## Estimated Cash Receipts

<table>
<thead>
<tr>
<th>Agency Name</th>
<th>2021-23</th>
<th>2023-25</th>
<th>2025-27</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GF-State</td>
<td>NGF-Outlook</td>
<td>Total</td>
</tr>
<tr>
<td>Department of Revenue</td>
<td>1,090,000</td>
<td>1,090,000</td>
<td>1,090,000</td>
</tr>
<tr>
<td><strong>Total $</strong></td>
<td>1,090,000</td>
<td>1,090,000</td>
<td>1,090,000</td>
</tr>
</tbody>
</table>

## Estimated Operating Expenditures

<table>
<thead>
<tr>
<th>Agency Name</th>
<th>2021-23</th>
<th>2023-25</th>
<th>2025-27</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FTEs</td>
<td>GF-State</td>
<td>NGF-Outlook</td>
</tr>
<tr>
<td>Joint Legislative Audit and Review Committee</td>
<td>.1</td>
<td>25,200</td>
<td>25,200</td>
</tr>
<tr>
<td>Department of Revenue</td>
<td>.4</td>
<td>167,100</td>
<td>167,100</td>
</tr>
<tr>
<td><strong>Total $</strong></td>
<td>0.5</td>
<td>192,300</td>
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</table>

## Estimated Capital Budget Expenditures

<table>
<thead>
<tr>
<th>Agency Name</th>
<th>2021-23</th>
<th>2023-25</th>
<th>2025-27</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FTEs</td>
<td>Bonds</td>
<td>Total</td>
</tr>
<tr>
<td>Joint Legislative Audit and Review Committee</td>
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<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Department of Revenue</td>
<td>.0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total $</strong></td>
<td>0.0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

## Estimated Capital Budget Breakout

NONE
<table>
<thead>
<tr>
<th>Prepared by:</th>
<th>Cheri Keller, OFM</th>
<th>Phone:</th>
<th>(360) 584-2207</th>
<th>Date Published:</th>
<th>Final 4/1/2022</th>
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</thead>
</table>

FNPID 65394
FNS029 Multi Agency rollup
Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

<table>
<thead>
<tr>
<th>Account</th>
<th>FY 2022</th>
<th>FY 2023</th>
<th>2021-23</th>
<th>2023-25</th>
<th>2025-27</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund-State 001-1</td>
<td>12,600</td>
<td>12,600</td>
<td>25,200</td>
<td>8,400</td>
<td>8,400</td>
</tr>
<tr>
<td><strong>Total $</strong></td>
<td>12,600</td>
<td>12,600</td>
<td>25,200</td>
<td>8,400</td>
<td>8,400</td>
</tr>
</tbody>
</table>

Estimated Capital Budget Impact:

NONE

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: Dana Lynn
Agency Preparation: Keenan Konopaski
OFM Review: Gaius Horton
Agency Approval: Keenan Konopaski
Phone: 360-786-5187
Phone: 360-786-5177
Phone: (360) 819-3112
Date: 03/28/2022
Date: 03/28/2022
Date: 03/31/2022
Date: 03/24/2022

Form FN (Rev 1/00) 177,087.00
FNS063 Individual State Agency Fiscal Note 1
Bill # 5901 SB PL
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 bill creates a new sales and use tax deferral program intended to incent research and development activities in certain designated counties. It also modifies the current sales and use tax remittance program for warehouses, grain elevators, and distribution centers under RCWs 82.08.820 and 82.12.820.

PART 1 - CREATING A SALES AND USE TAX DEFERRAL PROGRAM TO INCENTIVIZE MANUFACTURING AND RESEARCH AND DEVELOPMENT

Section 101 is a new section detailing the Legislature’s findings that certain counties in Washington face additional economic challenges than the central Puget Sound region and that the Legislature intends to establish a tax deferral program to impact certain targeted counties. The program’s purpose is to create employment opportunities and spur economic development in these counties. The Legislature finds this program is a critical tool and strategy to help achieve the goal of doubling the state’s manufacturing employment base, the number of small businesses, and the number of women and minority-owned manufacturing businesses in the next 10 years.

Section 102 provides definitions for the new deferral program, including “eligible investment project” and “qualifying county,” meaning a county with a population of less than 650,000 at the time an application is submitted.

Section 103 addresses applications for the tax deferral program, noting the Department of Revenue (DOR) cannot accept applications for the deferral after June 30, 2032. The section expires July 1, 2032.

