

Initiative Measure No. 1160

filed April 21, 2011

HEALTH CARE RESTORATION, VERSION 3, FINAL

AN ACT Relating to restoring health care services; reenacting and amending RCW 82.04.050; adding a new section to chapter 82.24 RCW; adding a new chapter to Title 43 RCW; creating new sections; repealing RCW 82.08.0273; and providing an effective date.

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

PART I

FINDINGS AND INTENT

NEW SECTION. **Sec. 101.** (1) The current financial crisis has resulted in significant cuts to critical health care services. Since 2009, over sixty thousand individuals were cut from the state's basic health plan. Hours of in-home care services have been cut by an average of fourteen percent, threatening to force thousands of vulnerable elderly and disabled Washingtonians into more expensive institutionalized nursing home care. Significant cuts have also been imposed on mental health services, leaving more than 250,000 people without needed mental health treatment and placing individuals, families, and communities in crisis.

(2) The people through this initiative intend to restore cuts made to these critical health care services by extending sales or use taxes to: Nonresidents; debt collection, and certain other services, and increasing the cigarette tax by thirty five cents per pack.

(3) The taxpayers' investment into these essential services will be protected by holding revenues in trust to be dedicated solely to restoring cuts made to health care services since June 30, 2009.

(4) The taxpayers further intend to establish new rigorous fiscal accountability measures for the publicly funded health care services supported through this measure. Comprehensive audits, including fraud

investigations, shall be required. Strict new limits must be imposed upon the percentage of public funds that can be used for administrative overhead.

PART II

ESTABLISHING THE HEALTH CARE RESTORATION TRUST ACCOUNT

NEW SECTION. **Sec. 201.** The people require that revenue generated through this act be held in trust and dedicated solely to restoring cuts made to health care services since June 30, 2009.

NEW SECTION. **Sec. 202.** (1) The health care restoration trust account is hereby created in the custody of the state treasurer. Amounts held by the health care restoration trust account must be used solely to restore cuts made to health care services, as set forth in this section. Fifty percent of funds must be devoted to restoring the following cuts made to long-term in-home care services for elderly and persons with disabilities since June 30, 2009: reductions in hours of in-home care services; reduction or suspension of training and certification standards for home care workers; and/or reductions in health benefits for low-wage caregivers. Thirty three percent of funds must be devoted to restoring cuts made to the basic health program since June 30, 2009. Seventeen percent of funds must be devoted to restoring cuts to community mental health direct care and services made since June 30, 2009.

(2) The treasurer must take steps to account for additional revenue collected through the provisions of this act each month and must transfer such amount to the health care restoration trust account by the 15th of the following month.

NEW SECTION. **Sec. 203.** (1) Within thirty days after the effective date of this section, the office of financial management must analyze and quantify cuts made to the programs identified in section 202(1) of this act since June 30, 2009. Revenue raised by this act must be used solely to restore cuts made to such health care

services since June 30, 2009, as identified by the office of financial management analysis. If cuts were to be fully restored to one of the services identified under section 202(1) of this act, revenue must be redirected to restoring cuts to the remaining services identified under section 202(1) of this act. The state is absolutely prohibited from using any revenue generated through this act for any purposes other than those authorized in section 202 of this act and this section. In applying the procedures and limitations of this section, consideration must be given to rising costs from greater public demand for these services and general inflation.

(2) The funds provided by this act must be used to restore critical services by supplementing funds appropriated by the legislature. Legislative appropriations for the services supported by this act must not be reduced to offset any of these new dedicated funds.

PART III

PROTECTING TAXPAYERS BY REQUIRING ANNUAL INDEPENDENT AUDITS, INCREASING FRAUD INVESTIGATION, AND CAPPING ADMINISTRATIVE EXPENSES

NEW SECTION. **Sec. 301.** The state auditor must conduct performance audits of the long-term in-home care program, the basic health program, and the mental health services program. The first audits must be completed within twelve months after the effective date of this section, and must be completed on a biannual basis thereafter. As part of this auditing process, the state auditor, in conjunction with the department of social and health services and the health care authority, must increase fraud investigations to ensure that clients receiving services at taxpayers' expense through these programs are medically and financially qualified to receive such benefit and are actually receiving such benefit.

NEW SECTION. **Sec. 302.** Limits are hereby established on the percentage of tax revenues that can be used for administrative overhead in the long-term in-home care program and the basic health program. Within one hundred eighty days of the effective date of this section, the state must prepare a plan for reducing administrative overhead to ten percent or less. At least ninety percent of taxpayer spending must be devoted to direct care, not administrative overhead. This limitation must be achieved within two years from the effective date of this section.

