SENATE BILL REPORT
SB 5636

As Reported By Senate Committee On:
Economic Development & Telecommunications, February 28, 2001

Title: An act relating to using state sales and use tax revenues generated within a benefited 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: Senators T. Sheldon, Franklin and Rasmussen; by request of Governor Locke.

Brief History:
Committee Activity: Economic Development & Telecommunications: 2/12/01, 2/28/01[DPS-WM].

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT & TELECOMMUNICATIONS

Majority Report: That Substitute Senate Bill No. 5636 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.
Signed by Senators T. Sheldon, Chair; B. Sheldon, Vice Chair; Brown, Fairley, Finkbeiner, Haugen and McCaslin.

Staff: Andrea McNamara (786-7483)

Background: The state has a variety of programs dedicated to financing public infrastructure projects. Despite this, in 1999, the state of Washington Local Government Infrastructure Study identified a gap in infrastructure financing of more than $3 billion.

The state collects retail sales and use taxes on the sale of tangible personal property and certain services. The state retail rate is 6.5 percent. Most of the state retail sales/use taxes are deposited into the state general fund.

Summary of Substitute Bill: Legislative findings are made that it is in the best interest of the state to foster three-way partnerships between the state; counties, cities, or Indian tribes; and private industry to make strategic investments in public infrastructure that will stimulate private investment needed to spur economic development and create jobs.

A new infrastructure improvement account is created in the state treasury for the purpose of assisting in the financing of qualified infrastructure improvements undertaken by cities, counties, or Indian tribes before June 30, 2006.

Qualified infrastructure improvements are defined to include construction, renovation, or expansion of a variety of publicly-owned infrastructure improvements, including docks, parks and recreation facilities, parking and public transit facilities, sewer, water, wastewater, and telecommunications systems, sidewalks, lighting, and pedestrian improvements.

The account dedicates certain retail state sales and use tax collections for these projects. The source of the funds is the state share of the retail sales and use tax from within the qualifying county, city, or Indian country.

Each qualifying jurisdiction receives distributions equal to the amount of state retail sales and use tax collected within its boundaries subject to certain limitations. A county, city, or Indian tribe may be approved for no more than one project per year, and may have no more than two projects on-going simultaneously. Each qualifying jurisdiction may receive up to $500,000 per approved project per fiscal year, up to a maximum of $1 million per year.

The funds must be used solely for debt obligation repayments. No more than 30 percent of the total public sector budget for any project may be funded by this program. The remaining project budget for infrastructure improvements and related expenses must come from other public or private sources. Funding expires when the debt obligation is repaid or after 20 years, whichever comes first.

The Department of Community, Trade, and Economic Development must review and approve or deny all applications within 60 days. Funding criteria and priorities are established. Application requirements are specified, including documentation of the economic value of the project to the state, the source of other public and private funds being used for the project, and consistency with local comprehensive plans and development regulations. Conditional approvals are allowed provided that all conditions must be met before funding may be dispersed.

The requirement to reduce the state expenditure limit by any amounts shifted or transferred from the state general fund into another fund or account does not apply to this program.

The state's obligation and liability regarding any infrastructure improvement project is limited to the amount of funding it provides under this program.

Substitute Bill Compared to Original Bill: The substitute makes two clarifications: first, that only the portion of sales and use tax proceeds that are necessary to finance approved projects are diverted out of the general fund into the new infrastructure improvement account; and second, the method is specified by which the Department of Revenue determines that the amounts of tax proceeds diverted does not exceed the total amount of tax proceeds collected on tribal lands.

Appropriation: None.

Fiscal Note: Requested on January 29, 2001.

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

Testimony For: Partnerships between the state, local governments, and the private sector are desperately needed. This bill helps in areas where the private sector will not invest because public infrastructure is inadequate. The advantages of this bill are its simplicity (it creates no new state board or program; the state is actually a silent partner), its inclusiveness, its guaranteed return on investment to the state, and its focus on local decision making and accountability. This program builds on existing programs and offers funding for projects that the CERB funds and the public works trust fund can't support.

Testimony Against: None.

Testified: Sheila Martin, Governor's Office (pro); John Savich, CTD (pro); Randy Lewis, City of Tacoma (pro); Ron Newby, WA Economic Development Council (pro); Ben Wolters, City of Seattle, Office of Economic Development; Scott Taylor, WPPA (pro).