Initiative Measure No. 605

filed August 15,2013

AN ACT Relating to reforming state government revenue and expenditures; amending RCW 43.06.400, 43.06.400, 43.88.030, 43.136.045, 43.136.055, 43.136.065, 43.135.025, and 43.135.034; adding a new section to chapter 43.88 RCW; creating new sections; repealing RCW 43.135.041, 29A.72.283, and 29A.72.285; providing an effective date; and providing an expiration date.

BE IT ENACTED BY THE PEOPLE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1.** Off-budget spending in the form of tax expenditures has resulted in out-of-control state spending that is depleting the state of needed revenue to fund essential state services like education and health care. Tax expenditures as off-budget spending lack the accountability of other state spending programs because they have not been included in the state biennial budget process and are not subject to the same biennial scrutiny. Tax expenditures reduce revenues collected from the tax base and provide preferential treatment to some at the expense of those not getting a tax expenditure. Almost as much money as is collected in tax revenues is not collected and is given out as tax expenditures. This measure reforms the tax expenditure process by including tax expenditures in the biennial state budget process and requires they be readopted every two years as part of the budget process or they sunset. This brings tax expenditures into the state budget process to protect the public's interest and ensure they are producing results to meet the priorities of government as other state spending is required to do. In addition tax expenditures are included in the state spending limit calculation to more accurately reflect state spending. Tax expenditures are not defined as increasing taxes, but as spending by the state of money that would otherwise be included in the budget as revenue.

NEW SECTION. **Sec. 2.** A new section is added to chapter 43.88 RCW to read as follows:

(1) The omnibus operating appropriations bill enacted by the legislature must include:

(a) A tax expenditure budget detailing all discretionary state tax expenditures together with an estimate of the state revenue impact associated with each discretionary state tax expenditure;

(b) A section stating the total estimated revenue impact from all discretionary state tax expenditures, total appropriations, and total state expenditures representing the sum of discretionary state tax expenditures and appropriations;

(c) A section stating the total state revenue impact from all nondiscretionary tax expenditures; and

(d) A ranking of each tax expenditure as high, medium, or low priority in meeting the state's priorities of government.

(2) The sections described in subsection (1) of this section must be stated in part I of the omnibus operating appropriations bill.

(3) For the purposes of this section, "discretionary state tax expenditure" means a tax preference, as defined in RCW 43.136.021, which impacts revenues appropriated in the omnibus operating appropriations bill and that is not required by the state Constitution, United States Constitution, or federal law.

Sec. 3. RCW 43.06.400 and 2011 1st sp.s. c 20 s 201 are each amended to read as follows:

(1) ((~~Beginning in January 1984, and in January of every fourth year thereafter, the department of revenue must submit to~~

~~the legislature prior to the regular session a listing of~~)) Biennially, the department of revenue must prepare a tax expenditure budget detailing the amount of reduction for the current and next biennium in the revenues of the state or the revenues of local government collected by the state as a result of tax ((~~exemptions. The listing~~)) expenditures. The tax expenditure budget must be updated as part of any supplemental budget process. The tax expenditure budget must include: An estimate of the revenue lost from ((~~the tax exemption,~~)) each tax expenditure; the purpose of the tax ((~~exemption,~~)) expenditure; the persons, organizations, ((~~or~~)) and parts of the population ((~~which~~)) that benefit from the tax ((~~exemption, and~~)) expenditure; whether or not the tax ((~~exemption~~)) expenditure conflicts with another state program; a ranking of each tax expenditure as high, medium, or low in meeting the state's priorities of government; and the expiration date of the tax expenditure. The ((~~listing~~)) tax expenditure budget must also include but not be limited to the following revenue sources:

(a) Real and personal property tax exemptions under Title 84 RCW;

(b) Business and occupation tax exemptions, deductions, and credits under chapter 82.04 RCW;

(c) Retail sales and use tax exemptions under chapters 82.08, 82.12, and 82.14 RCW;

(d) Public utility tax exemptions and deductions under chapter 82.16 RCW;

(e) Food fish and shellfish tax exemptions under chapter 82.27 RCW;

(f) Leasehold excise tax exemptions under chapter 82.29A RCW;

(g) Motor vehicle and special fuel tax exemptions and refunds under chapters 82.36 and 82.38 RCW;

(h) Aircraft fuel tax exemptions under chapter 82.42 RCW;

(i) Motor vehicle excise tax exclusions under chapter 82.44 RCW; and

(j) Insurance premiums tax exemptions under chapter 48.14 RCW.

(2) The department of revenue must prepare the ((~~listing~~)) tax expenditure budget required by this section with the assistance of any other agencies or departments as may be required.

