

**Agency:** 142 Board of Tax Appeals  
**Decision Package Code/Title:** A4 Database Upgrade  
**Budget Period:** 2015-17  
**Budget Level:** PL - Performance Level

**Recommendation Summary Text:**

The Washington Board of Tax Appeals (BTA) is the sole independent administrative tribunal for Washington's tax system, formed by the legislature in 1967 to hear and decide excise tax and property valuation cases appealed from either the Department of Revenue or a county Board of Equalization. Due to an unprecedented rise in new appeals filed since 2007 and the lack of funding increases over the last decade, there is now an unacceptable backlog of cases and delay in the resolution of tax appeals.

In 2005, the BTA received funds from the DIS Small Agency Initiative to create the foundation of a case management database system for tracking cases through the appellate process. Upgrading related interface software will allow the agency to accept and efficiently integrate electronic submissions into the existing case management system. This will improve the functionality of the case management system and streamline administrative case management efforts. The resulting efficiencies would assist the BTA in reducing the existing backlog.

The package would also provide counties and taxpayers with the benefits of electronic submission (e.g., convenience, cost savings) and contribute to the agency's strategic vision for eventual creation of a paperless system.

In addition, upgrading the interface software would substantially improve public access to BTA published decisions. By statute, BTA case decisions must be made publicly accessible. Currently, those decisions are available through the BTA's website, but the interface software includes only 10 public licenses, so decisions are not always accessible.

**Fiscal Detail**

<b>Operating Expenditures</b>	<b><u>FY 2016</u></b>	<b><u>FY 2017</u></b>	<b><u>Total</u></b>
001-1 General Fund - Basic Account-State	10,500	0	10,500
<b>Total Cost</b>	<b>10,500</b>		<b>10,500</b>

**Package Description:**

This package requests funds to purchase software updates and secure the services of an IT professional to install and address issues in the updated software and system interface.

The BTA is not identified as an agency able to seek funds from the Information Technology Investment Pool.

## **Narrative Justification and Impact Statement**

### ***What specific performance outcomes does the agency expect?***

1. Upgrading the BTA's interface software will have an indirect impact on the existing backlog by:
  - Allowing electronically submitted documents to be smoothly integrated into the existing case management system. Hearing officers would be able to view case evidence electronically during a hearing, thus increasing overall efficiency and output.
  - Working synergistically with the contract hearing officer decision package. Contract hearing officers would be most efficiently and inexpensively utilized by having them hold only telephonic hearings from remote locations, which is best accomplished by providing electronic access to case files.
  - Reducing staff time spent in processing paperwork, freeing them to undertake additional scheduling and case management efforts.
2. The software upgrade will improve customer service by:
  - Simplifying the appellate process for pro-se taxpayers through the use of electronic forms.
  - Making the submissions process for evidence simpler, more convenient, and less expensive than submitting extensive evidence and multiple copies on paper.
  - Substantially improving access to published BTA cases, effectively eliminating the problems caused by the current limit on the number of access licenses.

### **Performance Measure Detail**

#### **Activity:**

#### **Incremental Changes**

No measures submitted for package

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

Yes, the funding of this decision package is essential to implement the BTA's most recent strategic plan:

- Continue leveraging information technology to move towards a paperless operation, and improving taxpayer access to the appellate system and customer satisfaction.

### ***Does this DP provide essential support to one or more of the Governor's Results Washington priorities?***

Yes, it impacts: Efficient, Effective, and Accountable Government - Increasing timely delivery of state services and increasing customer confidence.

Funding this package will improve customer service and confidence by:

- Simplifying the appellate process for pro-se taxpayers through the use of electronic forms.
- Making the submissions process for evidence simpler, more convenient, and less expensive than submitting extensive evidence and multiple copies on paper.
- Substantially improving access to published BTA cases, effectively eliminating the problems caused by the current limit on the number of access licenses.
- Freeing administrative staff time to provide increased levels of customer service.
- Providing enhanced access to appellate processes and decisions to increase customer confidence in the tax system.
- Contributing to the reduction of existing backlog and the time stakeholders must wait to receive a hearing date.

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

This investment would lower participation costs for counties, also burdened by the increase in taxpayer challenges of property tax assessments.