Section 104 notes DOR must issue deferral certificates on each eligible investment project and must keep a running total of all deferrals granted during each fiscal year. The amount of deferred sales and use tax is capped at $400,000 per person. The section expires July 1, 2032.

Section 105 requires recipients of deferral certificates to begin meaningful construction (defined in the bill) within two years of receiving the deferral certificate. If meaningful construction does not begin within two years, the deferral certificate is invalid and any taxes deferred due immediately.

Deferred taxes need not be repaid unless the investment project is not operationally complete within five calendar years from when the deferral certificate was issued, or if DOR finds that the investment project is used for purposes other than a qualified manufacturing or R&D operation at any time in the year when DOR certifies the investment project, or at any time during the seven succeeding calendar years. If DOR finds this, the deferred taxes are immediately due on a sliding scale provided in the bill.

Section 106 requires each deferral certificate recipient or lessee to file an annual tax performance report with DOR for a period up to 8 years. JLARC must use information on the annual report to study the deferral program and report to the Legislature by December 1, 2030. The report must measure the effect of the program on job creation, the number of jobs created for residents of eligible areas, company growth, and other factors as JLARC selects.

Section 107 directs DOR to establish a list of qualifying counties effective July 1, 2022. The list is effective for a 24-month period. DOR must update the list by July 1st two years after the list was established or last updated.

Sections 108-110 detail lessor eligibility for the deferral, note that chapter 82.32 RCW applies to administration of the new chapter, and notes applications, reports, and other information received by DOR under this chapter are not confidential and subject to disclosure, except for applications not approved.
Section 201 amends the sales tax remittance program under RCW 82.08.820 to:
• Add RCW 82.08.820(2)(b)(ii), noting for an existing warehouse located in a qualifying county as defined in the bill, “construction” includes expansion if it adds at least 100,000 square feet of additional space to an existing warehouse.
• Define “qualifying county” as a county with a population less than 650,000 at the time an application is submitted for the program.
• Cap the maximum amount of tax that can be remitted for construction and expansion of a warehouse or grain elevator at $400,000.
• Note that for warehouses located in a “qualifying county” as defined in the bill, the square footage requirement is 100,000 square feet or more.
• Provide a July 1, 2032, expiration date.

Section 202 makes similar changes to use tax provisions under RCW 82.12.820.

Section 203 requires persons claiming the exemption under this program for a warehouse or distribution center to file the annual tax preference performance report with DOR beginning in the first calendar year following the year the warehouse, distribution center, or grain elevator is operationally complete and for the next two subsequent years.

Section 204 adds a tax preference performance statement for the warehousing, distribution, and grain elevator sales and use tax exemptions. The Legislature categorizes the preference as intended to induce certain designated behaviors and create jobs, as indicated under RCW 82.32.808(2)(a) and (c).

The specific public policy objective is to induce construction of new or expanded warehouses and distribution centers in certain targeted counties by reducing the square footage requirements in order to diversify the tax base and increase employment in those counties.

To measure the effectiveness of the sales and use tax remittance program in achieving the public policy objectives, JLARC is directed to evaluate the changes in the number of employment positions in the warehousing and distribution industry sector in the targeted counties and changes to the tax base that resulted from increased warehousing and distribution activity.

JLARC is to refer to remittance data prepared by DOR and annual tax preference performance reports submitted by beneficiaries of the tax preference.

Section 205 notes sections 101-110 constitute a new chapter in Title 82 RCW.

Section 206 notes an effective date of July 1, 2022. The new chapter creating the deferral closes to new participants June 30, 2032.

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.

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 functions.

Immediately after the end of the 2022 legislative session, JLARC staff would contact DOR to establish study contacts and ensure that the data necessary for our future review is collected. At a minimum, this includes questions or data collected on the application submitted to DOR for the deferral program, detail collected on remittance requests to DOR, and data
collected on the annual tax performance survey filed by beneficiaries.

The expenditure detail noted reflects work conducted to prepare for the future review, which will likely begin in 2029 and be completed in 2030.

This tax preference review may require additional resources. The audit will be conducted and presented to JLARC consistent with the processes used for other tax preference reviews. Based on all tax preference legislation that is passed, JLARC may subsequently determine that it can absorb the costs for this proposed bill in its base budget, if the workload of other enacted tax preference legislation does not exceed current staffing. JLARC will assess all of the tax preference reviews mandated in the 2022 legislative session.

