

HOUSE BILL REPORT

E2SHB 1705

As Amended by the Senate

Title: An act relating to the creation of health sciences and services authorities.

Brief Description: Creating health sciences and services authorities.

Sponsors: By House Committee on Finance (originally sponsored by Representatives Barlow, Ormsby, Kenney and Wood).

Brief History:

Committee Activity:

Technology, Energy & Communications: 2/7/07, 2/13/07 [DPS];
Finance: 3/5/07 [DP2S(w/o sub TEC)].

Floor Activity:

Passed House: 3/9/07, 68-29.
Senate Amended.
Passed Senate: 4/12/07, 48-0.

Brief Summary of Engrossed Second Substitute Bill

- Allows a city, town, or county to establish a Health Sciences and Services Authority to promote bioscience-based economic development and advance new therapies and procedures to combat disease and promote public health.

HOUSE COMMITTEE ON TECHNOLOGY, ENERGY & COMMUNICATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass.
Signed by 11 members: Representatives Morris, Chair; McCoy, Vice Chair; Crouse, Ranking Minority Member; McCune, Assistant Ranking Minority Member; Eddy, Ericksen, Hankins, Hudgins, Hurst, Takko and VanDeWege.

Staff: Scott Richards (786-7156).

HOUSE COMMITTEE ON FINANCE

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

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 Technology, Energy & Communications. Signed by 5 members: Representatives Hunter, Chair; Conway, Ericks, McIntire and Santos.

Minority Report: Do not pass. Signed by 4 members: Representatives Hasegawa, Vice Chair; Orcutt, Ranking Minority Member; Condotta, Assistant Ranking Minority Member and Roach.

Staff: Jeff Mitchell (786-7139).

Background:

Special Purpose Districts

Special purpose districts are limited purpose local governments established to perform a specialized function separate from a city, town, or county (local government). Examples of functions include: electricity services, flood control, irrigation, parks and recreation, and water and sewer services. According to the Municipal Research and Services Center of Washington, there are an estimated 80 different special purpose districts in the state. Most often the governance structures are designated in statute. Most powers of a special purpose district are vested in a board of directors, board of trustees, or board of district directors.

Business and Occupation Tax

The business and occupation (B&O) tax is levied for the privilege of doing business in Washington. The tax is levied on the gross receipts of all business activities conducted within the state. There are no deductions for the costs of doing business.

Sales and Use Tax

The sales tax is paid on each retail sale of most articles of tangible personal property, certain services, and extended warranties. The use tax is imposed on the use of articles of tangible personal property, certain services, and extended warranties when the sale or acquisition has not been subject to the sales tax. The use tax commonly applies to purchases made from out-of-state firms.

Summary of Engrossed Second Substitute Bill:

Health Sciences and Services Authority

A city, town, or county (local government) may establish by ordinance or resolution a Health Sciences and Services Authority (Authority) to promote bioscience-based economic development and advance new therapies and procedures to combat disease and promote public health. A city and county may join together to create an Authority. "Health sciences and services" means biosciences that advance new therapies and procedures to combat disease and promote public health. The ordinance or resolution must specify the powers of the Authority, establish an administrative board, clarify the geographic boundaries of an Authority and provide investment guidelines.

An Authority has all the general powers necessary to carry out its purposes and duties such as make and execute agreements and contracts, establish special funds, hire staff, leverage the Authority's public funds with moneys received from other public and private sources, hold funds received by the Authority in trust, and make grants to entities to promote bioscience-based economic development.

Board

An Authority shall be overseen by a board appointed by the sponsoring local government. Board members must reside within the jurisdiction of the local government that created the Authority. The board is responsible for selecting the chair and the adoption of bylaws or rules for their own governance. Board meetings will be held in accordance with the Open Public Meetings Act.

Liability

Members of the board, as well as other persons acting on behalf of the Authority, are not subject to personal liability resulting from their official duties. The state, the local government that created the Authority, and the Authority are not liable for any loss, damage, harm, or other consequences resulting from grants provided by the Authority or from programs, services, research, or other activities funded with such grants.

