equipment replacement costs.

Objects of Expenditure Detail

	FY2016	FY2017	Total
J - Equipment	$133,000	$148,000	$281,000
Total	**$133,000**	**$148,000**	**$281,000**

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: A0 – Reduce IT Services

Budget Period: **2015-17**
Budget Level: **PL – Performance Level**

Recommendation Summary Text:

As a part of the effort to meet the 15 percent reduction for the 2015-17 biennium, the Department will reduce Information Services expenditures by cutting back on Microsoft Premiere Support services in the amount of $100,000 annually. This reduction will limit the support received from Microsoft for system issues as they arise. In addition, the Department will migrate the internet filter to CTS shared services, which will save $20,000 annually.

Fiscal Detail

Operating Expenditures	FY2016	FY2017	Total
001-1 General Fund – Basic Account – State	($120,000)	($120,000)	($240,000)
Total Cost	**($120,000)**	**($120,000)**	**($240,000)**

Package Description:

IT services will be reduced to help meet the 2015-17 budget reductions, in two areas.

DOR utilizes Microsoft products and services in support of mission critical tax and licensing applications, as well as to manage computing infrastructure. DOR has historically allocated $200,000 annually to purchase support through a Microsoft's Premiere Support contract for these critical solutions. This contract ensures the Department receives a quick response when issues arise. Reducing the Microsoft Premiere Support allocation by 50 percent will reduce the number of prepaid hours provided by Microsoft and could impact our priority ranking when service is requested. In the event of an issue requiring Microsoft support, additional hours may need to be purchased.

Additionally, the Department will eliminate its existing internet filter appliance and migrate it to the CTS shared service. This will result in an annual savings of nearly $20,000.

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

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

The reduction in Microsoft Premiere Support hours may reduce the ability to quickly migrate and/or upgrade services in the future. Additionally, the health checks DOR has scheduled for many systems will be eliminated, reducing the confidence the agency has in the systems working as planned and/or at peak performance.

Agency: 140 Department of Revenue

Decision Package Code/Title: A0 – Reduce IT Services

Migration to the CTS shared internet filtering service is expected to be comparable to what is in place today.

Performance Measure Detail:

Activity:

	Incremental Changes	
	FY2016	**FY2017**
No measures submitted with this package		

Is this decision package essential to implement a strategy identified in the agency's strategic plan?
In the 2015-17 biennium, the Department's strategic business plan's main focus is on the Tax and Licensing System Replacement project. Although, reducing the prepaid hours of Microsoft Premiere Support purchased is part of the total information services of the Department, it is not essential to that strategy. Reduced system support may impact the Department's goals "Deliver customer-focused service" and "Simple and efficient collection of taxes and program administration" if the system encounters issues that cannot be resolved promptly.

Does this decision package provide essential support to one or more of the Governor's Results Washington priorities?
Maintaining accurate working systems are essential to "Efficient, effective and accountable government".

What other important connections or impacts are related to this proposal?
The Department will have a reduced ability to utilize Microsoft expertise to verify systems are running as intended and at peak performance. Additionally, the Department will have less ability to bring in the expertise needed to quickly migrate and make system changes to meet short timelines.

What alternatives were explored by agency and why was this alternative chosen?
To meet the 15 percent reduction requirement, reductions are proposed across the Department.

What are the consequences of adopting not adopting this package?
Adopting of this package would result in the Department having a reduced ability to utilize prepaid Microsoft expertise to verify systems are running as intended and at peak performance. Additionally, the Department will have less ability to bring in the expertise needed to quickly migrate and make system changes to meet short timelines.

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 to implement the change?
N/A

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: A0 – Reduce IT Services

Expenditure and revenue calculations and assumptions:
Cost reduction by purchasing less and decreasing services currently being utilized.

Which costs, savings, and functions are one-time? Which are ongoing? What are the budget impacts on future biennia?
These are on-going reductions. However, if issues arise, additional Microsoft services may need to be purchased.

Objects of Expenditure Detail

	FY2016	FY2017	Total
E – Goods and Services	($120,000)	($120,000)	($240,000)
Total	**($120,000)**	**($120,000)**	**($240,000)**

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: AS – Auditor Stipends

Budget Period: 2015-17
Budget Level: M2 – Maintenance Level

Recommendation Summary Text:

Auditing is an essential function to maintain and improve voluntary compliance. The Department's out-of-state auditors, who work outside of Washington, are the highest revenue producers but also the hardest to recruit and retain. Currently, DOR has 34 out-of-state auditors who maintain an office and receive a special allowance, per the guidelines in RCW 82.01.070. The reimbursement rate has not been adjusted since 1989, and does not address cost variability across the U.S. This decision package requests funding to increase the stipend necessary to defray the costs of facilities, living, and other costs reasonably related to out-of-state services.

Fiscal Detail

Operating Expenditures	**FY2016**	**FY2017**	**Total**
001-1 General Fund – Basic Account – State	$150,000	$150,000	$300,000
Total Cost	**$150,000**	**$150,000**	**$300,000**

Package Description:

The Department of Revenue employs audit staff that audit businesses conducting business in Washington but maintain accounting records out of state. These auditors live and work out-of-state and are the highest revenue producers but also the hardest to recruit and retain. Currently, DOR has 34 out-of-state auditors who maintain an office and receive a special allowance, in addition to their ordinary rate of compensation, to defray the extra costs of facilities, living, and other costs reasonably related to the out-of-state services, per the guidelines in RCW 82.01.070.

The amount currently allowed is $500 per month regardless of where the employee is permanently located. This amount has not been adjusted since 1989 (25 years) and at that time, OFM noted "the current out-of-state allowance policy (i.e., flat rate) may not be appropriate given the variation in cost of living from city to city".

In light of the fact that the current allowance amount has not been adjusted since 1989, and to address the "flat rate" concerns expressed by Office of Financial Management, the Department is recommending an increase in the special allowance rate based on a three-tiered variable rate approach. The three-tier rate (high, medium, low) reflects U.S. variability in cost of living. Tiers are based on U.S. Census Bureau 2011 median home values for both the U.S. and each state (see attached breakdown of tiers by state).

By increasing the allowance, compensation for these out-of-state positions, will be more competitive which in turn may decrease turnover and increase the Department's ability to fill vacancies.

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

Agency: 140 Department of Revenue

Decision Package Code/Title: AS – Auditor Stipends

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?
Collecting revenue to fund public services is the Department's mission and needs to be accomplished. Additional funding will assist in recruitment and retention of individuals providing the out-of-state auditing services.

Performance Measure Detail:

Activity:

	Incremental Changes	
	FY2016	**FY2017**

No measures submitted with this package.

Is this decision package essential to implement a strategy identified in the agency's strategic plan?
This package does not support a specific strategy within the agency's strategic plan, but does support on-going activities and the goal "Develop, retain, and value a high quality, diverse workforce".

Does this decision package provide essential support to one or more of the Governor's Results Washington priorities?
Out-of-state auditors maintain and improve voluntary compliance and are some of the highest revenue generating positions within the Department. Revenue collections are essential to fund all Results Washington activities.

What other important connections or impacts are related to this proposal?
Adequate funding for operational expenses is essential to ensure service levels and revenue collections are maintained. Collecting revenue to fund public services is key to achieving all statewide results.

What alternatives were explored by agency and why was this alternative chosen?
In order to audit businesses outside of Washington, the Department needs to either employ an out-of-state auditor, or have an in-state auditor travel. Using staff permanently residing near out-of-state businesses is far more efficient than the cost of travel to send staff located in Washington to perform these audits. Although the use of instate staff becomes a necessity when the Audit Division is unable to adequately staff auditors residing outside Washington, it is not the preferred approach.

The cost of hiring roving auditors over out-of-state employees is greater due to the high cost of travel, lost productivity when auditors are in travel status, and the high turnover rate due to burnout.

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: AS – Auditor Stipends

What are the consequences of adopting or not adopting this package?
Funding this request will positively impact the out-of-state audit program which is vital to maintaining or improving voluntary compliance and generating tax revenue needed to fund vital state services. Without funding, the Department may divert funds from other revenue generating areas which may also 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 to implement the change?
RCW 82.01.070 provides that the special allowance shall be in such amount or at such rates as approved by the Office of Financial Management. DOR staff met with OFM staff on this issue. With OFM staff support, the DOR Director sent this request to the OFM Director on July 29, 2014.

Expenditure and revenue calculations and assumptions:

Tier-based Variable Amounts					
Tier	Cost Area	Amount	Number of Employees	Monthly Cost	Annual Cost
Tier 1	High Cost	$ 1,200	7	$ 8,400	$ 100,800
Tier 2	Medium Cost	$ 900	11	$ 9,900	$ 118,800
Tier 3	Low Cost	$ 700	16	$ 11,200	$ 134,400
Totals			34	$ 29,500	$ 354,000
Average		$ 868			
Current Cost at $500 a month per employee				$ 17,000	$ 204,000
Increased Cost using Tier-Based Variable Amounts				$ 12,500	$ 150,000

Which costs, savings, and functions are one-time? Which are ongoing? What are the budget impacts on future biennia?
Costs are ongoing.

Objects of Expenditure Detail

	FY2016	FY2017	Total
E – Goods and Services	$150,000	$150,000	$300,000
Total	**$150,000**	**$150,000**	**$300,000**

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: BW – Bandwidth/Data Circuits

Budget Period: **2015-17**
Budget Level: **M2 – Maintenance Level**

Recommendation Summary Text:

The Department's need to transfer larger amounts of data faster is expected to increase in the 2015-17 biennium. Planned system improvements to address fraud prevention, employee safety, migration of systems to the state data center, and wireless networking will require additional bandwidth which requires circuit upgrades to Department locations. Without additional bandwidth, Department staff and taxpayers will experience slow and/or intermittent connectivity and security event and incident management will be impacted.

Fiscal Detail

Operating Expenditures	FY2016	FY2017	Total
001-1 General Fund – Basic Account – State	$171,500	$149,000	$320,500
Total Cost	**$171,500**	**$149,000**	**$320,500**

Package Description:

Business needs and demands are changing. In the future, DOR plans to: utilize the Consolidated Technology Service's security event and incident management service; migrate systems out of the DOR data center and into the state data center; implement surveillance systems in field offices; and implement wireless networking in all office locations.

- The Department began utilizing the Consolidated Technology Service's (CTS) security event & incident management shared service. The existing data circuits at DOR were not designed to interface with the State Data Center for this purpose. As such, an increase in bandwidth is needed. This bandwidth's capacity will allow significant volumes of data to be transferred between the DOR's data center and the State Data Center. Increased capacity of the existing SMON connection will enable the transfer of data for security event & incident management.
- An increase in bandwidth will support the future direction of the Tax and Licensing System Replacement (TLSR) project as it moves forward with plans to migrate systems out of the DOR's data center.
- The Department is also implementing surveillance systems and intelligent vaulting solutions in all of its field offices, which supports the receiving and processing of additional cash from the new Marijuana Industry. This will increase the volume of data being transmitted across the existing data connections at the field offices beyond the current capacity; thus, an increased bandwidth is required.
- DOR began using the new CTS wireless service in order to modernize and provide greater customer service to taxpayers and businesses alike.

Agency: **140 Department of Revenue**

Decision Package Code/Title: BW – Bandwidth/Data Circuits

To meet these changing business needs and demands, bandwidth will need to be increased to avoid slow or limited connectivity. The cost to increase bandwidth includes a one-time cost of $22,500 to upgrade circuits and an annual cost of $149,000 for monthly reoccurring charges.
The Department is seeking to recover the increased monthly recurring charges for the wireless access points.

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

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?
The Department plans to:

- Upgrade the existing 10 Megabit (Mb) connection in Federal Way to 100 Megabit (Mb).
- Establish a redundant data connection between the State Data Center and DOR's data center. This will accommodate the new Security Incident and Event Management (SIEM) records required by the CTS Security Operations Center as well as position DOR to migrate out of its existing data center.
- Add a 100 Megabit (Mb) connection to an Eastern Washington location to alleviate bandwidth issues associated with critical data replication activities.
- Utilize the CTS wireless network services to improve customer service at all DOR locations.
- Upgrade existing data circuits at four field offices to 100 Megabit (Mb) Ethernet.

Performance Measure Detail:

Activity:

	Incremental Changes	
	FY2016	**FY2017**
No measures submitted with this package.		

Is this decision package essential to implement a strategy identified in the agency's strategic plan?
In the 2015-17 biennium, the Department's strategic business plan's main focus is on the TLSR project. The increased capacity of the existing SMON connection will support the future direction of the TLSR project as it moves forward with plans to migrate systems out of the DOR's data center.

Does this decision package provide essential support to one of the Governor's Results Washington priorities?
Providing the bandwidth needed to meet the changing needs of the Department and taxpayers, supports the Governor's priority of "Efficient, effective & accountable government".

Agency: 140 Department of Revenue

Decision Package Code/Title: BW – Bandwidth/Data Circuits

What other important connections or impacts are related to this proposal?
This request supports the effort to migrate systems out of the DOR's data center, as well as, provides additional security in field offices receiving cash due to implementation of legalizing marijuana.

What alternatives were explored by agency and why was this alternative chosen?
Alternatives included doing nothing, as well as installing faster and more costly options. The Department settled on this request because it is the most reasonable approach to address the expanded needs.

What are the consequences of adopting this package?
The Department would benefit greatly by adopting this decision package to support the increase in bandwidth. This increased bandwidth would help the Department migrate systems out of the DOR's data center. Increasing bandwidth capability will also prevent the loss of cyber transactions while improving customer service delivery time. Data transfer speeds in four field offices would maintain at the current level. The Department would be able to provide wireless service. Also, customers would be able to access information on their own mobile devices while at DOR's facilities.

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 to implement the change?
Since all data connections are currently purchased through CTS, the Department would work with CTS to modify existing service level agreements to gain the additional network capacity.

Expenditure and revenue calculations and assumptions:
Quotes were received from CTS. The new data circuits and added capacity will increase the monthly recurring costs.

Which costs, savings, and functions are one-time? Which are ongoing? What are the budget impacts on future biennia?

- $22,500 one-time charges are for data circuit installation and configuration changes in FY2016.
- $149,000 annual increase added capacity is ongoing.