This audit will require an estimated 2 audit months.

JLARC Audit Months: JLARC calculates its staff resources in "Audit Months" to estimate the time and effort to undertake and complete its studies. An "Audit Month" reflects a JLARC analyst’s time for a month, together with related administrative, support, and goods/services costs. JLARC’s anticipated 2021-23 costs are calculated at approximately $21,000 per audit month.

**Part III: Expenditure Detail**

**III. A - Operating Budget Expenditures**

<table>
<thead>
<tr>
<th>Account</th>
<th>Account Title</th>
<th>Type</th>
<th>FY 2022</th>
<th>FY 2023</th>
<th>2021-23</th>
<th>2023-25</th>
<th>2025-27</th>
</tr>
</thead>
<tbody>
<tr>
<td>001-1</td>
<td>General Fund</td>
<td>State</td>
<td>12,600</td>
<td>12,600</td>
<td>25,200</td>
<td>8,400</td>
<td>8,400</td>
</tr>
<tr>
<td></td>
<td>Total $</td>
<td></td>
<td>12,600</td>
<td>12,600</td>
<td>25,200</td>
<td>8,400</td>
<td>8,400</td>
</tr>
</tbody>
</table>

**III. B - Expenditures by Object Or Purpose**

<table>
<thead>
<tr>
<th>FY 2022</th>
<th>FY 2023</th>
<th>2021-23</th>
<th>2023-25</th>
<th>2025-27</th>
</tr>
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<tbody>
<tr>
<td>FTE Staff Years</td>
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<td>0.1</td>
<td>0.1</td>
<td></td>
</tr>
<tr>
<td>A-Salaries and Wages</td>
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<td>16,000</td>
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</tr>
<tr>
<td>B-Employee Benefits</td>
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<td>5,000</td>
<td>1,600</td>
</tr>
<tr>
<td>C-Professional Service Contracts</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>E-Goods and Other Services</td>
<td>1,900</td>
<td>1,900</td>
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<tr>
<td>G-Travel</td>
<td>200</td>
<td>200</td>
<td>400</td>
<td>200</td>
</tr>
<tr>
<td>J-Capital Outlays</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M-Inter Agency/Fund Transfers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N-Grants, Benefits &amp; Client Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P-Debt Service</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>S-Interagency Reimbursements</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>T-Intra-Agency Reimbursements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total $</td>
<td>12,600</td>
<td>12,600</td>
<td>25,200</td>
<td>8,400</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Job Classification</th>
<th>Salary</th>
<th>FY 2022</th>
<th>FY 2023</th>
<th>2021-23</th>
<th>2023-25</th>
<th>2025-27</th>
</tr>
</thead>
<tbody>
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<td>0.1</td>
<td>0.1</td>
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<tr>
<td>Support staff</td>
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<td></td>
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</tr>
<tr>
<td>Total FTEs</td>
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<td>0.1</td>
<td>0.1</td>
<td>0.0</td>
<td></td>
</tr>
</tbody>
</table>

**III. D - Expenditures By Program (optional)**

NONE
Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures
NONE

IV. B - Expenditures by Object Or Purpose
NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods
NONE

IV. D - Capital FTE Detail: List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part IVB
NONE

Part V: New Rule Making Required
Department of Revenue Fiscal Note

Bill Number: 5901 SB PL  Title: Economic dev. tax incentives  Agency: 140-Department of Revenue

Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

<table>
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<tr>
<th>Account</th>
<th>FY 2022</th>
<th>FY 2023</th>
<th>2021-23</th>
<th>2023-25</th>
<th>2025-27</th>
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<tr>
<td>GF-STATE-State</td>
<td>1,090,000</td>
<td>1,090,000</td>
<td>750,000</td>
<td>230,000</td>
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<td>01 - Taxes 01 - Retail Sales Tax</td>
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<td></td>
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</tr>
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<td>Total $</td>
<td>1,090,000</td>
<td>1,090,000</td>
<td>750,000</td>
<td>230,000</td>
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Estimated Expenditures from:

<table>
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<tr>
<th>FTE Staff Years</th>
<th>FY 2022</th>
<th>FY 2023</th>
<th>2021-23</th>
<th>2023-25</th>
<th>2025-27</th>
</tr>
</thead>
<tbody>
<tr>
<td>GF-STATE-State</td>
<td>93,400</td>
<td>73,700</td>
<td>167,100</td>
<td>24,600</td>
<td>24,600</td>
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<td>001-1</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Total $</td>
<td>93,400</td>
<td>73,700</td>
<td>167,100</td>
<td>24,600</td>
<td>24,600</td>
</tr>
</tbody>
</table>

Estimated Capital Budget Impact:

NONE

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:

- [X] 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).
- [X] Capital budget impact, complete Part IV.
- [X] Requires new rule making, complete Part V.

