

HOUSE BILL REPORT

HB 1880

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

Title: An act relating to authorizing a county sales and use tax to fund economic development.

Brief Description: Authorizing a county sales and use tax to fund economic development.

Sponsors: Representatives Gombosky, Benson, Wood, Ahern, Veloria and Eickmeyer.

Brief History:

Committee Activity:

Trade & Economic Development: 2/25/03, 2/28/03 [DPS];

Finance: 3/7/03, 3/10/03 [DP2S(w/o sub TED)].

Brief Summary of Second Substitute Bill

- Allows counties located east of the Cascades with a population greater than 400,000 residents, with the approval of a majority of the voters, to impose up to a 0.1 percent local sales and use tax to fund economic development and public improvements.

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 Veloria, Chair; Eickmeyer, Vice Chair; Skinner, Ranking Minority Member; McDonald, Assistant Ranking Minority Member; Blake, Chase, Condotta, McCoy, Pettigrew and Priest.

Minority Report: Do not pass. Signed by 1 member: Representative Kristiansen.

Staff: Tracey Taylor (786-7196).

Background:

Washington State law provides for 13 different types of local sales and use taxes. These are a 0.5 percent "basic" tax for cities and counties; an "optional" tax of up to 0.5

percent for cities and counties; a tax that ranges from 0.1 to a maximum of 0.9 percent for transit purposes; a tax of up to 1.0 percent to fund high capacity transportation; separate taxes of 0.1 percent each for criminal justice, public facilities, county correctional facilities, and zoos; two state-credited taxes to finance professional sports stadia; and two state-credited taxes to support rural counties and regional centers.

Currently, there are 280 incorporated cities and all of them levy the basic 0.5 percent tax. Seven cities, generally in border areas, levy only the basic 0.5 percent tax and none of the optional tax; the remaining 273 cities levy both the basic tax and at least some portion of the optional tax.

There are 35 counties that currently levy the full 1.0 percent tax.

Summary of Substitute Bill:

A county legislative authority, if its located east of the Cascades with a population greater than 400,000 residents, may submit an authorizing proposition to the county voters to impose a sales and use tax for economic development and public improvements. Such a proposition must be approved by the majority of the county voters.

A tax of up to 0.1 percent of the value of the article (use tax) or selling price of the item (sales tax) could be levied on any taxable event within the county; however the tax does not apply to the retail purchase of a new motor vehicle. No less than 25 percent of the money received as the result of this tax must be used for economic development. The remainder of the money received from this tax shall be used for construction of public improvements that result in additional jobs in the county with preference going to those public improvement projects where other sources of funding are available. An economic development advisory committee shall provide the county legislative authority with recommendations regarding the expenditures of the money received as the result of this sales and use tax. Before these tax receipts can be spent, the county legislative authority must specifically identify the expenditures in the county budget.

"Economic development" is defined as economic development planning; economic and community analysis; marketing and promotion (not including hosting); demographic and data collection and publication; and technical assistance. "Technical assistance" includes assistance with strategic planning; market research; business plan development and review; organization and management development; accounting and legal services; and grant and loan packaging.

"Public improvements" mean infrastructure improvements; incubation facilities; expenditures for environmental analysis, professional management and planning; expenditures for historic preservation activities; funding for the design, planning, legal and other professional services; acquisition, site preparation, construction, reconstruction,

rehabilitation, improvements and installation of public improvements; relocating, maintaining and operating property pending construction of public improvements; and funding the relocating of public utilities.

County Economic Development Advisory Committee

The Economic Development Advisory Committee (Committee) shall consist of no more than 12 members, appointed by the county legislative authority. The Committee should have at least one representative from a business association within the county; at least one elected official from a city or town within the county; at least one representative from an associate development organization within the county; and at least one representative from a workforce training organization within the county. The number of public sector members cannot exceed the number of private sector committee members. The chair of the Committee shall be appointed by the county legislative authority and be a member from the private sector. The county legislative authority is allowed to prescribe the selection process, specify the appointment, term and compensation or reimbursement of expenses for the committee members.

The authority to levy the tax expires December 31, 2008.

Substitute Bill Compared to Original Bill:

The substitute limits the counties that may levy a tax to those counties located east of the Cascades with a population greater than 400,000 residents. The amount of the tax is capped at 0.1 percent, but a county may levy a lesser rate. The tax does not apply to the retail purchase of a new motor vehicle. The tax expires December 31, 2008.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: This is an additional tool to fund economic development and the development of public infrastructure that will contribute directly to the creation of permanent jobs. This has no impact on the State General Fund. Moreover, the citizens of the county get to vote on whether to impose the tax, this bill merely authorizes the county to ask for the public vote. Currently, Spokane County, which is largely rural, does not qualify for the .08 percent sales tax credit for rural distressed areas, this bill would allow them a similar economic development tool.

(Concerns) New retail car sales account for about 15 percent of the state's sales tax revenues. This would be an additional burden on new car buyers, who already pay a

larger tax burden on the purchase of a new car. Moreover, there are many bills this session looking at an additional motor vehicle excise tax to fund transportation. Therefore, new car sales should be exempted from this bill.

Testimony Against: None.

Testified: (In support) Todd Mielke, Spokane Regional Chamber of Commerce; Collins Sprague, Avista Corp.; Ron Newbry, Washington Economic Development Association; and Paul Parker, Washington State Association of Counties.

(Concerns) Jim Boldt, Washington Auto Dealers.

HOUSE COMMITTEE ON FINANCE

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Trade & Economic Development. Signed by 6 members: Representatives Gombosky, Chair; McIntire, Vice Chair; Ahern, Conway, Morris and Santos.

Minority Report: Do not pass. Signed by 3 members: Representatives Cairnes, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; and Roach.

Staff: Mark Matteson (786-7145).

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

Corrects an error regarding a reference to associate development organizations. Makes a technical correction regarding the exemption for sales of new motor vehicles. Provides an exclusive list of potential public improvements, and eliminates historic preservation activities from the list. Modifies the criteria for the use of the funds that are to be used for the construction of public improvements, such that the improvements must directly result in the creation of permanent additional jobs.

Appropriation: None.

Fiscal Note: Requested on March 11, 2003.

Effective Date of Second Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: Communities need options for dealing with their economic development needs. The state is not really in a position to provide direct economic development financing. Spokane County does not qualify for the 0.08 percent rural county sales tax

that is credited against the state sales tax, for economic development purposes. Moreover, we have lost opportunities to locate business in Spokane to places in Montana and Idaho because we do not have the capacity to improve our infrastructure easily.

In the bill, we've included an up-front public vote. We feel that a broad-based tax is needed. The bill is necessary to allow government to provide core infrastructure needs. We cannot convince businesses to kick in for basic infrastructure, when they are already putting so much up for the development. The bill also includes a specific list of what the money could be spent on.

We don't want to have to use municipal business and occupation tax authority or to create a potential port district. Other potential revenue raising options would not allow revenues to be used for economic development purposes.

(Concerns) We would like the option available to all counties. Economic development is important to Clark, Kitsap, and many other counties.

We appreciate that there has been an attempt made to exempt new vehicle purchases from the new tax. However, there is a technical problem with the manner in which the exemption was put in and so we would like a minor revision.

Testimony Against: None.

Testified: Representative Gombosky, prime sponsor; and Todd Mielke, Spokane Regional Chamber of Commerce.

(Concerns) Jim Boldt, Washington State Auto Dealers Association; and Paul Parker, Washington State Association of Counties.

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