

Multiple Agency Fiscal Note Summary

Bill Number: 1711 S HB PL	Title: Internet projects/tribes
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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	(3,810,000)	(3,810,000)	(3,900,000)	(1,900,000)	(1,900,000)	(1,950,000)	0	0	0
Total \$	(3,810,000)	(3,810,000)	(3,900,000)	(1,900,000)	(1,900,000)	(1,950,000)	0	0	0

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
Department of Revenue	.5	103,900	103,900	103,900	.3	58,800	58,800	58,800	.4	79,900	79,900	79,900
Total \$	0.5	103,900	103,900	103,900	0.3	58,800	58,800	58,800	0.4	79,900	79,900	79,900

Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
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 5/ 3/2023
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Department of Revenue Fiscal Note

Bill Number: 1711 S HB PL	Title: Internet projects/tribes	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	(1,270,000)	(2,540,000)	(3,810,000)	(1,900,000)	
Performance Audits of Government Account-State 01 - Taxes 01 - Retail Sales Tax	(30,000)	(60,000)	(90,000)	(50,000)	
Total \$	(1,300,000)	(2,600,000)	(3,900,000)	(1,950,000)	

Estimated Expenditures from:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.6	0.3	0.5	0.3	0.4
GF-STATE-State 001-1	74,400	29,500	103,900	58,800	79,900
Total \$	74,400	29,500	103,900	58,800	79,900

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:	Phone:	Date: 04/26/2023
Agency Preparation: Taylor Culp	Phone: 60-534-1511	Date: 04/28/2023
Agency Approval: Marianne McIntosh	Phone: 60-534-1505	Date: 04/28/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 04/28/2023

Request # 1711-5-1

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.

Note: This fiscal note reflects language in SHB 1711 as passed in the 2023 Legislative Session.

CURRENT LAW:

Businesses performing construction both in and outside Indian country only exclude sales tax from the portion of the contract that relates to work done in Indian country. If the business is performing work for a tribe or enrolled tribal member/citizen outside of their Indian country, for example road work that extends outside of Indian country, the business must collect and pay retail sales tax on the portion of work performed outside Indian country.

PROPOSAL:

This bill provides a state sales and use tax exemption for sales, labor, and services associated with the construction of a qualified infrastructure project (QIP).

The exemption applies to:

- Sales of building materials
- Telecommunications equipment
- Personal property used or incorporated into a qualified infrastructure project
- Charges made for the labor and services related to the construction of a QIP
- The installation of any equipment or other personal property incorporated into a QIP

Qualified infrastructure project owners must apply to the Department of Revenue (department) for an exemption certificate. The application must include the information necessary, as required by the department, to determine that the qualified infrastructure project owner qualifies for the exemption.

The exemption certificate is effective from the date the department receives the application, which is the date of issuance. The exemption does not apply to any property or services that are received by the QIP owner, or its agent, before the effective date of the bill or on or after January 1, 2030.

The exemption certificate expires on the date the QIP owner certifies the project as complete or January 1, 2030, whichever is first.

The total amount of state sales and use tax exempted may not exceed \$8 million.

Operationally complete means the qualified infrastructure project is capable of being used for its intended purpose as described in the exemption certificate application.

Qualified infrastructure project means the construction of buildings and utilities related to the deployment of modern global internet and telecommunications infrastructure that occurs in part in a distressed county located on the coast of Washington.

Qualified infrastructure project owner means a wholly owned subsidiary of a federally recognized tribe located in a county that borders the Pacific Ocean that is developing a qualified infrastructure project.

This exemption expires January 1, 2030.

EFFECTIVE DATE:

Request # 1711-5-1

This bill takes effect on July 1, 2023.

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:

There will be one QIP constructed in two phases at a total project cost of \$90 million.

Phase 1: "East-West Network"

- A new East-West Network of buried long-haul fiber will be installed from Hogan's Corner, WA, to Centralia, WA (approximately 80 miles) and a branch network will be installed from Hoquiam, WA to Moclips, WA (approximately 20 miles).

- An Integrated Line Amplifier (ILA) facility will be constructed at the midpoint of the East-West Network, near Elma, WA, that will provide the opportunity for interconnection to the public internet of subscribers along the route.

Phase 2: "Cable Landing Station"

- A new Cable Landing Station (CLS) facility will be built in Hogan's Corner, WA.

- A new Fronthaul Network will be constructed and will include approximately two miles of buried conduit for fiber and power that will connect from the CLS to a beach manhole located adjacent to the shoreline of the Pacific Ocean west of Hogan's Corner. This will include up to four empty conduits that will be bored approximately 150 feet below the surface from the beach manhole and will extend approximately 0.75 miles offshore before existing in the Pacific Ocean and being plugged.

- No portion of the QIP will occur on Trust Land or on the Quinault Indian Reservation.

- This bill does not exempt local sales and use taxes on qualifying purchases. The department's tax system is not programmed for taxpayers to remit local sales and use taxes without the state portion. To ease taxpayer burden, the department will assess local sales and use taxes based on documentation received from the qualified buyer on a quarterly basis.

- This legislation takes effect July 1, 2023. Based on the project timeline, qualifying activity is estimated to start December 1, 2023, and therefore impacts six months of collection in fiscal year 2024.

DATA SOURCES:

Project details as provided by Toptana Technologies

POTENTIAL LITIGATION:

Legislation creating new exemptions for construction projects presents a risk 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. This risk increases with each additional exemption that the state enacts.