((~~(3) The department of revenue must present the listing to the ways and means committees of each house in public hearings.~~

~~(4) Beginning in January 1984, and every four years thereafter the governor is requested to review the report from the department of revenue and may submit recommendations to the legislature with respect to the repeal or modification of any tax exemption. The ways and means committees of each house and the appropriate standing committee of each house must hold public hearings and take appropriate action on the recommendations submitted by the governor.~~

~~(5)~~))(3) As used in this section, "tax ((~~exemption~~)) expenditure " means an exemption, exclusion, or deduction from the base of a tax; a credit against a tax; a deferral of a tax; or a preferential tax rate.

((~~(6) For purposes of the listing due in January 2012, the department of revenue does not have to prepare or update the listing with respect to any tax exemption that would not be likely to increase state revenue if the exemption was repealed or otherwise eliminated~~))

(4) The Department of Revenue must submit the tax expenditure budget to the governor at the time biennial budget requests are due under RCW 43.88.030. The governor is requested to review the tax expenditure budget from the department of revenue and submit it as part of the biennial budget documents under RCW 43.88.030.

The tax expenditure budget must categorize each tax expenditure according to the program and functions each expenditure supports in the biennial budget.

Sec. 4. RCW 43.06.400 and 2013 c 225 s 605 are each amended to read as follows: (1) ((~~Beginning in January 1984, and in January of every fourth year thereafter, the department of revenue must submit to the legislature prior to the regular session a listing of~~)) Biennially, the department of revenue must prepare a tax expenditure budget detailing the amount of reduction for the current and next biennium in the revenues of the state or the revenues of local government collected by the state as a result of tax ((~~exemptions. The listing~~)) expenditures. The tax expenditure budget must be updated as part of any supplemental budget process. The tax expenditure budget must include: An estimate of the revenue lost from ((~~the tax exemption,~~)) each tax expenditure; the purpose of the tax ((~~exemption,~~)) expenditure; the persons, organizations, ((~~or~~)) and parts of the population ((~~which~~)) that benefit from the tax ((~~exemption, and~~)) expenditure; whether or not the tax ((~~exemption~~)) expenditure conflicts with another state program; a ranking of each tax expenditure as high, medium, or low in meeting the state's priorities of government; and the expiration date of the tax expenditure. The ((~~listing~~)) tax expenditure budget must also include but not be limited to the following revenue sources:

(a) Real and personal property tax exemptions under Title 84 RCW;

(b) Business and occupation tax exemptions, deductions, and credits under chapter 82.04 RCW;

(c) Retail sales and use tax exemptions under chapters 82.08, 82.12, and 82.14 RCW;

(d) Public utility tax exemptions and deductions under chapter 82.16 RCW;

(e) Food fish and shellfish tax exemptions under chapter 82.27 RCW;

(f) Leasehold excise tax exemptions under chapter 82.29A RCW;

(g) Motor vehicle and special fuel tax exemptions and refunds under chapter 82.38 RCW.

(h) Aircraft fuel tax exemptions under chapter 82.42 RCW;

(i) Motor vehicle excise tax exclusions under chapter 82.44 RCW; and

(j) Insurance premiums tax exemptions under chapter 48.14 RCW.

(2) The department of revenue must prepare the ((~~listing~~)) tax expenditure budget required by this section with the assistance of any other agencies or departments as may be required.

((~~(3) The department of revenue must present the listing to the ways and means committees of each house in public hearings.~~

~~(4) Beginning in January 1984, and every four years thereafter the governor is requested to review the report from the department of revenue and may submit recommendations to the legislature with respect to the repeal or modification of any tax exemption. The ways and means committees of each house and the appropriate standing committee of each house must hold public hearings and take appropriate action on the recommendations submitted by the governor.~~))

~~(5)~~)) (3) As used in this section, "tax ((~~exemption~~)) expenditure" means an exemption, exclusion, or deduction from the base of a tax; a credit against a tax; a deferral of a tax; or a preferential tax rate.

~~(6) For purposes of the listing due in January 2012, the department of revenue does not have to prepare or update the listing with respect to any tax exemption that would not be likely~~

~~to increase state revenue if the exemption was repealed or otherwise eliminated~~))

(4) The Department of Revenue must submit the tax expenditure budget to the governor at the time biennial budget requests are due under RCW 43.88.030. The governor is requested to review the tax expenditure budget from the department of revenue and submit it as part of the biennial budget documents under RCW 43.88.030. The tax expenditure budget must categorize each tax expenditure according to the program and functions each expenditure supports in the biennial budget.

