

SENATE BILL REPORT

E2SHB 2673

As Reported By Senate Committee On:
International Trade & Economic Development, February 21, 2006
Ways & Means, February 27, 2006

Title: An act relating to creating the local infrastructure financing tool demonstration program.

Brief Description: Authorizing additional alternatives for local infrastructure financing.

Sponsors: House Committee on Finance (originally sponsored by Representatives Linville, Ericksen, P. Sullivan, Buck, Ericks, Kilmer, Kessler, Grant, Walsh, B. Sullivan, Lantz, Morris, O'Brien, Conway, Morrell and Wallace).

Brief History: Passed House: 2/14/06, 89-7.

Committee Activity: International Trade & Economic Development: 2/21/06 [DP-WM].
Ways & Means: 2/24/06, 2/27/06 [DPA].

SENATE COMMITTEE ON INTERNATIONAL TRADE & ECONOMIC DEVELOPMENT

Majority Report: Do pass and be referred to Committee on Ways & Means.

Signed by Senators Shin, Chair; Sheldon, Vice Chair; Pflug, Ranking Minority Member; Doumit, Eide, Roach and Zarelli.

Staff: Jack Brummel (786-7428)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.

Signed by Senators Prentice, Chair; Doumit, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Fairley, Pflug, Pridemore, Rasmussen, Regala, Roach and Schoesler.

Staff: Terry Wilson (786-7433)

Background: Public Infrastructure funding is accomplished in a number of different ways in the state, including through local public facilities districts, and state funding approved by the Public Works Board or the Community Economic Revitalization Board (CERB). The Legislature has in recent years examined a number of ways to increase investment in public infrastructure in the state.

Tax increment financing or community redevelopment financing is a method of redistributing property tax collections within designated areas to finance infrastructure improvements within these designated areas. However, attempts to authorize the use of state property taxes revenue in Washington to finance such development have been struck down by the voters and the courts. The main legal impediments under the State Constitution include: the requirement

that all property taxes must be uniform on the same class property within the territorial limits of the authority levying the tax; the prohibition on the lending of state credit; and the dedication of state property tax revenues to fund the common schools.

Sales tax is imposed on retail sales of most items of tangible personal property and some services, including construction and repair services. The use tax is imposed at the same rate as the retail sales tax on items used in Washington that were not subject to the sales tax. Sales and use taxes are imposed by the state, counties, and cities.

There are some local taxes that are credited against the state sales tax, including the 2 percent hotel/motel tax upon accommodations by cities and counties. There are also some exemptions, credits, and deferrals to the state retail tax.

Summary of Amended Bill: Local governments may finance public improvements within a defined area, called an infrastructure improvement area, using revenue generated through a new sales and use tax, up to \$1.5 million per project per year, credited against the state sales and use tax, and matched with an equivalent amount of local resources.

The public improvements that may be financed are infrastructure improvements that include street and road construction and maintenance; water and sewer system construction and improvements; sidewalks and streetlights; parking, terminal, and dock facilities; park and ride facilities of a transit authority; park facilities and recreational areas; and storm water and drainage management systems.

Conditions under which local infrastructure financing may be used are enumerated, including the adoption of an ordinance, the expectation that the improvement will encourage private development, and the expectation that any related private developments will be consistent with the local comprehensive plan.

A local government that uses local infrastructure financing and receives approval from the Department of Revenue may impose a new local sales and use tax. The rate of tax is calculated to equal the lesser of the amount of increased state sales tax expected in the area or \$1.5 million per year. The tax may be first imposed on July 1, 2008. Money from the tax must be used for principal and interest payments on bonds issued for an eligible public improvement and must be matched with an amount from local public sources. The tax expires when the bonds are retired but not more than twenty-five years after the tax is first imposed.

Applications to the department may be made between August 1, 2006. No applications may be made after September 30th three years after the first application. The aggregate statewide limit for credit against the state sale and use tax is \$5 million per year. The \$5 million cap is adjusted by the fiscal growth factor each year beginning July 1, 2008.

The local government using the new sales and use tax must provide an annual report to the Department of Revenue by March 1 of each year. The report must include an accounting of revenues allocated for the purposes of the program, as well as business, employment, and wage information pertaining to the revitalization area. The department shall make a report available to the public and the Legislature by June 1 of each year.

Amended Bill Compared to Original Bill: The amendment increases the amount of new taxes a jurisdiction may receive from \$1.0 million to \$1.5 million, increased property taxes are

not used, provides for a continuing tax rate rather than one that starts and stops each year, adjusts the statewide cap by the fiscal growth factor, and requires approval of the Department of Revenue rather than the CERB.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on July 1, 2006.

Testimony For (International Trade & Economic Development): This is a local government infrastructure funding mechanism. The original bill had five named pilot projects and that is why there is a \$5 million cap. There is a great demand for this tool. This will allow developments sooner rather than later and bigger rather than smaller.

Testimony Against (International Trade & Economic Development): None.

Testimony Other (International Trade & Economic Development): This could be improved with a levy lid lift. Don't give up on a method relying on property taxes.

Who Testified (International Trade & Economic Development): PRO: Representative Linville; Mark Brown, City of Vancouver, Columbia River EDC; Rick Wickman, Identity Clark County; Kick little, City of Bellingham; Doug Levy, Cities of Everett, Kent, Renton, Federal Way, Puyallup; Greg Hanon, Nat. Assoc. of Industrial Office Properties; Christy Lubouch Kitsap County Consolidated Housing Authority; Sharon Wylie, Kitsap Co. Commissioners.

OTHER: Christy Lubouch Kitsap County Consolidated Housing Authority; Sharon Wylie, Kitsap Co. Commissioners.

Testimony For (Ways & Means): This is a tool for local government to fund its economic development plan. It is a pilot project that can be extended if it works. The other 49 states have this tool. Infrastructure is necessary for significant private development and is a key to economic development. The bill should be broader. This will show that this mechanism can be a successful tool.

Testimony Against (Ways & Means): None.

Who Testified (Ways & Means): PRO: Representative Linville, prime sponsor; Mark Brown, City of Vancouver, Columbia River Economic Development Council; Ron Newbry, Washington Economic Development Association; Rick Slunaker, Associated General Contractors.