Individual State Agency Fiscal Note

Bill Number: SB 5689	Bill Title: AN ACT Relating to providing a sales and use tax exemption related to internet and telecommunications infrastructure projects involving a federally recognized Indian tribe	Agency: 140 Department of Revenue

Part I: Estimates

[ ] No Fiscal Impact

Estimated Cash Receipts to:

Fund	Fiscal Year 2024	Fiscal Year 2025	2023-2025 Total	2025-27 Biennium	2027-29 Biennium
GF-State Retail Sales Tax	(6,400,000)	(15,500,000)	(21,900,000)	(12,900,000)	
Performance Audit Retail Sales Tax	(200,000)	(400,000)	(600,000)	(300,000)	
Total	(6,600,000)	(15,900,000)	(22,500,000)	(13,200,000)	

Estimated Expenditures from:

	Fiscal Year 2024	Fiscal Year 2025	2023-2025 Total	2025-27 Biennium	2027-29 Biennium
FTE Staff Years	.7	.1	.4	.1	.1
Fund					
GF-State 001	182,200	11,100	193,300	22,000	22,000
Total	182,200	11,100	193,300	22,000	22,000

The revenue and expenditures 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).

[ ] Capital budget impact, complete Part IV.

[ ] Requires new rule making, complete Part V.

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Agency Preparation:	**Taylor Culp**	**Phone:**	**(360) 534-1511**	**Date:**	**2/7/2023**
Agency Approval	**Valerie Torres**	**Phone:**	**(360) 534-1521**	**Date:**	**2/8/2023**
OFM Review:		**Phone:**		**Date:**	

Part II: Narrative Explanation

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

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 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

The taxpayer 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 taxpayer qualifies for the exemption. The application must also include certification from the owner of the QIP that the taxpayer is associated with the QIP.

The exemption certificate is effective from the date the department receives the application, which is the date of issuance. No tax refunds are authorized for purchases made before the effective date of the exemption.

The exemption certificate expires on the date the QIP owner certifies the project as complete or December 31, 2028, whichever is first.

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 federally recognized tribe and an indigenous-owned business entity deploying an internet and telecommunications infrastructure in at least one distressed county on the coast of Washington.

This exemption expires December 31, 2029.

EFFECTIVE DATE:
The bill takes effect 90 days after final adjournment of the session. However, due to the time it will take to program this bill's changes, the department is unable to implement the bill until January 1, 2024.

II. B - Revenue Impact

ASSUMPTIONS:
- A new Cable Landing Station (CLS) will be built in Grays Harbor County on the northwest coast of the United States.
- The average cost of a CLS is between $250 - $800 million, the CLS in Washington will cost $550 million.

- All the infrastructure is not on tribal land.
- One project begins in early 2024 and is completed by the end of 2025.
- Local revenue estimates use the Grays Harbor County average local sales and use tax rate of 2.49%.
- The department implements this legislation January 1, 2024, impacting five months of collections in fiscal year 2024.

DATA SOURCES:
- Toptana Technologies. (2022, October 26). New cable landing station to be built on Quinault land in northwest US. www.toptanatech.com. https://www.toptanatech.com/blog/dcd-new-cable-landing-station
- Various CLS articles involving costs

REVENUE ESTIMATES:
This bill decreases state revenues by an estimated $6.6 million in the five months of impacted collections in fiscal year 2024, and by $15.9 million in fiscal year 2025, the first full year of impacted collections.

This bill also decreases local revenues by an estimated $2.5 million in the five months of impacted collections in fiscal year 2024, and by $6.1 in fiscal year 2025, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, $000):
FY 2024 - ($ 6,600)
FY 2025 - ($ 15,900)
FY 2026 - ($ 13,200)
FY 2027 - $ 0
FY 2028 - $ 0
FY 2029 - $ 0

Local Government, if applicable (cash basis, $000):
FY 2024 - ($ 2,500)
FY 2025 - ($ 6,100)
FY 2026 - ($ 5,100)
FY 2027 - $ 0
FY 2028 - $ 0
FY 2029 - $ 0

II. C - Expenditure Impact

ASSUMPTIONS:
Expenditures assume this bill affects 10 taxpayers performing construction services on qualified infrastructure projects.

FIRST YEAR COSTS:
The department will incur total costs of $182,200 in fiscal year 2024. These costs include:

Labor Costs – Time and effort equate to 0.7 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 - $99,100.

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

SECOND YEAR COSTS:
The department will incur total costs of $11,100 in fiscal year 2025. These costs include:

Labor Costs – Time and effort equate to 0.1 FTE.
- Continued computer system testing, monitoring, and maintenance.

Object Costs - $100.
- Travel cost for meetings.

ONGOING COSTS:
Ongoing costs for the 2025-27 biennium equal $22,000 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:

	Fiscal Year 2024	Fiscal Year 2025	2023-2025 Total	2025-27 Biennium	2027-29 Biennium
Salaries and Wages	51,100	7,300	58,400	14,600	14,600
Benefits	16,800	2,400	19,200	4,800	4,800
Personal Service Contracts	99,000		99,000		
Supplies & Material	10,500	1,000	11,500	2,000	2,000
Travel	100	100	200		
Office Equipment	4,700	300	5,000	600	600
Total	182,200	11,100	193,300	22,000	22,000

III. B - FTE Detail:

Job Classification	Salary	FY 2024 FTEs	FY 2025 FTEs	2023 - 2025 Total	2025 - 2027	2027 - 2029
EMS BAND 4	126,619	.01		.01		
EMS BAND 5	147,919	.01		.01		
EXCISE TAX EX 3	61,632	.1		.05		
IT SYS ADM-JOURNEY	92,844	.1		.05		
MGMT ANALYST4	73,260	.4	.1	.25	.1	.1
TAX POLICY SP 2	75,120	.01		.01		
TAX POLICY SP 3	85,020	.05		.03		
TAX POLICY SP 4	91,524	.01		.01		
WMS BAND 3	107,685	.01		.01		
Total		.7	.1	.43	.1	.1

III. C - Expenditures by Program (optional):

	Fiscal Year 2024	Fiscal Year 2025	2023-2025 Total	2025-27 Biennium	2027-29 Biennium
Total					

Part IV: Capital Budget Impact

None.

Part V: New Rule Making Required

Revenue Impact Detail

			First Biennium		Second Biennium		Third Biennium	
FUND	SOURCE	CODE	1st YEAR	2nd YEAR	3rd YEAR	4th YEAR	5th YEAR	6th YEAR
GF-State	Retail Sales Tax	0101	(6,400,000)	(15,500,000)	(12,900,000)			
Total			(6,400,000)	(15,500,000)	(12,900,000)			
OTHER								
Performance Audit	Retail Sales Tax	0101	(200,000)	(400,000)	(300,000)			
Total			(200,000)	(400,000)	(300,000)			
Net			(6,600,000)	(15,900,000)	(13,200,000)			

Revenue Impact - by Biennium

FUND	SOURCE	CODE	1st Biennium	2nd Biennium	3rd Biennium
GF-State	Retail Sales Tax	0101	(21,900,000)	(12,900,000)	
Total			(21,900,000)	(12,900,000)	
OTHER					
Performance Audit	Retail Sales Tax	0101	(600,000)	(300,000)	
Total			(600,000)	(300,000)	
Net			(22,500,000)	(13,200,000)	