NEW SECTION Sec 5. A new section is added to chapter 43.88 to read as follows:

(1) The tax expenditure budget must include a detailed analysis of each expenditure and a ranking of high, medium, or low in meeting the priorities of government goals. The tax expenditure budget is not required to address tax expenditures required under the state Constitution, United States Constitution, or federal law.

(2) The governor must coordinate the department of revenue's tax expenditure budget and the governor's review with the audit review process by the joint legislative audit and review committee and must identify each expenditure that will expire during the next biennium and make a recommendation as to whether the expenditure should be allowed to expire, continue, or continue with modification. The governor also may submit other recommendations to the legislature with respect to the repeal or modification of any tax expenditure. The fiscal committees of both the house of representatives and the senate and the appropriate standing committee of the house of representatives and the senate must hold public hearings and must adopt a tax

expenditure budget as part of the omnibus appropriations act. Any tax expenditure not included in the adopted omnibus appropriations bill expires at the end of the state's current fiscal year on July 1st.

(3) For the purposes of this section, "tax expenditure" means: An exemption, exclusion, or deduction from the base of a tax; a credit against a tax; a deferral of a tax; or a preferential tax rate.

(4) Each biennium the tax expenditure budget must be included in the omnibus operating appropriations act enacted by the legislature.

(a) Tax expenditures in the tax expenditure budget must be treated as any other state expenditure and must be reauthorized with each biennial budget. Tax expenditures that have an expiration provision must be included in the tax expenditure budget with the expiration date stated. Tax expenditures can be expired by any future legislature prior to the stated expiration date in the same manner as the legislature can terminate any expenditure for other state funding.

(b) No new or existing tax expenditure may be approved or reauthorized by the legislature for more than ten years unless the legislature votes otherwise.

(c) Any new tax expenditure must be added to the tax expenditure budget and is subject to the same audit and review procedures and for meeting the state's priorities of government as existing tax expenditures are required to meet. New tax expenditures enacted as part of the tax expenditure budget in the omnibus appropriations act but which were not reviewed under all provisions of RCW 43.136.045 or 43.136.055 prior to enactment must be prioritized for review.

(d) The legislature may expire a tax expenditure earlier than its authorized term by either:

(i) A majority vote as provided under Article II, section 22 of the state Constitution; or

(ii) As part of the budget process in the same manner as any other expenditure is approved or denied in the state budget by a majority vote of the members of the house of representatives and the senate.

Sec. 6 RCW 43.88.030 and 2006 c 334 s 43 are each amended to read as follows:

(1) (a) The director of financial management ((~~shall~~)) must provide all agencies with a complete set of instructions for submitting biennial budget requests to the director at least three months before agency budget documents are due into the office of financial management.

(b) The budget document or documents ((~~shall~~)) must consist of the governor's budget message, which ((~~shall~~)) must be explanatory of the budget and ((~~shall~~)) must contain an outline of the proposed financial policies of the state for the ensuing fiscal period, as well as an outline of the proposed six-year financial policies where applicable, and ((~~shall~~)) must describe in connection therewith the important features of the budget.

(i) The biennial budget document or documents ((~~shall~~)) must also describe performance indicators that demonstrate measurable progress towards priority results.

(ii) The message ((~~shall~~)) must set forth the reasons for salient changes from the previous fiscal period in expenditure and revenue items and ((~~shall~~)) must explain any major changes in financial policy. Attached to the budget message ((~~shall~~)) must be such supporting schedules, exhibits, and other explanatory material in respect to both current operations and capital improvements as the governor ((~~shall~~)) deems to be useful to the legislature.

(iii) The budget document or documents ((~~shall~~)) must set forth a proposal for expenditures in the ensuing fiscal period, or six-year period where applicable, based upon the estimated revenues and caseloads as approved by the economic and revenue forecast council and caseload forecast council or upon the estimated revenues and caseloads of the office of financial management for those funds, accounts, sources, and programs for which the forecast councils do not prepare an official forecast. Revenues ((~~shall~~)) must be estimated for such fiscal period from the source and at the rates existing by law at the time of submission of the budget document, including the supplemental budgets submitted in the even-numbered years of a biennium. However, the estimated revenues and caseloads for use in the governor's budget document may be adjusted to reflect budgetary revenue transfers and revenue and caseload estimates dependent upon budgetary assumptions of enrollments, workloads, and caseloads. All adjustments to the approved estimated revenues and caseloads must be set forth in the budget document.

(c) The governor may additionally submit, as an appendix to each supplemental, biennial, or six-year agency budget or to the budget document or documents, a proposal for expenditures in the ensuing fiscal period from revenue sources derived from proposed changes in existing statutes.