Objects of Expenditure Detail

	FY2016	FY2017	Total
E – Goods and Services	$171,500	$149,000	$320,500
Total	**$171,500**	**$149,000**	**$320,500**

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: N1 – Headquarters Office Relocation

Budget Period: 2015-17
Budget Level: ML – Maintenance Level

Recommendation Summary Text:

In 2009, the Legislature passed the "Efficiency First Act" which established an energy efficiency benchmark score for state agency facilities that required an Energy Star rating of at least 75. The Department's current headquarter facility, located at 1025 Union Ave. in Olympia, has consistently had an Energy Star rating of 50 or lower for several years. Improvements needed to substantially increase the energy rating would be very disruptive to staff in this leased space and could require temporary relocation. In addition to the poor energy performance, the configuration of the structure does not allow for efficient use of space. Also, the facility is located several miles from the Department's other two Thurston County facilities, which results in inefficiencies of employee time and vehicle expenditures from employees driving between the locations for meetings. For these reasons, a project to relocate this office when the lease expires on April 30, 2016, is in OFM's 2013-19 SixYear Facilities Plan. This package requests funding for one-time costs associated with relocation of the Department's headquarters location.

Fiscal Detail

Operating Expenditures	FY2016	FY2017	Total
001-1 General Fund – Basic Account – State	$1,360,000	$0	$1,360,000
02W-1 Timber Tax Distribution Account – State	$136,000	$0	$136,000
196-6 Unclaimed Property – Non Appropriated	$204,000	$0	$204,000
Total Cost	**$1,700,000**	**$0**	**$1,700,000**

Package Description:

The Department submitted a modified pre-design to OFM on October 31, 2013 requesting consideration for the relocation of the headquarters office located at 1025 Union Ave. in Olympia. This aging facility has both energy and space use inefficiencies. In addition, the location of our current headquarters facility results in inefficiencies from employees driving to and from the location and our other Thurston County locations. Relocation of the Department's headquarters facility to a new location will provide savings from ongoing costs for utilities and janitorial services, and potential efficiencies resulting from the Department's Thurston County facilities being located closer together. Relocating will also provide the opportunity to configure office space to meet the OFM 250 sq. ft per FTE goal and better support employee collaboration.

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: N1 – Headquarters Office Relocation

OFM approved DOR's modified pre-design in February of 2014 for the purpose of soliciting for space. DES initiated the solicitation project #069-02-14 with an expected completion date of August 29, 2014. The solicitation will result in an apparent successful proposer with whom DES will negotiate a lease for space. The solicitation has been approved to proceed by both DES and OFM with the following requirements:

- Solicitation for 52,500 square feet of leased office space in Olympia or Tumwater, a decrease of approximately 6,400 square feet from the Department's current facility.
- The estimated annual ongoing cost at the new location is $1,370,000, an annual increase of $50,000.
- The estimated one-time cost is $1,700,000 for DES fees, tenant improvements, furniture and relocation costs.
- The one-time costs are to be paid in a similar manner as the existing lease, using General Fund, Unclaimed Property and Timber Tax funds.
- Occupancy is expected to be on or before May 1, 2016.

This package accounts for the one-time costs associated with the new lease, associated facility improvement and move costs. The on-going costs of the new lease are included in the maintenance level package for lease rate adjustments.

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

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?
The Department expects that having staff located in space with adjacency to the two exisiting Tumwater offices will enhance productivity and synergy by reducing travel time between offices providing for rapid interaction between employees and enhanced customer service for taxpayers and citizens. This adjacency would also provide opportunity to consider space efficiencies within all three facilities. Moving the remaining Executive division personnel that are currently located in the 6300 and 6500 Linderson Buildings to the proposed space will increase available space for the divisions in the Linderson facilities. This also provides more opportunity to meet the agency wide goal of 250 sq. ft/FTE.

The Energy Star rating for our current headquarters facility is 50 but has been consistently under 50 for the last two years. Annual energy costs at the current location average $2.10/square foot. The energy costs for the proposed space are estimated at the rate currently paid at the main Tumwater facility $1.17/square foot.

Agency: **140 Department of Revenue**

Decision Package Code/Title: N1 – Headquarters Office Relocation

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 package promotes the Department's ongoing strategy of "Relocate Headquarter Operations".

Does this decision package provide essential support to one of the Governor's Results Washington priorities?
N/A

What other important connections or impacts are related to this proposal?
Relocating the Department headquarters to a more efficient office space will support the Governor's Executive Order 12-06, allow the Department more flexibility in space usage to meet the 250 sq. ft/ FTE goal, and provide easier access to staff and taxpayers that need to visit multiple DOR offices.

What alternatives were explored by agency and why was this alternative chosen?
The Capital Plaza building lease expires in April 2016. If the Department renegotates a new lease energy costs will remain high and the configuration of the building will continue to be inefficient.

Relocating within close proximity to the Department's two Tumwater facilities is the preferred option. A new leased office will be energy efficient, designed to efficiently use space, and provide close proximity to the Department's two Tumwater facilities. If space is not available within a half mile to one mile radius of those facilities, then proximity to the state campus in Olympia would be preferred.

What are the consequences of adopting or not adopting this package?
If this funding request is not approved, and the Department renews the lease at the current facility, we will expect continued inefficiencies. If moving costs are absorbed within current appropriations, funds may have to be diverted from areas across the Department. This could 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 to implement the change?
DES will negotiate a lease for space. Prior to execution of the lease OFM must provide approval of the lease.

Agency: **140 Department of Revenue**

Decision Package Code/Title: N1 – Headquarters Office Relocation

Expenditure and revenue calculations and assumptions:
Estimates are as identified in the modified pre-design - a 10 year term to justify build-out of necessary tenant improvements in unimproved or new construction space ($23.85/sq ft/yr, first five years, $26.60/sq ft/yr, second five years).

- $243,704 - DES fees calculated at 2.5 percent of total rent for first five years and 1.25 percent of total rent for second five years.
- $787,200 - Tenant improvements calculated at $15/RSF.
- $224,000 - IT infrastructure calculated at $1,000/person.
- $168,000 - Furniture costs calculated at $750/person.
- $100,000 - Building security and access systems costs includes limited ability to reuse hardware from current location.
- $ 67,200 - Moving vendor and supplies calculated at $300/person.
- $109,896 - Project contingency at 6.9 percent of total.

Lease payments and other facility expenses for the divisions housed in the existing facility are charged to three (3) different funds – approximately – 80 percent General Fund, 12 percent Unclaimed Property and 8 percent Timber Tax. The percent share paid by each fund for a new facility may be slightly different due to potential shifts to staffing.

Which costs, savings, and functions are one-time? Which are ongoing? What are the budget impacts on future biennia?
Funding is requested one-time for FY16 only.

Objects of Expenditure Detail

	FY2016	FY2017	Total
E – Goods and Services	$1,520,000	$0	$1,520,000
J - Equipment	$180,000	$0	$180,000
Total	**$1,700,000**	**$0**	**$1,700,000**

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: A1 – Increase Electronic Communications

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Budget Period: **2015-17**
Budget Level: **PL – Performance Level**

Recommendation Summary Text:

The Department is continually looking for ways to reduce costs and conduct business more efficiently. As a part of the effort to meet the 15 percent reduction for the 2015-17 biennium, the Department will further increase electronic communications by eliminating printing and mailing of forms and notices to electronic filers, and issuing up to 60 percent of tax assessments electronically. In addition, the Department has recently implemented online chat. These changes will reduce workload by 1.0 FTE and save an estimated $170,000 in printing and postage.

Fiscal Detail

Operating Expenditures	**FY2016**	**FY2017**	**Total**
001-1 General Fund – Basic Account – State	($215,000)	($215,000)	($430,000)
Total Cost	**($215,000)**	**($215,000)**	**($430,000)**
Staffing			
FTEs	(1.0)	(1.0)	(1.0)

Package Description:

Increasing electronic communications will reduce on-going costs in the following ways:

- Workload reduction of 1.0 FTE - time-savings associated with online chat
  While we predict online chat to grow and at some point enable us to serve more callers with less staff, online chat has only recently been implemented. Reducing staff in the telephone center may result in longer hold times for callers and online chatters waiting for tax assistance; more abandoned calls resulting in callers calling back or not at all; customers attempting to contact us through other phone numbers or other communication channels if hold times are too long; and a potential decrease in voluntary compliance.

- $130,000 - discontinuing printing and mailing of forms and notices to electronic filers
  Previously, the Department discontinued the mailing of delinquent filing and balance due notices to monthly taxpayers and they now receive an E-notification. The Department is planning to expand the use of E-notification and discontinue the mailing of delinquent filing and balance dues notices to quarterly taxpayers who file electronically. Since the Department already has this process in place, there will be minimal time and cost to implement the change. There will be no FTE savings since the notices are system generated, but there will be printing and postage savings.

Agency: **140 Department of Revenue**

Decision Package Code/Title: A1 – Increase Electronic Communications

The Department also plans to discontinue the mailing of a printed Reseller Permit and related correspondence to taxpayers who electronically file. The Department will send an electronic copy of the Reseller Permit to taxpayers and use its secure messaging service to send correspondence. This not only benefits the Department in reduced printing and postage costs, but provides better service to taxpayers. The taxpayers will receive correspondence and their reseller permit quicker as well as have the ability to reprint their reseller permit when needed. Currently if a taxpayer loses their permit or account information changes, they have to request a copy from the Department and wait for it to be mailed to them. There will be some minimal programming costs associated with the change to electronically send the reseller permit.

- <u>$40,000 savings in printing and postage resulting from issuing 60 percent of tax assessments electronically</u>
  Audit developed a manual process that works with current systems to send audit assessments to taxpayers electronically rather than through U.S. mail. Electronic mailing requires conversion of audit files into a compatible format and several manual steps to send the assessments electronically. For this reason, there is no FTE savings; the only cost savings realized is printing and mailing costs.

  Not all audit assessments can be delivered electronically at this time. For example, the IRS prohibits emailing audit assessments, even through Secure Messaging where the IRS supplied the federal tax information. Some taxpayers still prefer a paper copy of their audit assessment and as part of our customer service focus, we comply with their request.

For questions please contact: Budget Manager, Sherry Cave (360) 704-5771

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?
Increasing electronic communications will save postage and printing costs and in some instances labor. It also increases efficiencies for both the department and taxpayers.

Performance Measure Detail:
Activity:

	Incremental Changes	
	FY2016	**FY2017**
N/A		

Is this decision package essential to implement a strategy identified in the agency's strategic plan?
In the 2015-17 biennium, the Department's strategic business plan's main focus is on the Tax and Licensing System Replacement project. However, increasing electronic communications is an on-going program that supports the Department's priorities of "Customer-focused service" and "Efficient and effective program administration and revenue collection."

Agency: 140 Department of Revenue

Decision Package Code/Title: A1 – Increase Electronic Communications

Does this decision package provide essential support to one of the Governor's Results Washington priorities?
Providing more efficient communication methods to taxpayers is essential to "Efficient, effective and accountable government."

What other important connections or impacts are related to this proposal?
Since first implementing electronic communications, we have had few issues or concerns.

What alternatives were explored by agency and why was this alternative chosen?
N/A

What are the consequences of adopting this package?
N/A

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 to implement the change?
N/A

Expenditure and revenue calculations and assumptions:
Reduce (1.0) Tax Information Specialist FTE. Salary and benefits were calculated using the Salary Project System. Reduction in printing and postage was calculated based on the average annual cost for printing and mailing the notices that will no longer be sent.

Which costs, savings, and functions are one-time? Which are ongoing? What are the budget impacts on future biennia?
All savings are on-going.

Objects of Expenditure Detail

	FY2016	FY2017	Total
A – Salary & Wages	($40,000)	($40,000)	($80,000)
B – Benefits	(5,000)	(5,000)	($10,000)
E – Goods and Services	($170,000)	($170,000)	($340,000)
Total	**($215,000)**	**($215,000)**	**($430,000)**

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: A2 – Program Changes

Budget Period: **2015-17**
Budget Level: **PL – Performance Level**

Recommendation Summary Text:

2ESHB 1467, relating to collection of unpaid wages, passed the 2014 legislature. This law allows L&I the option of electronically serving a financial institution with a notice and order to withhold and deliver by working with DOR. The statute provides a discretionary, alternative means for L&I to serve the notice and does not mandate DOR's participation. As a part of the effort to meet the 15 percent reduction for the 2015-17 biennium and considering the existing competing priorities for DOR resources, the Department is using the discretion provided in SSB 5360 to choose not to participate.

Commercial vessels exempted from watercraft excise tax are subject to the state personal property tax levy. The Department issues vessel decals annually upon payment of the vessel tax. The Department is purposing moving the collection of the commercial vessel tax to the Department of License who currently is responsible to collect the watercraft excise tax.

Fiscal Detail

Operating Expenditures	FY2016	FY2017	Total
001-1 General Fund – Basic Account - State	($250,000)	($250,000)	($500,000)
Total Cost	**($250,000)**	**($250,000)**	**($500,000)**
Staffing			
FTEs	(3.4)	(3.4)	(3.4)
Revenue			
001-0101 General Fund – Retail Sales Tax	$16,000	$16,000	$32,000
001-0105 General Fund – B&O Tax	$1,000	$1,000	$2,000
001-0175 General Fund – Penalties & Interest	$8,000	$8,000	$16,000
Total Revenue	**$25,000**	**$25,000**	**$50,000**

Package Description:

2ESHB 1467, relating to collection of unpaid wages, passed the 2014 legislature. This law allows L&I the option of electronically serving a financial institution with a notice and order to withhold and deliver by providing a list of its outstanding unpaid wage claim warrants to DOR for DOR to include and serve under RCW 82.32.235(3) (the "eWithhold" program). The statute provides a discretionary, alternative means for L&I to serve a notice and order and does not mandate that DOR include L&I's warrants when it serves a notice and order through the eWithhold program. DOR has the discretion to decide whether to include L&I's warrants. L&I continues to have the ability to serve financial institutions a notice and order to withhold and deliver through the US mail service.

In light of budget reductions and considering the existing competing priorities for DOR resources, even with the budget provided, it will be challenging to work with L&I and the financial industry to implement this bill. The funds provided in the legislation consider the process changes, changes to the eWithhold system, developing the process and technical capabilities to exchange data with L&I, stakeholder work with the financial industry, etc., that would be required. Return of the funding provided is included in this package.

Commercial vessels exempted from watercraft excise tax are subject to the state personal property tax levy. Vessels used exclusively for commercial fishing purposes and U.S. Coast Guard documented vessels used primarily for commercial purposes such as charter and time-share boats, tugs and barges are subject to this tax. The tax rate is limited to no more than $3.60 per one thousand dollars ($1,000.00) of market value. The Department issues vessel decals annually upon payment of the vessel tax. The Department is purposing moving the collection of the commercial vessel tax to the Department of License who currently is responsible to collect the watercraft excise tax.