REVENUE ESTIMATES:

This bill decreases state revenues by an estimated \$1.3 million in the six months of impacted collections in fiscal year 2024, and by \$2.6 million in fiscal year 2025, the first full year of impacted collections.

This bill also decreases local revenues by an estimated \$500 thousand in the six months of impacted collections in fiscal year 2024, and by \$500 thousand in fiscal year 2025, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2024 - (\$ 1,300)
 FY 2025 - (\$ 2,600)
 FY 2026 - (\$ 1,950)
 FY 2027 - \$ 0
 FY 2028 - \$ 0
 FY 2029 - \$ 0

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

FY 2024 - (\$ 500)
 FY 2025 - (\$ 500)
 FY 2026 - \$ 250
 FY 2027 - \$ 750
 FY 2028 - \$ 0
 FY 2029 - \$ 0

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:

- Expenditures assume this bill affects one Indian tribe and 10 taxpayers performing construction services on QIPs.
- Both state and local sales tax will be exempt at point of sale to not burden businesses receiving an exemption certificate from the QIP owner.
- The department will review purchases and issue assessments for the local sales and use tax liability on a quarterly basis.

FIRST YEAR COSTS:

The department will incur total costs of \$74,400 in fiscal year 2024. These costs include:

Labor Costs – Time and effort equate to 0.6 FTE.

- Adopt one new excise tax advisory.
- Set up, program, and test computer system changes.
- Process applications, issue exemption certificates, examine accounts and make corrections as necessary, process refund requests, and monitor reports.

Object Costs - \$8,900.

- Computer system changes, including contract programming.
- Travel cost for meetings.

SECOND YEAR COSTS:

The department will incur total costs of \$29,500 in fiscal year 2025. These costs include:

Labor Costs – Time and effort equate to 0.3 FTE.

- Examine accounts and make corrections as necessary, process refund requests, and monitor reports.
- Review documentation and issue assessments for tax liability.

Object Costs - \$100.

- Travel cost for meetings.

ONGOING COSTS:

Ongoing costs for the 2025-27 biennium equal \$58,800 and include similar activities described in the second-year costs. Time

and effort equate to 0.3 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	0.6	0.3	0.5	0.3	0.4
A-Salaries and Wages	39,600	19,100	58,700	38,200	51,200
B-Employee Benefits	13,000	6,300	19,300	12,600	16,900
C-Professional Service Contracts	8,800		8,800		
E-Goods and Other Services	8,900	3,100	12,000	6,200	9,000
G-Travel	100	100	200		
J-Capital Outlays	4,000	900	4,900	1,800	2,800
Total \$	\$74,400	\$29,500	\$103,900	\$58,800	\$79,900

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 3	61,632	0.2	0.2	0.2	0.2	0.3
EXCISE TAX EX 4	68,076	0.2	0.1	0.2	0.1	0.2
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		0.0		
TAX POLICY SP 4	91,524	0.0		0.0		
WMS BAND 3	107,685	0.0		0.0		
Total FTEs		0.6	0.3	0.5	0.3	0.4

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

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 1711 S HB PL

Title: Internet projects/tribes

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

Legislation Impacts:

- Cities:
- Counties: delay in receiving sales tax revenue
- Special Districts:
- Specific jurisdictions only: Grays Harbor County
- 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:

None

Estimated expenditure impacts to:

None

Part III: Preparation and Approval

Fiscal Note Analyst: Tammi Alexander	Phone: 360-725-5038	Date: 05/02/2023
Leg. Committee Contact:	Phone:	Date: 04/26/2023
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 05/02/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 05/03/2023

Part IV: Analysis

A. SUMMARY OF BILL

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

Note: This fiscal note reflects language in SHB 1711 as passed in the 2023 Legislative Session.

This bill provides a state sales and use tax exemption for sales, labor and services associated with the construction of a qualified infrastructure project (QIP).

The exemption applies to:

- Sales of building materials
- Telecommunications equipment
- Personal property used or incorporated into a qualified infrastructure project
- Charges made for the labor and services related to the construction of a QIP
- The installation of any equipment or other personal property incorporated into a QIP

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 will not impact local government expenditures because no action is required.

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.

This state tax exemption created by this bill would decrease state sales and use tax but not the local sales tax. There is no actual revenue loss over time, but a shift in when the tax revenue would be distributed to the county.

According to the Department of Revenue (DOR) this bill decreases local revenues by an estimated \$500,000 in fiscal year 2024 and by \$500,000 in fiscal year 2025. Due to the lag in reporting and collecting of the local sales tax portion, the tax revenues would be paid in fiscal years 2026 and 2027, resulting in a loss of tax revenue in fiscal year 2024 and 2025. Please see the DOR fiscal note for all their assumptions and data sources. There is one project in Grays Harbor County this tax exemption would apply to. Because sales and use tax is reported by the delivery location, DOR assumes the sales tax revenue loss only impacts Grays Harbor County.

REVENUE LOSS FOR GRAYS HARBOR COUNTY

FY 2024	-\$500,000
FY 2025	-\$500,000
FY 2026	\$250,000
FY 2027	\$750,000
FY 2028	\$0
FY 2029	\$0

SOURCES:

Department of Revenue

Department of Revenue fiscal note, 1711 SHB.PL (2023)

House Bill Report, HB 1711, Finance Committee (03/09/2023)