(d) The budget document or documents ((~~shall~~)) must also contain:

((~~(a)~~)) (i) Revenues classified by fund and source for the immediately past fiscal period, those received or anticipated for the current fiscal period, and those anticipated for the ensuing biennium;

((~~(b)~~)) (ii) The tax expenditure budget prepared under RCW 43.06.400;

(iii) The undesignated fund balance or deficit, by fund;

((~~(c)~~)) (iv) Such additional information dealing with expenditures, revenues, workload, performance, and personnel as the legislature may direct by law or concurrent resolution;

((~~(d)~~)) (v) Such additional information dealing with revenues and expenditures as the governor shall deem pertinent and useful to the legislature;

((~~(e)~~)) (vi) Tabulations showing expenditures classified by fund, function, and agency;

((~~(f)~~)) (vii) The expenditures that include nonbudgeted, nonappropriated accounts outside the state treasury;

((~~(g)~~)) (viii) Identification of all proposed direct expenditures to implement the Puget Sound water quality plan under chapter 90.71 RCW, shown by agency and in total; and

((~~(h)~~)) (ix) Tabulations showing each postretirement adjustment by retirement system established after fiscal year 1991, to include, but not be limited to, estimated total payments made to the end of the previous biennial period, estimated payments for the present biennium, and estimated payments for the ensuing biennium.

((~~(2)~~)) (e) The budget document or documents ((~~shall~~)) must include detailed estimates of all anticipated revenues applicable to proposed operating ((~~or~~)), capital, and tax expenditures and ((~~shall~~)) must also include all proposed operating or capital expenditures. The total of beginning undesignated fund balance and estimated revenues less working capital and other reserves ((~~shall~~)) must equal or exceed the total of proposed applicable expenditures.

(f) The budget document or documents ((~~shall~~)) must further include:

((~~(a)~~)) (i) Interest, amortization, and redemption charges on the state debt;

((~~(b)~~)) (ii) Payments of all reliefs, judgments, and claims;

((~~(c)~~)) (iii) Other statutory expenditures;

((~~(d)~~)) (iv) Expenditures incident to the operation for each agency;

((~~(e)~~)) (v) Revenues derived from agency operations;

((~~(f)~~)) (vi) Expenditures and revenues ((~~shall~~)) must be given in comparative form showing those incurred or received for the immediately past fiscal period and those anticipated for the current biennium and next ensuing biennium;

((~~(g)~~)) (vii) A showing and explanation of amounts of general fund and other funds obligations for debt service and any transfers of moneys that otherwise would have been available for appropriation;

((~~(h)~~)) (viii) Common school expenditures on a fiscal-year basis;

((~~(i)~~)) (ix) A showing, by agency, of the value and purpose of financing contracts for the lease/purchase or acquisition of personal or real property for the current and ensuing fiscal periods; and

((~~(j)~~)) (x) A showing and explanation of anticipated amounts of general fund and other funds required to amortize the unfunded actuarial accrued liability of the retirement system specified under chapter 41.45 RCW, and the contributions to meet such amortization, stated in total dollars and as a level percentage of total compensation.

((~~(3)~~)) (2) The governor's operating budget document or documents ((~~shall~~)), including the tax expenditure budget, must reflect the statewide priorities as required by RCW 43.88.090.

((~~(4)~~)) (3) The governor's operating budget document or documents ((~~shall~~)), including the tax expenditure budget, must identify activities that are not addressing the statewide priorities.

((~~(5)~~)) (4)(a) A separate capital budget document or schedule ((~~shall~~)) must be submitted that will contain the following:

((~~(a)~~)) (i) A statement setting forth a long-range facilities plan for the state that identifies and includes the highest priority needs within affordable spending levels;

((~~(b)~~)) (ii) A capital program consisting of proposed capital projects for the next biennium and the two biennia succeeding the next biennium consistent with the long-range facilities plan. Insomuch as is practical, and recognizing emergent needs, the capital program ((~~shall~~)) must reflect the priorities, projects, and spending levels proposed in previously submitted capital budget documents in order to provide a reliable long-range planning tool for the legislature and state agencies;

((~~(c)~~)) (iii) A capital plan consisting of proposed capital spending for at least four biennia succeeding the next biennium;

((~~(d)~~)) (iv) A strategic plan for reducing backlogs of maintenance and repair projects. The plan ((~~shall~~)) must include a prioritized list of specific facility deficiencies and capital projects to address the deficiencies for each agency, cost estimates for each project, a schedule for completing projects over a reasonable period of time, and identification of normal maintenance activities to reduce future backlogs;

((~~(e)~~)) (v) A statement of the reason or purpose for a project;

((~~(f)~~)) (vi) Verification that a project is consistent with the provisions set forth in chapter 36.70A RCW;