Moving the commercial vessel tax to the Department of Licensing would be an effort to consolidate vessel related taxes in one agency. The commercial vessel tax is a specialty tax serving a limited tax base. Incorporating tax administration into the agency providing tax decals for other vessel types should create efficiencies of scale.

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

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?
The Department did not implement this legislation. No change to performance is expected.

Performance Measure Detail:

Activity:

	Incremental Changes	
	FY2016	**FY2017**
N/A		

Is this decision package essential to implement a strategy identified in the agency's strategic plan?
No.

Does this decision package provide essential support to one or more of the Governor's Results Washington priorities?
No.

Agency: **140 Department of Revenue**

Decision Package Code/Title: A2 – Program Changes

What other important connections or impacts are related to this proposal?
L&I continues to have the ability to serve financial institutions a notice and order to withhold and deliver through the US mail service.

What alternatives were explored by agency and why was this alternative chosen?
The Department is choosing not to assist L&I with SSB 5360. With so many competing priorities, implementation would have been challenging at this time.

Moving the commercial vessel tax to the Department of Licensing would be an effort to consolidate vessel related taxes in one agency.

What are the consequences of adopting or not adopting this package?
L&I will continue to serve notices through the US mail service. DOL will begin to collect the commercial vessel tax.

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 to implement the change?
Moving the collection of the Commercial Vessel Tax would require legislation to transfer authority for collection to the Department of licensing

Expenditure and revenue calculations and assumptions:
(0.1) Revenue Agent 1
(2.2) Revenue Agent 2
(0.5) Revenue Agent 3
(0.6) Excise Tax Examiner
Reduced funding in the same manor and amounts as described in fiscal note 2ESHB 1467 and included in the Department's carry-forward budget.

Which costs, savings, and functions are one-time? Which are ongoing? What are the budget impacts on future biennia?
This reduction is on-going.

Objects of Expenditure Detail

	FY2016	FY2017	Total
A – Salary & Wages	($161,000)	($161,000)	($322,000)
B – Benefits	($47,400)	($47,400)	($94,800)
E – Goods and Services	($35,600)	($35,600)	($71,200)
G - Travel	($3,000)	($3,000)	($6,000)
J – Equipment	($3,000)	($3,000)	($6,000)
Total	**($250,000)**	**($250,000)**	**($500,000)**

State of Washington
Decision Package

Agency: **140 Department of Revenue**

Decision Package Code/Title: A3 – Reduce Property Tax Programs

Budget Period: **2015-17**
Budget Level: **PL – Performance Level**

Recommendation Summary Text:

In order to meet the 2015-17 biennium 15 percent reduction, the Department would suspend property tax grants and deferral programs and reduce the amount of guidance provided to local officials in the administration of the property tax system.

Suspension of the grants and deferral programs would likely result in the inability of some senior citizens, disabled persons, and limited income individuals to pay their property taxes. The result would be increased costs for these property owners as penalties and interest on unpaid taxes accrue, and delays for the state and local governments in the collection of these property taxes.

County officials would not receive direction, guidance, and training regarding proper valuation techniques and tax administration. This in turn could lead to inaccurate property valuations and inconsistent treatment of property owners. Incorrect property valuations could result in a shift of property tax to other property owners or a loss in revenue for taxing jurisdictions.

Fiscal Detail

Operating Expenditures	**FY2016**	**FY2017**	**Total**
001-1 General Fund – Basic Account – State	($2,248,000)	($2,248,000)	($4,496,000)
Total Cost	**($2,248,000)**	**($2,248,000)**	**($4,496,000)**
Staffing			
FTEs	(4.0)	(4.0)	(4.0)

Package Description:

The Department is statutorily obligated to provide direction and oversight to local officials in the administration of the property tax system in order to promote equity and uniformity in assessment and taxation. To meet this obligation, the Department provides training for local officials and their staff, issues guidance, reviews their work and work processes, publishes valuation guidelines, and provides other such assistance as may be necessary.

This decision package reduces the Department's services related to the property tax system. Specifically, the Department would:

- Reduce guidance for county assessors regarding valuation of property,
- Reduce training of county staff in the administration of the property tax system, and
- Suspend property tax grant and deferral programs for the 2015-17 biennium.

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: A3 – Reduce Property Tax Programs

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These reductions would result in savings of 4.0 FTEs, as well as $2,000,000 each year in appropriation for the deferral programs.

Cutting staff that provide these functions would reduce the Department's ability to provide the oversight necessary to ensure equity and uniformity in the property tax system. Training currently provided by the Department that is specific to Washington's property tax system is not available through other avenues. Therefore, county officials and their staff may not have appropriate training to perform their job functions. Additionally, reduced guidance to county officials may lead to inaccurate property valuations and inconsistent treatment of property owners. Incorrect property valuations could result in a shift of property tax to other property owners or a loss in revenue for local taxing jurisdictions.

The Department is also responsible to pay taxes on behalf of property owners who defer their property taxes under the Senior Citizen and Disabled Persons Deferral Program and the Limited Income Deferral Program, and provide grant funds to property owners who qualify for the Property Tax Grant Program for Widows and Widowers of Disabled Veterans. Payment is made from an annual appropriation of $2,000,000 for these programs.

Suspension of the grant and deferral programs would affect low-income senior citizens, disabled persons, and widows and widowers of disabled veterans, as well as homeowners with income of less than $57,000 per year. Suspending these programs may result in the inability of some senior citizens, disabled persons, and limited income individuals to pay their property taxes. This would result in increased costs for these property owners as penalties and interest on unpaid taxes accrue, and delays for the state and local governments in the collection of these property taxes.

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

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?
Reduction in the Department's ability to provide the oversight and guidance necessary to ensure equity and uniformity in the property tax system. Reduced training specific to Washington's property tax system. No funding available for deferral programs.

Performance Measure Detail:

Activity:

	Incremental Changes	
	FY2016	**FY2017**
Pay deferral claims within 30 days of receipt or before the tax/special assessment due date.	(99.0%)	(99.0%)

Agency: 140 Department of Revenue

Decision Package Code/Title: A3 – Reduce Property Tax Programs

	Incremental Changes	
	FY2016	**FY2017**
Pay grant assistance claims for widows and widowers of veterans within 30 days of receipt or before the tax due date.	(95.6%)	(95.6%)
Increase the percentage of counties to meet the Non-Residential Coefficient of Dispersion performance standards each year as published by the International Association of Assessing Officers (IAAO).	(5.1%)	(5.1%)
Increase the percentage of counties to meet the Overall Ratio performance standards each year as published by the International Association of Assessing Officers (IAAO).	(5.1%)	(5.1%)
Increase the percentage of counties to meet the Price Related Deferential performance standards each year as published by the International Association of Assessing Officers (IAAO).	(5.0%)	(5.0%)
Increase the percentage of counties to meet the Residential Coefficient of Dispersion performance standards each year as published by the International Association of Assessing Officers (IAAO).	(5.1%)	(5.1%)

Is this decision package essential to implement a strategy identified in the agency's strategic plan?
In the 2015-17 biennium, the Department's strategic business plan's main focus is on the Tax and Licensing System Replacement Project. However, property tax administration is an on-going program that supports the Department's goals "Deliver customer-focused service", "Simple and efficient collection of taxes and program administration" and "Fair and consistent tax policy administration".

Does this decision package provide essential support to one of the Governor's Results Washington priorities?
Providing property tax program assistance to local governments is essential to "Efficient, effective and accountable government". Property tax deferral programs support "Prosperous economy".

What other important connections or impacts are related to this proposal?
Local elected officials are likely to be opposed to the reduction in guidance provided by the Department. In many instances, county officials rely on the Department to provide direction and interpretation of state law.

Agency: 140 Department of Revenue

Decision Package Code/Title: A3 – Reduce Property Tax Programs

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Suspension of property tax grant and deferral programs would have the greatest impact on low income senior citizens and disabled persons.

What alternatives were explored by the agency and why was this alternative chosen?
To meet the 15 percent reduction requirement, reductions are proposed across the Department. Reductions included in this decision package do not require a statutory change because no program is completely eliminated. The service level to local governments is reduced and deferral programs suspended.

What are the consequences of adopting this package?
Suspension of the deferral programs would affect low income senior citizens and disabled persons, widows and widowers of disabled veterans, as well as homeowners with income of less than $57,000 per year. Suspension of these programs may result in the inability of some senior citizens, disabled persons, and limited income individuals to pay their property taxes.

Reduced guidance to county officials may lead to inaccurate property valuations and inconsistent treatment of property owners. Incorrect property valuations could result in a shift of property tax to other property owners or a loss in revenue for local taxing jurisdictions.

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 to implement the change?
N/A

Expenditure and revenue calculations and assumptions:
No revenue is associated with this decision package.

Expenditures:

- Salary and benefits were calculated using OFM's salary projection system for 4.0 Property Tax Acquisition Specialist 4's.
  - 1.0 FTE – process new deferral applications that would not be accepted if the program is suspended.
  - 2.0 FTEs - provide guidance and assistance to county assessors.
  - 1.0 FTE - provides training to county staff.
- Grants and subsidies are reduced by the amount appropriated for this purpose ($2.0 mil).

Which costs, savings, and functions are one-time? Which are ongoing? What are the budget impacts on future biennia?
Suspension of the deferral programs would decrease the Department's funding for each year by $2,000,000 and 1.0 FTE. Reinstatement of the program in future biennia would require funding to be returned.

State of Washington
Decision Package

Agency: **140 Department of Revenue**

Decision Package Code/Title: A3 – Reduce Property Tax Programs

Objects of Expenditure Detail

	FY2016	FY2017	Total
A - Salary & Wages	($192,670)	($192,670)	($385,340)
B - Benefits	($55,330)	($55,330)	($110,660)
NZ - Grants and Subsidies	($2,000,000)	($2,000,000)	($4,000,000)
Total	**($2,248,000)**	**($2,248,000)**	**($4,496,000)**

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: A4 – Reduce Policy Services

Budget Period: **2015-17**
Budget Level: **PL – Performance Level**

Recommendation Summary Text:

As a part of the Department's effort to meet the 15 percent reduction for the 2015-17 biennium, the Appeals, Research, Legislation & Policy, and Interpretations & Technical Advice divisions will be reduced by 5.0 FTEs. This reduction will make it necessary to reduce services provided internally and externally by eliminating some publications, reducing the Department's ability to draft and update rules and interpretive statements, reducing informal appeal processes and decreasing support to stakeholders, internal operations divisions, Office of Financial Management and the legislature.

Fiscal Detail

Operating Expenditures	**FY2016**	**FY2017**	**Total**
001-1 General Fund – Basic Account – State	($371,000)	($371,000)	($742,000)
Total Cost	**($371,000)**	**($371,000)**	**($742,000)**
Staffing			
FTEs	(5.0)	(5.0)	(5.0)

Package Description:

Policy divisions will be reduced by 5.0 FTEs to meet the 15 percent budget reduction in the 2015-17 Biennium. A reduction in positions will result in a corresponding suspension, reduction or elimination of the following services:

Decreased services to the Legislature:

- This level of reduction would limit the ability of staff in the Department to address all tax legislation as introduced by the Legislature. Between 600 and 900 bills are introduced annually and currently we analyze 100 percent of the bills introduced.
- Policy staff within the Department are statutorily required to provide legislative and fiscal analysis to the Legislature and this reduction would impact that requirement. The risk of this loss can result in legislation that is difficult to administer, lack of clear understanding of the revenue and expenditure impacts, or may contain unintended tax consequences that can result in loss of tax revenue. It requires the Department to prioritize legislation for review based on a cursory review, which may not detect the full impact of the legislation and may not result in fiscal notes submitted if the tax consequences are not clearly understood.
- The performance expectation of delivering completed fiscal notes to legislative staff within four hours of a hearing will decrease from 95 percent to 90 percent.
- This level of reduction would limit the ability of staff to respond to data requests, especially during the legislative session.

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: A4 – Reduce Policy Services

This level of reduction would limit the ability of the Department to respond to constituent issues related to specific appeals.

Decreased services to other state agencies:

- Fiscal estimates and data requests from other state agencies will be completed *only* if resources are available.
- The Department will need to reduce the resources devoted to insuring the integrity of its economic data. This could negatively impact the accuracy of the Department's fiscal analysis of proposed legislation and the revenue forecast prepared by the Economic & Revenue Forecast Council (ERFC).
- Bill review and analysis for Office of Financial Management (OFM) and other state agencies may be impacted.
- Reduced education of other agencies on their tax liability.

Decreased services to Local Governments:

- Local Tax Distributions queries will be reduced from a monthly to a quarterly basis.
- Fiscal estimates and data requests from local jurisdictions will be completed *only* if resources are available.

Decreased services to the public:

- The Department's ability to provide public guidance (i.e., rules and interpretive statements) will be negatively impacted. Future interpretative and policy work would focus on providing internal technical advice, and adopting expedited rules and rules whose current language conflicts with the previous year's legislation.
- The reduction would decrease the Department's ability to issue precedential decisions (WTD's) which can be relied upon by all taxpayers for guidance.
- Other stakeholder-heavy efforts would be limited. This change will create more outdated and incomplete public guidance (both rules and interpretive statements), which can mislead taxpayers, cause internal confusion, and reduce the state's ability to provide fair and consistent tax policy administration. As a result, the state's litigation risk is increased and ability to collect revenues through voluntary compliance is reduced.
- Outside of the legislative session the reduction would limit the Department's ability to develop new legislative strategies in support of the Governor, OFM and Legislature. This loss reduces the value of the Department's role in shaping sound tax policy per the agencies' mission statement. The reduction would require the Department to limit external stakeholder work and requests for legislative analysis by non-critical stakeholders, such as the industry groups, lobbyists and other agencies. Also, a reduction could reduce the ability to support cross-divisional efforts to improve policy consistency and transparency as more senior staff used in these functions may need to support mainstream legislative or interpretive functions rather than provide external support to other divisions.
- Data requests from the general public will be completed *only* if resources are available.
- Data made available on the agency's website might be limited or require a longer timeline to publish.
- Reduction will result in decreased level of service to taxpayers by eliminating some appeals procedures such as reconsideration and letter ruling review.

