SENATE BILL REPORT
SB 5557

As Reported By Senate Committee On:
Economic Development, Trade & Management, February 23, 2007
Ways & Means, March 5, 2007

Title: An act relating to authorizing counties to impose additional sales and use taxes for construction or improvements for economic development facilities.

Brief Description: Authorizing additional sales and use taxation by counties for economic development facilities.

Sponsors: Senators Hargrove, Prentice, Zarelli, Hatfield, Brandland, Brown, Poulsen, Pridemore and McAuliffe.

Brief History:
Committee Activity: Economic Development, Trade & Management: 2/09/07, 2/23/07 [DPS-WM].
Ways & Means: 3/01/07, 3/05/07 [DP2S].

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, TRADE & MANAGEMENT

Majority Report: That Substitute Senate Bill No. 5557 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.
Signed by Senators Kastama, Chair; Kilmer, Vice Chair; Zarelli, Ranking Minority Member; Clements, Kauffman and Shin.

Staff: Jack Brummel (786-7428)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Second Substitute Senate Bill No. 5557 be substituted therefor, and the second substitute bill do pass.
Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Pridemore, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Carrell, Fairley, Hatfield, Hewitt, Hobbs, Honeyford, Keiser, Kohl-Welles, Oemig, Parlette, Rasmussen, Roach, Rockefeller and Schoesler.

Staff: Dean Carlson (786-7305)

Background: Sales tax is imposed on retail sales of most items of tangible personal property and some services, including construction and repair services. Sales and use taxes are imposed

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by the state, counties, and cities. Sales and use tax rates vary between 7 and 8.9 percent, depending on location.

Rural counties may impose a local option sales and use tax of 0.08 percent. The tax is deducted from the state's 6.5 percent sales and use tax and, thus, the consumer does not see an increase in the amount of the tax paid. Revenues from this local option tax may only be used to finance public facilities serving economic development purposes.

"Rural counties" are defined, for purposes of the tax credit, as a county with a population density of less than 100 persons per square mile, or smaller than 225 square miles.

Summary of Bill: Counties may impose a new retail sales and use tax to fund construction of or improvements to economic development facilities. The rate of the tax may be up to 0.06 percent for counties with a population density less than 100 people per square mile; 0.03 percent in a county with a population over 1.6 million; and 0.04 percent in all other counties. The new tax is deducted from the state sales and use tax and, once imposed, may not be collected for more than 25 years.

EFFECT OF CHANGES MADE BY RECOMMENDED SUBSTITUTE AS PASSED COMMITTEE (Economic Development, Trade & Management): An increased tax rate of 0.15 percent is allowed for financing public facilities serving economic development purposes only in those rural counties with poverty rates 25 percent higher and median household income 25 percent lower than the state's. Public facilities may not be funded for a retail shopping development or expansion; a tourist or sports facility; or a gambling facility. Public facilities may not be funded for projects that will cause sprawl.

Economic development purposes means those purposes which facilitate the creation or retention of businesses and the creation or retention of jobs with health benefits and with hourly wages that exceed the countywide median hourly wage.

EFFECT OF CHANGES MADE BY RECOMMENDED SECOND SUBSTITUTE AS PASSED COMMITTEE (Ways & Means): The thresholds for eligibility of counties for the increased credit amount were removed. The criteria for how the funds from the sales and use tax credit were also removed. The rural county sales and use tax credit was increased from 0.08 percent to 0.1 percent for all counties that currently qualify for the credit.
Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2007.

Staff Summary of Public Testimony (Economic Development, Trade & Management): PRO: The rural 0.08 money is very flexible. The bill will allow the same mechanism for other counties. This allows the locals to decide how to spend development money. The 0.08 funds have leveraged other funds and allows counties to act quickly.

Persons Testifying (Economic Development, Trade & Management): PRO: Senator Hargrove, prime sponsor; Julie Murray, Washington Association of Counties; Gary Nelson, Port of Grays harbor; Michael Tracy, Grays Harbor Economic Development Council; Bill

Lotto, Lewis County Economic Development Council; Al Carter, Grays Harbor County; James McMahan, Washington Economic Development Association; Tami Garrow, Satsop Development Authority.

Staff Summary of Public Testimony (Ways & Means): PRO: We support this bill. These credits have been very successful. If you are changing the eligibility requirements, we suggest using distressed county figures. We would like to see the prohibition on tourist and sports facilities removed. The employment qualifications don't work in the bill as most of the projects are items like water systems and fiber optics that don't necessarily create employment.

Persons Testifying (Ways & Means): PRO: Julie Murray, Association of Washington Counties.