((~~(g)~~)) (vii) A statement about the proposed site, size, and estimated life of the project, if applicable;

((~~(h)~~)) (viii) Estimated total project cost;

((~~(i)~~)) (ix) For major projects valued over five million dollars, estimated costs for the following project components: Acquisition, consultant services, construction, equipment, project management, and other costs included as part of the project. Project component costs ((~~shall~~)) must be displayed in a standard format defined by the office of financial management to allow comparisons between projects;

((~~(j)~~)) (x) Estimated total project cost for each phase of the project as defined by the office of financial management;

((~~(k)~~)) (xi) Estimated ensuing biennium costs;

((~~(l)~~)) (xii) Estimated costs beyond the ensuing biennium;

((~~(m)~~)) (xiii) Estimated construction start and completion dates;

((~~(n)~~)) (xiv) Source and type of funds proposed;

((~~(o)~~)) (xv) Estimated ongoing operating budget costs or savings resulting from the project, including staffing and maintenance costs;

((~~(p)~~)) (xvi) For any capital appropriation requested for a state agency for the acquisition of land or the capital improvement of land in which the primary purpose of the acquisition or improvement is recreation or wildlife habitat conservation, the capital budget document, or an omnibus list of recreation and habitat acquisitions provided with the governor's budget document, ((~~shall~~)) must identify the projected costs of operation and maintenance for at least the two biennia succeeding the next biennium. Omnibus lists of habitat and recreation land acquisitions ((~~shall~~)) must include individual project cost estimates for operation and maintenance as well as a total for all state projects included in the list. The document ((~~shall~~)) must identify the source of funds from which the operation and maintenance costs are proposed to be funded;

((~~(q)~~)) (xvii) Such other information bearing upon capital projects as the governor deems to be useful;

((~~(r)~~)) (xviii) Standard terms, including a standard and uniform definition of normal maintenance, for all capital projects;

((~~(s)~~)) (xix) Such other information as the legislature may direct by law or concurrent resolution.

(b) For purposes of this subsection ((~~(5)~~)) (4), the term "capital project" shall be defined subsequent to the analysis, findings, and recommendations of a joint committee comprised of representatives from the house capital appropriations committee, senate ways and means committee, legislative evaluation and accountability program committee, and office of financial management.

((~~(6)~~)) (5) No change affecting the comparability of agency or program information relating to expenditures, revenues, workload, performance, and personnel ((~~shall~~)) may be made in the format of any budget document or report presented to the legislature under this section or RCW 43.88.160(1) relative to the format of the budget document or report ((~~which~~)) that was presented to the previous regular session of the legislature during an odd-numbered year without prior legislative concurrence. Prior legislative concurrence ((~~shall~~)) must consist of:

(a) A favorable majority vote on the proposal by the standing committees on ways and means of both houses if the legislature is in session; or

(b) A favorable majority vote on the proposal by members of the legislative evaluation and accountability program committee, if the legislature is not in session.

Sec. 7. RCW 43.136.045 and 2011 c 335 s 2 are each amended to read as follows:

(1) The citizen commission for performance measurement of tax ((~~preferences~~)) expenditures must develop a schedule to accomplish an orderly review of tax ((~~preferences~~)) expenditures at least once every ten years. In determining the schedule, the commission must consider the order the tax ((~~preferences~~)) expenditures were enacted into law, in addition to other factors including but not limited to grouping preferences for review by type of industry, economic sector, or policy area. The commission ((~~may elect to include~~)) must include, as necessary, anywhere in the schedule, a tax ((~~preference~~)) expenditure that has a statutory expiration date. The commission must omit from the schedule tax ((~~preferences~~)) expenditures that are required by constitutional law((~~, sales and use tax exemptions for machinery and equipment for manufacturing, research and development, or testing, the small business credit for the business and occupation tax, sales and use tax exemptions for food and prescription drugs, property tax relief for retired persons, and property tax valuations based on current use, and may omit any tax preference that the commission determines is a critical part of the structure of the tax system~~)). As an alternative to the process under RCW 43.136.055, the commission, as well as the governor or the state legislature, may recommend to the joint legislative audit and review committee an expedited review process for any tax ((~~preference~~)) expenditures or group of expenditures.

(2) The commission must revise the schedule as needed each year, taking into account newly enacted or terminated tax ((~~preferences~~)) expenditures. The commission must deliver the schedule to the joint legislative audit and review committee by September 1st of each year.

(3) The commission must provide a process for effective citizen input during its deliberations and must allow comments to be submitted and posted online.

