

# SENATE BILL REPORT

## SB 5862

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As Reported by Senate Committee On:  
Ways & Means, March 1, 2019

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

**Brief Description:** Supporting warehousing and manufacturing job centers.

**Sponsors:** Senators Das, Padden, Keiser, Wilson, C., Dhingra, Mullet, Zeiger and Hasegawa.

**Brief History:**

**Committee Activity:** Ways & Means: 3/01/19, 3/01/19 [DPS, DNP].

<p style="text-align: center;"><b>Brief Summary of First Substitute Bill</b></p> <ul style="list-style-type: none"><li>• Partially restores streamlined sales and use tax mitigation payments.</li></ul>
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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Substitute Senate Bill No. 5862 be substituted therefor, and the substitute bill do pass.

Signed by Senators Rolfes, Chair; Frockt, Vice Chair, Operating, Capital Lead; Mullet, Capital Budget Cabinet; Billig, Conway, Darneille, Hasegawa, Hunt, Keiser, Palumbo, Schoesler, Van De Wege and Wagoner.

**Minority Report:** Do not pass.

Signed by Senators Braun, Ranking Member; Honeyford, Assistant Ranking Member, Capital; Becker, Carlyle, Pedersen, Rivers, Warnick and Wilson, L..

**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. Generally, a retail sale is the sale of tangible 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

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

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 legislative 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 will be eliminated. The 2017 legislation also made changes to facilitate the collection of additional sales taxes from out-of-state businesses.

**Summary of Bill (First Substitute):** To mitigate local sales tax revenue net losses as a result of the sourcing provisions of the SSUTA, mitigation payments to qualified local taxing districts are partially restored. A "qualified local taxing district" means a city that was eligible for streamlined sales tax mitigation payments of at least \$50,000 in calendar year 2018 and the district has a continued local sales tax revenue loss as a result of the sourcing provisions of the SSUTA.

Beginning July 1, 2019, and through July 1, 2030, the Department of Revenue will calculate annual net losses and the state treasurer will transfer the total net loss amount for all qualified local taxing districts from the state general fund to a newly created account named the Manufacturing and Warehousing Job Centers Account. The annual net loss amount calculation takes into consideration the decrease in sales tax revenues to the jurisdiction from the 2008 sourcing changes as well as the increase in sales tax revenues from additional out-of-state businesses collecting and remitting Washington sales taxes because of the 2017 legislation. A qualified local taxing district will get one-fourth of its annual net loss amount each calendar quarter.

The bill is null and void if it is not funded in the budget.

**EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (First Substitute):**

- Adds a null and void clause.

**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 Original Bill:** *The committee recommended a different version of the bill than what was heard.* PRO: The marketplace fairness legislation from a couple years ago did not increase sales tax revenues to Kent. In fact, it is not even close and ask that you continue to provide assistance to our city to support manufacturing and warehousing. We have a lot of warehousing in our city, but do not collect sales tax because the tax goes to the jurisdiction where the goods are delivered. We believe things will even out under the Marketplace Fairness Act but it has not happened yet. The streamlined sales tax mitigation payments have offset some of the costs of hosting our manufacturing and warehousing community, but that is set to change at the end of this year, which will put a hole in our budget. The streamlined sales tax mitigation payments helps us support the local and state economy by providing the services and infrastructure that manufacturing and warehousing depends on to thrive. Ports serve as the gateway for products grown or manufactured throughout the entire state of Washington and our ability to be able to provide those jobs, as well as those tax revenue, is dependent on having a healthy supply chain. A key component of that supply chain is having communities such as Fife, Auburn, and Kent and others step up to the plate and site distribution centers and warehouses within their communities.

**Persons Testifying:** PRO: Bill Boyce, Kent Council Chair; Mary Lou Pauly, Mayor of Issaquah; Briahna Murray, City of Kent; Allan Ekberg, Mayor of Tukwila; Sean Eagan, Port of Tacoma.

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