Multiple Agency Fiscal Note Summary

Bill Number: 3014 HB	**Title:** Rural co. investmnt projects

Estimated Cash Receipts

Agency Name	2009-11		2011-13		2013-15	
	GF- State	Total	GF- State	Total	GF- State	Total
Department of Revenue	(4,400,000)	(4,407,000)	(12,051,000)	(12,070,000)	(14,926,000)	(14,950,000)
Total $	**(4,400,000)**	**(4,407,000)**	**(12,051,000)**	**(12,070,000)**	**(14,926,000)**	**(14,950,000)**

Local Gov. Courts *						
Local Gov. Other **		(112,860)		(284,129)		(352,440)
Local Gov. Total		(112,860)		(284,129)		(352,440)

Estimated Expenditures

Agency Name	2009-11			2011-13			2013-15		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Department of Revenue	.0	5,000	5,000	.0	0	0	.0	0	0
Employment Security Department	Fiscal note not available								
Total	**0.0**	**$5,000**	**$5,000**	**0.0**	**$0**	**$0**	**0.0**	**$0**	**$0**

Local Gov. Courts *									
Local Gov. Other **									
Local Gov. Total									

Estimated Capital Budget Impact

Agency Name						
Total $						

Prepared by: Ryan Black, OFM	**Phone:** 360-902-0417	**Date Published:** Preliminary

* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

FNPID 25304

FNS029 Multi Agency rollup

Department of Revenue Fiscal Note

Bill Number: 3014 HB	Title: Rural co. investmnt projects	Agency: 140-Department of Revenue

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

Account	FY 2010	FY 2011	2009-11	2011-13	2013-15
GF-State-State 01 - Taxes 01 - Retail Sales Tax		(4,400,000)	(4,400,000)	(12,051,000)	(14,926,000)
Performance Audit-State 01 - Taxes 01 - Retail Sales Tax		(7,000)	(7,000)	(19,000)	(24,000)
Total $		(4,407,000)	(4,407,000)	(12,070,000)	(14,950,000)

Estimated Expenditures from:

	FY 2010	FY 2011	2009-11	2011-13	2013-15
FTE Staff Years		0.1	0.0		
Account					
GF-STATE-State 001-1		5,000	5,000		
Total $		5,000	5,000		

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☒ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 01/20/2010
Agency Preparation:	Kim Davis	Phone: 360-570-6087	Date: 01/22/2010
Agency Approval:	Don Gutmann	Phone: 360-570-6073	Date: 01/22/2010
OFM Review:	Ryan Black	Phone: 360-902-0417	Date: 01/22/2010

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This legislative proposal establishes a tax deferral/waiver program for businesses locating in counties with high unemployment rates ("distressed counties") that would replace the current, expiring program.

BACKGROUND:

The Rural County Sales/Use Tax Deferral Program provides a deferral of sales/use tax on qualified construction and equipment costs for manufacturing, and computer-related businesses, research and development laboratories, and commercial testing facilities (excluding light and power businesses) locating or expanding in rural counties, and in Community Empowerment Zones (CEZ) or a county containing a CEZ when certain employment requirements are met (Chapter 82.60 RCW).

The sales and/or use taxes are waived when all program requirements have been met and verified.

Eligibility for the program was originally based on qualified businesses locating in counties with high unemployment rates relative to the state as a whole.

This program expires on July 1, 2010.

PROPOSAL:

The bill defines "distressed county" as a county that has an unemployment rate, as determined by the Employment Security Department, that is at least 20 percent above the state average for the three years immediately preceding the year in which the list of distressed areas is established or created.

The Department of Revenue must establish the list of distressed counties by July 1, 2010. The list will be updated every two years based on Employment Security Department data.

Persons receiving a sales/use tax deferral/waiver under this program are required to electronically file any surveys, reports, returns, and other forms or information with the Department of Revenue.

Except for sections 3, 9, and 10, this bill takes effect on July 1, 2010. Section 3 takes effect 90 days after final adjournment of the session in which it is enacted. Sections 9 and 10 take effect if the legislature does not enact Substitute House Bill No. 1597 as of July 1, 2010.

The deferral program expires July 2, 2020.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

DATA SOURCES

- Distressed Areas list for 2009 from the Washington State Employment Security Department.
- Employment data for 2005 through 2007 from Employment Security Department.
- Department of Revenue data.

ASSUMPTIONS

To develop an estimate of the level of activity that would qualify for this proposal, structure to equipment ratios were used. These assumptions result in an estimated statewide spending level of $424 million for manufacturing structures for Fiscal Year 2011. County-to-state manufacturing employment ratios were then used to estimate the structure costs located in distressed counties. These assumptions result in an estimated $74 million in structure costs that qualify for the distressed counties deferral in Fiscal Year 2011.