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

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: A4 – Reduce Policy Services

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

Increased time for:

- Preparation of fiscal notes for Office of Financial Management and the Legislature.
- Analysis of bill drafts for the Legislature.
- Completion of rules and other interpretive statements (e.g., excise tax advisories) for the public.
- Issuance of appeals determinations

Performance Measure Detail:

Activity:

	Incremental Changes	
	FY2016	**FY2017**
Increase the percentage of draft fiscal notes having scheduled hearing dates that are delivered to the legislature at least four hours before the hearing when the request is received at least 24 hours before the hearing.	(5%)	(5%)

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

In the 2015-17 biennium, the Department's strategic business plan's main focus is on the Tax and Licensing System Replacement project. Reduced staffing in policy areas does not impact this project; however, is does impact the Department's goals "Deliver custom-focused service" or "Promote fairness and consistency in the development and application of tax law". Further, it impacts the goal in the Director's performance contract with the Governor to increase the publication of WTD's.

Does this decision package provide essential support to one or more of the Governor's Results Washington priorities?

Policy staff provides support to the Director in her role as the Lead for Goal 2: Prosperous Economy. Reduced staff will cause workloads to be redistributed and prioritized and could impact service levels.

What other important connections or impacts are related to this proposal?

N/A

What alternatives were explored by agency and why was this alternative chosen?

To meet the 15 percent reduction requirement, reductions are proposed across the Department.

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Decision Package Code/Title: A4 – Reduce Policy Services

What are the consequences of adopting or not adopting this package?
Reducing resources in the policy divisions will reduce services to internal and external customers and increase the appeal rate to the Board of Tax Appeals (BTA) and the courts.

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 to implement the change?
N/A

Expenditure and revenue calculations and assumptions:
A reduction of 4.0 FTEs in the Tax Policy Specialist 3 classification and 1 FTE in the Tax Policy Specialist 2 classification. Salary and benefits calculated using OFM's Salary Projection System.

Which costs, savings, and functions are one-time? Which are ongoing? What are the budget impacts on future biennia?
All costs are associated with a reduction of FTEs and are assumed to be ongoing.

Objects of Expenditure Detail

	FY2016	FY2017	Total
A – Salary & Wages	($287,600)	($287,600)	($575,200)
B – Benefits	($83,400)	($83,400)	($166,800)
Total	**($371,000)**	**($371,000)**	**($742,000)**

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: A5 – Reduce Tax Administration Activities

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Budget Period: **2015-17**
Budget Level: **PL – Performance Level**

Recommendation Summary Text:

The DOR general fund budget is over 75 percent salary and benefits, with only about 15 percent of the Department's staff in tax administration, non-revenue generating positions. In order to meet the 15 percent reduction target, DOR will need to cut 5.6 FTEs in tax administration activities. This reduction will impact the Department's ability to provide timely policies and procedures, human resource services, internal audits and taxpayer assistance.

Fiscal Detail

Operating Expenditures	FY2016	FY2017	Total
001-1 General Fund – Basic Account – State	($331,000)	($331,000)	($662,000)
Total Cost	**($331,000)**	**($331,000)**	**($662,000)**
Staffing			
FTEs	(5.6)	(5.6)	(5.6)

Package Description:

Tax administration activities will be reduced to meet the 15 percent budget reduction in the 2015-17 biennium. This reduction includes 5.6 FTEs in the following areas:

- (1.0) FTE - taxpayer assistance and education
  Taxpayer assistance and education is vital to promoting voluntary reporting and payment of taxes. Decreased staffing for taxpayer assistance will negatively impact voluntary compliance as well as the response time for tax rulings, reduce the number of speaking engagements and online workshops, and could increase reporting errors causing taxpayers additional penalty and interest charges.

- (0.3) FTE - administrative support for the Log Export program
  Currently, the Department provides a compliance function of monitoring the export restrictions imposed on the export of timber harvested from public land. The compliance function is comprised of tracking and notifying purchasers of public timber of the log export restrictions and periodic field inspection of logs from public sales (by DOR foresters). The administrative function will be reduced to the minimum necessary for the agency to comply with its legal responsibility.

- (1.0) FTE - administrative support to the Department's Executive Team
  Reduced support for the agency's customer service strategic priorities (training, surveying stakeholders, and monitoring performance measures for the agency) and Results Washington. Reducing staff may impact the Department's ability to respond timely to requests from local government for assistance with tax administration.

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Decision Package Code/Title: A5 – Reduce Tax Administration Activities

- <u>(1.0) FTE - administrative support for development of Department policies and procedures</u>
  Eliminate Communications Consultant 2 (CC2) position. The primary duty of this position is to maintain and coordinate updates to the Department's administrative policies and procedures which provide the basic organizational framework to assist the Department's operating and policy divisions in meeting their objectives. Without this position, this work will be shared between several staff with many other priories. Policies and procedures will not likely be kept current, which could put the Department at risk.

- <u>(0.3) FTE - support for overtime in financial areas during peak times</u>
  Reducing .3 of an FTE in Business and Financial Services will impact the division's ability to allow overtime during peak times. The two most significant peak periods are: late January/early February when monthly, quarterly and annual returns are all due at the same time; and at the close of each fiscal year.

- <u>(1.0) FTE - internal auditor</u>
  Reducing staffing levels affect program capacity which impacts audit coverage and scope of work provided to agency executives for policy setting, determining program effectiveness, managing risk, and improving internal controls. Staff reductions also affect the ability of the Internal Audit program to fully conform to the International Standards for the Professional Practice of Internal Auditing and Code of Ethics as required by RCW 43.88.160 and SAAM Chapter 20.

- <u>(1.0) FTE – support for talent outreach in human resources</u>
  Reduced support for talent outreach will impact the Department's recruitment goals. Decreased support will be available for background checks, responding to job seeker questions, maintaining the transfer register in accordance with WAC and RCW, processing leave without pay reports, administering tests, and processing closing requisitions in NEOGov.

For questions please contact: Budget Manager, Sherry Cave (360) 704-5771

<u>Narrative Justification and Impact Statement</u>

What specific performance outcomes does the agency expect?
Reducing administrative staff will decrease the Department's ability to provide support services internally and externally. Fewer staff in administrative areas such as human resources, executive management, internal audit, and finance will cause longer wait times; turnaround time for the development of policies and procedures will increase, and administrative support for programs that assist taxpayers will be reduced.

State of Washington
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Agency: 140 Department of Revenue

Decision Package Code/Title: A5 – Reduce Tax Administration Activities

Performance Measure Detail:

Activity:

	Incremental Changes	
	FY2016	**FY2017**

No performance measures submitted with this package.

Is this decision package essential to implement a strategy identified in the agency's strategic plan?
Reducing administrative staff affects service levels that support the Department's priority of "Delivering customer-focused service."

Does this decision package provide essential support to one or more of the Governor's Results Washington priorities?
Executive office staff provides support to the Director in her role as the lead for Goal 2: Prosperous Economy. Reduced staff will cause workload to be redistributed and reprioritized and could impact service levels.

What other important connections or impacts are related to this proposal?
N/A

What alternatives were explored by agency and why was this alternative chosen?
N/A

What are the consequences of adopting or not adopting this package?
Reducing administrative staff will decrease the Department's ability to provide support services internally and externally. Fewer staff in administrative areas such as human resources, executive management, internal audit, and finance will cause longer wait times; increased turnaround time for the development of policies and procedures, and a reduction in administrative support for two programs that assist taxpayers.

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 to implement the change?
N/A

Expenditure and revenue calculations and assumptions:
Reduce 5.6 total FTEs – Tax Information Specialist 1 (1.0), Excise Tax Examiner 1 (.3), Management Analyst 4 (1.0), WMS2 (1.0), Communications Consultant 2 (1.0), Fiscal Tech 2 (.3), and Human Resource Consultant 2 (1.0). Salaries and benefits calculated using the Salary Projection System.

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Decision Package Code/Title: A5 – Reduce Tax Administration Activities

Which costs, savings, and functions are one-time? Which are ongoing? What are the budget impacts on future biennia?
All savings are ongoing.

Objects of Expenditure Detail

	FY2016	FY2017	Total
A – Salary & Wages	($255,000)	($255,000)	($510,000)
B – Benefits	($76,000)	($76,000)	($152,000)
Total	**($331,000)**	**($331,000)**	**($662,000)**

Agency: 140 Department of Revenue

Decision Package Code/Title: A6 – Reduce Tax Collection Activities

Budget Period: **2015-17**
Budget Level: **PL – Performance Level**

Recommendation Summary Text:

In order to meet the 2015-17 biennium 15 percent budget reduction, the Department will need to reduce in areas which impact revenue collections. The Department's budget is over 75 percent salary and benefits. Approximately 85 percent of the Department's staff works in revenue generating divisions. Although reduction proposals touch on most every area of the Department, the most significant reductions will come from the largest divisions - Audit, Compliance, and Taxpayer Account Administration. Overall, the Department must cut 213.4 FTEs in revenue generating activities to meet the reduction target. This reduction is estimated to decrease revenue collections by approximately $100 million annually.

Fiscal Detail

Operating Expenditures	**FY2016**	**FY2017**	**Total**
001-1 General Fund – Basic Account – State	($12,837,000)	($12,758,000)	($25,595,000)
Total Cost	**($12,837,000)**	**($12,758,000)**	**($25,595,000)**
Staffing			
FTEs	(214.1)	(212.7)	(213.4)
Revenue			
001-0101 General Fund – Retail Sales Tax	($111,119,000)	($110,412,000)	($221,531,000)

Package Description:

The reduction in enforcement staff would make it necessary to refocus the remaining staff efforts on only the highest priorities and most complex account situations. The Department would not actively pursue or collect taxpayer accounts that have receivables totaling less than $5,000 and liens on taxpayer accounts with receivables of less than $10,000 would not be issued. DOR would cease investigating vehicle license fraud, airplane excise tax, watercraft excise tax, or use tax cases. The agency's ability to generate billings and perform recovery work will be significantly reduced. There will also be delays in reviewing tax returns, and amended information and correspondence from taxpayers which will impact agency collection and audit activities. There will also be a significant delay completing current audits in progress; and scheduling new audits will also be delayed. These delays will result in lost revenues due to years otherwise being available for audit going past statute. Tax discovery efforts would be eliminated.

Agency: **140 Department of Revenue**

Decision Package Code/Title: A6 – Reduce Tax Collection Activities

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The impacts of these efforts include:

- A threshold would put the responsibility of when, or if, to pay solely on the taxpayer.
- Delinquent account receivables will age longer and increase without active collection activity.
- Largest dollar recovery comes from out of state businesses. Unable to complete all current out of state audits in progress, thereby reducing tax revenue assessments.
- Inability to adequately assign audits on all businesses of a high priority. As a result the state's interest in unpaid tax revenues will be lost to statute.
- Sales tax collected by businesses, from citizens, may go unremitted if the amounts are below the thresholds.
- Decreasing the enforcement staff will reduce the amounts assessed and collected to local governments and state dedicated funds.
- Non-compliance and the underground economy will increase.
- Voluntary compliance and educational opportunities would decrease.
- The state's interest will not be secured by filing a lien and advanced collection activities would not take place.
- The longer a debt is outstanding, the harder it is to collect.
- If the debt is not pursued and is allowed to grow some businesses tax debt would grow to the point they may be unable to pay the debt and remain a viable business.
- Support to local jurisdictions in the collection and distribution of local taxes will be impacted. The ability to verify distributions, implement new taxes and rate changes, and update boundary information will be diminished.

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

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

The Department expects a decrease of approximately $100 million annually in revenue collections during the 2015-17 biennium. This amount could increase significantly in future biennia as voluntary compliance decreases.

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Performance Measure Detail:

Activity:

	Incremental Changes FY2016	Incremental Changes FY2017
Enforcement Collections/Cash Commitment (Agency)	($111.1M)	($110.4M)
Complete refund requests within 90 calendar days of receiving substantiation from the taxpayer (Audit)	(5%)	(5%)
Issue audits within 30 days of the last contact with taxpayer (Audit)	(5%)	(5%)
Maintain the percentage of active taxpayer accounts contacted (Audit)	(2.1%)	(2.1%)
Complete UBI applications within 2 business days of receipt (TAA)	(24%)	(24%)
Complete data capture and correction of documents within 24 hours of receipt (TAA)	(33%)	(33%)
Answer E-file phone calls within 1 minute (TAA)	(25%)	(25%)
Work items requiring attention within 10 business days of receipt (TAA)	(25%)	(25%)
Complete refund requests within 10 days of receipt (TAA)	(25%)	(25%)
Examine exception returns within 10 business days of receipt for monthly filers (TAA)	(25%)	(25%)
Examine exception returns within 30 business days of receipt for quarterly filers (TAA)	(25%)	(25%)
Examine exception returns within 50 business days of receipt for annual filers (TAA)	(29%)	(29%)
Clear all dollars referred (Compliance)	(60%)	(60%)
Collect in full/clear newly issued tax warrant invoices within 9 days (Compliance)	(30%)	(30%)
Resolve legislators' constituent inquiries with 7 business days (L&P)	(7%)	(7%)

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Decision Package Code/Title: A6 – Reduce Tax Collection Activities

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Is this decision package essential to implement a strategy identified in the agency's strategic plan?
Adequate staffing is essential to implement strategies in the strategic plan. Reduced staffing will cause workloads to be redistributed and reprioritized. The Department's Tax and Licensing System Replacement Project strategy depends on existing staff input and assistance. If the Department is not adequately staffed to carry out its mission, staff time will not be available to implement new projects that keep the Department up with technology and functioning at a high level.

Does this decision package provide essential support to one or more of the Governor's Results Washington priorities?
This decision package reduces funding for revenue producing activities. Revenue collections are essential to fund all of the Governor's priorities.

What other important connections or impacts are related to this proposal?
This decision package reduces funding for revenue producing activities which would impact many other state programs funded from DOR collections.

What alternatives were explored by agency and why was this alternative chosen?
The Department of Revenue's expenditures are over 75 percent salary and benefits. In order to take a 15 percent reduction to our budget, there is no other option but to cut FTEs.

What are the consequences of adopting or not adopting this package?
This package reduces funding for revenue generating activities. Customer service and support provided by the Department will be negatively affected. Revenue collections will be negatively impacted. Voluntary compliance will diminish over time. If FTEs are reduced and then later reinstated, they would take years to reestablish and train to current standards.

