HOUSE BILL REPORT
SHB 1267

As Passed House:
February 27, 2023

Title: An act relating to rural public facilities sales and use tax.

Brief Description: Concerning rural public facilities sales and use tax.

Sponsors: House Committee on Local Government (originally sponsored by Representatives Tharinger, Steele and Ramel).

Brief History:
Committee Activity:
Local Government: 1/24/23, 1/27/23 [DPS];
Finance: 2/7/23, 2/9/23 [DPS(LG)].
Floor Activity:
Passed House: 2/27/23, 95-0.

Brief Summary of Substitute Bill

- Extends the expiration for the rural county sales and use tax from 25 years after the date the tax was imposed to December 31, 2054.
- Requires the State Auditor to provide a publicly accessible report on its website containing rural county project and expenditure information and the total amount of revenue collected under the rural county sales and use tax.

HOUSE COMMITTEE ON LOCAL GOVERNMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Duerr, Chair; Alvarado, Vice Chair; Goehner, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Berg, Griffey and Riccelli.

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: Elizabeth Allison (786-7129).

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill by Committee on Local Government be substituted therefor and the substitute bill do pass. Signed by 13 members: Representatives Berg, Chair; Street, Vice Chair; Orcutt, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Barnard, Chopp, Ramel, Santos, Springer, Stokesbary, Thai, Walen and Wylie.

Staff: Tracey Taylor (786-7152).

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 percent, depending on the location.

Local Retail Sales and Use Tax for Public Facilities in Rural Counties.
The legislative body of a rural county may impose a sales and use tax of up to 0.09 percent of the selling price or value of the article of tangible personal property. The tax is deducted from the state sales and use tax collected.

A rural county is defined as a county with a population density of less than 100 persons per square mile, or counties smaller than 225 square miles, as of April 1, 2021. Currently, there are 30 counties that meet the rural county definition.

The tax may be collected by a county for 25 years after the date that a tax is first imposed. Rural counties that imposed the tax at the 0.09 percent rate before August 1, 2009, may impose the tax for 25 years from the date the county first imposed the tax at the 0.09 percent rate.

Moneys from the local option tax may only be used to finance public facilities serving economic development purposes and to pay for personnel in economic development offices. "Economic development purposes" means those purposes which facilitate the creation or retention of businesses and jobs in a county.

A public facility must be listed as an item in a county's officially adopted overall economic development plan, the economic development section of the county's comprehensive plan, or the comprehensive plan of a city or town located within the county planning under the Growth Management Act (GMA), or provide affordable workforce housing infrastructure or facilities. For counties that do not have an adopted overall economic development plan and do not plan under the GMA, the public facility must be listed in the county's capital facilities plan or the capital facilities plan of a city or town located within the county, or provide affordable workforce housing infrastructure or facilities.

"Public facilities" are defined as bridges; roads; domestic and industrial water facilities; sanitary sewer facilities; earth stabilization; storm sewer facilities; railroads; electrical facilities; natural gas facilities; research, testing, training, and incubation facilities in innovation partnership zones; buildings; structures; telecommunications infrastructure; transportation infrastructure; commercial infrastructure; port facilities in the state; or affordable workforce housing infrastructure or facilities.

Counties imposing the sales and use tax must consult with cities, towns, and port districts located within the county and must report to the State Auditor on the following:

- a list of new projects begun during the fiscal year, showing that the county has used the funds for projects consistent with the goals of the sales and use tax; and
- expenditures during the fiscal year on projects begun in a previous year.

Summary of Substitute Bill:

The expiration of the sales and use tax that may be collected by rural counties is changed from 25 years after the date that the tax was first imposed to December 31, 2054.

By December 31, 2027, the State Auditor must provide a publicly accessible report on its website containing the information reported by rural counties collecting the rural sales and use tax. The report must also include the total amount of revenue from the sales and use tax collected by the county in the prior fiscal year.

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 (Local Government):

(In support) This bill extends the existing program that has been around since 1998. It is very popular as 27 out of 39 counties use it. It is used for federal grants, sewer systems, housing, water systems, and infrastructure. These are long-term projects so the extension is necessary. It will let counties issue bonds to be able to manage larger infrastructure projects. The provision about a searchable database was provided in the Senate last year, but the language may need to be adjusted. The purpose was to strengthen the reporting mechanism, but there is a cost to making the reports searchable.

The bill is not seeking additional money, it is simply extending an existing program. The revenue is used to match with federal money and partner with cities and ports. This is a critical tax for counties to impose. The funds received from the tax are perfect for repaying debt, but the current program will expire long before such debt is paid. Affordable housing providers are ready to build in new urban growth areas and sewers are the last remaining piece of infrastructure. The tax will not make more housing, but it will be used to finance infrastructure. Extending the expiration another 20 years makes the funds exponentially more valuable as it fills a critical funding gap for economic development. The criteria is based on population density and most counties are eligible to use the funds. The authority to issue the tax has enabled several public investment partnerships on projects that generate significant revenue and create jobs.

The reporting to the State Auditor makes the process very transparent.

(Opposed) None.

(Other) The concept is good but there is concern about the requirement for the State Auditor to create a searchable system. This would have a significant financial impact and will be a long, complicated process. If the date of the requirement were pushed out from 2025 to 2027 there should be no impact. The data is available; the counties just need to be educated on how to do more standardized reporting.

Staff Summary of Public Testimony (Finance):

(In support) A version of this bill passed out of the House last year to continue this tax option for our rural counties. Infrastructure is very expensive and 31 counties that use this local option public facilities sales and use tax to help finance these crucial projects. The counties are able to bond against this revenue stream and by extending the expiration out to 2054, the counties can better plan for infrastructure projects. In addition, the revenues can be used as the local match to allow counties to access millions of federal infrastructure dollars.

Port districts are the economic development engines across the state and are often the recipients of some of these revenues. This tax provides significant leverage opportunities, especially in our 12 distressed counties. The tax is tied to the Growth Management Act and provides a much- needed tool for counties to address economic development, job development, and affordable housing.

(Opposed) None.

Persons Testifying (Local Government): (In support) Representative Steve Tharinger, prime sponsor; Kate Dean, Jefferson County; Mike Hoover, Washington State Association of Counties; Jerome Delvin, Benton County; Lisa Janicki, Skagit County; Blake Baldwin, Chelan Douglas Regional Port Authority; Dan Worra, Port of Anacortes; and Sasha Sleiman, Chelan County Board of Commissioners.

(Other) Scott Nelson, Office of the Washington State Auditor.

Persons Testifying (Finance): Mike Hoover, Washington State Association of Counties; Paul Berendt, Jefferson County; Blake Baldwin, Chelan Douglas Regional Port Authority; Laura Osiadacz, Kittitas County Commissioner; and Chris Herman, Washington Public Ports Association.

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

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