SENATE BILL REPORT
SB 6474

As of January 26, 2020

Title: An act relating to replacing the streamlined sales tax mitigation program with sales tax diversification awards for certain eligible cities.

Brief Description: Replacing the streamlined sales tax mitigation program with sales tax diversification awards for certain eligible cities.

Sponsors: Senators Das, Zeiger, Mullet, Keiser and Liias.

Brief History:
Committee Activity: Ways & Means: 1/27/20.

Brief Summary of Bill

- Authorizes additional demonstration projects under the Local Revitalization Program.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Jeffrey Mitchell (786-7438)

Background: Streamlined Sales Tax Mitigation. Retail sales tax is Washington's principal tax source. Businesses making retail sales in Washington collect sales tax from their customers. Generally, a retail sale is the sale of tangible personal property, but the sale of some services and digital products are also subject to sales tax.

In 2008, Washington became a member state of the Streamlined Sales and Use Tax Agreement (SSUTA). The SSUTA is a cooperative effort of member states to simplify and make sales and use tax collection and administration more uniform. The intention of this agreement was to reduce the cost and administrative burdens on retailers that collect sales tax, particularly retailers operating in multiple states. A significant change made to Washington's sales tax structure when it joined the SSUTA was going from the origin-based sourcing of sales tax to destination-based sourcing. Under origin-based sourcing, local sales taxes are sourced to the location of the business. Under destination-based sourcing, local sales taxes are sourced to the location where the buyer takes possession of the product. For businesses shipping products from a warehouse to a customer's home, for example, this

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changed the location of the sale for purposes of calculating local sales tax from the location of the warehouse to the location of the buyer. For some local jurisdictions, this change substantially affected local sales tax revenues because often customers are located in a different jurisdiction.

To mitigate the revenue loss experienced by local jurisdictions from the sourcing changes, the SSUTA legislation from 2007 created a program to provide state funding to these jurisdictions to offset the negative fiscal impact. Cities, counties, public facilities districts, and several types of local transportation districts were eligible for state mitigation funding if the estimated revenue loss from the sourcing changes exceeded the estimated additional sales tax revenue to the jurisdiction derived from other provisions of SSUTA.

During the 2017 session, the Legislature eliminated mitigation payments for local governments in two phases. As of July 1, 2017, mitigation payments for transportation authorities, public transportation benefit areas, and regional transit authorities were discontinued. Beginning October 1, 2019, the remaining mitigation payments for cities, counties, and public facility districts were eliminated. The 2017 legislation also made changes to facilitate the collection of additional sales taxes from out-of-state businesses.

In 2019, as part of the state operating budget, to continue mitigating local sales tax revenue net losses as a result of the sourcing provisions of the SSUTA, mitigation payments to qualified local taxing districts were partially maintained. A "qualified local taxing district" means a city that was eligible for streamlined sales tax mitigation payments of at least $50,000 in calendar year 2018 and the district has a continued local sales tax revenue loss as a result of the sourcing provisions of the SSUTA.

Between October 1, 2019, and through July 1, 2021, the Department of Revenue will calculate annual net losses for distribution to qualified local taxing districts. The annual net loss amount calculation takes into consideration the decrease in sales tax revenues to the jurisdiction from the 2008 sourcing changes as well as the increase in sales tax revenues from additional out-of-state businesses collecting and remitting Washington sales taxes. A qualified local taxing district will get one-fourth of its annual net loss amount each calendar quarter. The distributions are discontinued at the end of the 2019-21 biennium unless the Legislature reauthorizes the distributions in the budget or in separate legislation. The 2019-21 operating budget assumes total distributions during the biennium of $16.4 million.

Local Revitalization Program. The Local Revitalization Financing Program (LRF) was created in 2009 to encourage public infrastructure investments to stimulate private development and create jobs. To increase public investments, the LRF provides a mechanism for local governments to use sales and property tax revenues within a designated revitalization area to finance public improvement projects. The taxes are assessed based on the incremental increase in revenues within the revitalization area generated by the public improvement. The incremental tax revenues, as well as other local public funding sources, are used to finance the public improvements.

The state may also provide a contribution up to $500,000 per year per public improvement project in the LRF program. Local governments may apply to the Department of Revenue (DOR) for a state contribution award. DOR awards a state contribution on a first-come, firstserved basis. DOR will reduce the state sales and use tax by the amount of the local sales and use incremental tax that is applied within the revitalization areas, for example, the consumer does not pay an increased amount of sales tax because the local sales tax is credited against the state sales tax. The local sales tax credit may be imposed up to 25 years. To grant an award, DOR must determine whether the local government is able to match the award amount generated through local revenues. The total state contribution limit for competitive project awards is set at $2.5 million. The LRF program is currently not open for new applicants because state funding has been awarded. In 2010, the Legislature also authorized an additional $4.2 million state contribution for 13 LRF demonstration projects designated in statute.

Summary of Bill: Additional LRF demonstration projects are authorized for any city receiving streamlined sales tax mitigation payments in FY 2021 in excess of $150,000. An eligible city will create a revitalization area and apply to DOR for a state contribution through the credit against the state sales tax. The state contribution is capped at the total amount of streamlined sales tax mitigation received by the jurisdiction in fiscal year 2021. Beginning July 1, 2021, a qualifying city could impose the sales tax credit for up to 20 years. To qualify, a city must submit its application to DOR by September 1, 2020.

Currently, it is estimated that seven jurisdictions would be eligible to apply under the expanded LRF program—Auburn, Fife, Issaquah, Kent, Sumner, Tukwila, and Woodinville. If all of these jurisdictions received the maximum amount the fiscal impact would be approximately $7 million per year.

Appropriation: None.

Fiscal Note: Requested on January 21, 2020.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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