

HOUSE BILL REPORT

SSB 6073

As of Second Reading

Title: An act relating to sales and use taxes related to the state route number 16 corridor improvements project.

Brief Description: Concerning sales and use taxes related to the state route number 16 corridor improvements project.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Kilmer, Regala, Rolfes and Carrell).

Brief History:

Committee Activity:

Ways & Means: 3/7/12.

Brief Summary of Substitute Bill

- Extends the state and local sales and use tax deferral for the Tacoma Narrows Bridge project.

HOUSE COMMITTEE ON WAYS & MEANS

Staff: Jeffrey Mitchell (786-7139).

Background:

Retail sales and use taxes are imposed by the state, cities, and counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property and digital products. Some services are also subject to sales and use tax, including state construction projects. If retail sales taxes were not collected when the property, product, or service was acquired by the purchaser, then use taxes will usually apply to the value of the property, product, or service. Use tax rates are the same as retail sales tax rates.

A new suspension bridge was built next to the old Tacoma Narrows Bridge. The new bridge on State Route 16 opened July 16, 2007. The old bridge retrofit was completed in the spring of 2008. The old span takes drivers westbound on three general purpose lanes and one carpool lane. The new bridge carries eastbound traffic on two general purpose lanes, one

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carpool lane, and a fourth drop lane. The Tacoma Narrows Bridge toll project has a state and local sales and use tax deferral on materials and labor used in the construction of the bridge. The taxes are deferred for five years after tolls on the new project started. Beginning in December 2012, the \$57.6 million in deferred taxes becomes due and are payable in 10 annual installments.

Tolls are expected to increase this year due to lower than anticipated toll receipts, increased debt service payments coming due, a mandated minimum fund balance, and deferred sales taxes coming due.

Summary of Bill:

The deferment period for state and local sales and use taxes on the Tacoma Narrows Bridge project is extended by six years. In other words, sales and use taxes will begin to be repaid in 2018 as opposed to 2012.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) The Narrows Bridge is the only major project that is fully paid for by users. Other major projects are only partly paid for by tolls. Because of the economy, bridge use is below projections. We are looking at a significant rise in tolls. By deferring the sales tax for six years, we can limit the rise in tolls and limit the impact of the community.

Bridge tolls are paying all the costs for construction, operations, and state administrative overhead. The tolls are paying for costs that are normally paid with taxes, including administrative overhead. Reasonable tolls are vital to the Gig Harbor economy. There are no other viable routes between Gig Harbor and the I-5 corridor. Businesses are being impacted by bridge tolls.

(With concerns) The Department of Revenue is concerned due to constitutional issues. Under the federal Constitution the state cannot directly tax the federal government. Washington imposes the sales and use tax on federal contractors for materials they incorporate into federal projects.

(Information only) The taxation of federal contractors was upheld by the U.S. Supreme Court in a close decision because the state also imposed the tax on all contractors. Deferral of tax increases the likelihood that federal contractors will again challenge the tax treatment arguing

that Washington discriminates against federal contractors. About \$100 million in use tax is collected from materials used in federal projects each year. Refunds may be requested for up to four years.

(Opposed) None.

Persons Testifying: (In support) Rob Karlinsey, City of Gig Harbor.

(With concerns) Drew Shirk, Department of Revenue.

(Information only) Cam Comfort, Office of the Attorney General.

Persons Signed In To Testify But Not Testifying: None.