

# HOUSE BILL REPORT

## EHB 1990

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### As Passed Legislature

**Title:** An act relating to a sales and use tax deferral for projects to improve the state route number 167 and Interstate 405 corridor.

**Brief Description:** Concerning a sales and use tax deferral for projects to improve the state route number 167 and Interstate 405 corridor.

**Sponsors:** Representatives Duerr, Slatter, Kloba, Walen and Fey; by request of Office of Financial Management.

### Brief History:

#### Committee Activity:

Finance: 2/1/22, 2/17/22 [DP];

Transportation: 2/23/22, 2/25/22 [DP].

#### Floor Activity:

Passed House: 3/4/22, 96-2.

Passed Senate: 3/10/22, 47-2.

Passed Legislature.

### Brief Summary of Engrossed Bill

- Provides a sales and use tax deferral for qualified Interstate 405/State Route 167 Corridor construction projects.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 16 members: Representatives Frame, Chair; Berg, Vice Chair; Walen, Vice Chair; Orcutt, Ranking Minority Member; Chase, Chopp, Harris-Talley, Morgan, Orwall, Ramel, Springer, Stokesbary, Thai, Vick, Wylie and Young.

**Minority Report:** Without recommendation. Signed by 1 member: Representative Dufault, Assistant Ranking Minority Member.

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

**Staff:** Tracey Taylor (786-7152).

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## HOUSE COMMITTEE ON TRANSPORTATION

**Majority Report:** Do pass. Signed by 28 members: Representatives Fey, Chair; Wylie, 1st Vice Chair; Bronoske, 2nd Vice Chair; Ramos, 2nd Vice Chair; Barkis, Ranking Minority Member; Eslick, Assistant Ranking Minority Member; Volz, Assistant Ranking Minority Member; Berry, Chapman, Dent, Donaghy, Duerr, Entenman, Goehner, Griffey, Hackney, Klicker, McCaslin, Orcutt, Paul, Ramel, Riccelli, Slatter, Sutherland, Taylor, Valdez, Walsh and Wicks.

**Staff:** David Munnecke (786-7315).

### **Background:**

#### Retail Sales and Use Tax.

Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use tax applies to the value of property, digital product, or service when used in this state. The state, all counties, and all cities levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 percent to 4.0 percent, depending on the location.

#### Tax Preference Performance Statement.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

#### Interstate 405/State Route 167 Transportation Projects.

The Interstate 405 (I-405) and the State Route 167 (SR 167) Corridor Program stretches from Lynnwood to Sumner, forming the only north–south highway alternative to Interstate 5 in the Puget Sound region. As a result, the corridor experiences high daily traffic volumes from commuters and freight. Both the I-405 Master Plan and the SR 167 Corridor Plan recommend connecting I-405 and SR 167 to form a seamless corridor program of coordinated multimodal transportation solutions to address current and future traffic demand. The combined plans will include new highway lanes, improved interchanges, direct access, expanded transit service including Bus Rapid Transit (BRT), and a two-lane

express toll lane (ETL) system and connecting communities through local multimodal improvements.

*State Route 167 Corridor Improvements Project.*

The SR 167 Corridor Improvements Project is comprised of the SR 167 Toll Equipment Upgrade Project and the SR 167, State Route 516 (SR 516) to South 277th Street Southbound Auxiliary Lane Project. As part of the SR 167 Toll Equipment Upgrade Project, the Washington Department of Transportation (WSDOT) will upgrade the SR 167 toll equipment to be the same as the I-405 toll equipment, resulting in a continuous 50-mile I-405/SR 167 ETL system and a consistent customer experience in the express toll lanes. In addition, the WSDOT plans to construct an auxiliary lane on southbound SR 167 between SR 516 and South 277th Street in Kent.

*Interstate 405/Renton to Bellevue.*

The I-405 Renton to Bellevue Widening and Express Toll Lanes project includes multimodal transportation and safety improvements to offer more reliable travel choices and keep drivers, transit riders, and freight moving.

The Renton to Bellevue project will add new capacity to create a two-lane ETL system between SR 167 in Renton and Northeast Sixth Street in Bellevue. In general, the project will add one new lane in each direction and combine the existing high occupancy vehicle (HOV) lane with the new lane to create a dual ETL system.

The new ETLs will connect to the existing ETL system between Bellevue and Lynnwood, as well as the SR 167 HOV lanes via the I-405/SR 167 Interchange Direct Connector, to create a 40-mile ETL system. This project is designed to improve speeds and trip reliability for all travelers and support the new I-405 BRT line between Lynnwood and Tukwila included in the voter-approved Sound Transit 3 package.

*Interstate 405/State Route 522 Vicinity.*

The I-405/State Route 522 (SR 522) Vicinity to State Route 527 (SR 527) Express Toll Lanes Improvement Project lies primarily in Bothell on I-405, starting just south of the SR 522 interchange and ending at the SR 527 interchange. There will be added express toll lane capacity, direct access to state highways, and improved connections to regional transit service at both the University of Washington Bothell Station (SR 522) and Canyon Park Park and Ride (SR 527), integrating corridor investments with Sound Transit's planned opening of I-405 BRT.