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 to implement the change?
N/A

Expenditure and revenue calculations and assumptions:
Salary and benefits were calculated for 214.1 FTEs in the following classifications for fiscal year 2016:

- (40.5) Revenue Auditor 1s
- (64.2) Revenue Auditor 2s
- (3.0) WMS 2 - Audit
- (46.4) Revenue Agent 1s
- (30.0) Revenue Agent 2s
- (2.0) WMS 2 - Compliance
- (7.0) Excise Tax Examiner 1s
- (19.0) Excise Tax Examiner 2s

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- (2.0) WMS2 – Taxpayer Account Administration

Salary and benefits are calculated for 212.7 FTEs similar to above for fiscal year 2017.
Revenue reductions are calculated by determining the average amount of revenue generated by a particular position type/activity and multiplying that by the number of FTEs of the type being reduced. An average annual collection per FTE, for all positions and activities, is approximately $500,000.

Which costs, savings, and functions are one-time? Which are ongoing? What are the budget impacts on future biennia?
All cost reductions are ongoing.

Objects of Expenditure Detail

	FY2016	FY2017	Total
A – Salary & Wages	($9,468,000)	($9,410,200)	($18,878,200)
B – Benefits	($3,369,000)	($3,347,800)	($6,716,800)
Total	**($12,837,000)**	**($12,758,000)**	**($25,595,000)**

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: N0 – Tax & Licensing System Replacement

Budget Period: **2015-17**
Budget Level: **PL – Performance Level**

Recommendation Summary Text:

Each year the Department of Revenue (DOR) collects tax payments of more than $19 billion, processes more than 560,000 business license applications and renewals, and conducts millions of online transactions. The Department depends on legacy systems for its mission critical core tax and business licensing processes. These systems are the backbone of daily operations but are out of date, not supported by new software, and expensive to operate. It is becoming increasingly difficult to find job candidates that are interested or trained in the programming languages that support these legacy systems.

Annual legislative changes can take hundreds of hours to implement due to outdated system architecture and technology. The current technology limits the services that can be offered to taxpayers, and the ability to implement more efficient business processes for the DOR's operating divisions. As the systems continue to age and become increasingly complex due to annual legislative changes, the risk of a system failure increases. Replacing these systems and migrating to modern technologies will reduce operational risks, increase operating efficiencies and increase available features for customers and citizens.

In 2013 DOR completed a study which produced a Roadmap for a six year phased approach to replacing these systems with Commercial off-the-Shelf (COTS) products. The legislature funded the initial phase of this project in the 2013-15 budget. The initial RFP was cancelled as only one bid was received. It is in the best interest of the state to have a competitive procurement process for an acquisition this large. The revised RFP will be published on August 25, 2014. The procurement phase will conclude in early May 2015.

Fiscal Detail

The overall cost of the Tax and Licensing Systems Replacement project is to be determined. The Department of Revenue is in the procurement process for the new system. Proposals from vendors are due in October 2014. The department anticipates that a budget request can be submitted to OFM by November 15, 2014.

Operating Expenditures	**FY2016**	**FY2017**	**Total**
001-1 General Fund – Basic Account – State	TBD	TBD	TBD
03N-1 Business Licensing Service - State	TBD	TBD	TBD
Total Cost	**TBD**	**TBD**	**TBD**
Staffing			
FTEs	TBD	TBD	TBD

Agency: 140 Department of Revenue

Decision Package Code/Title: N0 – Tax & Licensing System Replacement

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Package Description:

As Washington State's principal tax collection agency, DOR:

- Administers over 60 different taxes;
- Collects more that 90 percent of the state GF tax revenues;
- Collects all local sales tax revenues;
- Processes over $19 billion in revenues annually;
- Distributes over $3 million to local governments annually; and
- Processes 2.1 million returns a year from nearly 525,000 businesses.

As Washington State's principal business licensing agency; DOR:

- Processes over 560,000 business license applications and renewals annually;
- Administers over 200 state and local licenses, registrations and endorsements for 10 state agencies and 58 cities; and
- Continues to expand as additional state licenses and cities are added.

The Department depends on legacy systems to support its mission critical tax administration and business licensing services. Over time, these systems have become more programmatically complex. The systems lack flexibility and scalability and are difficult to maintain and enhance. Retaining and recruiting developers with the legacy programming skills is a challenge. The user interface and workflows have become cumbersome and time-consuming for system users.

The core tax legacy systems are COBOL-based and run on an HP Non-Stop mainframe hosted by the Department. Business licensing legacy systems are Natural-based and run on an IBM mainframe hosted by Consolidated Technology Services. These systems were developed in-house and were originally placed into production over 20 years ago. These systems have been and continue to be modified and extended to conform to changing business requirements and legislative mandates.

To support the need for Washington businesses to interact with DOR electronically, the Department maintains an online web presence that includes:

- Taxpayer information and assistance;
- Electronic tax filing and payments;
- Online business licensing and renewals; and
- Secured messaging to communicate with businesses on matters like credits and balance dues.

To enable these online services, DOR implemented interfaces with the legacy tax and licensing systems hosted on the mainframes. This requires more staff time to develop, troubleshoot, and support the Department's online services due to the age and disparity of the technologies that are in place on the back-end. The reliability and performance of these interfaces is not optimal. Additionally, the limitations in the technology and design of the systems has created complexities and constrained the Department's ability to offer enhanced online services.

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The Department is currently spending a significant amount of staff time to maintain and operate the current suite of legacy systems. As a result, the Department is not able to invest the necessary resources into improving, expanding or replacing these systems. The maintenance and support requirements for these legacy systems will continue to increase as they get older.

In addition, retention and recruitment of staff with the experience and skills required to maintain the Department's legacy systems has been and continues to be a challenge. Many of the current staff skilled in the legacy HP Nonstop, IBM, COBOL, and Natural/ADABAS technologies are reaching retirement age. As they retire or leave to pursue career opportunities outside the Department, DOR must reassign staff from existing teams or recruit and hire new staff. The challenge is to find staff with the skills, abilities, and knowledge of the legacy programming languages. This has become increasingly problematic for the Department as colleges and universities have significantly curtailed and, in many cases, stopped offering COBOL and Natural programming courses.

The architecture and user interface of the legacy systems has resulted in inefficiencies. The user interface and workflows have become cumbersome and time-consuming to use. System screens are character-based with little automated, guided workflow built in. The legacy systems do not take advantage of the time savings and usability improvements of a graphical user interface like dropdowns and buttons instead of function keys. To complete a business process, staff must jump from screen to screen with function-keys. Staff must often use several function keys to process and commit a transaction.

After cancellation of the initial RFP, which was returned unopened, DOR reached out to the vendor community to solicit feedback. As a result of the feedback, and department considerations, a new approach to the procurement was defined.

The second Request for Proposal includes the following key changes:

- System Integrator as Prime Bidder
- Tax COTS solution
- Licensing COTS solution
- Phased implementation approach to align with the State's funding cycle
- Bidder's proposed implementation approach and high-level timeline, rather than basing their proposal on approach defined in the Roadmap

As a result no detail on future project phases will be available until October 2014 when RFP proposals are due.

The TLSR has engaged external Quality Assurance services. The DOR project team has been resourced with fully allocated DOR staff and consultants with experience completing projects of similar size and scope,

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The project is also preparing for the implementation work to begin by completing the following work products:

- Definition of detailed functional requirements
- Review of legacy code to extract business rules
- Documentation of current business processes
- Initial data analysis and cleansing activities

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

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?
The plan is to replace legacy systems incrementally, over time. Replacement systems will be operating under modern technologies and architecture and will be more flexible, scalable, extensible, maintainable and easier to use. Current development and infrastructure staff will be trained and ready to support systems following replacement.

By replacing the legacy tax and business licensing systems, DOR will achieve the following:

- The Department will address one of its highest risks identified during a recent enterprise risk management process completed by agency leadership.
- The number of disparate computing environments will be reduced.
- The new systems will be easier to maintain and will be more flexible, expandable and scalable.
- System integration capabilities will be improved and, as a result, the Department will be able to more easily enhance its online services.
- Existing staff will be trained and ready to support the systems following replacement and migration to the modern technologies. And, in the future, the recruitment of new staff should be easier given the access to the larger workforce trained on new technologies, as well as software products that only work with more modern systems.
- Improving the Department's position for disaster recovery (no mainframe to replace).

Performance Measure Detail:

Activity:

	Incremental Changes	
	FY2016	**FY2017**

No measures submitted for this package.

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Decision Package Code/Title: N0 – Tax & Licensing System Replacement

Is this decision package essential to implement a strategy identified in the agency's strategic plan?
Yes, the Department's July 2014 – June 2019 Strategic Business Plan includes the strategy for addressing the most significant challenge as "Tax and Licensing Systems Replacement Project".

Does this decision package provide essential support to one of the Governor's Results Washington priorities?
This package supports the Results Washington mission to "foster the spirit of continuous improvement" as well as the goal of "Efficient, Effective, and Accountable Government".

What other important connections or impacts are related to this proposal?
DOR will ensure there is minimal disruption of service to taxpayers and local governments during the Tax Licensing System Replacement (TLSR) Project. As a result of the TSLR project, the Department will be able to more easily enhance current services or implement new services. This will make interacting with the state, applying for or renewing licenses, and filing and paying taxes less complicated.

What alternatives were explored by agency and why was this alternative chosen?
The Department explored the idea of an incremental migration of systems using existing staff resources. However, this approach is both costly and unrealistic given the complexity of this process, and staff resources. Also, using COTS products will bring significant benefits in terms of acquiring state of the art technology that will include periodic upgrades as part of the contract.

Alternatively, if the systems were left on their current platforms, the Department's ability to maintain the system into the future will become increasingly more problematic, and the ability to collect and distribute revenues and license businesses would be at risk. Staffing issues would become even more challenging.

The only viable alternative is to obtain additional funds and staff as detailed in this decision package to complete the legacy systems replacement.

What are the consequences of not adopting this package?
The issues, risks, and challenges associated with the TLSR will be significant.

- DOR would have to cancel the contract and COTS acquisitions resulting from the procurement.
- Systems will continue to be difficult to maintain, improve and expand.
- The Department will struggle to implement system changes to support new legislation.
- Usability issues and processing inefficiencies will continue.
- The underlying technology that the legacy systems operate on will continue to age and will become totally obsolete and no longer supported by vendors.
- The Department will be hampered in its efforts to improve usability and expand its online services.
- Staff with the technical skills required to maintain these systems will continue to retire and/or leave and the Department will struggle to find replacements with the needed stills. In order to

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address the staffing challenges, the agency may need to rely more heavily on contractor services which would increase costs for ongoing operations and support.

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 to implement the change?
Unknown until the procurement of the COTS is complete.

Expenditure and revenue calculations and assumptions:
The overall cost of the Tax and Licensing Systems Replacement project is to be determined. The Department of Revenue is in the procurement process for the new system. Proposals from vendors are due in October 2014. The department anticipates that a budget request can be submitted to OFM by November 15, 2014.

Work on the Business Licensing Service (BLS) portion of this project may need to be phased to ensure adequate funds are available or, if necessary, other funding options will be reviewed.

Which costs, savings, and functions are one-time? Which are ongoing? What are the budget impacts on future biennia?
This project is estimated to take six years. Costs are on-going through the end of the project.

Objects of Expenditure Detail -

COSTS IN THIS SECTION ARE TO BE DETERMINED

	FY2016	FY2017	Total
A – Salary & Wages			
B - Benefits			
C – Consulting Services			
E – Goods and Services			
G – Travel			
J - Equipment			
Total			

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: N2 – Buy Back Tax Collection Activities

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Budget Period: 2015-17
Budget Level: PL – Performance Level

Recommendation Summary Text:

The Department included a reduction of 213.4 FTEs in tax collection activities as part of the 15 percent reduction proposals. This package requests these services be "bought back" and continue without reduction. The Department's budget is over 75 percent salary and benefits, with approximately 85 percent of the Department's staff in tax collection activities, revenue-generating positions. Without funding for these tax collection activities in the Audit, Compliance and Taxpayer Account Administration divisions, the Department's ability to collect revenue will be reduced by over $100 million dollars each year.

Fiscal Detail

Operating Expenditures	**FY2016**	**FY2017**	**Total**
001-1 General Fund – Basic Account – State	$12,837,000	$12,758,000	$25,595,000
Total Cost	**$12,837,000**	**$12,758,000**	**$25,595,000**
Staffing			
FTEs	214.1	212.7	213.4
Revenue			
001-0101 General Fund – Retail Sales Tax	$111,119,000	$110,412,000	$221,531,000

Package Description:

Funding this package will "buy back" tax collection activities offered as a part of the 15 percent reduction proposal. This will allow services to continue at the current level without interruption. Without funding, the following services will be impacted:

The reduction in enforcement staff would make it necessary to refocus the remaining staff efforts on only the highest priorities and most complex account situations. The Department would not actively pursue or collect taxpayer accounts that have receivables totaling less than $5,000 and liens on taxpayer accounts with receivables of less than $10,000 would not be issued. DOR would cease investigating vehicle license fraud, airplane excise tax, watercraft excise tax or use tax cases. The agency's ability to generate billings and perform recovery work will be significantly reduced. There will also be delays in reviewing tax returns, and amended information and correspondence from taxpayers which will impact agency collection and audit activities. There will also be a significant delay completing current audits in progress; and scheduling new audits will also be delayed. These delays will result in lost revenues due to years otherwise being available for audit going past statute. Tax discovery efforts would be eliminated.

The impacts of these efforts include:

- A threshold would put the responsibility of when, or if, to pay solely on the taxpayer.
- Delinquent account receivables will age longer and increase without active collection activity.
- Largest dollar recovery comes from out of state businesses. Unable to complete all current out of state audits in progress, thereby reducing tax revenue assessments.
- Inability to adequately assign audits on all businesses of a high priority. As a result the state's interest in unpaid tax revenues will be lost to statute.
- Sales tax collected by businesses, from citizens, may go unremitted if the amounts are below the thresholds.
- Decreasing the enforcement staff will reduce the amounts assessed and collected to local governments and state dedicated funds.
- Non-compliance and the underground economy will increase.
- Voluntary compliance and educational opportunities would decrease.
- The state's interest will not be secured by filing a lien and advanced collection activities would not take place.
- The longer a debt is outstanding, the harder it is to collect.
- If the debt is not pursued and is allowed to grow some businesses tax debt would grow to the point they may be unable to pay the debt and remain a viable business.
- Support to local jurisdictions in the collection and distribution of local taxes will be impacted. The ability to verify distributions, implement new taxes and rate changes, and update boundary information will be diminished.