NEW SECTION. **Sec. 303.** The Department of Health shall impose a \$25 annual fee on each agency that provides in-home care services, with the revenue dedicated to offsetting costs of implementing the fiscal accountability measures set forth in Sections 301 and 302 with regard to such agencies.

PART IV

RESTORING HEALTH CARE SERVICES BY EXTENDING THE SALES TAX TO NONRESIDENTS, DEBT COLLECTION, AND CERTAIN OTHER SERVICES

NEW SECTION. **Sec. 401.** The people of the state of Washington intend to restore health care services by extending the sales tax to: Nonresidents; debt collection, and certain other services.

NEW SECTION. **Sec. 402.** RCW 82.08.0273 (Exemptions--Sales to nonresidents of tangible personal property, digital goods, and digital codes for use outside the state--Proof of nonresident status--Penalties) and 2011 c 7 s 1, 2010 c 106 s 215, 2009 c 535 s 512, 2007 c 135 s 2, 2003 c 53 s 399, 1993 c 444 s 1, 1988 c 96 s 1, 1982 1st ex.s. c 5 s 1, & 1980 c 37 s 39 are each repealed.

Sec. 303. RCW 82.04.050 and 2010 c 112 s 14, 2010 c 111 s 201, and 2010 c 106 s 202 are each reenacted and amended to read as follows:

(1)(a) "Sale at retail" or "retail sale" means every sale of tangible personal property (including articles produced, fabricated, or imprinted) to all persons irrespective of the nature of their business and including, among others, without limiting the scope hereof, persons who install, repair, clean, alter, improve, construct, or decorate real or personal property of or for consumers other than a sale to a person who:

(i) Purchases for the purpose of resale as tangible personal property in the regular course of business without intervening use by such person, but a purchase for the purpose of resale by a regional transit authority under RCW 81.112.300 is not a sale for resale; or

(ii) Installs, repairs, cleans, alters, imprints, improves, constructs, or decorates real or personal property of or for consumers, if such tangible personal property becomes an ingredient or component of such real or personal property without intervening use by such person; or

(iii) Purchases for the purpose of consuming the property purchased in producing for sale as a new article of tangible personal property or substance, of which such property becomes an ingredient or component or is a chemical used in processing, when the primary purpose of such chemical is to create a chemical reaction directly through contact with an ingredient of a new article being produced for sale; or

(iv) Purchases for the purpose of consuming the property purchased in producing ferrosilicon which is subsequently used in producing magnesium for sale, if the primary purpose of such property is to create a chemical reaction directly through contact with an ingredient of ferrosilicon; or

(v) Purchases for the purpose of providing the property to consumers as part of competitive telephone service, as defined in RCW 82.04.065; or

(vi) Purchases for the purpose of satisfying the person's obligations under an extended warranty as defined in subsection (7) of this section, if such tangible personal property replaces or becomes an ingredient or component of property covered by the extended warranty without intervening use by such person.

(b) The term includes every sale of tangible personal property that is used or consumed or to be used or consumed in the performance of any activity defined as a "sale at retail" or "retail sale" even though such property is resold or used as provided in (a)(i) through (vi) of this subsection following such use.

(c) The term also means every sale of tangible personal property to persons engaged in any business that is taxable under RCW 82.04.280 (1), (2), and (7), 82.04.290, and 82.04.2908.

(2) The term "sale at retail" or "retail sale" includes the sale of or charge made for tangible personal property consumed and/or for labor and services rendered in respect to the following:

(a) The installing, repairing, cleaning, altering, imprinting, or improving of tangible personal property of or for consumers, including charges made for the mere use of facilities in respect thereto, but excluding charges made for the use of self-service laundry facilities, and also excluding sales of laundry service to nonprofit health care facilities, and excluding services rendered in respect to live animals, birds and insects;

(b) The constructing, repairing, decorating, or improving of new or existing buildings or other structures under, upon, or above real property of or for consumers, including the installing or attaching of any article of tangible personal property therein or thereto, whether or not such personal property becomes a part of the realty by virtue of installation, and also includes the sale of services or charges made for the clearing of land and the moving of earth excepting the mere leveling of land used in commercial farming or agriculture;

(c) The constructing, repairing, or improving of any structure upon, above, or under any real property owned by an owner who conveys the property by title, possession, or any other means to the person performing such construction, repair, or improvement for the purpose

of performing such construction, repair, or improvement and the property is then reconveyed by title, possession, or any other means to the original owner;