Legislative Contact: Marianne McIntosh  Phone: (360) 534-1505  Date: 03/24/2022
Agency Preparation: Valerie Torres  Phone: (360) 534-1521  Date: 03/31/2022
Agency Approval: Cheri Keller  Phone: (360) 584-2207  Date: 04/01/2022

Request # 5901-4-1  Bill # 5901 SB PL
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.

Note: This fiscal note reflects language in ESB 5901 as passed in the 2022 Legislative Session.

CURRENT LAW:

DEFERRAL
There are no sales and use tax deferral programs specific to qualifying manufacturing projects in counties with less than 650,000 population.

WAREHOUSE REMITTANCE
Certain warehouses and grain elevators are eligible for an exemption in the form of a remittance of the state retail sales and use tax paid on purchases of machinery and on materials and labor for construction of these facilities (RCW 82.08.820 and 82.12.820). The remittance does not include local sales and use taxes.

Warehouses more than 200,000 square feet in size receive an exemption equal to:
- 100% of the state retail sales and use taxes paid on construction, and
- 50% of the state retail sales and use taxes paid on equipment, which includes material handling and racking equipment.

Grain elevators receive an exemption of state retail sales and use taxes paid based on capacity of the facility:
- 50% exemption with bushel capacity of 1 million, but less than 2 million, and
- 100% exemption with bushel capacity of 2 million or more.

PROPOSAL:

DEFERRAL
The bill creates a new sales and use tax deferral for qualified investment projects located in counties with population less than 650,000. The Department of Revenue (Department) must publish a list of qualifying counties by July 1, 2022, and update the list every even-numbered year thereafter.

The total state and local sales and use tax for eligible deferrals is limited to $400,000 per person.

The applicant must apply to the Department prior to initiating the construction of the eligible project. The application must be made to the Department and include information regarding the location of the investment project, applicant's average employment in the state for prior year, estimated or actual new employment and wages related to the project, estimated or actual costs, time schedule for completion and operation, and other information required by the Department. The Department must rule on the application within 60 days and issue a sales and use tax deferral certificate for state and local taxes for each eligible project. The Department may not accept applications for the deferral after June 30, 2032.

Initiation of construction means the date that a building permit is issued under build code adopted under the state building codes. Initiation of construction does not include soil testing, site clearing and grading, site preparation, or any other related activities that are initiated before the issuance of a building permit for the construction of the foundation of the building.

The Department must keep a running total of all deferrals granted for each fiscal biennium.

The deferral certificate recipient must begin meaningful construction on an eligible investment project within two years of
receiving a deferral certificate unless construction is delayed due to circumstances beyond the recipient’s control. Lack of funding is not considered beyond the recipient’s control. If the recipient does not begin meaningful construction within one year, the issued deferral certificate is invalid, and taxes deferred are due immediately. Meaningful construction means an active construction site, where excavation of a building site, laying of a structure foundation, or other tangible signs of construction are taking place and that clearly show a progression in the construction process at the location designated by the taxpayer in the application for deferral.

The taxes deferred need not be repaid if the recipient utilizes the qualified project for qualified manufacturing or research and development operation for the seven years following project completion date. If project is not operationally complete within five years or not utilized for qualifying purposes for the seven years immediately following the project certified as operationally complete, then the deferred taxes are due immediately based on the following schedule:

<table>
<thead>
<tr>
<th>Year in which qualifying activities cease</th>
<th>Percent of deferred tax due</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>100.0%</td>
</tr>
<tr>
<td>2</td>
<td>87.5%</td>
</tr>
<tr>
<td>3</td>
<td>75.0%</td>
</tr>
<tr>
<td>4</td>
<td>62.5%</td>
</tr>
<tr>
<td>5</td>
<td>50.0%</td>
</tr>
<tr>
<td>6</td>
<td>37.5%</td>
</tr>
<tr>
<td>7</td>
<td>25.0%</td>
</tr>
<tr>
<td>8</td>
<td>12.5%</td>
</tr>
</tbody>
</table>

The Department must assess interest at the rate provided for delinquent taxes, but not penalties, retroactively to the date the investment project was no longer eligible for tax deferral.