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

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

Reinstating funding offered as part of the 15 percent reduction proposal will allow the Department to maintain collections at the current level.

Performance Measure Detail:

Activity:

	Incremental Changes	
	FY2016	**FY2017**

No change to performance measures for this package.

Agency: 140 Department of Revenue

Decision Package Code/Title: N2 – Buy Back Tax Collection Activities

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Is this decision package essential to implement a strategy identified in the agency's strategic plan?
Adequate staffing is essential to implement strategies in the strategic plan. Reduced staffing will cause workloads to be redistributed and reprioritized. Staff in revenue-generating activities impact the Department's goals "Promote correct and timely reporting and payment of taxes" and "Deliver customer-focused service".

Does this decision package provide essential support to one or more of the Governor's Results Washington priorities?
Revenue collections are essential to fund all of the Governor's priorities.

What other important connections or impacts are related to this proposal?
N/A

What alternatives were explored by agency and why was this alternative chosen?
Without adequate funding for staff in revenue-generating positions, enforcement will not occur and voluntary compliance will decrease.

What are the consequences of adopting or not adopting this package?
Enforcement efforts, revenue generation and customer service will be negatively impacted without adequate funding for staff. Voluntary compliance will diminish over time. If FTEs are reduced and then later reinstated, they could take years to reestablish and train to current standards.

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 to implement the change?
N/A

Expenditure and revenue calculations and assumptions:
Salary and benefits were calculated for 214.1 FTEs at the following classifications for fiscal year 2016:

- 40.5 Revenue Auditor 1s
- 64.2 Revenue Auditor 2s
- 3.0 WMS 2 - Audit
- 46.4 Revenue Agent 1s
- 30.0 Revenue Agent 2s
- 2.0 WMS 2 - Compliance
- 7.0 Excise Tax Examiner 1s
- 19.0 Excise Tax Examiner 2s
- 2.0 WMS2 – Taxpayer Account Administration

Salary and benefits were calculated for 212.7 FTEs similar to above for fiscal year 2017.

Agency: **140 Department of Revenue**

Decision Package Code/Title: N2 – Buy Back Tax Collection Activities

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Revenue is calculated by determining the average amount of revenue generated by a particular position type/activity and multiplying that by the number of FTEs of the type. Average annual collections per FTE for all positions and activities is approximately $500,000.

Which costs, savings, and functions are one-time? Which are ongoing? What are the budget impacts on future biennia?
All costs are ongoing.

Objects of Expenditure Detail

	FY2016	FY2017	Total
A – Salary & Wages	$9,468,000	$9,410,200	$18,878,200
B – Benefits	$3,369,000	$3,347,800	$6,716,800
Total	**$12,837,000**	**$12,758,000**	**$25,595,000**

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: N3 – Enhance Field Office Security

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Budget Period: 2015-17
Budget Level: PL – Performance Level

Recommendation Summary Text:

The Department of Revenue maintains 12 field offices throughout the state to provide customer assistance and collect tax payments in over-the-counter transactions. With the recent introduction of marijuana taxes, cash transactions in DOR field offices have increased and are expected to continue to grow. Given the agency's increased vulnerability to loss and harm, and its primary responsibility for safeguarding public assets, additional security measures are necessary. This package requests funding for the cost of on-going office security improvements, made during FY15, such as equipment maintenance, armored car services, panic button monitoring, security guards around tax due dates in all offices with large cash collections, a Security Officer to oversee physical security improvements and an IT Security staff position to provide information services support for security improvements throughout the agency.

Fiscal Detail

Operating Expenditures	**FY2016**	**FY2017**	**Total**
001-1 General Fund – Basic Account - State	$667,000	$654,000	$1,321,000
Total Cost	**$667,000**	**$654,000**	**$1,321,000**
Staffing			
FTEs	2.0	2.0	2.0

Package Description:

Prior to the passing of initiative 502 (I502), the Department of Revenue was strategically moving to reduce cash handling in order to improve internal controls and safety, promote efficiencies, and better protect employees. Implementation of on-line payment options and the legislature's actions to make E-file mandatory for most taxpayers increased the number of taxpayers who also paid electronically (E-pay).

Because the sale of recreational and medical marijuana is now legal in Washington state, which is in conflict with federal narcotics laws, some financial institutions, insured by the federal government, are not willing to provide bank accounts to these businesses. Because of this, it is expected that many marijuana businesses will be cash based, including payment of their sales, and business & occupation taxes to the Department of Revenue. These cash tax payments will be made at one of the Department's 12 field offices, thus significantly increasing risks of theft, armed robbery or similar disruptions which put our customers and employees at great risk.

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: N3 – Enhance Field Office Security

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In order to improve office security for staff and customers as well as adequately secure the cash, DOR is requesting funding for on-going expenses associated with security improvements implemented during FY15. These security improvements include:

- The Department has contracted for annual equipment maintenance of the security equipment installed in all 12 field offices.
- Robbery buttons and intrusion alarms are monitored 24 hours a day, seven days a week by a private company.
- Armored cars pick up cash at least once daily, at most field offices, to eliminate the need for staff to carry large sums of cash to the bank for deposit.
- Armed security guards are utilized during peak periods on an as needed basis.

In addition, the Department has hired 2.0 positions to manage and provide oversight of security throughout the Department. Without these positions, the Department does not have the expertise to support the physical security improvements made at the Department's field offices.

- Security Manager responsibilities consist of:
  - Oversight of agency physical security infrastructure
    - Surveillance cameras and recording devices
    - Key card and brass key access systems
    - Panic buttons and related monitoring
    - Intrusion alarms and related monitoring
    - Compliance with confidential tax information (CTI) and federal tax information (FTI) requirements as related to physical security
    - Oversight of agency security officers

- Information Services Technology Security responsibilities include:
  - Setup and ongoing support of physical security equipment. This includes:
    - Upgrading software with the latest versions and security upgrades
    - Maintenance and restoration of service for security software and equipment
  - Providing support for the Security Manager as administrator of security equipment and software
  - Retaining and limiting access to stored video surveillance images, sizing of storage, bandwidth and fail safe over the net

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

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: N3 – Enhance Field Office Security

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Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?
These ongoing costs pay for services that will provide safety for our employees and taxpayers related to the risk from handling the expected increase in cash from medicinal and recreational marijuana businesses.

Performance Measure Detail:

Activity:

	Incremental Changes	
	FY2016	**FY2017**

No measures submitted with this package.

Is this decision package essential to implement a strategy identified in the agency's strategic plan?
Funding this decision package supports the agency priorities of "Customer-focused services" and "Efficient and effective program administration and revenue collection" by assuring the additional cash we are receiving in field offices from medicinal and recreational marijuana businesses is collected in a safe and secure environment.

Does this decision package provide essential support to one of the Governor's Results Washington priorities?
This package supports the Governor's Results Washington Goal 5, "Efficient, effective and accountable government" by assuring the additional cash we expect to receive in field offices from medicinal and recreational marijuana businesses is collected in a safe and secure environment.

What other important connections or impacts are related to this proposal?
Our customers will notice the security enhancements to our offices which will include video surveillance and armed guards around tax due dates. There will be notices for our customers of the video surveillance, and a monitor will display the view of one of the lobby cameras as they enter the lobby.

What alternatives were explored by agency and why was this alternative chosen?
The Department worked with a security consultant, our Office Services Manager, Compliance Management, the Department Risk Manager along with the company which provides access control for most of our offices (Absco) to determine the security enhancements needed.

What are the consequences of adopting this package?
There are ongoing costs for the security enhancements (armed guards, armored car transport, intrusion alarm and panic button monitoring). These enhancements will help to assure employee and customer safety in our 12 field offices.

Agency: 140 Department of Revenue

Decision Package Code/Title: N3 – Enhance Field Office Security

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 to implement the change?
N/A

Expenditure and revenue calculations and assumptions:
Estimates for ongoing services were provided by the companies that will be providing the services. Salaries and benefits were calculated for 2.0 FTEs (WMS2 and Information Technology Specialist 5) using the OFM salary projection system.

Which costs, savings, and functions are one-time? Which are ongoing? What are the budget impacts on future biennia?
One-time implementation expenses occurred in FY15. All of the costs in this request are ongoing.

Objects of Expenditure Detail

	FY2016	FY2017	Total
A – Salaries and Wages	$155,000	$155,000	$310,000
B – Benefits	$44,000	$44,000	$88,000
E – Goods and Services	$455,000	$452,000	$907,000
J – Equipment	$13,000	$3,000	$16,000
Total	**$667,000**	**$654,000**	**$1,321,000**

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: N4– Buy Back Tax Administration Activities

Budget Period: **2015-17**
Budget Level: **PL – Performance Level**

Recommendation Summary Text:

The Department offered to reduce 5.6 FTEs in administrative activities as part of the 15 percent reduction proposals. This package requests these services be "bought back" and continue without reduction. The DOR budget is over 75 percent salary and benefits, with only about 15 percent of the Department's staff in tax administration, non-revenue generating positions. Without funding to cover these administrative activities, the Department's ability to provide timely policies and procedures, human resource services, internal audits and taxpayer assistance will be impacted.

Fiscal Detail

Operating Expenditures	**FY2016**	**FY2017**	**Total**
001-1 General Fund – Basic Account – State	$331,000	$331,000	$662,000
Total Cost	**$331,000**	**$331,000**	**$662,000**
Staffing			
FTEs	5.6	5.6	5.6

Package Description:

Funding this package will "buy back" tax administration activities offered as a part of the 15 percent reduction proposal. This will allow services to continue at the current level without interruption. Without funding, the following services will be impacted:

- <u>1.0 FTE - taxpayer assistance and education</u>
  Taxpayer assistance and education is vital to promoting voluntary reporting and payment of taxes. Decreased staffing for taxpayer assistance will negatively impact voluntary compliance as well as the response time for tax rulings, reduce the number of speaking engagements and online workshops, and could increase reporting errors causing taxpayers additional penalty and interest charges.

- <u>0.3 FTE - administrative support for the Log Export program</u>
  Currently, the Department provides a compliance function of monitoring the export restrictions imposed on the export of timber harvested from public land. The compliance function is comprised of tracking and notifying purchasers of public timber of the log export restrictions and periodic field inspection of logs from public sales (by DOR foresters). The administrative function will be reduced to the minimum necessary for the agency to comply with its legal responsibility.

Agency: 140 Department of Revenue

Decision Package Code/Title: N4– Buy Back Tax Administration Activities

- 1.0 FTE - administrative support to the Department's Executive Team
  Reduced support for the agency's customer service strategic priorities (training, surveying stakeholders, and monitoring performance measures for the agency) and Results Washington. Reducing staff may impact the Department's ability to respond timely to requests from local government for assistance with tax administration.

- 1.0 FTE - administrative support for development of Department policies and procedures
  Eliminate Communications Consultant 2 (CC2) position. The primary duty of this position is to maintain and coordinate updates to the Department's administrative policies and procedures which provide the basic organizational framework to assist the Department's operating and policy divisions in meeting their objectives. Without this position, this work will be shared between several staff with many other priories. Policies and procedures will not likely be kept current, which could put the Department at risk.

- 0.3 FTE - support for overtime in financial areas during peak times
  Reducing .3 of an FTE in Business and Financial Services will impact the division's ability to allow overtime during peak times. The two most significant peak periods are: late January/early February when monthly, quarterly and annual returns are all due at the same time; and at the close of each fiscal year.

- 1.0 FTE - internal auditor
  Reducing staffing levels affect program capacity which impacts audit coverage and scope of work provided to agency executives for policy setting, determining program effectiveness, managing risk, and improving internal controls. Staff reductions also affect the ability of the Internal Audit program to fully conform to the International Standards for the Professional Practice of Internal Auditing and Code of Ethics as required by RCW 43.88.160 and SAAM Chapter 20.

- 1.0 FTE – support for talent outreach in human resources
  Reduced support for talent outreach will impact the Department's recruitment goals. Decreased support will be available for background checks, responding to job seeker questions, maintaining the transfer register in accordance with WAC and RCW, processing leave without pay reports, administering tests, and processing closing requisitions in NEOGov.

For questions please contact: Budget Manager, Sherry Cave (360) 704-5771

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?
Reinstating funding offered as part of the 15 percent reduction proposal will allow the Department to maintain current service levels.

Agency: 140 Department of Revenue

Decision Package Code/Title: N4– Buy Back Tax Administration Activities

Performance Measure Detail:

Activity:

	Incremental Changes	
	FY2016	**FY2017**

No performance measures submitted with this package.

Is this decision package essential to implement a strategy identified in the agency's strategic plan?
Administrative staff affect service levels that support the Department's priority of "Delivering customer-focused service."

Does this decision package provide essential support to one or more of the Governor's Results Washington priorities?
Executive office staff provide support to the Director in her role as the lead for Goal 2: Prosperous Economy.

What other important connections or impacts are related to this proposal?
N/A

What alternatives were explored by agency and why was this alternative chosen?
N/A

What are the consequences of adopting or not adopting this package?
Maintaining existing administrative staff will allow the Department to provide support services at the current level.

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 to implement the change?
N/A

Expenditure and revenue calculations and assumptions:
Buy back 5.6 total FTEs – Tax Information Specialist 1 (1.0), Excise Tax Examiner 1 (.3), Management Analyst 4 (1.0), WMS2 (1.0), Communications Consultant 2 (1.0), Fiscal Tech 2 (.3), and Human Resource Consultant 2 (1.0). Salaries and benefits calculated using the Salary Projection System.

Which costs, savings, and functions are one-time? Which are ongoing? What are the budget impacts on future biennia?
All costs are ongoing.

Agency: **140 Department of Revenue**

Decision Package Code/Title: N4– Buy Back Tax Administration Activities

Objects of Expenditure Detail

	FY2016	FY2017	Total
A – Salary & Wages	$255,000	$255,000	$510,000
B – Benefits	$76,000	$76,000	$152,000
Total	**$331,000**	**$331,000**	**$662,000**

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: N5 – Buy Back Policy Services

Budget Period: **2015-17**
Budget Level: **PL – Performance Level**

Recommendation Summary Text:

The Department offered to reduce 5.0 FTEs in Appeals, Research, Legislation & Policy, and Interpretations & Technical Advice divisions as a part of the 15 percent reduction proposals. This package requests these services be "bought back" and continue without a reduction. Without funding, it will be necessary to reduce services provided internally and externally by eliminating some publications, reducing the Department's ability to draft and update rules and interpretive statements, reducing informal appeal processes and decreasing support to stakeholders, internal operations divisions, Office of Financial Management and the legislature.