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

Updating the BTA's existing system meets the agency's needs, and is more cost-effective than purchasing a new system.

**What are the consequences of adopting or not adopting this package?**

If additional funding is not provided, there will be a continued delay in implementing the agency's strategic vision of a paperless appellate system.

**What is the relationship, if any, to the state's capital budget?**

None.

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

None.

**Expenditure and revenue calculations and assumptions**

Enhancement - Laserfiche Integration	\$7,500	\$7,500
Application IT Support	20 hrs @ \$100/hr	\$2,000
Update Website	10 hrs @ \$100/hr	\$1,000
<b>Total</b>		<b>\$10,500</b>

**Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?**

These costs are one-time system upgrade costs. Ongoing system maintenance would need to be paid for nominal increases in the agency's IT services budget.

<b><u>Object Detail</u></b>	<b><u>FY 2016</u></b>	<b><u>FY 2017</u></b>	<b><u>Total</u></b>
C Professional Svc Contracts	3,000		3,000
J Capital Outlays	7,500		7,500
<b>Total Objects</b>	<b>10,500</b>		<b>10,500</b>

**Agency:** 142 Board of Tax Appeals  
**Decision Package Code/Title:** A5 Contractual Tax Referees  
**Budget Period:** 2015-17  
**Budget Level:** PL - Performance Level

### Recommendation Summary Text:

The number of annual filings at the Board of Tax Appeals have increased 48% to 330% over FY06 levels. This unprecedented rise in filings, coupled with cuts in funding, have resulted in an unacceptable backlog and delay in the resolution of taxpayer appeals. This impacts the quality of state services received by taxpayers, the certainty of tax revenues for counties, and Washington's business tax climate.

The BTA has previously requested additional hearing officer FTEs to address the backlog. As a more cost effective solution, the BTA is proposing to hire three temporary contract hearing officers. Increasing the number of hearing officers will allow the BTA to reduce the existing backlog of cases and substantially improve existing wait times. Using contract hearing officers will have a significantly lower cost than a permanent FTE.

This request is for FY 2017, as the BTA is unable to pre-fund the contractors, and July 2017 may be the earliest that recently hired contractors could start completing assigned cases.

### Fiscal Detail

<b>Operating Expenditures</b>	<b><u>FY 2016</u></b>	<b><u>FY 2017</u></b>	<b><u>Total</u></b>
001-1 General Fund - Basic Account-State		129,600	129,600
<b>Total Cost</b>		<b>129,600</b>	<b>129,600</b>

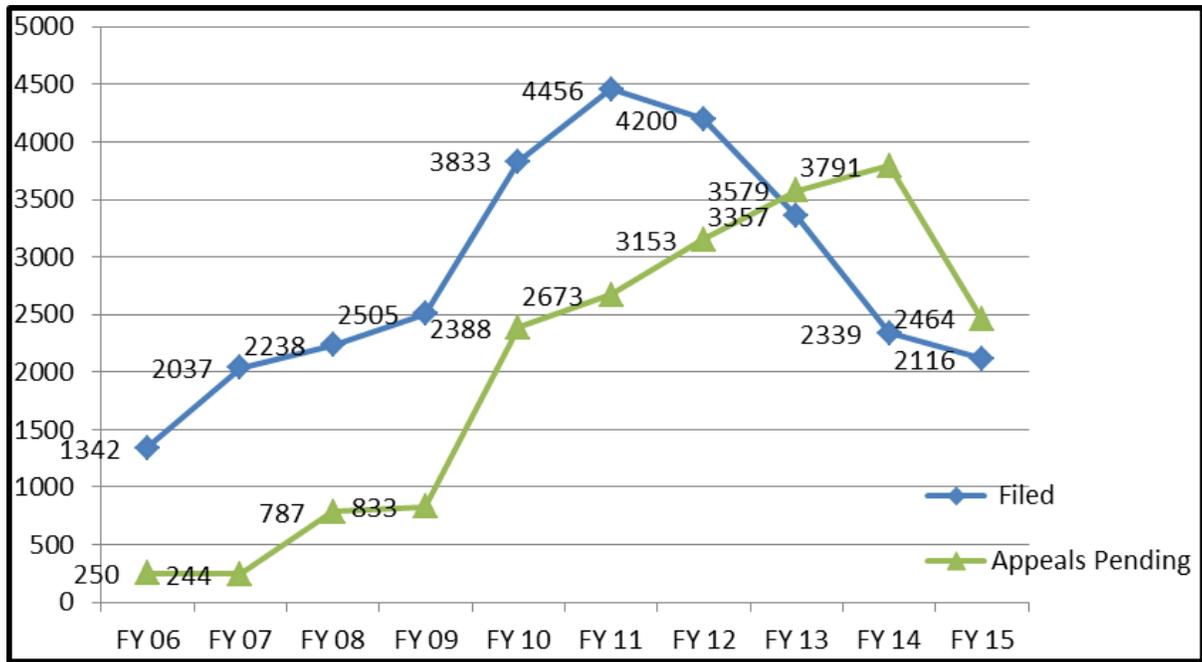
### Package Description:

The Board of Tax Appeals (BTA) is a vital part of our state's tax administration system. Because Washington relies on voluntary compliance to collect tax revenues, it is essential that the state provide an independent and efficient tax tribunal. This maintains taxpayer confidence that taxes are fairly administered and is generally understood to increase voluntary compliance.

The BTA is Washington's independent tax tribunal. Despite its critical role in Washington tax system and revenue collections, the BTA has not been funded to handle the overwhelming increase in workload occurring over the last decade. The agency lost an FTE hearing officer position, has sustained budget cuts, and has remained at its FY06 staffing levels despite a tripling of its workload since that time.

The BTA has taken every measure to reduce discretionary spending simply to remain operational, but about 85% of the agency's current budget is tied to salaries and benefits. The BTA cannot resolve the current backlog without additional funding.

Although filings have declined since 2011, the backlog created by the past filing increases persists, exacerbated by the FY11 funding cuts. Currently, there are approximately 2500 dockets waiting for a hearing, and the average wait time to obtain a hearing is nearly twenty months. The following chart (hard copy only) shows the increase in filings and resulting increase in the agency's case backlog since 2006.



In the last year, the BTA has instituted administration processes that facilitate the early resolution or settlement of pending cases, and this has helped to reduce the backlog and improve wait times. However, administrative processes cannot reduce the backlog much further.<sup>1</sup> The limiting factor remains the number of hearing officers available to hear and decide cases.

The agency estimates that each contract hearing officer could complete up to 24 cases each month (based on the number of tax cases that can be closed each year by the BTA's current tax referees and the type of cases that would be directed to the contractor hearing officers). This means the contract hearing officers could reduce the existing backlog by as much as one-third in one year's time.

This decision package asks for funds to hire three contract hearing officers beginning in fiscal year 2017. The contract hearing officers would be hired from a pool of experienced appraisers or administrative law judges and would not require extensive training. These contractors would join three tax referees already on staff, and would hear only routine matters. Board members and staff referees will hear the more complex cases currently pending before the BTA.

Between 90 and 95% of matters filed at the BTA are informal property tax valuation matters. As much as one-third of those are simple residential, raw land, or commercial cases that would be handled by contract hearings officers. The backlog currently includes approximately 750 of these types of dockets.

<sup>1</sup> Some improvements may be obtained by streamlining the scheduling and hearing processes with technology upgrades, but additional hearing officers will have, by far, a more significant impact on the existing backlog.

# **Narrative Justification and Impact Statement**

## ***What specific performance outcomes does the agency expect?***

Contract hearing officers will allow the agency to be more accountable to the citizens of Washington by effectively delivering on its core mission - to maintain public confidence in the state tax system by providing taxpayers and taxing authorities with an accessible, fair, and efficient process for resolving appeals.