Sec. 8. RCW 43.136.055 and 2011 c 335 s 3 are each amended to read as follows:

(1) The joint legislative audit and review committee must review tax ((~~preferences~~)) expenditures according to the schedule developed under RCW 43.136.045. The committee must consider, but not be limited to, the following factors in the review as relevant to each particular tax ((~~preference~~)) expenditure:

(a) The classes and number of individuals, ((~~types of~~)) organizations, ((~~or types of~~)) and industries whose state tax liabilities are directly affected by the tax ((~~preference~~)) expenditure;

(b) Public policy objectives that ((~~might~~)) provide ((~~a~~)) the justification for the tax ((~~preference~~)) expenditure, including but not limited to the legislative history, ((~~any~~)) legislative intent, ((~~or~~)) priorities of government, and the extent to which the tax ((~~preference~~)) expenditure encourages business growth ((~~or~~)), relocation into this state, promotes growth or retention of high wage jobs, ((~~or~~)) and helps stabilize communities and local economies;

(c) Evidence that the existence of the tax ((~~preference~~)) expenditure has contributed to the achievement of any of the public policy objectives of the state and its priorities of government;

(d) The extent to which continuation of the tax ((~~preference might~~)) expenditure would contribute to any of the public policy objectives and priorities of government;

(e) The extent to which the tax ((~~preference~~)) expenditure may provide unintended benefits to an individual, organization, or industry other than those the legislature intended;

(f) The extent to which terminating the tax ((~~preference~~)) expenditure may have negative effects on the category of taxpayers that currently benefit from the tax ((~~preference, and the extent to which resulting higher taxes may have negative effects on employment and the economy~~)) expenditure, the extent to which there may be negative or positive effects on employment, the economy, the state budget, and other taxpayers;

(g) The feasibility of modifying ((~~the tax preference to provide for adjustment or recapture of the tax benefits of the tax preference if the~~)) or terminating the tax expenditure to provide for adjustment or recapture of the tax benefits of the tax expenditure if the economic benefits, jobs, or other objectives are not fulfilled;

(h) Fiscal impacts of the tax ((~~preference~~)) expenditure, including past impacts and expected future impacts if it is continued. For the purposes of this subsection, "fiscal impact" includes an analysis of the general effects of the tax ((~~preference on the overall state economy,~~)) expenditure on the overall state economy, jobs, the state budget, and other taxpayers including, but not limited to, the effects of the tax ((~~preference~~)) expenditure on the consumption and expenditures of persons and businesses within the state;

(i) The extent to which termination of the tax ((~~preference~~)) expenditure would affect the distribution of liability for payment of state taxes;

(j) The economic impact of the tax ((~~preference~~)) expenditure compared to the economic impact of government activities ((~~funded by the tax for which the tax preference is taken~~)) that could be funded by the tax for which the tax expenditure is taken, comparing the projected results at the same level of expenditure as the tax ((~~preference~~)) expenditure. For purposes of this subsection the economic impact ((~~shall~~)) must be determined using the Washington input-output model as published by the office of financial management and/or other economic models accepted by the office of financial management that may provide more accurate information;

(k) ((~~Consideration of similar tax preferences adopted in other states, and potential public policy benefits that might be gained by incorporating corresponding provisions in Washington~~)) The extent to which the tax expenditure promotes a sustainable nonpolluting economy and contributes to protecting the environment and our quality of life;

(l) A ranking of high, medium, or low priority as to the tax expenditure meeting the most recent "priorities of government" as developed by the office of financial management;

(m) The extent to which the tax expenditure contributes to tax fairness and a reduction in the regressive impacts of the current tax system in Washington state;

(n) Opportunities and feasibility to use direct budget expenditures instead of tax expenditures to accomplish economic goals more efficiently, effectively, and within a set time frame;

(o) Whether the tax expenditure is necessary to accomplish its stated goal or if finances, funds, other resources, or other opportunities are available to the recipient to accomplish the same result.

(2) For each tax ((~~preference~~)) expenditure, the committee must provide a recommendation as to whether the tax ((~~preference~~)) expenditure should be continued without modification, modified, scheduled for sunset review at a future date, or terminated immediately. The committee ((~~may~~)) must recommend accountability standards for the future review of a tax ((~~preference~~)) expenditure.

Sec. 9. RCW 43.136.065 and 2006 c 197 s 6 are each amended to read as follows:

(1) The joint legislative audit and review committee ((~~shall~~)) must report its findings and recommendations for scheduled tax ((~~preferences~~)) expenditures to the citizen commission for performance measurement of tax ((~~preferences~~)) expenditures by ((~~August~~)) June 30th of each year. The commission ((~~may~~)) must review and comment on the report of the committee. The committee may revise its report based on the comments of the commission. The committee ((~~shall~~)) must prepare a final report that includes the comments of the commission and submit the final report to the finance committee of the house of representatives and the ways and means committee of the senate ((~~by December 30th~~)), the department of revenue, and the governor's office by September 30th. The governor and the department of revenue must consider and incorporate the findings of the final report in their preparation of their tax expenditure budget required under section 2 of this act.

