

Multiple Agency Fiscal Note Summary

Bill Number: 1848 HB	Title: Broadband equipment/tax
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Estimated Cash Receipts

Agency Name	2023-25			2025-27			2027-29		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Department of Revenue	(139,500,000)	(139,500,000)	(139,723,000)	(201,500,000)	(201,500,000)	(201,823,000)	(212,100,000)	(212,100,000)	(212,439,000)
Total \$	(139,500,000)	(139,500,000)	(139,723,000)	(201,500,000)	(201,500,000)	(201,823,000)	(212,100,000)	(212,100,000)	(212,439,000)

Agency Name	2023-25		2025-27		2027-29	
	GF- State	Total	GF- State	Total	GF- State	Total
Local Gov. Courts						
Loc School dist-SPI						
Local Gov. Other		(62,172,000)		(89,793,000)		(94,644,000)
Local Gov. Total		(62,172,000)		(89,793,000)		(94,644,000)

Estimated Operating Expenditures

Agency Name	2023-25				2025-27				2027-29			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Joint Legislative Audit and Review Committee	.1	0	0	13,300	.0	0	0	0	.0	0	0	0
Department of Revenue	.2	59,300	59,300	59,300	.1	17,200	17,200	17,200	.1	17,200	17,200	17,200
Total \$	0.3	59,300	59,300	72,600	0.1	17,200	17,200	17,200	0.1	17,200	17,200	17,200

Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Joint Legislative Audit and Review Committee	.0	0	0	.0	0	0	.0	0	0
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Total \$	0.0	0	0	0.0	0	0	0.0	0	0

Estimated Capital Budget Breakout

Prepared by: Cheri Keller, OFM

Phone:
(360) 584-2207

Date Published:
Final 4/12/2023

Individual State Agency Fiscal Note

Bill Number: 1848 HB	Title: Broadband equipment/tax	Agency: 014-Joint Legislative Audit and Review Committee
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.1	0.0	0.1	0.0	0.0
Account					
Performance Audits of Government Account-State 553-1	13,300	0	13,300	0	0
Total \$	13,300	0	13,300	0	0

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: Kristina King	Phone: 360-786-7190	Date: 03/24/2023
Agency Preparation: Dana Lynn	Phone: 360-786-5177	Date: 03/28/2023
Agency Approval: Eric Thomas	Phone: 360 786-5182	Date: 03/28/2023
OFM Review: Gaius Horton	Phone: (360) 819-3112	Date: 04/03/2023

Part II: Narrative Explanation

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

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

The bill creates a new sales and use tax exemption for sales of machinery and equipment to a broadband communications provider for use in a communication network.

TAX PERFORMANCE STATEMENT DETAILS

Section 1 is the tax preference performance statement that categorizes the preferences as intended to induce certain designated behavior by taxpayers and reduce structural inefficiencies in the tax code, as indicated in RCW 82.32.808(2)(a) and (d).

The Legislature's specific public policy objective is to reduce tax pyramiding during the manufacturing of broadband networks, thus enhancing industry competitiveness and improving structural inefficiencies in the tax structure.

To evaluate the preference's effectiveness in achieving the public policy objectives, JLARC must evaluate the number of businesses that claim the new exemptions.

REMAINDER OF THE BILL

Section 2 adds a new sales tax exemption (RCW 82.08.02565(1)(a)(ii)), that excludes from sales tax machinery and equipment sales to a broadband communications services provider for use in a communication network. The preference begins January 1, 2024, and expires January 1, 2035. The preference is capped at \$40 million of machinery and equipment purchases by a provider in a communications network per calendar year. Terms are defined in sections (1)(k)-(p)

Section 3 adds a companion new use tax exemption (RCW 82.12.02565(1)), excluding the use of machinery and equipment used in a communication network to a broadband communications services provider from use tax. The preference begins January 1, 2024, and expires January 1, 2035, and definitions, conditions, and requirements in RCW 82.08.02565 apply to the use tax exemption.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

JLARC staff would contact and work with the Department of Revenue and other appropriate agencies immediately after passage of the bill to ensure project contacts are established and any other necessary data for JLARC staff's future evaluation needs are identified and collected. JLARC will likely review these preferences in 2032.

