SENATE BILL REPORT
SB 5899

As of February 15, 2019

Title: An act relating to sales and use tax for public facilities in rural or border counties.

Brief Description: Concerning sales and use tax for public facilities in rural or border counties.

Sponsors: Senators Mullet, Walsh, Cleveland, Ericksen, Wilson, L. and Takko.

Brief History:
Committee Activity: Financial Institutions, Economic Development & Trade: 2/14/19.

Brief Summary of Bill

- Expands the rural county sales and use tax for public facilities to border counties and extends the tax through 2045.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, ECONOMIC DEVELOPMENT & TRADE

Staff: Kellee Gunn (786-7429)

Background: Rural County Sales and Use Tax for Public Facilities. Rural counties currently have authority to impose a 0.09 percent sales and use tax to finance public facilities serving an economic development purpose. This tax is a credit against the state sales and use tax rate of 6.5 percent and does not increase the sales tax paid by the consumer. This tax generated a little more than $35 million for rural counties in FY 2018, with amounts to individual counties ranging from around $31,000 to $4.1 million.

A rural county is one having a population density of less than 100 persons per square mile or one smaller than 225 square miles. Thirty out of the thirty-nine counties currently qualify.

Public facilities are infrastructure or transportation projects, electrical or natural gas facilities, research and incubation facilities in designated innovation partnership zones, buildings, industrial or commercial infrastructure, and port facilities. Attorney's general opinions on this tax have established the local tax may be used to finance costs associated with a public facility if that facility served an economic development purpose. Among these associated costs are land use and permitting costs, site planning costs, as well as feasibility, marketing,

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and revenue impact analysis. A facility qualifies if it is in the economic development plan, the economic development section of the county's comprehensive plan, or the capital facilities plan of the county or city within the county.

A county may not collect this tax for more than 25 years.

<u>Associate Development Organizations.</u> Each county in Washington State has an associate development organization (ADO) whose purpose is to further the county's or region's economic development goals. ADOs receive state funding through appropriation. Funds have historically come from the state general fund. ADOs received $5.8 million in appropriations in 2017-19.

Summary of Bill: The rural county sales and use tax for public facilities is expanded to border counties. Border counties are any county adjacent to another state or foreign country. This would allow Benton, Clark, Spokane, and Whatcom counties to qualify for this tax.

In addition to financing public facilities, this tax may be used to create or retain private sector employment and to finance economic development offices. The public facility must be listed as an item in the officially adopted county overall economic development plan, or the county's capital facilities plan, or the capital facilities plan of a city or town located within the county to meet the requirements as a qualifying expense.

Counties may delegate their role to the ADO serving the county. The ADO must present an annual budget to the county legislative authority for approval, and describe the allocation of funds to be used as grants to fund economic development purposes to organizations other than the ADO.

The 25-year expiration date from when the tax is imposed is eliminated. The tax collected for rural and border counties is authorized through December 31, 2045.

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: PRO: In the early 90s, there were three ways for a county to qualify for this tax that had to do with timber, salmon, and unemployment. Then, in the mid-90s, it was changed to rural counties defined as less than 100 people per square mile. Border counties have unique economic development needs. Benton and Whatcom used to qualify, and would maintain qualification with this bill.

There are 39 counties in the state and six have ports. Five of those six counties with ports are rural counties and receive a portion of this tax. The port district in Spokane is looking for a tool to raise funds that are available to other counties.

Clark County's tax rolls are negatively impacted by its proximity to Oregon. Because of the sales tax structure difference between Oregon and Washington, less retail businesses move to Clark County, and it makes economic development different and more similar to a rural county. There is traffic congestion and pollution in Clark County because it is so close to a large metropolitan area, and this tax would allow it to raise funds to help alleviate those issues.

The .09 percent tax funds should help develop prosperity in the edges of our state. This revenue stream goes to counties, and the county calls for projects related to economic development infrastructure projects. Roughly, two-thirds of the funds go to infrastructure projects. The statute requires stakeholder input before committing the funds, and to have feedback from cities, ports, and other quasi-governmental entities.

Persons Testifying: PRO: Senator Mark Mullet, Prime Sponsor; Todd Mielke, Greater Spokane Incorporated; Jim Hedrick, Greater Spokane Incorporated; Clay Hill, Association of Washington Business; Josh Weiss, Clark County.

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