

HOUSE BILL REPORT

HB 1518

As Reported by House Committee On:
Trade & Economic Development
Finance

Title: An act relating to using state sales and use tax revenues generated within a benefitted jurisdiction as a funding source for community development infrastructure improvements not to exceed one million dollars of funding per fiscal year.

Brief Description: Using state sales and use tax revenues as a funding source for investing in community development infrastructure improvements.

Sponsors: Representatives Fromhold, Van Luven, Veloria, Conway and Dunn; by request of Governor Locke.

Brief History:

Committee Activity:

Trade & Economic Development: 2/13/01, 2/22/01 [DPS];
Finance: 3/7/01 [DPS(TED)].

Brief Summary of Substitute Bill

- Creates a program to provide financing for infrastructure improvements by a county, city or Indian tribe.
- Uses a portion of the sales and use tax collected within the geographic boundaries of the county, city or Indian tribe to pay the state's share of the public-sector component of infrastructure improvements.
- Limits total state funds to \$1 million in fiscal year 2002 and \$2 million in fiscal year 2003.

HOUSE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives Van Luven, Republican Co-Chair; Veloria, Democratic Co-Chair; Dunn, Republican Vice Chair; Eickmeyer, Democratic 1st Vice Chair; Fromhold, Democratic 2nd Vice Chair; Ahern, Gombosky, Jackley, O'Brien and Woods.

Minority Report: Do not pass. Signed by 2 members: Representatives Mulliken and Pflug.

Staff: Kenny Pittman (786-7392).

Background:

The state of Washington has created several programs to assist local governments in meeting infrastructure needs that encourage economic growth and job creation or retention. These programs include loans and grants for infrastructure improvements through the Community Economic Revitalization Board (CERB), infrastructure financing through the local option sales and use tax for public facilities in rural counties, and infrastructure financing through the Public Works Trust Fund.

A sales tax is imposed on retail sales of most items of tangible personal property and some services. The state rate is 6.5 percent and is applied to the selling price of the article or service. In addition, local sales tax apply. A use tax is imposed on the use of an item in this state, when the acquisition of the item has not been subject to the sales tax. The use tax is equal to the sales tax rate multiplied by the value of the property used. The total state and local sales or use tax rate is between 7 percent and 8.6 percent, depending on the jurisdiction.

Initiative 601, enacted by the voters in 1993, established a limitation on state general fund expenditures. Adjustments to the expenditure limit may be made for several reasons: (1) the limit increases each year by the fiscal growth factor, which is population growth added to inflation; (2) the limit is also adjusted, or re-based, each year based on actual expenditures; and (3) the limit is adjusted either up or down if moneys or programs are transferred either to or from the general fund.

Summary of Substitute Bill:

A new program to provide financing for infrastructure improvements is created. An infrastructure improvement means the construction, renovation or expansion of publicly owned infrastructure such as dock facilities, public transit facilities, sewer, wastewater, and water systems, sidewalks and telecommunications systems.

Eligible Entities

A county, city or Indian tribe is eligible to submit applications to request funding for an infrastructure improvement project. A county, city or Indian tribe may develop proposals with other governmental entities such as port district, special purpose districts, municipal corporations and public development authorities.

Project Requirements/Approval

A county, city or Indian tribe must submit an application for project funding to the Department of Community, Trade, and Economic Development (DCTED). The DCTED must review and approve or deny applications based on the following criteria:

1. The county, town or Indian tribe must certify that an analysis has been made of the project and that the project will generate sufficient state revenue over a 30-year period to equal the state's contribution to the project;
2. The county, city, or Indian tribe must identify the source of funds it will use to fund its share of the project costs;
3. The county, city or Indian tribe must provide the DCTED a copy of a written agreement from the private entity that commits the private entity to a privately funded private project that will directly benefit from the infrastructure improvements; and
4. Local governments that plan under the state's Growth Management Act must certify that the proposed project is consistent with the local comprehensive plan and development regulations adopted under the state's Growth Management Act.