The expenditure detail reflects work conducted to prepare for the future review of the preferences. Costs associated with the review are not included in this fiscal note. This fiscal note reflects only the costs associated with establishing data collection.

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 2023 legislative session.

This audit will require an estimated 1 audit month.

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 2023-25 costs are calculated at approximately \$22,100 per audit month.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
553-1	Performance Audits of Government Account	State	13,300	0	13,300	0	0
Total \$			13,300	0	13,300	0	0

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.1		0.1		
A-Salaries and Wages	8,600		8,600		
B-Employee Benefits	2,700		2,700		
C-Professional Service Contracts					
E-Goods and Other Services	1,800		1,800		
G-Travel	200		200		
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total \$	13,300	0	13,300	0	0

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*

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
Research Analyst	126,694	0.1		0.1		
Support staff	89,671					
Total FTEs		0.1		0.1		0.0

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

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Department of Revenue Fiscal Note

Bill Number: 1848 HB	Title: Broadband equipment/tax	Agency: 140-Department of Revenue
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
GF-STATE-State 01 - Taxes 01 - Retail Sales Tax	(41,200,000)	(98,300,000)	(139,500,000)	(201,500,000)	(212,100,000)
Performance Audits of Government Account-State 01 - Taxes 01 - Retail Sales Tax	(66,000)	(157,000)	(223,000)	(323,000)	(339,000)
Total \$	(41,266,000)	(98,457,000)	(139,723,000)	(201,823,000)	(212,439,000)

Estimated Expenditures from:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.4	0.1	0.2	0.1	0.1
GF-STATE-State 001-1	50,700	8,600	59,300	17,200	17,200
Total \$	50,700	8,600	59,300	17,200	17,200

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: Kristina King	Phone: 60-786-7190	Date: 03/24/2023
Agency Preparation: Anna Yamada	Phone: 60-534-1519	Date: 04/11/2023
Agency Approval: Valerie Torres	Phone: 60-534-1521	Date: 04/11/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 04/11/2023

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Part II: Narrative Explanation

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

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

CURRENT LAW:

Manufacturers and processors for hire are eligible for a retail sales and use tax exemption on purchases of manufacturing machinery and equipment (M&E) used directly in a manufacturing operation or research and development (R&D) operation. Likewise, persons engaged in testing for manufacturers or processors for hire are eligible for M&E used directly in a testing operation. Charges for installing, repairing, cleaning, altering, or improving the machinery and equipment are also exempt.

Property with a useful life of less than one year, hand tools, and consumable supplies do not receive an exemption. Manufacturing, R&D, and testing operations for cannabis or cannabis related products are also not eligible for the exemption.

"Manufacturing operation" means the manufacturing of articles, substances, or commodities for sale as tangible personal property.

"Research and development" means activities performed to discover technological information, and technical and nonroutine activities concerned with translating technological information into new or improved products, processes, techniques, formulas, inventions, or software. The term includes exploration of a new use for an existing drug, device, or biological product if the new use requires separate licensing by the federal Food and Drug Administration. The term does not include adaptation or duplication of existing products where the products are not substantially improved by application of the technology, nor does the term include surveys and studies, social science and humanities research, market research or testing, quality control, sale promotion and service, computer software developed for internal use, and research in areas such as improved style, taste, and seasonal design.

"Research and development operation" means engaging in R&D by a manufacturer (or processor for hire for a manufacturer). Taxpayers are not required to manufacture items for sale to qualify for the M&E exemption for M&E used directly in an R&D operation.

PROPOSED:

This bill creates new retail sales and use tax exemptions from January 1, 2024, until January 1, 2035, for M&E used in a communication network by a broadband communications services provider. The Joint Legislative Audit and Review Committee (JLARC) must perform a review of the effectiveness of this sales and use tax exemption.

"Broadband communication services" are defined to include but are not limited to: internet access, telecommunication, and video programming services.

"M&E used in a communication network" means tangible personal property used, in whole or in part, to transmit, convey, amplify, or route information, such as images, text, voice, video, or data. Examples include, but are not limited to:

- cable modem termination system components,
- equipment for WIFI, headend and hub, and monitoring,
- fiber optic and coaxial cables,
- conduit,
- distribution plants,
- customer connection equipment,
- telecommunication radios,

- routing and switching equipment,
- software,
- enclosures for equipment
- towers, poles, and mounts,
- electricity transmitters,
- power equipment,
- diagnostic equipment,
- storage devices,
- servers,
- multiplexers,
- amplifiers,
- antennas,
- related property and equipment, including charges to apply, install, maintain, operate, and repair exempt property.