(d) The cleaning, fumigating, razing, or moving of existing buildings or structures, but does not include the charge made for janitorial services; and for purposes of this section the term "janitorial services" means those cleaning and caretaking services ordinarily performed by commercial janitor service businesses including, but not limited to, wall and window washing, floor cleaning and waxing, and the cleaning in place of rugs, drapes and upholstery. The term "janitorial services" does not include painting, papering, repairing, furnace or septic tank cleaning, snow removal or sandblasting;

(e) Automobile towing and similar automotive transportation services, but not in respect to those required to report and pay taxes under chapter 82.16 RCW;

(f) The furnishing of lodging and all other services by a hotel, rooming house, tourist court, motel, trailer camp, and the granting of any similar license to use real property, as distinguished from the renting or leasing of real property, and it is presumed that the occupancy of real property for a continuous period of one month or more constitutes a rental or lease of real property and not a mere license to use or enjoy the same. For the purposes of this subsection, it is presumed that the sale of and charge made for the furnishing of lodging for a continuous period of one month or more to a person is a rental or lease of real property and not a mere license to enjoy the same;

(g) The installing, repairing, altering, or improving of digital goods for consumers;

(h) Persons taxable under (a), (b), (c), (d), (e), (f), and (g) of this subsection when such sales or charges are for property, labor and services which are used or consumed in whole or in part by such persons in the performance of any activity defined as a "sale at retail" or "retail sale" even though such property, labor and services may be resold after such use or consumption. Nothing contained in

this subsection may be construed to modify subsection (1) of this section and nothing contained in subsection (1) of this section may be construed to modify this subsection.

(3) The term "sale at retail" or "retail sale" includes the sale of or charge made for personal, business, or professional services including amounts designated as interest, rents, fees, admission, and other service emoluments however designated, received by persons engaging in the following business activities:

(a) Amusement and recreation services including but not limited to golf, pool, billiards, skating, bowling, ski lifts and tows, day trips for sightseeing purposes, and others, when provided to consumers;

(b) Abstract, title insurance, and escrow services;

(c) Credit bureau services;

(d) Automobile parking and storage garage services;

(e) Landscape maintenance and horticultural services but excluding (i) horticultural services provided to farmers and (ii) pruning, trimming, repairing, removing, and clearing of trees and brush near electric transmission or distribution lines or equipment, if performed by or at the direction of an electric utility;

(f) Service charges associated with tickets to professional sporting events; ~~((and))~~

(g) The following ~~((personal))~~ services: Physical fitness services, tanning salon services, tattoo parlor services, steam bath services, turkish bath services, escort services, ~~((and))~~ dating services, advertising services, event and other admissions; and

(h) Debt collection services, including account collections, bill collections, repossession, and other services related to debt collection.

(4) (a) The term also includes the renting or leasing of tangible personal property to consumers.

(b) The term does not include the renting or leasing of tangible personal property where the lease or rental is for the purpose of sublease or subrent.

(5) The term also includes the providing of "competitive telephone service," "telecommunications service," or "ancillary services," as those terms are defined in RCW 82.04.065, to consumers.

(6) (a) The term also includes the sale of prewritten computer software to a consumer, regardless of the method of delivery to the end user. For purposes of this subsection (6) (a), the sale of prewritten computer software includes the sale of or charge made for a key or an enabling or activation code, where the key or code is required to activate prewritten computer software and put the software into use. There is no separate sale of the key or code from the prewritten computer software, regardless of how the sale may be characterized by the vendor or by the purchaser.

The term "retail sale" does not include the sale of or charge made for:

(i) Custom software; or

(ii) The customization of prewritten computer software.

(b) (i) The term also includes the charge made to consumers for the right to access and use prewritten computer software, where possession of the software is maintained by the seller or a third party, regardless of whether the charge for the service is on a per use, per user, per license, subscription, or some other basis.

(ii) (A) The service described in (b) (i) of this subsection (6) includes the right to access and use prewritten computer software to perform data processing.

(B) For purposes of this subsection (6) (b) (ii), "data processing" means the systematic performance of operations on data to extract the required information in an appropriate form or to convert the data to usable information. Data processing includes check processing, image processing, form processing, survey processing, payroll processing, claim processing, and similar activities.

(7) The term also includes the sale of or charge made for an extended warranty to a consumer. For purposes of this subsection, "extended warranty" means an agreement for a specified duration to perform the replacement or repair of tangible personal property at no additional charge or a reduced charge for tangible personal property,

labor, or both, or to provide indemnification for the replacement or repair of tangible personal property, based on the occurrence of specified events. The term "extended warranty" does not include an agreement, otherwise meeting the definition of extended warranty in this subsection, if no separate charge is made for the agreement and the value of the agreement is included in the sales price of the tangible personal property covered by the agreement. For purposes of this subsection, "sales price" has the same meaning as in RCW 82.08.010.

