

Mitigation Advisory Committee Meeting Minutes  
August 15, 2007

**Attending:**

Iwen Wang, Bob Nachlinger, John Bartz, James Turpie, Bill Greene (alternate for Gary Prince), Dianne Criswell (alternate for Dean Carlson), Jim Justin, David Moseley (The Royer Group), Kevin Fuhrer (City of Tukwila), Sheila Gall, Rick Peterson, Julie Murray, and Representative Gary Alexander

Department of Revenue Staff: Lorrie Brown, Russ Brubaker, Miki Gearhart, Don Gutmann, James Petit, Tiffany Johnson, Kim Davis, Greg Potegal, and Tim Jennrich

**Welcome and Introductions**

Miki welcomed everyone to the first meeting of the SST Mitigation Advisory Committee and asked everyone to introduce themselves. She also had each person choose a number that best describes his or her combined knowledge and comfort level regarding streamlined mitigation on a scale of 1 to 5. Most responses were in the 3, 4, or 5 range. This question will be asked again at future meetings in order to gauge our progress over the next few months and possibly guide future agendas. Miki warned that from time to time participants may feel they are moving down the scale temporarily as thorny issues are identified and the complex details of each are discussed. That is to be expected. However, in the end, she hopes that all the participants in these meetings will find themselves at a level 4 or 5.

	5	} Very knowledgeable, Very comfortable  - most responses were in the 3, 4, or 5 range
	4	
	3	
	2	
Not knowledgeable, Very uncomfortable	1	

Jim Justin stated that cities are uncomfortable about mitigation due to a lack of understanding of how the mitigation process will work, so education will be very important.

Russ Brubaker welcomed the group, stated DOR's appreciation of everyone's willingness to participate in these meetings, and thanked the local governments for their role in getting the SST bill passed during the last legislative session.

**Overview of SST Mitigation and Advisory Committee Charge**

Greg gave a brief overview of SST Mitigation and the charge for the Advisory Committee to plan for mitigation. (See "Combined Goals for Meetings" in handout "Draft Document for Discussion." Also see Part IX of SSB 5089.)

## **Roles, Goals, Meeting Guidelines, and Other Information**

Miki guided the group through the "Draft Document for Discussion." Most of the recommendations in the document were agreed to by the committee; however, the following suggestions were made:

- **Committee Members.** The positively and negatively impacted transit authorities were incorrectly identified in the draft document and will be corrected in the next version.
- **Alternates.** Allow an alternate when the primary committee member is not available to attend. It is the responsibility of the primary member to keep his/her alternate updated on committee progress.
- **Recommendations by the Committee.** Consensus does not always work. When there is a thorny issue, a member can call for a vote. The decision should include both the majority and minority opinions.
- **Minutes.** Minutes will be sent out to the committee at least a week prior to the next meeting. Read and provide feedback prior to the next meeting so changes can be incorporated as needed. Minutes will be approved at the next meeting.
- **Agenda.** An agenda will be prepared for each meeting. It will be sent out to committee members one week prior to the meeting. At the end of each meeting, the committee will decide what should be on the agenda for the following meeting.
- **Schedule.** Those in attendance agreed that September 11, 2007, would work best for the next meeting.

Miki noted that the discussion document will be updated based on comments from this meeting and will be included in the binders that DOR will create for the group.

## **Roundtable - Comments and Concerns/Issues**

### Iwen Wang, Finance Director, Federal Way

- Must be convenient for businesses.
- PFD has threshold concerns. They must lose more than 0.5 percent of revenues before they receive mitigation.
- Appeals process in the base year.

### Jim Justin, Association of Washington Cities

- Impact to small businesses.
- How to define base year.
- How to appeal.
- How to address businesses that change reporting late.
- Currently constituents are uncomfortable because of lack of knowledge.
- Education is key, for both local government and businesses.
- Can you run a test process?

### Bob Nachlinger, CFO, City of Kent

- Calculation of base year.

- How to address businesses that change reporting early (prior to implementation date). Aware of some businesses that have already changed, such as a furniture store. This will impact amount of mitigation the local jurisdiction will receive.
- Taxpayer errors identified to local jurisdictions.
- Getting information out to small businesses.

John Bartz, Thurston County

- Would like to take a closer look at the work study numbers for mitigation estimates.

Lorrie Brown explained that the study numbers were used for the fiscal note estimate. But the study has served its purpose. It will not be used to determine actual mitigation.