The WSDOT will enhance 4.5 miles of the corridor with a focus on both the main project expansion and overall operational improvements. In addition, the WSDOT will build one new express toll lane in each direction between south of SR 522 and SR 527, widen I-405 through the SR 522 interchange and build direct access ramps to the express toll lanes at SR 522, and build a partial direct access interchange at SR 527 to and from the south connecting to the Canyon Park Park and Ride. The project will include additional local

roadway improvements, fish barrier corrections, noise walls, and new stormwater facilities.

*Interstate 405/Northeast 85th Street Interchange and Inline Bus Rapid Transit Station Project.*

The design-build project will include a three-level interchange with BRT station, direct access ramps, and local improvements. The project includes an inline station to serve Sound Transit's BRT, and will also rebuild local bus stops. The WSDOT will build direct access ramps to I-405 ETLs. In addition, there will be pedestrian and bike connections. In addition, the WSDOT will build toll infrastructure equipment through the interchange.

*Interstate 405/North Eighth Street Project.*

An HOV-only interchange will be built to connect North Eighth Street in Renton to West I-405.

**Summary of Engrossed Bill:**

A person involved in the construction of any qualified SR 167 and I-405 corridor project may apply for the deferral of any sales and use tax owed for the site preparation for, the construction of, or the acquisition of any related machinery and equipment that will become part of, and the rental of equipment for use in, the projects. The deferral applies for purchases made and the labor or services rendered on or after the effective date of the act.

A person must submit an application to the Department of Revenue (DOR) containing estimated or actual costs, schedules for completion and operation, and any other information required by the DOR. Approval of an application must be made within 60 days if the requirements are met. The DOR will issue the person a deferral certificate that exempts a qualified applicant from paying state and local sales and use tax on qualified purchases.

A qualified applicant must begin repaying the deferred taxes in the tenth year after the qualifying project is operationally complete. Payments are due in 10 equal payments on December 31 beginning in the tenth year. An accelerated repayment plan may be authorized.

Interest and penalties do not apply during the deferral period.

The SR 167 and I-405 Corridor projects include:

- I-405/SR 522 Vicinity to SR 527 express toll lane improvement project;
- I-405 Renton to Bellevue widening and express toll lanes project;
- northbound and southbound SR 167 stage 6 extension project;
- I-405 and North Eighth Street direct access ramp project; and
- Northeast 85th Street toll equipment through I-405 and Northeast 85th Street interchange and inline BRT station project.

The act is exempt from the requirements of a TPPS, a JLARC review, and the automatic 10-

year expiration for tax preferences.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on July 1, 2022.

**Staff Summary of Public Testimony (Finance):**

(In support) There is a \$450 million funding gap for the I-405 corridor projects and the Sound Transit BRT are in jeopardy due to funding shortages. This bill is one of the options to help Washington close the funding gap to ensure these important transportation projects are completed. This corridor is one of the most congested and rapidly growing areas in Washington. The economic vitality of this region is dependent on well-planned and well-funded multi-modal strategy. The Covid-19 pandemic reduced the revenues that were to fund these priority projects. The SR 167 is crucial to the communities it serves. Essential workers still use it to commute and businesses use it to move goods and supplies around the region. The congestion during the Covid-19 pandemic continued and will only get worse as workers return to their workplaces. The communities in the I-405/SR 167 corridor cannot afford additional delays in these construction projects and this bill will get things back on track.

(Opposed) None.

**Staff Summary of Public Testimony (Transportation):**

(In support) We need to address the funding gap on the Interstate 405 (I-405)/State Route 167 (SR 167) Corridor so that the planned Bus Rapid Transit (BRT) will function as designed. This bill will help fill the funding gap on I-405.

Bothell residents have been waiting for the BRT promised by Sound Transit 3, to help with the gridlock in the area. Bothell will have the BRT bus barn, but it wants to have the BRT too.

This is a critical bill that goes hand-in-hand with completing the Connecting Washington projects. Continuous managed lanes on I-405 and SR 167 are needed to provide Sound Transit's planned BRT, and this bill would be an integral part of the financing.

The Renton direct access ramp to I-405 has been needed for a long time, and this bill would help provide that as well.

Bellevue is one of the most significant revenue generators of revenue for the state. It needs

a functioning I-405/SR 167 corridor to continue to do this, and the improvements proposed to the corridor will help. The bill is a vital part of addressing the funding shortfall.

(Opposed) None.

(Other) Many products come from overseas, and we need to tax these products as they pass through, in order to fill funding gaps. We need to tax the corporations involved to do this.

**Persons Testifying (Finance):** Representative Davina Duerr, prime sponsor; Scott Merriman, Office of Financial Management; Jay Arnold, City of Kirkland; Lynn Robinson, City of Bellevue; Dana Ralph, City of Kent; Doug Levy, City of Renton; and Shelly Helder, City of Bothell.

**Persons Testifying (Transportation):** (In support) Representative Davina Duerr, prime sponsor; Doug Levy, Outcomes By Levy, LLC—City of Renton; Lynne Robinson, City of Bellevue; Shelly Helder, City of Bothell; and Toni Troutner, Kent City Council.

(Other) John Worthington.

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

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