(8) (a) The term also includes the following sales to consumers of digital goods, digital codes, and digital automated services:

(i) Sales in which the seller has granted the purchaser the right of permanent use;

(ii) Sales in which the seller has granted the purchaser a right of use that is less than permanent;

(iii) Sales in which the purchaser is not obligated to make continued payment as a condition of the sale; and

(iv) Sales in which the purchaser is obligated to make continued payment as a condition of the sale.

(b) A retail sale of digital goods, digital codes, or digital automated services under this subsection (8) includes any services provided by the seller exclusively in connection with the digital goods, digital codes, or digital automated services, whether or not a separate charge is made for such services.

(c) For purposes of this subsection, "permanent" means perpetual or for an indefinite or unspecified length of time. A right of permanent use is presumed to have been granted unless the agreement between the seller and the purchaser specifies or the circumstances surrounding the transaction suggest or indicate that the right to use terminates on the occurrence of a condition subsequent.

(9) The term also includes the charge made for providing tangible personal property along with an operator for a fixed or indeterminate period of time. A consideration of this is that the operator is necessary for the tangible personal property to perform as designed.

For the purpose of this subsection (9), an operator must do more than maintain, inspect, or set up the tangible personal property.

(10) The term does not include the sale of or charge made for labor and services rendered in respect to the building, repairing, or improving of any street, place, road, highway, easement, right-of-way, mass public transportation terminal or parking facility, bridge, tunnel, or trestle which is owned by a municipal corporation or political subdivision of the state or by the United States and which is used or to be used primarily for foot or vehicular traffic including mass transportation vehicles of any kind.

(11) The term also does not include sales of chemical sprays or washes to persons for the purpose of postharvest treatment of fruit for the prevention of scald, fungus, mold, or decay, nor does it include sales of feed, seed, seedlings, fertilizer, agents for enhanced pollination including insects such as bees, and spray materials to: (a) Persons who participate in the federal conservation reserve program, the environmental quality incentives program, the wetlands reserve program, and the wildlife habitat incentives program, or their successors administered by the United States department of agriculture; (b) farmers for the purpose of producing for sale any agricultural product; and (c) farmers acting under cooperative habitat development or access contracts with an organization exempt from federal income tax under 26 U.S.C. Sec. 501(c)(3) of the federal internal revenue code or the Washington state department of fish and wildlife to produce or improve wildlife habitat on land that the farmer owns or leases.

(12) The term does not include the sale of or charge made for labor and services rendered in respect to the constructing, repairing, decorating, or improving of new or existing buildings or other structures under, upon, or above real property of or for the United States, any instrumentality thereof, or a county or city housing authority created pursuant to chapter 35.82 RCW, including the installing, or attaching of any article of tangible personal property therein or thereto, whether or not such personal property becomes a part of the realty by virtue of installation. Nor does the term

include the sale of services or charges made for the clearing of land and the moving of earth of or for the United States, any instrumentality thereof, or a county or city housing authority. Nor does the term include the sale of services or charges made for cleaning up for the United States, or its instrumentalities, radioactive waste and other by-products of weapons production and nuclear research and development.

(13) The term does not include the sale of or charge made for labor, services, or tangible personal property pursuant to agreements providing maintenance services for bus, rail, or rail fixed guideway equipment when a regional transit authority is the recipient of the labor, services, or tangible personal property, and a transit agency, as defined in RCW 81.104.015, performs the labor or services.

(14) The term does not include the sale for resale of any service described in this section if the sale would otherwise constitute a "sale at retail" and "retail sale" under this section.

PART V

RESTORING HEALTH CARE SERVICES BY INCREASING THE CIGARETT TAX BY THIRTY FIVE CENTS PER PACK

NEW SECTION. **Sec. 501.** A new section is added to chapter 82.24 RCW to read as follows:

Beginning February 1, 2012, in addition to other existing taxes, there is imposed an additional tax on cigarettes at the rate of thirty five cents per pack of cigarettes. All revenues collected during any month from this additional tax shall be deposited in the health care restoration trust account created by this Act by the twenty-fifth day of the following month.

PART VI

MISCELLANEOUS

NEW SECTION. **Sec. 601.** Sections 202, 203, 301, and 302 of this act constitute a new chapter in Title 43 RCW.

NEW SECTION. **Sec. 602.** The provisions of this act are to be liberally construed to effectuate the intent, policies, and purposes of this act.

NEW SECTION. **Sec. 603.** 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. 604.** This act takes effect sixty days after the election date on which it is approved.