Persons receiving the benefit of the deferral are required to file an annual tax performance report beginning the year following the year in which the project is operationally complete and continue filing for the next seven years.

WAREHOUSE REMITTANCE
The bill limits the state sales and use tax remitted under the warehouse credit to a maximum $400,000 for the construction or expansion of a warehouse or grain elevator.

For warehouses built in a qualifying county, the warehouse must be at least 100,000 square feet. Existing warehouses located in a qualifying county need to add at least 100,000 square feet additional space when expanding to qualify for the warehouse credit. Qualifying county is defined as a county with less than 650,000 population at the time an application is submitted.

Persons receiving the benefit of the warehouse remittance are required to file an annual tax performance report beginning the first calendar year following the year the warehouse, distribution center or grain elevator is operationally complete and continue filing for the next two years.

The warehouse remittance expires July 1, 2032.

EFFECTIVE DATE:
This bill takes effect on July 1, 2022.
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.

ASSUMPTIONS:
- Eligible deferrals are limited to $400,000 total state and local sales and use tax per person.
- Projects are operationally complete within one year of when the Department received the application.
- This estimate uses national level investment in fixed assets data that has been adjusted to reflect Washington State investment levels.
- To estimate the local government impacts, this estimate uses the statewide average local tax rate for the qualifying counties for Fiscal Year 2021 of 2.094%.
- The growth for qualifying project costs mirrors the annual growth for non-residential investment in R&D and private investment in industrial facilities for the United States as reflected in the November 2021 IHS Markit forecast.
- Based on Office of Financial Management's April 2021 population data, 36 of the 39 counties qualify for the new deferral program.
- The qualifying counties are as follows:
  - Adams  Ferry  Klickitat  Skamania
  - Asotin  Franklin  Lewis  Spokane
  - Benton  Garfield  Lincoln  Stevens
  - Chelan  Grant  Mason  Thurston
  - Clallam  Grays Harbor  Okanogan  Wahkiakum
  - Clark  Island  Pacific  Walla Walla
  - Columbia  Jefferson  Pend Oreille  Whatcom
  - Cowlitz  Kitsap  San Juan  Whitman
  - Douglas  Kittitas  Skagit  Yakima
- The qualifying counties remain eligible until the deferral expires.
- The Department begins accepting applications July 1, 2022, and has 60 days to review. This results in nine months of impacted collections in Fiscal Year 2023. The Department may not accept deferral applications after June 30, 2032.
- The maximum amount of state sales and use tax remittance allowed for the construction or expansion of a warehouse or grain elevator is $400,000.
- The bill allows new construction or expansions of warehouses 100,000 square feet or larger in qualifying counties.
- Based on the current warehouse remittance program and smaller warehouses becoming eligible under the proposal, the Department estimates eight newly constructed or expanded warehouses per fiscal year.
- Materials and handling costs continue to qualify for the warehouse remittance program.
- This estimate assumes the Department is able to implement this proposal by July 1, 2022.

DATA SOURCES:
- Department of Revenue, warehouse remittance and deferral data
- Office of Financial Management, April 2021 population data
- IHS Market, Non-residential investment in R&D and private investment in industrial facilities forecast, November 2021
- Bureau of Labor Statistics, employment data
- Bureau of Economic Analysis, fixed asset data

POTENTIAL LITIGATION:
Legislation creating new exemptions and deferrals for construction projects presents a risk that the federal government or federal contractors will seek to re-litigate Washington v. United States. This risk increases with each additional exemption or deferral that the state enacts.

The Department’s legal counsel at the Attorney General’s Office has opined that the federal contractor risk applies to all
exemptions and deferrals of construction activity, not just construction projects of the type that the federal government is likely to engage in. It also applies even if the exemption or deferral applies to federal construction projects as well as non-federal construction projects.

