

HOUSE BILL REPORT

HB 3015

As Reported By House Committee On:

Transportation Policy & Budget

Title: An act relating to tax exemptions for the state route number 16 corridor.

Brief Description: Providing tax exemptions for the state route number 16 corridor.

Sponsors: Representatives Huff, Fisher, K. Schmidt, Zellinsky, Talcott, Carrell, Johnson, Kessler, Lantz and Eickmeyer.

Brief History:

Committee Activity:

Transportation Policy & Budget: 2/9/98 [DPS].

HOUSE COMMITTEE ON TRANSPORTATION POLICY & BUDGET

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 23 members: Representatives K. Schmidt, Chairman; Hankins, Vice Chairman; Mielke, Vice Chairman; Fisher, Ranking Minority Member; Cooper, Assistant Ranking Minority Member; Buck; Chandler; Constantine; DeBolt; Gardner; Hatfield; Johnson; McCune; O'Brien; Ogden; Radcliff; Robertson; Romero; Scott; Skinner; Sterk; Wood and Zellinsky.

Minority Report: Do not pass. Signed by 3 members: Representatives Mitchell, Vice Chairman; Backlund and Cairnes.

Staff: Paul Neal (786-7315).

Background: Public-Private Initiatives in Transportation (PPI) is a program created by the 1993 Legislature to test the feasibility of privately financed transportation improvements in Washington. The law provides a wide range of opportunities for private entities to undertake all or a portion of the study, planning, design, finance, construction, operation and maintenance of transportation systems and facilities.

The state Department of Transportation (DOT) is authorized to solicit proposals from the private sector to select up to six demonstration projects identified by the private sector. Projects are owned by the private sector during construction, turned over to the state, and leased back for operations for up to 50 years. The private developer is authorized to impose tolls or user fees to cover the private sector's investments and allow them a

reasonable rate of return on investment. Tacoma Narrows State Route (SR) 16 corridor improvements were selected as one of the demonstration projects.

All real and personal property in this state is subject to property tax each year, based on its value unless a specific exemption is provided by law. Generally, privately-owned property is taxable and publically-owned property is not.

The sales tax is imposed on retail sale of most items of tangible personal property and some services. The use tax is imposed on the use of an item in this state when the acquisition of the item has not been subject to sales tax. The combined state and local sales and use tax rate is between 7 percent and 8.6 percent, depending on location. Sales tax also applies to labor and service charges for construction, installation and repair of property.

The real estate excise tax is paid when real property is sold. Real property consists of land and improvements permanently affixed to the land. The sale of improvements constructed on leased land is taxable. The state tax rate is 1.28 percent of the selling price. Most local governments impose an added rate of 0.25 percent. Additional local options are available. The combined state and local tax rate is 1.53 or 1.78 percent in most areas.

The leasehold excise tax is imposed on property used for private purposes that is exempt from property taxation because the property is publicly owned. The tax is collected by public entities that lease property to private parties. The tax rate of 12.84 percent is imposed on the amount paid in rent for the public property.

Public and privately-owned utilities, and certain other businesses are subject to the state public utility tax instead of the business and occupation (B&O) tax. Like the B&O tax, the public utility tax is applied to the gross receipts of the business. The principal difference between the B&O and public utility taxes is a higher rate schedule applied under the public utility tax. Although many businesses subject to public utility tax are also subject to regulation by the Utilities and Transportation Commission, there is no direct connection between regulatory status and tax status. Toll bridge companies are taxed at the rate of 1.926 percent.

Cities and towns may impose business and utility taxes. These city taxes are collected at the local level and are not related to the administration of the state B&O or public utility taxes. About 35 cities have a general business tax. Around 200 cities have utility taxes.

Summary of Substitute Bill: The SR 16 corridor transportation systems and facilities constructed under PPI (Chapter 47.46 RCW) are exempt from the property tax, the real estate excise tax, the state public utility tax, and city business taxes.

State and local sales and use taxes are deferred for five years. At the expiration of the deferral period, the accrued tax must be paid over 10 years at a rate of 10 percent per year.

Substitute Bill Compared to Original Bill: The sales and use tax exemption is changed to a five-year deferral with a 10-year payback period.

Appropriation: None.

Fiscal Note: Requested on February 6, 1998.

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

Testimony For: Passage of the bill would aid in the construction of the much needed second Tacoma Narrows Bridge and would keep the initial toll down to \$3 per round trip.

Testimony Against: The exemption from the local B&O tax will make it more difficult for the city of Tacoma to cover costs of off-site impacts.

Testified: Willy O'Neil, Expand Our Narrows Now (EONN) (pro); Cheryl Kincer, EONN (pro); Fred Pasquale, EONN (pro); Harry Martin, EONN (pro); Bob Mack, city of Tacoma (con); and Duston Jensen, city of Tacoma (con).