(2) ((~~The joint legislative audit and review committee shall submit a special report reviewing all tax preferences that have statutory expiration dates between June 30, 2005, and January 1, 2007. For the special report, the committee shall complete a review under RCW 43.136.055, and obtain comments of the citizen commission for performance measurement of tax preferences under subsection (1) of this section, to the extent possible. The committee shall submit the special report to the finance committee of the house of representatives and the ways and means committee of the senate~~

~~by January 12, 2006.~~

~~(3)~~)) Following receipt of a report under this section, the finance committee of the house of representatives and the ways and means committee of the senate ((~~shall~~)) must jointly hold a public hearing to consider the final report and any related data.

Sec. 10 RCW 43.135.025 and 2009 c 479 s 35 are each amended to read as follows:

(1) The state ((~~shall~~)) may not expend from the combined total of the general fund and the tax expenditure budget during any fiscal year state moneys in excess of the state expenditure limit established under this chapter.

(2) Except ((~~pursuant to a declaration of emergency under RCW 43.135.035 or~~)) pursuant to an appropriation under RCW 43.135.045(2), the state treasurer ((~~shall~~)) may not issue or redeem any check, warrant, or voucher that will result in a state general fund expenditure for any fiscal year in excess of the state expenditure limit established under this chapter. The state legislature may not authorize any tax expenditure that together with the state general fund expenditures exceeds the state spending limit. A violation of this subsection constitutes a

violation of RCW 43.88.290 and shall subject the state treasurer to the penalties provided in RCW 43.88.300.

(3) The state expenditure limit for any fiscal year ((~~shall be~~)) is the previous fiscal year's state expenditure limit increased by a percentage rate that equals the fiscal growth factor, unless an action of the United States supreme court, a federal court, or the Washington state supreme court mandates increased funding by the state, in which case the state spending must be adjusted to reflect the mandate of the court and may not require a public vote.

(4) For purposes of computing the state expenditure limit for the fiscal year beginning July 1, ((~~2009~~)) 2015, the phrase "the previous fiscal year's state expenditure limit" means the total state expenditures from the state general fund, the public safety and education account, the health services account, the violence reduction and drug enforcement account, the student achievement fund, the water quality account, the tax expenditure budget, and the equal justice subaccount, not including federal funds, for the fiscal year beginning July 1, ((~~2008~~)) 2014, plus the fiscal growth factor.

(5) A state expenditure limit committee is established for the purpose of determining and adjusting the state expenditure limit as provided in this chapter. The members of the state expenditure limit committee are the director of financial management, the attorney general or the attorney general's designee, the state treasurer or the state treasurer's designee, and the chairs and ranking minority members of the senate committee on ways and means and the house of representatives committee on ways and means. All actions of the state expenditure limit committee taken pursuant to this chapter require an affirmative vote of at least four members.

(6) Each November, the state expenditure limit committee ((~~shall~~)) must adjust the expenditure limit for the preceding fiscal year based on actual expenditures and known changes in the fiscal growth factor and then project an expenditure limit for the next two fiscal years. If, by November 30th, the state expenditure limit committee has not adopted the expenditure limit adjustment and projected expenditure limit as provided in subsection (5) of this section, the attorney general or his or her designee ((~~shall~~)) must adjust or project the expenditure limit, as necessary.

(7) "Fiscal growth factor" means the average growth in state personal income for the prior ten fiscal years.

(8) "General fund" means the state general fund.

Sec. 11. RCW 43.135.034 and 2013 c 1 s 2 (Initiative Measure No. 1185) are each amended to read as follows:

(1)(a) Any action or combination of actions by the legislature that raises taxes may be taken ((~~only if approved by a two-thirds vote~~)) if approved by a majority of legislators voting in both the house of representatives and the senate, as set forth in Article II, section 22 of the state Constitution. Pursuant to the referendum power set forth in Article II, section 1(b) of the state Constitution, tax increases may be referred to the voters for their approval or rejection at an election.

(b) For the purposes of this chapter, "raises taxes" means any action or combination of actions by the state legislature that increases state tax revenue deposited in any fund, budget, or account, regardless of whether the revenues are deposited into the general fund. "Raises taxes" does not include "raises fees." Reducing, repealing, terminating, or expiring a tax expenditure also known as a tax preference, as defined in RCW 43.136.021, is not considered to "raise taxes," but is instead considered approaching or returning to the base tax rate in any category of taxes and represents a tax shift that reduces tax expenditures.

