Multiple Agency Fiscal Note Summary

Bill Number: 1324 E 3S HB	Title: Rural development, zones

Estimated Cash Receipts

Agency Name	2019-21		2021-23		2023-25	
	GF- State	Total	GF- State	Total	GF- State	Total
Department of Commerce	Non-zero but indeterminate cost and/or savings. Please see discussion.					
Department of Revenue	0	0	0	0	(26,100,000)	(26,100,000)
Office of Insurance Commissioner	Non-zero but indeterminate cost and/or savings. Please see discussion.					
Total $	**0**	**0**	**0**	**0**	**(26,100,000)**	**(26,100,000)**

Local Gov. Courts						
Loc School dist-SPI						
Local Gov. Other	No fiscal impact					
Local Gov. Total						

Estimated Operating Expenditures

Agency Name	2019-21			2021-23			2023-25		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Joint Legislative Audit and Review Committee	.1	19,000	19,000	.0	7,000	7,000	.2	46,500	46,500
Department of Commerce	.9	251,521	251,521	.6	161,814	161,814	.6	161,814	161,814
Department of Revenue	.0	0	0	.2	41,800	41,800	.0	0	0
Office of Insurance Commissioner	.0	0	0	.0	0	0	.4	0	131,486
Total $	**1.0**	**270,521**	**270,521**	**0.8**	**210,614**	**210,614**	**1.2**	**208,314**	**339,800**

Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	No fiscal impact								
Local Gov. Total									

Estimated Capital Budget Expenditures

Agency Name	2019-21			2021-23			2023-25		
	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 Commerce	.0	0	0	.0	0	0	.0	0	0
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Office of Insurance Commissioner	.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

NONE

FNPID: 57384

Prepared by: Kathy Cody, OFM	Phone: (360) 902-9822	Date Published: Final 3/18/2019

Individual State Agency Fiscal Note

Bill Number: 1324 E 3S HB	Title: Rural development, zones	Agency: 014-Joint Legislative Audit and Review Committee

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	0.1	0.0	0.1	0.0	0.2
Account					
General Fund-State 001-1	15,500	3,500	19,000	7,000	46,500
Total $	15,500	3,500	19,000	7,000	46,500

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: 03/08/2019
Agency Preparation:	Eric Thomas	Phone: 360 786-5182	Date: 03/11/2019
Agency Approval:	Keenan Konopaski	Phone: 360-786-5187	Date: 03/11/2019
OFM Review:	Linda Hamilton	Phone: (360) 902-0556	Date: 03/11/2019

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 the “Washington Rural Development and Distressed Opportunity Zone Act,” which establishes an insurance premium tax credit and a B&O tax credit for taxpayers that make a capital contribution to a rural development and distressed opportunity zone fund. A tax preference performance statement is included.

TAX PERFORMANCE STATEMENT DETAILS

Sec. 2. This bill includes a tax performance statement that categorizes the preference as one intended to create or retain jobs, as noted in RCW 82.32.808(2)(c).

The specific public policy objective stated is to create and retain jobs in rural development and distressed opportunity zone areas in Washington by providing a vested tax credit that may be used to offset certain B&O taxes and insurance premium taxes. The purpose of these tax preferences is to induce taxpayers to invest in rural development and opportunity zone funds whose management teams:

a. Have experience investing in companies located in rural development and distressed opportunity zones;
b. Have been vetted by the US Small Business Administration or US Department of Agriculture; and
c. Have submitted a business plan that:

i. Projects the number of jobs that will be created or retained as a result of such investment fund’s investments in rural companies (detail on the assumptions used to determine the projections is also required); and

ii. Includes a revenue impact assessment that demonstrates that the business plan will result in a positive economic impact on Washington over a 10-year period that exceeds the cumulative amount of tax credits that would be issued to the investment fund’s investors, which would enable capitalization of rural development and distressed opportunity zone funds, incentivize and require rural growth funds to invest in companies located in rural areas of Washington, and enable the creation and retention of jobs in rural development and distressed opportunity zone areas of the state.

The bill notes that if a JLARC review finds that the aggregate number of jobs created or retained matches or exceeds the aggregate jobs stated in business plans of approved rural growth funds in the six years after this preference is enacted, the Legislature intends to continue the preference.

JLARC staff is instructed to obtain data for its review from annual reports submitted by the taxpayers to the Department of Revenue, as required under RCW 82.32.534.

The Act has no effective date, and is scheduled to expire July 1, 2025. If specific funding for the act is not provided in the omnibus appropriations act by June 30, 2019, the entire Act is null and void.