Sales/use tax exemptions pose the greatest legal risk because they plainly treat the beneficiaries of the exemption more favorably than federal contractors are treated. Sales/use tax deferrals also pose a significant legal risk. Each such exemption or deferral increases the likelihood that the federal government or federal contractors will seek to re-litigate Washington v. United States in which they would claim that Washington now discriminates against federal contractors.

If a legal challenge to a deferral or exemption were successful, in addition to lost future revenues, refunds potentially would be owed under the statutory period (current year plus four previous years). Each year approximately $90 million is collected on federal government contracting. If refunds were included as part of a potential court decision, the revenue impact could reach nearly $500 million.

REVENUE ESTIMATES:
This bill increases state revenues by an estimated $1.1 million in the nine months of impacted collections in Fiscal Year 2023, and by $430,000 in Fiscal Year 2024, the first full year of impacted collections.

This bill also decreases local revenues by an estimated $520,000 in the nine months of impacted collections in Fiscal Year 2023, and by $730,000 in Fiscal Year 2024, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, $000):
FY 2022 - $ 0
FY 2023 - $ 1,090
FY 2024 - $ 430
FY 2025 - $ 320
FY 2026 - $ 200
FY 2027 - $ 30

Local Government, if applicable (cash basis, $000):
FY 2022 - $ 0
FY 2023 - ($ 520)
FY 2024 - ($ 730)
FY 2025 - ($ 770)
FY 2026 - ($ 810)
FY 2027 - ($ 860)

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

ASSUMPTIONS:
- This legislation will affect 25 taxpayers applying for the warehouse remittance and will affect 20 taxpayers with new deferral applications each year.
- Persons receiving the benefit of the deferral or warehouse remittance are required to file an annual tax performance report.
- Expenditures include the cost to implement the new tax preference.

FIRST YEAR COSTS:

Request # 5901-4-1
Bill # 5901 SB PL
FNS062 Department of Revenue Fiscal Note
The Department will incur total costs of $93,400 in Fiscal Year 2022. These costs include:

- **Labor Costs** – Time and effort equates to 0.1 FTEs.
  - Set up, program, and test computer system changes.
- **Object Costs** - $79,200.
  - Computer system changes including contract programming.

**SECOND YEAR COSTS:**
The Department will incur total costs of $73,700 in Fiscal Year 2023. These costs include:

- **Labor Costs** – Time and effort equates to 0.67 FTEs.
  - Amend one administrative rule.
  - Provide revenue impact data for fiscal notes for tax-related initiatives.
  - Test and verify computer systems for new deferral.
  - Annual review of tax performance report.
  - Create a Special Notice and identify publication and information that need to be created or updated on the Department's website.
  - Respond to tax ruling requests, email inquiries, and more difficult call backs from the telephone information center.

**ONGOING COSTS:**
Ongoing costs for the 2023-25 Biennium equal $24,600 and include similar activities described in the second-year costs. Time and effort equate to 0.1 FTE.

**Part III: Expenditure Detail**

**III. A - Expenditures by Object Or Purpose**

<table>
<thead>
<tr>
<th></th>
<th>FY 2022</th>
<th>FY 2023</th>
<th>2021-23</th>
<th>2023-25</th>
<th>2025-27</th>
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<tr>
<td>FTE Staff Years</td>
<td>0.1</td>
<td>0.7</td>
<td>0.4</td>
<td>0.1</td>
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<tr>
<td>A-Salaries and Wages</td>
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<td>45,200</td>
<td>54,200</td>
<td>16,400</td>
<td>16,400</td>
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<tr>
<td>B-Employee Benefits</td>
<td>3,200</td>
<td>16,200</td>
<td>19,400</td>
<td>6,000</td>
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<tr>
<td>C-Professional Service Contracts</td>
<td>79,200</td>
<td>79,200</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>E-Goods and Other Services</td>
<td>1,300</td>
<td>7,900</td>
<td>9,200</td>
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<td>2,000</td>
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<tr>
<td>J-Capital Outlays</td>
<td>700</td>
<td>4,400</td>
<td>5,100</td>
<td>200</td>
<td>200</td>
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<td><strong>Total $</strong></td>
<td>$93,400</td>
<td>$73,700</td>
<td>$167,100</td>
<td>$24,600</td>
<td>$24,600</td>
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**III. B - Detail:** List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA.