A broadband communications services provider may only apply the exemption to up to \$40 million of purchases of machinery and equipment per calendar year.

EFFECTIVE DATE:

The bill takes effect 90 days after final adjournment of the session.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

- North American Industry Classification System (NAICS) for 516 (Broadcasting and content providers) and 517 (Wired, wireless, and satellite communication services) would represent the broadband communication services providers who would qualify for the M&E sales and use tax exemption in this bill.
- The proportion of qualified machinery and equipment purchases of the gross business income for broadcasting and content providers (NAICS 516) is 10%, and for wired, wireless, and satellite communications services (NAICS 517) is 15%.
- Non-compliance for use tax of 14.9% was applied.
- The annual growth rate of expenditures of this industry on tangible personal property used in a communication network would mirror that of the gross private nonresidential investment in communications equipment forecasted by the Bureau of Economic Analysis (BEA).
- Because the exemption in this bill takes effect January 1, 2024, this bill impacts five months of collections in fiscal year 2024.

DATA SOURCES:

- Department of Revenue, Excise tax return data
- Department of Revenue, Property tax data
- Department of Revenue, Compliance Study, 2018
- Economic and Revenue Forecast Council, November 2022 forecast
- Washington Broadband Office
- IMPLAN
- Various online sources

REVENUE ESTIMATES:

This bill decreases state revenues by an estimated \$41.3 million in the five months of impacted collections in fiscal year 2024, and by \$98.5 million in fiscal year 2025, the first full year of impacted collections. This bill also decreases local revenues by an estimated \$18.5 million in the five months of impacted collections in fiscal year 2024, and by \$44.3 million in

fiscal year 2025, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2024 - \$ (41,266)
FY 2025 - \$ (98,457)
FY 2026 - \$ (99,860)
FY 2027 - \$ (101,963)
FY 2028 - \$ (104,667)
FY 2029 - \$ (107,772)

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

FY 2024 - \$ (18,500)
FY 2025 - \$ (44,300)
FY 2026 - \$ (44,900)
FY 2027 - \$ (45,800)
FY 2028 - \$ (47,100)
FY 2029 - \$ (48,500)

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

This bill affects 1,300 taxpayers.

FIRST YEAR COSTS:

The department will incur total costs of \$50,700 in fiscal year 2024. These costs include:

Labor Costs – Time and effort equate to 0.36 FTE.

- Amend two administrative rules.
- Amend and adopt two excise tax advisories.
 - Process tax return work items; assist taxpayers with reporting questions; and respond to inquiries via email, web message, and paper correspondence.
- Examine accounts and make corrections as necessary.
- Gather requirements, hold implementation meetings, document and test system changes for a new capped deduction.

Object Costs - \$8,800.

- Computer system changes, including contract programming.

SECOND YEAR COSTS:

The department will incur total costs of \$8,600 in fiscal year 2025. These costs include:

Labor Costs – Time and effort equate to 0.1 FTE.

- Process tax return work items; assist taxpayers with reporting questions; and respond to inquiries via email, web message, and paper correspondence.
- Examine accounts and make corrections as necessary.

ONGOING COSTS:

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Ongoing costs for the 2025-27 biennium equal \$17,200 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

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.4	0.1	0.2	0.1	0.1
A-Salaries and Wages	25,700	5,600	31,300	11,200	11,200
B-Employee Benefits	8,500	1,800	10,300	3,600	3,600
C-Professional Service Contracts	8,800		8,800		
E-Goods and Other Services	5,300	900	6,200	1,800	1,800
J-Capital Outlays	2,400	300	2,700	600	600
Total \$	\$50,700	\$8,600	\$59,300	\$17,200	\$17,200