The contractors will increase the efficiency and effectiveness of the agency by:

- Reducing the time stakeholders must wait for a hearing
- Allowing Board members to focus on proper and timely resolution of complex commercial valuation and excise tax appeals
- Increasing the quantity of published guidance relied on by businesses

As a result, Washington will have:

- Improved taxpayer confidence in Washington's tax system
- An improved tax and business climate
- Improved scores in third party tax rating systems, such as the Council on State Taxation (COST) report

## **Performance Measure Detail**

Activity:	A001Adjudication of Tax Appeals	Incremental Changes	
		<u>FY 2016</u>	<u>FY 2017</u>
	<b>Outcome Measures</b>		
000364	Percentage of Board of Tax Appeal decisions issued within one year of the filing of a Notice of Appeals.	0.00%	34.00%

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

Yes, the funding of this decision package is essential to the agency's core mission and the following strategies and goals from the BTA's most recent strategic plan:

- Make adjustments in personnel when necessary to expedite and increase hearings when the number of filings exceeds the number of decisions issued.
- Decrease the backlog by promoting an expedited hearing process, appropriate for contract hearing officers, in which a taxpayer may elect an earlier hearing date in exchange for a shorter hearing and less detailed decision.

## ***Does this DP provide essential support to one or more of the Governor's Results Washington priorities?***

This decision package supports the Governor's priorities of an Efficient, Effective and Accountable Government and a Prosperous Economy.

Prosperous Economy - Business vitality, easing regulatory impact for small businesses

Washington businesses benefit from a speedy resolution of tax issues to provide needed certainty in business and tax planning matters. In addition, Washington has a complex business tax structure, and public guidance is often limited or out of date. Published decisions of BTA tax appeals provide a regular source of current tax guidance that is needed for business taxpayers, and therefore impacts the state's business tax climate. Funding this decision package will increase the number and quality of tax and valuation decisions that can be published by the agency, helping to provide a consistent regulatory framework for Washington businesses.

Efficient, Effective, and Accountable Government -Increasing timely delivery of state services and increasing customer service

With the existing backlog, ongoing workload, and its current staffing levels, the BTA is unable to provide timely hearings on decisions that affect Washington citizens and businesses across the state. Funding this decision package will:

- Expedite completion of cases in the existing backlog and reduce the wait time for stakeholders to receive a hearing date.
- Improve the quality and timeliness of complex tax and valuation cases by relieving experienced hearing officers of routine cases.
- Free administrative staff time to provide increased levels of customer service.

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

Counties are the BTA's largest customers. The existing backlog of cases actually creates additional appeals of county property tax assessment values. When a previously filed appeal remains unresolved, a taxpayer will generally file again in every subsequent tax year until the first appeal is addressed. While some taxpayers will file claims every year regardless of any backlog, other taxpayers will cease to file additional appeals once the county's assessed property value under the first appeal is confirmed, modified, or rejected by the BTA.

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

Contract hearing officers were chosen as a less expensive alternative than a new FTE. The agency has also utilized other methods to address the backlog: administrative case management efforts, increasing the number of hearings per tax referee, standard language for use in drafting routine tax decisions, and conducting hearings by telephone. However, these other methods have not reduced the backlog to acceptable levels. The limiting factor remains the number of hearing officers available to hear and decide cases.

***What are the consequences of adopting or not adopting this package?***

If additional funding is not provided:

- There will be a continued erosion of taxpayer confidence in the state tax and appeal system
- The agency's backlog of unscheduled appeals will not substantially improve and may continue to grow if filing levels do not decrease
- Waiting time for a hearing will not substantially improve and may increase beyond the current 20 months if filing levels do not decrease

***What is the relationship, if any, to the state's capital budget?***

None.

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

None.

***Expenditure and revenue calculations and assumptions***

The BTA would hire three contract hearing officers and pay a set \$150.00 fee per hearing beginning as soon as funds became available. The contract personnel would be responsible for hearing cases that have been designated for the new expedited hearing process. The salary for a contract position would be set at \$ 150.00 per case with an estimated 24 hearings monthly. The calculations below show the costs for these positions along with the associated costs for increases in goods and services such as supplies, communication, training, and data processing. The costs for goods and services were calculated based on FY15 actual costs.

Total Supplemental Budget Request for FY 2017 Spending Authority

3 contractors, each at 24 cases per month = 864 cases per year  
864 cases at \$150 per case = \$129,600

***Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?***

This decision package will address approximately one-third the existing backlog. The BTA would seek ongoing funding for temporary hearing or contract hearing officers for FY2018 and FY2019.