The conforming amendments made to the Rural County Business and Occupation Tax Credit for New Employees have no revenue impact.

The new deferral program established in this bill takes effect July 1, 2010.

REVENUE ESTIMATES

The estimated state impact for eleven months in Fiscal Year 2011 is $4.4 million based on the assumption that 19 counties would qualify as distressed counties under this proposal. Those counties are: Adams, Clallam, Clark, Columbia, Cowlitz, Ferry, Franklin, Grant, Grays Harbor, Klickitat, Lewis, Mason, Okanogan, Pacific, Pend Oreille, Skamania, Stevens, Wahkiakum, and Yakima. This is based on ESD's 2009 Distressed Areas List.

TOTAL REVENUE IMPACT:

State Government (cash basis, $000): General Fund:

FY 2010 - $ 0
FY 2011 - $ (4,400)
FY 2012 - $ (5,535)
FY 2013 - $ (6,516)
FY 2014 - $ (7,242)
FY 2015 - $ (7,684)

Local Government, if applicable (cash basis, $000):

FY 2010 - $ 0
FY 2011 - $ (114)
FY 2012 - $ (132)
FY 2013 - $ (155)
FY 2014 - $ (173)
FY 2015 - $ (183)

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing

To implement this legislation, the Department will incur costs of approximately $5,000 in Fiscal Year 2011. These costs are for amendment of one administrative rule.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2010	FY 2011	2009-11	2011-13	2013-15
FTE Staff Years		0.1	0.0		
A-Salaries and Wages		3,200	3,200		
B-Employee Benefits		800	800		
E-Goods and Services		700	700		
J-Capital Outlays		300	300		
Total $		$5,000	$5,000		

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2010	FY 2011	2009-11	2011-13	2013-15
HEARINGS SCHEDULER	32,688		0.0	0.0		
TAX POLICY SP 3	69,756		0.0	0.0		
WMS BAND 3	88,546		0.0	0.0		
Total FTE's	190,990		0.1	0.0		

Part IV: Capital Budget Impact

NONE.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the Department will use the expedited process to amend WAC 458-20-24001, titled: "Sales and use tax deferral - Manufacturing and research/development activities in rural counties - Applications filed after March 31, 2004". Persons affected by this rule-making would include businesses in distressed counties and in areas that are no longer eligible for the deferral.

LOCAL GOVERNMENT FISCAL NOTE

Department of Community, Trade and Economic Development

Bill Number: 3014 HB	**Title:** Rural co. investmnt projects

Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

[X] Cities: Revenue loss to cities in 19 counties defined as distressed based on unemployment

[X] Counties: Revenue loss to 19 counties defined as distressed based on unemployment

[X] Special Districts: Revenue loss to special districts in 19 counties funded with sales taxes

[X] Specific jurisdictions only: Local governments in distressed counties defined by unemployment over three years

[ ] Variance occurs due to:

Part II: Estimates

[ ] No fiscal impacts.

[ ] Expenditures represent one-time costs:

[ ] Legislation provides local option:

[ ] Key variables cannot be estimated with certainty at this time:

Estimated revenue impacts to:

Jurisdiction	FY 2010	FY 2011	2009-11	2011-13	2013-15
City		(42,740)	(42,740)	(107,601)	(133,469)
County		(41,758)	(41,758)	(105,129)	(130,403)
Special District		(28,362)	(28,362)	(71,399)	(88,568)
TOTAL $		(112,860)	(112,860)	(284,129)	(352,440)
GRAND TOTAL $					(749,429)

Estimated expenditure impacts to:

Jurisdiction	FY 2010	FY 2011	2009-11	2011-13	2013-15
City					
County					
Special District					
TOTAL $					
GRAND TOTAL $					0

Part III: Preparation and Approval

Fiscal Note Analyst: Anne Pflug	Phone: 509-925-2608	Date: 01/25/2010
Leg. Committee Contact:	Phone:	Date: 01/20/2010
Agency Approval: Steve Salmi	Phone: (360) 725 5034	Date: 01/25/2010
OFM Review: Ryan Black	Phone: 360-902-0417	Date: 01/25/2010

Part IV: Analysis

A. SUMMARY OF BILL

Provide a clear, succinct description of the bill with an emphasis on how it impacts local government.

This bill would extend the sunset date of an existing state and local sales tax deferral and waiver program for research and development business investment in rural counties and modify it to apply in distressed counties until June 30, 2020.

B. SUMMARY OF EXPENDITURE IMPACTS

Briefly describe and quantify the expenditure impacts of the legislation on local governments, identifying the expenditure provisions by section number, and when appropriate, the detail of expenditures. Delineate between city, county and special district impacts.

See attachment.