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

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
EMS BAND 4	126,619	0.0		0.0		
EMS BAND 5	147,919	0.0		0.0		
EXCISE TAX EX 2	55,872	0.1	0.1	0.1	0.1	0.1
MGMT ANALYST4	73,260	0.1		0.1		
TAX POLICY SP 2	75,120	0.0		0.0		
TAX POLICY SP 3	85,020	0.1		0.1		
TAX POLICY SP 4	91,524	0.0		0.0		
WMS BAND 3	107,685	0.0		0.0		
Total FTEs		0.4	0.1	0.3	0.1	0.1

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

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

Part V: New Rule Making Required

Provisions of the bill 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 rulemaking process to amend WAC 458-20-13601, titled: "Manufacturers and processors for hire-Sales and use tax exemptions for machinery and equipment" and 458-20-15503, titled: "Digital products." Persons affected by this rulemaking would include broadband communication service providers that use certain M&E in its communication network.

Request # 1848-1-1

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 1848 HB

Title: Broadband equipment/tax

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

Legislation Impacts:

Cities: decrease in sales tax revenue

Counties: same as above

Special Districts: same as above

Specific jurisdictions only:

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 2024	FY 2025	2023-25	2025-27	2027-29
City	(5,454,778)	(13,061,982)	(18,516,760)	(26,743,156)	(28,187,935)
County	(6,705,340)	(16,056,572)	(22,761,912)	(32,874,290)	(34,650,299)
Special District	(6,154,882)	(14,738,446)	(20,893,328)	(30,175,554)	(31,805,766)
TOTAL \$	(18,315,000)	(43,857,000)	(62,172,000)	(89,793,000)	(94,644,000)
GRAND TOTAL \$					(246,609,000)

Estimated expenditure impacts to:

None

Part III: Preparation and Approval

Fiscal Note Analyst: Tammi Alexander	Phone: 360-725-5038	Date: 04/11/2023
Leg. Committee Contact: Kristina King	Phone: 360-786-7190	Date: 03/24/2023
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 04/11/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 04/12/2023

Part IV: Analysis

A. SUMMARY OF BILL

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

This bill creates new retail sales and use tax exemptions for machinery and equipment used in a communication network by a broadband communications services provider as defined in the bill.

B. SUMMARY OF EXPENDITURE IMPACTS

Expenditure impacts of the legislation on local governments with the expenditure provisions identified by section number and when appropriate, the detail of expenditures. Delineated between city, county and special district impacts.

This bill would not impact local government expenditures.

C. SUMMARY OF REVENUE IMPACTS

Revenue impacts of the legislation on local governments, with the revenue provisions identified by section number, and when appropriate, the detail of revenue sources. Delineated between city, county and special district impacts.

The tax exemptions created by this bill would significantly decreased local government sales and use tax revenue.

According to the Department of Revenue (DOR) this bill would decrease local government revenue by by an estimated \$18.5 million in the five months of impacted collections in fiscal year 2024, and by \$44.3 million in fiscal year 2025, the first full year of impacted collections. Please see the DOR fiscal note for their assumptions and data sources.

LOCAL GOVERNMENT LOSS BREAKDOWN

Counties:

FY 2024	-\$6,705,340
FY 2025	-\$16,056,572
FY 2026	-\$16,274,042
FY 2027	-\$16,600,248
FY 2028	-\$17,071,434
FY 2029	-\$17,578,865

Cities:

FY 2024	-\$5,454,778
FY 2025	-\$13,061,982
FY 2026	-\$13,238,894
FY 2027	-\$13,504,262
FY 2028	-\$13,887,570
FY 2029	-\$14,300,365

Special Districts:

FY 2024	-\$6,154,882
FY 2025	-\$14,738,446
FY 2026	-\$14,938,064
FY 2027	-\$15,237,490
FY 2028	-\$15,669,996
FY 2029	-\$16,135,770

METHODOLOGY:

The distributions in this note for cities, counties, and special districts are based on DOR data for local sales and use tax distributions from Calendar Year 2021. Mitigation payments and distributions to hospital benefit zones are not factored into this distribution. The result is a distribution of 36.61 percent to counties, 29.78 percent to cities, and 33.61 percent to

special districts. The one percent DOR administrative fee has also been deducted.

SOURCES:

Department of Revenue fiscal note, HB 1848 (2023)

Department of Revenue Local Tax Distributions (2021)

Local Government Fiscal Note program, Local Sales Tax model 2023

Local Government Fiscal Note program, Sales and Use Tax Distribution model 2023