OTHER COMPONENTS OF THE BILL

Sec. 3. Identifies the short title.

Sec. 4. Provides definitions for the Act.

Sec. 5. Provides tax credit application, approval, and allocation detail.

Beginning January 1, 2020, the Department of Commerce must approve applications for approval as a rural development and distressed opportunity zone fund. Applications must include certain specified materials and documentation including a signed affidavit from each investor stating the amount of credit-eligible capital contributions that the taxpayer made. Commerce must approve or disapprove applications within 30 days of receipt and in the order in which the applications are received. Commerce cannot approve more than $100 million in investment authority and not more than $60 million in credit-eligible capital contributions under this section. Further, no applicant may be approved for more than $35 million in investment authority and not more than $21 million in credit-eligible capital contributions under this section. Additional detail on application approval or non-approval is provided. After approval, a rural growth fund must comply with certain requirements within a certain timeframe. A rural development and opportunity zone fund must, once approved, reimburse the Department of Commerce for a proportionate share of the costs the Department incurs to administer the program. Details are provided on how the reimbursement is to be calculated.

Sec. 6. Creates the Rural Development and Distressed Opportunity Zone Account in the state treasury.

Sec. 7. Adds a new section to 48.14 RCW that provides an insurance premium tax credit for persons that make a credit-eligible capital contribution to a rural development and distressed opportunity zone fund and were issued a tax credit certificate. A taxpayer earns a tax credit equal to the amount contributed to the rural development and distressed opportunity zone fund. They may claim one-third of the authorized credit for each of the taxable years that includes the 4th through 6th anniversaries of the closing date, exclusive of amounts carried forward from prior years. The tax credit may not be transferred or allocated to any other entity other than an affiliate subject to the insurance premium.

Sec. 8. The tax credit certificate will be revoked if certain situations with respect to a rural development and distressed opportunity zone fund (noted in the bill) occur.

Sec. 9. The Department of Commerce must evaluate employment outcomes and determine whether a rural development and distressed opportunity zone fund must repay any portion of the credit before approving the exit of a fund from the program.

Sec. 10. A rural growth fund can request a written opinion before making a rural growth investment, as to whether the business it proposes to invest in is a targeted small business. A reply must be provided no later than 15 business days after the date of receipt of the request.

Sec. 11. Each rural development and distressed opportunity zone fund must submit a report on or before the 5th business day after each anniversary of the closing date. The report must document the rural development and distressed opportunity zone fund's growth investments and include:

- A bank statement evidencing each rural growth investment;
- The name, location of principal operations, and industry NAICS code of each business receiving a rural growth investment;
- The number of employment positions created or retained as a result of the investments as of the last date of the prior calendar year; and
- Average annual salary of the positions
- Any other information required.

Sec. 12. Requires the Department of Revenue to adopt implementation rules for the tax preferences.

Sec. 13. Adds a new section to 82.04 RCW that provides a B&O tax credit for persons that make a credit-eligible capital contribution to a rural development and distressed opportunity zone fund and were issued a tax credit certificate. A taxpayer earns a tax credit equal to the amount contributed to the rural development and distressed opportunity zone fund. They may claim one-third of the authorized credit for each of the taxable years that includes the fourth through sixth anniversaries of the closing date, exclusive of amounts carried forward from prior years. The tax credit may not be transferred or allocated to any other entity other than an affiliate subject to the business and occupation tax.

Sec. 14. Findings statement related to the forest products sector.

Sec. 15. Amends RCW 82.04.260 and extends the preferential B&O tax rate for timber extracting, timber product, wood product or related products manufacturing activities from July 1, 2024, to July 1, 2036.

Sec. 16. Amends RCW 82.04.261(1) to remove the July 1, 2024, current expiration date on the surcharge for persons subject to any of the taxes imposed under RCW 82.04.260(12) (a) (b) (c) (d).

Sec. 17. The provisions of RCW 82.32.808 do not apply to Sections 15 and 16 of this act.

Sec. 18. Identifies Sections 1 through 6, 8 through 12, and 19 as constituting a new chapter in Title 43 RCW.

Sec. 19. Provides a July 1, 2025, expiration date for the chapter.

Sec. 20. Provides that if specific funding for the act is not provided by June 30, 2019, in the omnibus appropriations act, the act is null and void.

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.