<table>
<thead>
<tr>
<th>Job Classification</th>
<th>Salary</th>
<th>FY 2022</th>
<th>FY 2023</th>
<th>2021-23</th>
<th>2023-25</th>
<th>2025-27</th>
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<tr>
<td>EMS BAND 4</td>
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<tr>
<td>IT SYS ADM-JOURNEY</td>
<td>89,916</td>
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<td>MGMT ANALYST4</td>
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<tr>
<td>TAX INFO SPEC 4</td>
<td>64,332</td>
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<td>WMS BAND 3</td>
<td>104,295</td>
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<tr>
<td><strong>Total FTEs</strong></td>
<td></td>
<td>0.1</td>
<td>0.7</td>
<td>0.4</td>
<td>0.1</td>
<td>0.1</td>
</tr>
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</table>
III. C - Expenditures By Program (optional)
   NONE

Part IV: Capital Budget Impact
IV. A - Capital Budget Expenditures
   NONE

IV. B - Expenditures by Object Or Purpose
   NONE

IV. C - Capital Budget Breakout
   Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods
   NONE
   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 458-20-182 Rule, titled: "Warehouse businesses." Persons affected by this rulemaking would include manufacturers in certain counties.
Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

X Cities: Loss of sales tax revenue
X Counties: Loss of sales tax revenue
X Special Districts: Loss of sales tax revenue

☐ Specific jurisdictions only:

☐ Variance occurs due to:

Part II: Estimates

☐ No fiscal impacts.

☐ Expenditures represent one-time costs:

☐ Legislation provides local option:

X Key variables cannot be estimated with certainty at this time: The number and location of qualifying projects that will be granted tax deferral or the amount of the deferral, number or location of warehouses receiving a tax exemption or the amount of the exemption

Estimated revenue impacts to:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Estimated expenditure impacts to:

None

Part III: Preparation and Approval

<table>
<thead>
<tr>
<th>Fiscal Note Analyst:</th>
<th>Tammi Alexander</th>
<th>Phone: 360-725-5038</th>
<th>Date: 03/29/2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leg. Committee Contact:</td>
<td></td>
<td>Phone:</td>
<td>Date: 03/24/2022</td>
</tr>
<tr>
<td>Agency Approval:</td>
<td>Allan Johnson</td>
<td>Phone: 360-725-5033</td>
<td>Date: 03/29/2022</td>
</tr>
<tr>
<td>OFM Review:</td>
<td>Cheri Keller</td>
<td>Phone: (360) 584-2207</td>
<td>Date: 03/29/2022</td>
</tr>
</tbody>
</table>
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 as passed by the Legislature:
- establishes a new sales and use tax deferral program for investment projects in a county with a population of less than 650,000 at the time an application for deferral is submitted to the Department of Revenue (DOR.) If approved, DOR must issue a sales and use tax deferral certificate for state and local sales and use taxes on each eligible investment project. The amount of the deferral is limited to $400,000 per eligible investment project per person.
- expands the warehouse sales and use tax exemption to include warehouses over 100,000 square feet located in a county with a population of less than 650,000. The exemption is limited to $400,000 for the construction or expansion of any warehouse or grain elevator. This exemption would expire July 1, 2032.

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.

This bill would not impact local government expenditures because no action is required.

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.

This bill as passed by the Legislature has an indeterminate, but negative impact on local government sales and use tax revenue. The number and location of qualifying projects that will be granted tax deferral and for what amount are unknown. The number or location of warehouses receiving a tax exemption and the amount of the exemption are unknown. Therefore, revenue impacts cannot be calculated.

According to the Department of Revenue (DOR,) this bill decreases local revenues by an estimated $520,000 in the nine months of impacted collections in Fiscal Year 2023, and by $730,000 in Fiscal Year 2024, the first full year of impacted collections. Please see the DOR fiscal note for their assumptions and data sources.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Revenue Impact</th>
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<tbody>
<tr>
<td>FY 2022</td>
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</tr>
<tr>
<td>FY 2023</td>
<td>($ 520,000)</td>
</tr>
<tr>
<td>FY 2024</td>
<td>($ 730,000)</td>
</tr>
<tr>
<td>FY 2025</td>
<td>($ 770,000)</td>
</tr>
<tr>
<td>FY 2026</td>
<td>($ 810,000)</td>
</tr>
<tr>
<td>FY 2027</td>
<td>($ 860,000)</td>
</tr>
</tbody>
</table>

Sources:
Department of Revenue fiscal note ESB 5901.E AMH FIN H2992.1 (2022)