<u>Object Detail</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
C Professional Svc Contracts		129,600	129,600

**Agency:** 142 Board of Tax Appeals  
**Decision Package Code/Title:** 8R Retirement Buyout Costs  
**Budget Period:** 2015-17  
**Budget Level:** M2 - Inflation and Other Rate Changes

### Recommendation Summary Text:

The Board of Tax Appeals (BTA) requests \$22,679 to offset sick leave and accrued leave buyout expenses incurred when the former Executive Director retired in August of FY16. The BTA is a small agency with insufficient discretionary funds to cover staff retirement expenses. The agency cannot absorb the accrued and sick leave buyout costs for the former director without initiating staff furloughs.

### Fiscal Detail

<b>Operating Expenditures</b>	<b><u>FY 2016</u></b>	<b><u>FY 2017</u></b>	<b><u>Total</u></b>
001-1 General Fund - Basic Account-State	22,679	0	22,679
<b>Total Cost</b>	<b>22,679</b>		<b>22,679</b>

### Package Description:

A one-time request of \$22,679 to offset sick leave and accrued leave buyout expenses.

### Narrative Justification and Impact Statement

#### *What specific performance outcomes does the agency expect?*

The BTA is the state's independent administrative tax tribunal, formed by the legislature in 1967 to hear and decide excise tax and property valuation cases on appeal from either the Department of Revenue or a county Board of Equalization. The BTA's purpose is to resolve appeals of taxpayers and taxing authorities to maintain public confidence in the state tax system. This impacts taxpayer confidence in the state tax system and their voluntary compliance.

The requested funds will ensure that the agency can continue to fulfill its purpose to process, hear, and resolve cases. Due to the unprecedented increase in workload and recent reductions in funded FTEs, the BTA already has a substantial backlog of cases such that appellants wait nearly 20 months for a hearing. Staff furloughs would exacerbate the backlog, increasing delays and eroding taxpayer confidence in Washington's tax system.

## **Performance Measure Detail**

### **Activity:**

**Incremental Changes**

No measures submitted for package

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

The agency's core mission and purpose is to hear and decide tax cases. Funding this retirement buyout will avoid staff reductions that would negatively impact the agency's ability to carry out this mission.

### ***Does this DP provide essential support to one or more of the Governor's Results Washington priorities?***

Yes, this package supports Efficient, Effective, and Accountable Government - Increasing timely delivery of state services and increasing customer service

Funding this decision package will allow the agency to continue to process tax cases at the current rate, rather than the reduced rate that would result from staff furloughs. Staff furloughs would cause:

- Slower completion of cases in the existing backlog and longer wait times for stakeholders to receive a hearing date.
- Less administrative staff time for providing customer services, such as assisting taxpayers in starting the appeals process.

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

Counties are the BTA's largest customers. Increases in the agency's case backlog actually create additional appeals of county property tax assessment values. When a previously filed appeal remains unresolved, a taxpayer will generally file again in every subsequent tax year until the first appeal is addressed. While some taxpayers will file claims every year regardless of any backlog, other taxpayers will cease to file additional appeals once the county's assessed property value under the first appeal is confirmed, modified, or rejected by the BTA.

### ***What alternatives were explored by the agency, and why was this alternative chosen?***

The Board has no other alternative for funding this buyout other than absorbing it from its already reduced general operating budget.

### ***What are the consequences of adopting or not adopting this package?***

If the buyout cost is not funded, the Board will be forced to divert additional funds from its operating budget, specifically its personnel allotments, to cover the cost. The agency would do this through furloughs. This will further erode the agency's ability to complete its mission to provide expeditious and efficient disposition of appeals filed. Ultimately, this unfunded expense and continued decreases in funding will result in additional reduced hours or permanent layoff of Board staff. This would be detrimental to this small agency, which is already faltering from the effects of a dramatically increased caseload.

### ***What is the relationship, if any, to the state's capital budget?***

None

### ***What changes would be required to existing statutes, rules, or contracts, in order to implement the change?***

None

### ***Expenditure and revenue calculations and assumptions***

Details per system for sick leave/annual leave buyout + benefits.

*Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?*

All are one time costs.

<u>Object Detail</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
A Salaries And Wages	22,679		22,679