(2)(a) If the legislative action under subsection (1) of this section will result in expenditures in excess of the state expenditure limit, then the action of the legislature ((~~shall~~)) does not take effect until approved by a vote of the people at a November general election. The state expenditure limit committee ((~~shall~~)) must adjust the state expenditure limit by the amount of additional revenue approved by the voters under this section. This adjustment ((~~shall~~)) may not exceed the amount of revenue generated by the legislative action during the first full fiscal year in which it is in effect. The state expenditure limit ((~~shall~~)) must be adjusted downward upon expiration or repeal of the legislative action.

(b) The ballot title for any vote of the people required under this section ((~~shall~~)) must be substantially as follows:

"Shall taxes be ((~~imposed~~)) increased on . . . . in order to allow ((~~a~~)) state spending ((~~increase~~)) above last year's authorized spending adjusted for personal income growth?"

(3)(a) The state expenditure limit may be exceeded upon declaration of an emergency for a period not to exceed twenty-four months by a law approved by a ((~~two-thirds~~)) majority vote of each house of the legislature, as set forth in Article II, section 22 of the state Constitution and signed by the governor. The law ((~~shall~~)) must set forth the nature of the emergency, which is limited to natural disasters or terrorist acts that require immediate government action to alleviate human suffering and provide humanitarian assistance. The state expenditure limit may be exceeded for no more than twenty-four months following the declaration of the emergency and only for the purposes contained in the emergency declaration.

(b) Additional taxes required for an emergency under this section may be imposed only until thirty days following the next general election, unless an extension is approved at that general election. The additional taxes ((~~shall~~)) expire upon expiration of the declaration of emergency. The legislature ((~~shall~~)) may not impose additional taxes for emergency purposes under this subsection unless funds in the education construction fund have been exhausted.

(c) The state or any political subdivision of the state ((~~shall~~)) may not impose any tax on intangible property listed in RCW 84.36.070 as that statute exists on January 1, 1993.

(4) If the cost of any state program or function is shifted from the state general fund to another source of funding, or if moneys are transferred from the state general fund to another fund or account, the state expenditure limit committee, acting pursuant to RCW 43.135.025(5), ((~~shall~~)) must lower the state expenditure limit to reflect the shift. For the purposes of this section, a transfer of money from the state general fund to another fund or account includes any state legislative action taken that has the effect of reducing revenues from a particular source, where such revenues would otherwise be deposited into the state general fund, while increasing the revenues from that particular source to another state or local government account. This subsection does not apply to: (a) The dedication or use of lottery revenues under RCW 67.70.240((~~(3)~~)) (1)(c), in support of education or education expenditures; or (b) a transfer of moneys to, or an expenditure from, the budget stabilization account.

(5) If the cost of any state program or function and the ongoing revenue necessary to fund the program or function are shifted to the state general fund on or after January 1, 2007, the state expenditure limit committee, acting pursuant to RCW 43.135.025(5), ((~~shall~~)) must increase the state expenditure limit to reflect the shift unless the shifted revenue had previously been shifted from the general fund.
The state expenditure limit may also be exceeded and raised to bring the state into compliance with any order of the Washington state supreme court or the federal court system that mandates action by the state to comply with the state Constitution, the United States Constitution, or federal law. Such action shall not require a vote of the people to raise the spending limit, which must be raised to meet the mandate of the court.

NEW SECTION. **Sec. 12.** The following acts or parts of acts are each repealed:

(1) RCW 43.135.041 (Tax legislation--Advisory vote--Duties of the attorney general and secretary of state--Exemption) and 2013 c 1 s 6 (Initiative Measure No. 1185), 2010 c 4 s 3, & 2008 c 1 s 6;

(2) RCW 29A.72.283 (Advisory vote on tax legislation--Short description) and 2008 c 1 s 8 (Initiative Measure No. 960); and

(3) RCW 29A.72.285 (Advisory vote on tax legislation--Short description filing and transmittal) and 2008 c 1 s 9 (Initiative Measure No. 960).

NEW SECTION. **Sec. 13.** If any provision of this act or its application to any person or circumstance is held invalid, the remainder of the act or the application of the provision to other persons or circumstances is not affected.

NEW SECTION. **Sec. 14.** This act may be known and cited as the Washington state tax loophole reform act.

NEW SECTION. **Sec. 15.** Section 3 of this act expires July 1, 2015.

NEW SECTION. **Sec. 16.** Section 4 of this act takes effect July 1, 2015.