Jim Turpie, COO, County Transit, Snohomish County

- What happens if amounts are different than the \$31.6 million estimates?
- How do we make sure businesses are complying (compliance efforts)?

Julie Murray, Washington State Association of Counties

- How will we deal with local jurisdictions wanting to look at all of the data?
- How are we going to handle questions after the first check - flood of requests for cities to get a look at their data.
- Adjustments - should have ground rules of what we will look at or not.
- How do you weed out the service industry?
- Need to manage expectations.
- Adjust going forward, or looking back.
- How will we manage the communication of data?
- Construction businesses already supposed to destination source.

Sheila Gall, General Counsel, Association of Washington Cities

- Calculation for voluntary compliance offset.

Kevin Fuhrer, Finance Director, Tukwila

- Explain methodology used once mitigation is in place.
- Reasonable means to estimate growth of online sales.
- Important that mitigation stays around.

Representative Gary Alexander, Thurston County

- Important to take into account the views of positively impacted jurisdictions also.
- Local government training (fiscal staff).

Additional General Discussion About Concerns/Issues

- Timing of when a business signs up to receive amnesty - does it impact base year numbers?
- Where are the firms located - ones that have signed up?
- We need to update the state and local loss for remote sales.
- Who changes to destination sourcing?
- Explanation of mitigation (see handout).
- Multi-channel sellers - what if they combine remote sales with existing storefront account?

- Mitigation continues as many years as local jurisdiction has losses.
- Loss is a snapshot
  - Does not account for growth.
  - New business in FY 2009 would not be covered under mitigation.
  - A business that closes after FY 2009 would continue to be mitigated for.
  - Loss fixed in FY 2009.
- Remote sales revenues increase over time.
- Voluntary remote (just those that register - a small portion of all remote sellers).
  - Positive adjustment = voluntary sellers.
  - Some will be earmarked.
  - For multi-channel sellers we may need to also look at affiliates if they are not reporting on earmarked account.
  - Might be firms that sign up just because - but they may not qualify.
  - May combine registration numbers.
- How do we define voluntary compliance money?
- Will come up with voluntary compliance number - what about for future years?
  - Could use growth rate to reflect growth in remote sales, such as Department of Commerce number published.
  - Will new voluntary sellers get incorporated into number after first year?
- Net gain/loss calculated on a firm by firm basis.
- What firms should we look at - what is the pool?
- First mitigation payment is December 2008 for July, August, and September activity.
- Quarterly payments cover previous quarter activity (see timeline handout).
- What about late to change firms?
- Come up with adjustments that should be allowed.
  - Domino effect.
  - Thresholds?
- After mitigation is set:
  - Do you get one-fourth of mitigation per quarter?
  - OR should amount reflect seasonality?
- What if we run up against the \$31.6 million?
- What is the appeal process?
- Some issues are being addressed elsewhere - stick to mitigation-related concerns.
- What if Quill is overturned?
- Is there a different process after mitigation has been set?
- How do we handle the construction industry - building in one location one year and building in another location the next year?
- What about the new PFD tax - does it qualify for mitigation?
- How long do we allow for our collection process so delinquent accounts will be included in the data?
- Extra resource money for Department of Revenue staff to answer questions.
- What firms and NAICS should be included in the dataset?
- Define the base year.

The above concerns/issues/comments are a compilation from the roundtable discussion and further brainstorming during the "Building the Master List of Thorny Issues" segment of the agenda.

### **SST Communication**

David Moseley gave a brief presentation of the communication and education efforts that DOR has under way with various groups (see handout).

### **Presentation of SST Mitigation Plan**

Over the lunch hour, Greg and Lorrie presented the SST mitigation plan and answered questions. They summarized the various stages of the mitigation plan, proposed methodology, and gave examples (see handout).

### **Building the Master List of Thorny Issues**

Miki and Lorrie presented DOR's draft list of thorny issues (see handout) and combined with the group's list. After removing duplicates and a brief discussion on issues that naturally fit together, DOR agreed to take a first cut at categorizing the issues. A draft list of categorized issues will be sent out before the next meeting for review. The master list of thorny issues will be created from this list and used as a guide for future meetings. The master list will be updated as new issues are identified.

### **Timeline and Next Meeting**

Lorrie briefly discussed the mitigation timeline (see handout) and its relationship to committee meetings. Solutions for some issues will need to be decided earlier than others. The group decided that issues related to the "base" should be the first issues discussed.