

***Trade & Economic Development  
Committee***

***HB 1518***

***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 Summary of 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.*
- *Modifies Initiative 601 so that transfers from the state general fund, for the purpose of financing infrastructure improvements, does not require an adjustment to the state expenditure limit.*

***Hearing Date:*** *2/13/01*

***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 taxes 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 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 lesser 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.*

*All transfers of state sales and use taxes into the account and used to make principal and interest payments on the state's portion of the infrastructure improvement project are exempt from the expenditure limit adjustment requirement under Initiative 601.*

***Appropriation:*** *None.*

***Fiscal Note:*** *Requested on February 5, 2001.*

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