

SENATE BILL REPORT

EHB 1948

As Reported by Senate Committee On:
Ways & Means, March 2, 2020

Title: An act relating to supporting warehousing and manufacturing job centers.

Brief Description: Supporting warehousing and manufacturing job centers.

Sponsors: Representatives Entenman, Stokesbary, Sullivan, Senn, Chambers, Ramos, Callan and Graham.

Brief History: Passed House: 1/22/20, 84-12.

Committee Activity: Ways & Means: 2/29/20, 3/02/20 [DPA, w/oRec, DNP].

Brief Summary of Amended Bill

- Provides mitigation payments for the support of manufacturing and job centers in manufacturing and warehousing communities negatively impacted by the Streamlined Sales and Use Tax Agreement.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.

Signed by Senators Rolfes, Chair; Mullet, Capital Budget Cabinet; Billig, Conway, Darneille, Dhingra, Hasegawa, Hunt, Keiser, Lias, Muzzall, Van De Wege and Wagoner.

Minority Report: That it be referred without recommendation.

Signed by Senators Braun, Ranking Member; Brown, Assistant Ranking Member, Operating; Warnick and Wilson, L..

Minority Report: Do not pass.

Signed by Senators Frockt, Vice Chair, Operating, Capital Lead; Honeyford, Assistant Ranking Member, Capital; Becker, Carlyle, Pedersen and Schoesler.

Staff: Jeffrey Mitchell (786-7438)

Background: Retail sales tax is Washington's principal tax source. Businesses making retail sales in Washington collect sales tax from their customers. A retail sale is the sale of tangible

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personal property, but the sale of some services and digital products are also subject to sales tax.

In 2008, Washington became a member state of the Streamlined Sales and Use Tax Agreement (SSUTA). The SSUTA is a cooperative effort of member states to simplify and make sales and use tax collection and administration more uniform. The intention of this agreement was to reduce the cost and administrative burdens on retailers that collect sales tax, particularly retailers operating in multiple states. A significant change made to Washington's sales tax structure when it joined the SSUTA was going from the origin-based sourcing of sales tax to destination-based sourcing. Under origin-based sourcing, local sales taxes are sourced to the location of the business. Under destination-based sourcing, local sales taxes are sourced to the location where the buyer takes possession of the product. For businesses shipping products from a warehouse to a customer's home, for example, this changed the location of the sale for purposes of calculating local sales tax from the location of the warehouse to the location of the buyer. For some local jurisdictions, this change substantially affected local sales tax revenues because often customers are located in a different jurisdiction.

To mitigate the revenue loss experienced by local jurisdictions from the sourcing changes, the SSUTA legislation from 2007 created a program to provide state funding to these jurisdictions to offset the negative fiscal impact. Cities, counties, public facilities districts, and several types of local transportation districts were eligible for state mitigation funding if the estimated revenue loss from the sourcing changes exceeded the estimated additional sales tax revenue to the jurisdiction derived from other provisions of SSUTA.

During the 2017 session, the Legislature eliminated mitigation payments for local governments in two phases. As of July 1, 2017, mitigation payments for transportation authorities, public transportation benefit areas, and regional transit authorities were discontinued. Beginning October 1, 2019, the remaining mitigation payments for cities, counties, and public facility districts were eliminated. The 2017 legislation also made changes to facilitate the collection of additional sales taxes from out-of-state businesses.

Summary of Amended Bill: Qualified local taxing districts negatively impacted by the SSUTA may receive annual mitigation payments beginning July 1, 2020. To qualify, a local taxing district must be a city and have received a mitigation payment of at least \$50,000 in calendar year 2018 from the Streamlined Sales and Use Tax Mitigation Account (Mitigation Account). In addition, the taxing district must continue to have local sales tax revenue loss due to the sourcing provisions in the SSUTA.

Beginning July 1, 2020, Department of Revenue (DOR) must calculate each qualified taxing district's annual loss. The annual loss is calculated by comparing at least 12 months of tax return data from before and after July 1, 2008. Each quarter, distributions are made from the Warehousing and Manufacturing Jobs Center Account (Account) created in this act. The distributions from the Account will be in an amount equal to one-fourth of the taxing district's annual loss. DOR will reduce this amount by the voluntary compliance revenue and marketplace fairness revenue. The program expires on January 1, 2031.

EFFECT OF WAYS & MEANS COMMITTEE AMENDMENT(S):

- Shortens the time frame for the annual loss payments by five years.
- Increases the threshold to qualify for annual loss payments from \$50,000 to \$150,000

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Engrossed House Bill: *The committee recommended a different version of the bill than what was heard.* PRO: Woodinville is a proud warehousing and industrial center and appreciates the state support in maintaining these businesses. We are thankful that the Legislature has worked to make whole the revenue losses from the streamlined changes. Some jurisdictions lost millions of dollars. The amendment by Senator Lias would create a permanent solution to this longstanding problem and address infrastructure needs. The state, city, school district, and fire district would see an almost immediate return on investment. This bill honors the promise the legislature made to cities that were negatively impacted by destination-based sales tax. The mitigation funds are a substantial amount for our city. The predictability provided in this proposal are critical for our budgeting purposes. The marketplace revenues have helped but our city has still not caught up to what it was receiving before the streamlined changes. The city of Kent is the largest manufacturing and warehousing center on the west coast. The change to destination sourcing caused the city to lose approximately \$14 million in today's dollars. We have been trying to adjust but have not been able to change our economy. When we have tried, we have received significant pushback from the ports and other industries. The fiscal impact will continue to go down under this bill.

Persons Testifying: PRO: Dana Ralph, Mayor, City of Kent; Mary Lou Pauly, Mayor, City of Issaquah; Briahna Murray, City of Kent; Brandon Buchanon, City Manager, Woodinville; Elaine Cook, Mayor, Woodinville.

Persons Signed In To Testify But Not Testifying: No one.