The DCTED will make funds available on a first-come basis, with priority based on the date and time an application is received. The DCTED will provide funding to all qualifying projects until the fiscal funding cap is met. Projects received after the fiscal funding cap has been met will be held for evaluation at the next fiscal year.

The DCTED may not approve any application for funding after June 30, 2006.

Program Funding Mechanism

A county, city or Indian tribe with an approved application will receive a portion of the state sales and use taxes generated on retail sales within their geographic boundaries to provide necessary funding. The proceeds must be used to make principal and interest payments necessary to cover the state's share of the cost for the infrastructure improvements.

The DCTED may approve project funding to a county, city or Indian tribe under the following guidelines:

1. Project funding is limited to an amount not to exceed the lessor of (i) \$500,000 in state funds per year or (ii) an amount equal to 30 percent of the total public sector component of the project budget;

2. Project funding is limited to a maximum of 20 years;
3. A county, city or Indian tribe cannot receive funding for more than two simultaneous projects in a fiscal year (\$1 million);
4. Total state funds available for new infrastructure improvement projects cannot exceed \$1 million in a fiscal year. State financing may increase at a rate of \$1 million per fiscal year.

The state incurs no obligation or liability regarding funding of the other components of an infrastructure improvement project. The state's liability or obligation is limited solely to the amount of financing provided from the state's sales and use tax on retail sales within the geographic boundaries of the county, city or Indian tribe.

Miscellaneous

The Infrastructure Improvement Account is created in the custody of the State Treasurer. The State Treasurer is responsible for monthly disbursements to a county, city or Indian tribe with an infrastructure improvement project that has been approved by DCTED.

Substitute Bill Compared to Original Bill:

The substitute bill allows the Department of Revenue to estimate the amount of revenue generated within the boundaries of lands under tribal jurisdiction. The substitute bill removed language that exempted all transfers of state sales and use taxes into the infrastructure improvements account from the expenditure limit adjustment requirement under Initiative 601.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: The availability of infrastructure is vital to all economic development efforts. This will provide a source of funding for those public and private partnership projects that are ready to go. Without this type of financial assistance these projects would not be undertaken, resulting in lost opportunities to create jobs for our residents.

Testimony Against: None.

Testified: (In support) Representative Fromhold, prime sponsor; Jacki Skaught, city of

Kent; Scott Taylor, Washington Public Ports Association; Sheila Martin, Governor's Office; John Savich, Department of Community, Trade and Economic Development; Todd Mielke, Spokane regional Chamber of Commerce; and Paula Johnston, city of Bremerton.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill by Committee on Trade & Economic Development be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives Cairnes, Republican Co-Chair; Morris, Democratic Co-Chair; Berkey, Democratic Vice Chair; Roach, Republican Vice Chair; Carrell, Conway, Pennington, Santos, Van Luven and Veloria.

Staff: Rick Peterson (786-7150).

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Trade & Economic Development:

No new changes were recommended.

Appropriation: None.

Fiscal Note: Not Requested.

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

Testimony For: There is a gap of \$3 billion in needed community infrastructure. Private sector investment is key to revitalizing communities but availability of public infrastructure can be a barrier. This bill offers a tool for partnering with the private sector. The bill addresses gaps for special needs that are not covered by current programs. This proposal is simple, inclusive, provides returns to the state, and is centered on local governments. The funding is staggered over time to allow smaller jurisdictions to put projects together and receive funding in future years. The investment by the private sector partner must show a repayment for the state's contribution. The program is accountable. The local government sponsor provides most of the money (70 percent) and is taking the risk so they will provide oversight. This approach is similar to tax increment financing but avoids some of the pitfalls of tax increment financing. The state's component is essential to these projects. This tool will be used in areas where investment would not otherwise occur.

Testimony Against: None.

Testified: Representative Fromhold, prime sponsor; Sung Yang, Office Trade &

Economic Development; Sheila Martin, Governor's Office; Randy Lewis, city of Tacoma; and Doug Levy, cities of Everett, Kent, and Federal Way.