Fiscal Detail

Operating Expenditures	**FY2016**	**FY2017**	**Total**
001-1 General Fund – Basic Account – State	$371,000	$371,000	$742,000
Total Cost	**$371,000**	**$371,000**	**$742,000**
Staffing			
FTEs	5.0	5.0	5.0

Package Description:

This package requests the 5.0 FTEs offered for reduction as a part of the 15 percent reduction proposal be "bought back" and services continue at the current level without interruption. Without the current level of funding, the following services will be impacted:

Decreased Services to the Legislature:

- Limited ability of staff in the Department to address all tax legislation as introduced by the Legislature. Between 600 and 900 bills are introduced annually and currently we analyze 100 percent of the bills introduced.
- Policy staff within the Department are statutorily required to provide legislative and fiscal analysis to the Legislature and this reduction would impact that requirement. The risk of this loss can result in legislation that is difficult to administer, lack of clear understanding of the revenue and expenditure impacts, or may contain unintended tax consequences that can result in loss of tax revenue. It requires the Department to prioritize legislation for review based on a cursory review, which may not detect the full impact of the legislation and may not result in fiscal notes submitted if the tax consequences are not clearly understood.
- The performance expectation of delivering completed fiscal notes to legislative staff within four hours of a hearing will decrease from 95 percent to 90 percent.

Agency: **140 Department of Revenue**

Decision Package Code/Title: N5 – Buy Back Policy Services

- This level of reduction would limit the ability of staff to respond to data requests, especially during the legislative session.
- This level of reduction would limit the ability of the Department to respond to constituent issues related to specific appeals.

Decreased services to other state agencies:

- Fiscal estimates and data requests from other state agencies will be completed *only* if resources are available.
- The Department will need to reduce the resources devoted to insuring the integrity of its economic data. This could negatively impact the accuracy of the Department's fiscal analysis of proposed legislation and the revenue forecast prepared by the Economic & Revenue Forecast Council (ERFC).
- Bill review and analysis for Office of Financial Management (OFM) and other state agencies may be impacted.
- Reduced education of other agencies on their tax liability.

Decreased services to Local Governments:

- Local Tax Distributions queries will be reduced from a monthly to a quarterly basis.
- Fiscal estimates and data requests from local jurisdictions will be completed *only* if resources are available.

Decreased services to the public:

- The Department's ability to provide public guidance (i.e., rules and interpretive statements) will be negatively impacted. Future interpretative and policy work would focus on providing internal technical advice, and adopting expedited rules and rules whose current language conflicts with the previous year's legislation.
- The reduction would decrease the Department's ability to issue precedential decisions (WTD's) which can be relied upon by all taxpayers for guidance.
- Other stakeholder-heavy efforts would be limited. This change will create more outdated and incomplete public guidance (both rules and interpretive statements), which can mislead taxpayers, cause internal confusion, and reduce the state's ability to provide fair and consistent tax policy administration. As a result, the state's litigation risk is increased and ability to collect revenues through voluntary compliance is reduced.
- Outside of the legislative session the reduction would limit the Department's ability to develop new legislative strategies in support of the Governor, OFM and Legislature. This loss reduces the value of the Department's role in shaping sound tax policy per the agencies' mission statement. The reduction would require the Department to limit external stakeholder work and requests for legislative analysis by non-critical stakeholders, such as the industry groups, lobbyists and other agencies. Also, a reduction could reduce the ability to support cross-divisional efforts to improve policy consistency and transparency as more senior staff used in these functions may need to support mainstream legislative or interpretive functions rather than provide external support to other divisions.

- Data requests from the general public will be completed *only* if resources are available.
- Data made available on the agency's website might be limited or require a longer timeline to publish.
- Reduction will result in decreased level of service to taxpayers by eliminating some appeals procedures such as reconsideration and letter ruling review.

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

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?
Reinstating funding offered as part of the 15 percent reduction proposal will allow the Department to maintain current service levels.

Performance Measure Detail:

Activity:

	Incremental Changes	
	FY2016	**FY2017**

No measures submitted with this package.

Is this decision package essential to implement a strategy identified in the agency's strategic plan?
Maintaining current levels of funding will also maintain service levels that impact the Department's goals "Deliver custom-focused service" or "Promote fairness and consistency in the development and application of tax law".

Does this decision package provide essential support to one or more of the Governor's Results Washington priorities?
Policy staff provide support to the Director in her role as the Lead for Goal 2: Prosperous Economy.

What other important connections or impacts are related to this proposal?
N/A

What alternatives were explored by agency and why was this alternative chosen?
This is the only alternative to maintain service at its current level.

What are the consequences of adopting or not adopting this package?
Reducing resources in the policy divisions will reduce services to internal and external customers and increase the appeal rate to the Board of Tax Appeals (BTA) and the courts.

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

Agency: 140 Department of Revenue

Decision Package Code/Title: N5 – Buy Back Policy Services

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

Expenditure and revenue calculations and assumptions:
A buyback of 4.0 FTEs in the Tax Policy Specialist 3 classification and 1 FTE in the Tax Policy Specialist 2 classification. Salary and benefits calculated using OFM's Salary Projection System.

Which costs, savings, and functions are one-time? Which are ongoing? What are the budget impacts on future biennia?
All costs are assumed to be ongoing.

Objects of Expenditure Detail

	FY2016	FY2017	Total
A – Salary & Wages	$287,600	$287,600	$575,200
B – Benefits	$83,400	$83,400	$166,800
Total	**$371,000**	**$371,000**	**$742,000**

Agency: 140 Department of Revenue

Decision Package Code/Title: N6 – Buy Back Property Tax Programs

Budget Period: **2015-17**
Budget Level: **PL – Performance Level**

Recommendation Summary Text:

The Department offered to reduce 4.0 FTEs in the Property Tax division and suspend the property tax grants and deferral program as a part of the 15 percent reduction proposals. This package requests these services and program be "bought back" and continue without interruption.

Without funding it will be necessary to reduce the amount of guidance provided to local officials in the administration of the property tax system. County officials need direction, guidance, and training regarding proper valuation techniques and tax administration. Without the appropriate knowledge and information, property valuations may become less accurate and property owners may not receive consistent treatment. Incorrect property valuations could result in a shift of property tax to other property owners or a loss in revenue for taxing jurisdictions.

Suspension of the grants and deferral program would likely result in the inability of some senior citizens, disabled persons, and limited income individuals to pay their property taxes. Suspension of this program would result in increased costs for these property owners as penalties and interest on unpaid taxes accrue, and delays for the state and local governments in the collection of these property taxes.

Fiscal Detail

Operating Expenditures	FY2016	FY2017	Total
001-1 General Fund – Basic Account – State	$2,248,000	$2,248,000	$4,496,000
Total Cost	**$2,248,000**	**$2,248,000**	**$4,496,000**
Staffing			
FTEs	4.0	4.0	4.0

Package Description:

The Department is statutorily obligated to provide direction and oversight to local officials in the administration of the property tax system in order to promote equity and uniformity in assessment and taxation. To meet this obligation, the Department provides training for local officials and their staff, issues guidance, reviews their work and work processes, publishes valuation guidelines, and provides other such assistance as may be necessary.

This package requests the 4.0 FTEs and suspension of the deferral program offered for reduction as a part of the 15 percent reduction proposal be "bought back" and services continue at the current level without interruption. Without the current level of funding, the following services will be impacted:

- Reduced guidance for county assessors regarding valuation of property,
- Reduced training of county staff in the administration of the property tax system, and
- Suspension of the property tax grant and deferral programs.

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Decision Package Code/Title: N6 – Buy Back Property Tax Programs

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Cutting staff that provide these functions would reduce the Department's ability to provide the oversight necessary to ensure equity and uniformity in the property tax system. Training currently provided by the Department that is specific to Washington's property tax system is not available through other avenues. Therefore, county officials and their staff may not have appropriate training to perform their job functions. Additionally, reduced guidance to county officials may lead to inaccurate property valuations and inconsistent treatment of property owners. Incorrect property valuations could result in a shift of property tax to other property owners or a loss in revenue for local taxing jurisdictions.

The Department is also responsible to pay taxes on behalf of property owners who defer their property taxes under the Senior Citizen and Disabled Persons Deferral Program and the Limited Income Deferral Program, and provide grant funds to property owners who qualify for the Property Tax Grant Program for Widows and Widowers of Disabled Veterans. Payment is made from an annual appropriation of $2,000,000 for these programs.

Providing for the "buy back" of the grant and deferral programs would allow these programs for low-income senior citizens, disabled persons, and widows and widowers of disabled veterans, as well as homeowners with income of less than $57,000 per year to continue without interruption. Suspending these programs may result in the inability of some senior citizens, disabled persons, and limited income individuals to pay their property taxes. This would result in increased costs for these property owners as penalties and interest on unpaid taxes accrue, and delays for the state and local governments in the collection of these property taxes.

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

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?
Funding will allow the Department to provide the training, oversight, and guidance necessary to ensure equity and uniformity in the property tax system at the current level. Deferral programs would not be suspended and remain at their current level.

Performance Measure Detail:

Activity:

	Incremental Changes	
	FY2016	**FY2017**

No measures submitted with this package.

Agency: 140 Department of Revenue

Decision Package Code/Title: N6 – Buy Back Property Tax Programs

Is this decision package essential to implement a strategy identified in the agency's strategic plan?
Property tax administration is an on-going program that supports the Department's goals "Deliver customer-focused service", "Simple and efficient collection of taxes and program administration" and "Fair and consistent tax policy administration".

Does this decision package provide essential support to one of the Governor's Results Washington priorities?
Providing property tax program assistance to local governments is essential to "Efficient, effective and accountable government". Property tax deferral programs support "Prosperous economy".

What other important connections or impacts are related to this proposal?
Local elected officials are likely to be opposed to the reduction in guidance provided by the Department. In many instances, county officials rely on the Department to provide direction and interpretation of state law.

Suspension of property tax grant and deferral programs would have the greatest impact on low income senior citizens and disabled persons.

What alternatives were explored by the agency and why was this alternative chosen?
This is the only alternative to maintain service and programs at the current level.

What are the consequences of adopting or not adopting this package?
Suspension of the deferral programs would affect low income senior citizens and disabled persons, widows and widowers of disabled veterans, as well as homeowners with income of less than $57,000 per year. Suspension of these programs may result in the inability of some senior citizens, disabled persons, and limited income individuals to pay their property taxes.

Reduced guidance to county officials may lead to inaccurate property valuations and inconsistent treatment of property owners. Incorrect property valuations could result in a shift of property tax to other property owners or a loss in revenue for local taxing jurisdictions.

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 to implement the change?
N/A

Expenditure and revenue calculations and assumptions:
No revenue is directly associated with this decision package.

Expenditures:

- Salary and benefits were calculated using OFM's salary projection system for 4.0 Property Tax Acquisition Specialist 4's.
    - 1.0 FTE – process new deferral applications.

    - 2.0 FTEs - provide guidance and assistance to county assessors.
    - 1.0 FTE - provides training to county staff.
- If not suspended, $2,000,000 is the current appropriation for the grants and subsidies program.

Which costs, savings, and functions are one-time? Which are ongoing? What are the budget impacts on future biennia?
All costs are ongoing.

Objects of Expenditure Detail

	FY2016	FY2017	Total
A - Salary & Wages	$192,670	$192,670	$385,340
B - Benefits	$55,330	$55,330	$110,660
NZ - Grants and Subsidies	$2,000,000	$2,000,000	$4,000,000
Total	**$2,248,000**	**$2,248,000**	**$4,496,000**

Agency: 140 Department of Revenue

Decision Package Code/Title: N7 – Disaster Recovery

Budget Period: **2015-17**
Budget Level: **PL – Performance Level**

Recommendation Summary Text:

The Department of Revenue (DOR) is the primary tax collection agency in the state; collecting the majority of the state's general fund tax revenues and processing licenses and renewals for businesses in Washington. In Fiscal Year 2014, DOR collected over $19 billion in state and local taxes, distributed over $3 billion to local government, and processed more than 560,000 business license applications and renewals. To perform these functions, DOR hosts online and back-office tax filing and business licensing applications in a Department managed data center.

To ensure that taxpayers and DOR staff have access to critical applications and data and to minimize the impact on state and local revenue collections during an extended outage of the data center, the Department needs to establish a separate disaster recovery site.

Fiscal Detail

Operating Expenditures	FY2016	FY2017	Total
001-1 General Fund – Basic Account – State	$1,138,000	$402,000	$1,540,000
Total Cost	**$1,138,000**	**$402,000**	**$1, 540,000**
Staffing			
FTEs	1.0	1.0	1.0

Package Description:

As Washington State's principal tax collection agency, DOR:

- administers over 60 different taxes;
- collects more than 90 percent of state General Fund tax revenues;
- collects all local sales tax revenues;
- processes over $19 billion in revenues annually;
- distributes $3 billion to local governments annually;
- processes 2.1 million returns annually from nearly 525,000 businesses;
- processes over 560,000 business license applications and renewals each year; and
- administers over 200 state and local licenses, registrations, and endorsements for 10 state agencies and 58 cities.

These functions are primarily achieved through electronic means where taxpayers access online services for tax reporting, payment, and business licensing. To support these critical services, DOR depends on systems hosted in a data center located on the west side of the State. Currently, neither

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Agency: 140 Department of Revenue

Decision Package Code/Title: N7 – Disaster Recovery

Consolidated Technology Services (CTS) nor the DOR have a disaster recovery environment established that it can activate in the event of an extended outage of its production data center. As a result, any extended outage of the data center will greatly impact the state's ability to receive and distribute funds, license businesses, and accomplish its mission and goals.

Funding from this decision package will be used by the Department to work with CTS to establish and maintain a disaster recovery and business resumption site which would include:

- A highly-available and scalable hosted computing environment;
- Application and database servers and Tandem mainframe hardware to host DOR's website and critical applications making them accessible to DOR staff and taxpayers;
- Security services to protect services and data;
- Internet connectivity; and
- Connectivity to the State networks (e.g.: SGN, PGN, MPLS) managed by CTS.

Background

DOR maintains and operates a dedicated data center that hosts its online and back-end tax and business licensing applications. The Department's windows servers and HP Non-Stop mainframe are housed in the data center which is operational 24 hours a day, seven days a week.