C. SUMMARY OF REVENUE IMPACTS

Briefly describe and quantify the revenue impacts of the legislation on local governments, identifying the revenue provisions by section number, and when appropriate, the detail of revenue sources. Delineate between city, county and special district impacts.

See attachment.

PART IV / ANALYSIS

A – Summary of Bill

Description of the bill with an emphasis on how it impacts local government.

This bill would extend the sunset date of an existing state and local sales tax deferral and waiver program for research and development business investment in rural counties and modify it to apply in distressed counties until June 30, 2020.

Sec. 1: Intent

Sec. 2: Definitions:

- Distressed counties are defined as counties with 120% of the state unemployment rate for three years prior to its listing.
- Defines eligible areas before July 1, 2010 as rural counties with an average of 100 or fewer persons per square mile and after July 1, 2010 as distressed counties.
- Eligible investment project is an investment project located as of the date of application to the Department of Revenue in an eligible area.

Sec. 3: The Department of Revenue shall establish a list of distressed counties effective July 1, 2010. The list shall be effective for two years and then updated on July 1.

Sec. 4-5: The tax deferral program expiration date is extended to July 1, 2020 from July 1, 2010.

B – Expenditure Impacts

Describes and quantifies the potential expenditure impacts of the legislation on local government, distinguishing between city, county and special district impacts when appropriate.

SUMMARY

The bill would have a no impact on local government expenditures. Sales and use taxes are collected by the state.

C – Revenue Impacts

Describes and quantifies the potential impacts of the legislation on local government revenue or revenue authority, distinguishing between city, county and special district impacts when appropriate.

SUMMARY

The bill would have a moderate (greater than $50,000 loss per year) negative impact on local government sales tax revenue. Most deferrals become waivers so local governments would not recoup revenue over time. Negative revenue impacts statewide are estimated to range from $112,860 in FY 2011 to $181,170 in FY 2015 after state administrative fees are deducted.

DISCUSSION

The existing rural counties research and development sales tax deferral, which was later modified to be a waiver under certain conditions, for business investment in plant and equipment used for research and development is set to expire on July 1, 2010. Since the program was established in 1985, 1,740 tax deferral applications have been made to the Department of Revenue (as of September 2007, which is the most recent data available). Cities, counties and special districts in rural counties (defined as counties with an average population density of 100 persons per square mile of less) are estimated to have foregone $6.6 million in revenue in 2009 under this program. Total revenue foregone since 1985 is not available.

The existing deferral program applies to 31 counties. Under the bill, one county (Clark) would be added to the deferral program and 13 counties and the local governments within them will no longer participate as of July 1, 2010. These counties may participate again in future years if their unemployment rates meet the conditions established in the bill. Deferrals granted prior to July 1 would continue, but no additional deferrals would be granted. The counties that would be removed from the deferral program are:

Asotin
Benton
Chelan
Douglas
Garfield
Jefferson
Kittitas
Lincoln
San Juan
Skagit
Walla Walla
Whatcom
Whitman

The counties that are defined as “distressed counties” under the bill and would be in the deferral program are:

Adams
Clallam
Clark
Columbia
Cowlitz
Ferry
Franklin
Grant
Grays Harbor

Klickitat
Lewis
Mason
Okanogan
Pacific
Pend Oreille
Skamania
Stevens
Wahkiakum
Yakima

The Department of Revenue has estimated the impact of additional tax deferrals in eligible counties on local governments as follows:

Fiscal Year	County		City		Special District		Total Loss
FY 2010	$	-	$	-	$	-	$0
FY 2011	$	(41,758)	$	(42,740)	$	(28,362)	($112,860)
FY 2012	$	(48,352)	$	(49,489)	$	(32,839)	($130,680)
FY 2013	$	(56,777)	$	(58,112)	$	(38,560)	($153,450)
FY 2014	$	(63,370)	$	(64,860)	$	(43,040)	($171,270)
FY 2015	$	(67,033)	$	(68,609)	$	(45,528)	($181,170)

ASSUMPTIONS AND METHODOLOGY

The distributions in this note for cities, counties, and special districts are based on Department of Revenue data for local sales and use tax distributions from 2008. This results in a distribution of 37.00 percent to counties, 37.87 percent to cities and 25.13 percent to special districts. The 1 percent DOR administrative fee has also been deducted.

See Department of Revenue fiscal note for assumptions and method used to estimate research and development investments in distressed counties.

D – Sources Consulted:

Department of Revenue
Department of Revenue Fiscal Note
Department of Revenue Local Tax Distributions
Tax Exemptions 2008, Washington State Department of Revenue
Department of Employment Security 2009 list of distressed counties
Office of Financial Management list of rural counties with population density of less than 100 persons per square mile