Department of Community, Trade and Economic Development

The Department of Community, Trade and Economic Development (Department) is authorized to approve or reject applications submitted by local governments for an area's designation as an Authority. The application shall be prescribed by the Department. Applications are due December 31, 2007. When denying an application, the Department must specify the application's deficiencies. A rejected application may be resubmitted for approval. The Department is limited to approving one authority statewide.

The Department may adopt any rules necessary to implement the Authority Program. The Department must develop evaluation and performance measures in order to evaluate the effectiveness of an Authority's activities. The Director of the Department shall determine the division to review applications submitted by local governments and the division to develop criteria to evaluate the applications.

Debt

A local government may incur general indebtedness, and issue general obligation bonds, to finance the grants and other programs and retire the indebtedness. The bonds issued by a local government do not constitute an obligation of Washington, either general or special.

The ordinance adopted by the local government creating the authority and authorizing the use of the excise tax indicates an intent to incur this indebtedness and the maximum amount of this indebtedness that is contemplated.

The general indebtedness incurred may be payable from other tax revenues, the full faith and credit of the sponsoring local government, and nontax income, revenues, fees, and rents from the public improvements, as well as contributions, grants, and nontax money available to the

local government for payment of costs of the grants and other programs or associated debt service on the general indebtedness.

State Tax Incentives

Business and Occupation Tax

The B&O tax does not apply to grants made by an Authority.

Sales and Use Tax

Beginning October 1, 2007, the Department of Revenue shall distribute, on a quarterly basis, to a local government with an Authority an amount equal to .015 percent of the proceeds generated by the sales and use taxes within that local government's jurisdiction during the previous quarter. The Department shall not collect and distribute sales and use taxes to a local government with an Authority after January 1, 2013. The amounts received may only be used to carry out the powers and duties of an Authority or to finance and retire debt incurred, in whole or in part.

Public Disclosure

Financial, commercial, operations, and technical and research information and data submitted to or obtained by an Authority related to grant making is exempt from disclosure as part of the Public Records Act.

EFFECT OF SENATE AMENDMENT(S):

Increases the credit against the state sales tax from .0075 percent to .015 percent. Limits the creation of a Health Sciences and Services Authority (Authority) to counties with less than one million persons. Makes technical changes to the sales tax credited against the state portion of the tax. Authorizes the Higher Education Coordinating (HEC) Board to be responsible for approval of an application to create a Health Sciences and Services Authority, instead of CTED. Changes are made to the manner in which the board members are appointed. Replaces provisions requiring the HEC Board to report to the Legislature with a study conducted by the Joint Legislative Audit and Review Committee. Requires the and the Authority to apply for a Washington Quality Award.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed, except section 14, which, because of prior double amendments, takes effect June 30, 2008.

Staff Summary of Public Testimony: (Technology, Energy & Communications)

(In support) A Health Sciences and Services Authority needs to occur in Spokane. This program will allow communities to get the infrastructure in place in order to compete nationally and globally in the health sciences arena. The proposed Institute for Systems Medicine (Institute) in Spokane is a perfect example of what this bill would support. The development of the Institute could mean a great deal for the eastern side of the state. It could

provide jobs, stimulate the economy and be a major factor in improving our health care practices. This bill has the unique ability to leverage the strength in research, education and health care access. This legislation is critical to the successful launch of the Institute for Systems Medicine. This bill will create high wage jobs and improve patient outcomes.

(Opposed) None.

Staff Summary of Public Testimony: (Finance)

(In support) None.

(With concerns) This bill provides a Business and Operation (B&O) tax exemption for private businesses that receive grants from a health sciences and service authority. Generally, grants are subject to the B&O tax. The Department of Revenue is concerned about the precedent that this exemption would set.

(Opposed) None.

Persons Testifying: (Technology, Energy & Communications) Representative Barlow, prime sponsor; Mike Skinner, Washington State University; John Driscoll, Project Access; and Lewis Rumpler, Institute for Systems Medicine.

Persons Testifying: (Finance) (With concerns) Gil Brewer, Department of Revenue.

Persons Signed In To Testify But Not Testifying: (Technology, Energy & Communications) None.

Persons Signed In To Testify But Not Testifying: (Finance) None.