The Department currently backs-up its systems and data on a regular basis. Presently, the DOR data is stored in an offsite location. In the event of a sustained outage of the data center, the Department would need to establish a viable location to conduct business, purchase or lease equipment including a new cartridge system in order to restore the data. This can take several weeks or months and would be subject to equipment and alternative data center availability. The DOR finds this approach unacceptable.

The Department recently updated its Continuity of Operations Plan (COOP) and identified requirements to resume essential services and systems in support of its main essential functions within 24 hours. Documented essential functions include:

- Receiving, depositing, and recording revenues,
- Receiving tax return information and posting to taxpayer accounts,
- Distributing local taxes and fees,
- Providing critical tax information and assistance,
- Providing assistance with business registrations and renewals.

To effectively implement this strategy, the Department needs to purchase hardware, software, and services to setup and maintain an alternate disaster recovery computing environment where its critical applications and data could be activated in the event a prolonged emergency outage occurred.

DOR will work closely with CTS to stand-up the alternate disaster recovery computing environment.

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

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Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: N7 – Disaster Recovery

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?
A fully functional disaster recovery computing environment that hosts critical tax processing and business licensing systems will be established. In the event of a disruption of service at the Department's primary data center, this alternate environment would be activated in order to support the DOR's critical services and main essential functions - including providing taxpayers with information, filing of tax returns, payment of taxes, and processes in support of business licensing and renewals. Reducing downtime will reduce the impact to revenue collections.

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 package supports the agency strategy of "Secure Systems Against Threats" from the Department's July 2014 – June 2019 Strategic Business Plan. It also supports the updated Continuity of Operations Plan and enterprise risk management efforts, and the State's IT strategy, "Secure critical state government services and enable them to continue functioning after a disaster" published by the Office of the Chief Information Officer (OCIO).

Does this decision package provide essential support to one of the Governor's Results Washington priorities?
This effort supports both Goal 2 (Prosperous Economy) and Goal 5 (Efficient, Effective and Accountable Government). Revenue collection is key to all services provided by the state and is therefore associated with contributing to statewide result.

What other important connections or impacts are related to this proposal?
In the event of an outage of the DOR systems, the services DOR provides would go off-line. In this scenario taxpayer ability to report and pay taxes would be compromised and fund distributions to state and local governments would be significantly delayed. Businesses would experience delays receiving their licenses or paying their taxes. This package will help mitigate these impacts.

What alternatives were explored by agency, and why was this alternative chosen?
Utilizing existing resources, the Department has put a data recovery system in place. However, without the required hardware to install applications and load the data, as well a designated location to restore services, the Department cannot meet business continuity response requirements identified

in its COOP. DOR's ability to receive and distribute funds, license businesses, and accomplish its mission and goals would be significantly compromised.

Several options have been explored, including: purchasing hardware and software and establishing an alternate environment (server farm) in an existing Department site; leasing space at a Hewlett Packard Service Recovery Site; or hosting applications and data in a private service provider's cloud environment. Each of the alternatives had significant disadvantages relative to a fully functional and supported Disaster Recovery site.

The option to be funded by this decision package was selected because it allows the Department to more seamlessly continue its critical services of supporting tax filings, revenue collections, fund distributions to state and local government, and business licensing and renewal activities in the event of an extended outage of the Department's data center. This option will also leverage common shared services offered by CTS including: the Active Directory Forest; security services (firewalls, Fortress, Secure Access Washington); the State network (MPLS, PGN/SGN); Exchange E-mail and Active Sync services; and the Vaulting (WASERV) service.

What are the consequences of not adopting this package?
If an event occurs that impacts the Department's data center and brings down Revenue's website, Business Licensing System, and the E-File applications, the State's ability to receive and process returns, receive and distribute revenue, and process business licenses and renewals will become unavailable. Voluntarily compliance would be impacted and result in decreasing revenue collections and distribution of funds to local governments.

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, to implement the change?
No existing statutes or rules need to change. The Department or CTS will need to enter into a contract with a third party data center provider in Eastern Washington. The Department would pursue co-locating where CTS and other state agencies already have a presence.

Expenditure and revenue calculations and assumptions:
Expenditure includes:

- Equipment - server and storage hardware; switches, routers, tape system, racks, mainframe, and minor office equipment in support of FTE.
- Goods and services - software licenses, data connectivity, power, equipment maintenance, and minor office expenditures in support of FTE.
- Salary and benefits calculated using DES-Salary Projection System for 1.0 ITS5.
- Incidental travel.

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Decision Package Code/Title: N7 – Disaster Recovery

Which costs and functions are one-time? Which are ongoing? What are the budget impacts on future biennia?
$736,000 in one-time costs for equipment and other startup expenses; $402,000 on-going costs in support of 1.0 FTE, equipment maintenance, annual software licenses, power, and data connections.

Objects of Expenditure Detail

	FY2016	FY2017	Total
A – Salary & Wages	$70,000	$70,000	$140,000
B – Benefits	$21,000	$21,000	$42,000
E – Good and Services	$155,000	$128,000	$283,000
G – Travel	$5,000	$2,000	$7,000
J – Equipment	$887,000	$181,000	$1,068,000
Total	**$1,138,000**	**$402,000**	**$1,540,000**

State of Washington
Decision Package

Agency: **140 Department of Revenue**

Decision Package Code/Title: N8 - E-Commerce Taxation

Budget Period: **2015-17**
Budget Level: **PL – Performance Level**

Recommendation Summary Text:

This decision package would provide funding to implement proposed legislation which is necessary to provide greater tax certainty and fairness for businesses that are engaged in e-commerce activities.

The proposed legislation would: exempt from retail sales or use tax the purchase of digital automated services for business use; clarify that the developers of prewritten computer software are eligible for the sales and use tax exemptions for manufacturing machinery and equipment (M&E); and provide statutory guidelines for when certain on-line intermediaries and out-of-state sellers must collect the state's retail sales or use tax.

Fiscal Detail

Operating Expenditures	**FY2016**	**FY2017**	**Total**
001-1 General Fund – Basic Account - State	$340,000	$204,000	$544,000
Total Cost	**$340,000**	**$204,000**	**$544,000**
Staffing			
FTEs	3.7	2.6	3.2
Revenue			
001-0101 General Fund – Retail Sales Tax	($808,000)	$1,152,000	$344,000
553-0101 Performance Audits – Retail Sales Tax	($1,000)	$3,000	($2,000)
Total Revenue	**($809,000)**	**$1,155,000**	**$346,000**

Package Description:

For e-commerce activities, the state's retail sales and use tax laws:

- Lack equity due to the disparate tax treatment of digital goods and digital automated services purchased for business purposes. The purchase of digital goods for business purposes is exempt from retail sales and use tax while similar purchases of digital automated services are subject to retail sales tax.
- Lack clarity and certainty for developers of prewritten software that no longer provide to the buyer prewritten software contained on a disc or other tangible storage media. Under current law, software developers are eligible for the sales and use tax exemptions for M&E. As developers increasingly deliver prewritten software electronically, the certainty of the sales and use tax exemptions decreases.
- Lack clarity and certainty with respect to the circumstances under which a physical presence is sufficient to require certain online intermediaries and out-of-state sellers to collect Washington's retail sales tax.

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Agency: 140 Department of Revenue

Decision Package Code/Title: N8 - E-Commerce Taxation

This legislative proposal:

- Provides sales and use tax exemptions for digital automated services purchased for business purposes.
- Clarifies that machinery and equipment used directly in the development of electronically-delivered prewritten computer software qualifies for the M&E exemption when all applicable requirements of the exemption are met.
- Provides greater clarity for certain online intermediaries and out-of-state sellers by providing clear statutory guidelines for determining when they are required to collect and remit Washington's retail sales or use tax.

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

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?
This proposal would provide greater tax certainty and fairness for businesses that are engaged in e-commerce activities.

Performance Measure Detail:

Activity:

	Incremental Changes	
	FY2016	**FY2017**

No measures submitted with this package.

Is this decision package essential to implement a strategy identified in the agency's strategic plan?
Providing greater tax certainty and fairness for businesses that are engaged in e-commerce activities supports the Department's strategy of "Advocating for fair and consistent tax policy development and supporting Executive and Legislative Branches".

Does this decision package provide essential support to one of the Governor's Results Washington priorities?
Providing greater tax certainty and fairness for taxpayers supports the Governor's priority of "Efficient, Effective & Accountable Government".

What other important connections or impacts are related to this proposal?
This request will provide greater tax certainty and fairness.

What alternatives were explored by agency, and why was this alternative chosen?
N/A

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Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: N8 - E-Commerce Taxation

What are the consequences of adopting or not adopting this package?
Without change to the legislation, these tax laws will continue to be unclear.

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?
This proposal requires amendments to RCW 82.08.020, and 82.12.040, and the enactment of new sections in chapters 82.08, 82.12, and 82.32. This proposal would require rulemaking actions for WAC 458-20-13601, titled: "Digital products", and WAC 458-20-13601, titled: "Manufacturers and processors for hire – Sales and use tax exemption for machinery and equipment".

Expenditure and revenue calculations and assumptions:
- Salary and benefits were calculated using the Salary Projection System assuming mid-step ranges for a variety of classifications (see fiscal note).
- Goods & Services are normal costs to support FTEs.

Which costs, savings, and functions are one-time? Which are ongoing? What are the budget impacts on future biennia?
Costs extend into the 2017-19 biennium with fewer FTEs, and decrease further over time as work is completed.

Objects of Expenditure Detail

	FY2016	FY2017	Total
A – Salary and Wages	$205,000	$130,000	$335,000
B - Benefits	$62,000	$39,000	$101,000
E – Goods and Services	$48,000	$30,000	$78,000
J - Equipment	$25,000	$5,000	$30,000
Total	**$340,000**	**$204,000**	**$544,000**

State of Washington
Decision Package

Agency: **140 Department of Revenue**

Decision Package Code/Title: N9 - Administering Unclaimed Property

Budget Period: **2015-17**
Budget Level: **PL – Performance Level**

Recommendation Summary Text:

This decision package would provide funding to implement proposed legislation for certain administrative changes to the state's unclaimed property laws, under which the Department administers a program to return unclaimed property to its rightful owners.

The legislation is necessary for increased clarity, fairness, effectiveness and efficiency in the Department's administration of unclaimed property laws.

Fiscal Detail

Operating Expenditures	**FY2016**	**FY2017**	**Total**
001-1 General Fund – Basic Account – State	$78,300	$129,000	$207,300
196-6 Unclaimed Property – Non Appropriated	$0	$91,000	$91,000
Total Cost	**$78,300**	**$220,000**	**$298,300**
Staffing			
FTEs	0.7	2.2	1.5
Revenue			
001-0299 General Fund – Other Licenses	$360,000	$360,000	$720,000
Total Revenue	**$360,000**	**$360,000**	**$720,000**

Package Description:

Administration of current unclaimed property laws frequently lacks clarity, fairness, and effectiveness. For example, the willful failure of a holder of unclaimed property to turn the property over to the Department is subject to a penalty that is equal to 100 percent of the value of the property. The standard to prove willfulness is high and the imposition of a 100 percent penalty is viewed as too harsh. As a result, the penalty is rarely imposed.

This proposal would provide greater administrative effectiveness by:

- restructuring penalty provisions,
- clarifying that gift certificates need not be reported as unclaimed property,
- providing statute of limitations provisions for assessments and refunds,
- creating a right to administrative review for assessments and refunds,
- creating a right to appeal to the Thurston County Superior Court an assessment or denial of refund or the return of property, and
- clarifying the Department's authority to enter into settlement agreements.

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

State of Washington
Decision Package

Agency: 140 Department of Revenue

Decision Package Code/Title: N9 - Administering Unclaimed Property

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Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?
If approved, these administrative changes will clarify unclaimed property laws and make administration easier.

Performance Measure Detail:

Activity:

	Incremental Changes	
	FY2016	**FY2017**

No measures submitted with this package.

Is this decision package essential to implement a strategy identified in the agency's strategic plan?
Providing greater clarity for administrating unclaimed property supports the Department's strategy of "Pursuing Simplicity and Efficiencies while Protecting the Agency and Information".

Does this decision package provide essential support to one of the Governor's Results Washington priorities?
Providing greater clarity of administrating unclaimed property supports the Governor's priority of "Efficient, Effective & Accountable Government".

What other important connections or impacts are related to this proposal?
This request will increase clarity, fairness, and effectiveness for taxpayers and the Department.

What alternatives were explored by agency, and why was this alternative chosen?
N/A

What are the consequences of adopting or not adopting this package?
Without change to the legislation, laws will remain unclear and difficult to administer.

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?
This proposal requires amendments to RCW 63.29.020, 63.29.140, 63.29.170, 63.29.180, 63.29.190, 63.29.290, 63.29.300, and 63.29.340, and the enactment of four new sections in chapter 63.29 RCW. While no rulemaking would be necessary for existing administrative rules, the proposal would require the adoption of three new rules in chapter 458-XX WAC, titled "Unclaimed Property."

Agency: **140 Department of Revenue**

Decision Package Code/Title: N9 - Administering Unclaimed Property

Expenditure and revenue calculations and assumptions:
Revenue is anticipated to increase with new or clarified laws (added graduated structure penalty, added penalty for failure to pay assessments, clarification of settlement authority, etc.). Increase revenue is calculated based on monthly delinquency trends for property holders.

Expenditures for salaries and benefits were calculated assuming; FY16 - Tax Policy Specialist 3 (.5 FTE), Tax Policy Specialist 4 (.2 FTE); FY17 – Tax Policy Specialist 3 (1.0 FTE), Tax Policy Specialist 4 (.2 FTE), Tax Services Representative 2 (1.0 FTE); using the DES Salary Projection System. FY16 includes educational material expenses of $4,000 printing and postage. All other costs are associated with FTE expenses for office space, supplies, training and equipment.

Which costs, savings, and functions are one-time? Which are ongoing? What are the budget impacts on future biennia?
For the 2015-17 biennium, the number of FTEs begins in FY16 at .7 and increases in FY17 to 2.2. In the following biennium, the number of FTEs decreases in FY18 to 1.8 and decreases further in FY19 to 1.5. After the 2017-19 biennium, 1.5 FTEs is the final on-going level. Costs associated with FTEs are on-going in proportion to FTE level.

Objects of Expenditure Detail

	FY2016	FY2017	Total
A – Salaries & Wages	$49,900	$119,100	$169,000
B – Benefits	$15,000	$35,800	$50,800
E – Goods and Services	$8,800	$54,200	$63,000
J - Equipment	$4,600	$10,900	$15,500
Total	**$78,300**	**$220,000**	**$298,300**