The bill requires JLARC staff to determine the aggregate number of jobs created or retained, and whether that matches or exceeds the aggregate jobs stated in approved business plans. This is to take place 6 years after the tax preferences are enacted. If so, the Legislature intends to continue the tax preferences.

The full duration of information will likely not be available prior to the current expiration date of July 1, 2025.

Assuming funding for the Act is provided in the 2019 omnibus appropriations act, JLARC staff would contact and work with the Department of Commerce and Department of Revenue immediately after passage of the bill to ensure project contacts are established, annual reports are designed to ensure collection of appropriate documentation and data, and that all elements necessary for future evaluation needs are addressed. JLARC staff would also work with Commerce staff to ensure that regular detail on qualifying and approved rural growth funds and qualifying credit-eligible capital contributions made by taxpayers are provided for JLARC staff future evaluation needs.

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 2019 legislative session.

This audit will require an estimated 4 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 2019-21 costs are calculated at approximately $17,200 per audit month.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2020	FY 2021	2019-21	2021-23	2023-25
001-1	General Fund	State	15,500	3,500	19,000	7,000	46,500
		Total $	15,500	3,500	19,000	7,000	46,500

III. B - Expenditures by Object Or Purpose

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	0.1		0.1		0.2
A-Salaries and Wages	9,700	2,200	11,900	4,400	29,200
B-Employee Benefits	3,100	700	3,800	1,400	9,200
C-Professional Service Contracts					
E-Goods and Other Services	2,500	600	3,100	1,200	7,600
G-Travel	200		200		500
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 $	15,500	3,500	19,000	7,000	46,500

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 2020	FY 2021	2019-21	2021-23	2023-25
Research Analyst	96,779	0.1		0.1		0.1
Support staff	65,838					0.1
Total FTEs		0.1		0.1		0.2

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.

Individual State Agency Fiscal Note

Bill Number: 1324 E 3S HB	Title: Rural development, zones	Agency: 103-Department of Commerce

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

Non-zero but indeterminate cost. Please see discussion.

Estimated Operating Expenditures from:

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	1.1	0.6	0.9	0.6	0.6
Account					
General Fund-State 001-1	170,614	80,907	251,521	161,814	161,814
Total $	170,614	80,907	251,521	161,814	161,814

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: 03/08/2019
Agency Preparation:	Karen McArthur	Phone: 360-725-4027	Date: 03/15/2019
Agency Approval:	Joyce Miller	Phone: 360-725-2723	Date: 03/15/2019
OFM Review:	Gwen Stamey	Phone: (360) 902-9810	Date: 03/18/2019

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.

Differences between the engrossed third substitute bill and the third substitute bill:

There are no differences between the engrossed third substitute senate bill and the third substitute senate bill that effect the fiscal impact to the Department of Commerce (department).

Third substitute bill narrative:

Section 4(15) defines the Rural Development and Distressed Opportunity Zone Fund as an entity certified by the department under Section 5 of this act.

Section 5 requires the department to accept applications, beginning on January 1, 2020, for approval of an entity to operate as a Rural Development and Distressed Opportunity Zone Fund. The department must make a determination on each application within thirty days of receipt, and in the order in which the applications were received.

The department may not approve more than one hundred million dollars in investment authority and not more than sixty million dollars in credit-eligible capital contributions. The department may not approve more than thirty-five million dollars in investment authority and not more than twenty-one million dollars in credit-eligible capital contributions for an applicant.

A fund may apply for additional investment authority and capital contributions in excess of the limit if fewer than three applicants have been approved by November 1, 2020. The department must provide a copy of the tax credit certificates issued to the Office of the Insurance Commissioner and the Department of Revenue. The department must verify transfers of tax credits, issue amended tax credit certificates to the taxpayer (transferor) and a new tax credit certificate to the affiliate (transferee), and provide copies to the Office of the Insurance Commissioner and the Department of Revenue.

A fund must reimburse the department quarterly for the fund's proportional share of one-half of the department's costs to administer the Rural Development and Distressed Opportunity Zone Program from the time the fund receives approval of their application to the time the department approves the fund's exit from the program. A formula is provided.

Section 6 requires the department to deposit all receipts from application fees into the Rural Development and Distressed Opportunity Zone Account.

Section 7 adds a chapter to RCW 48.14. This section requires the department to provide the Office of the Insurance Commissioner with a copy of an amended tax credit certificate, or provide notification if a tax credit certificate was revoked as provided in Section 8 of this act.

Section 8 requires the department to revoke a tax credit certificate if any of a number of criteria specified in the bill occurs before the Rural Development and Distressed Opportunity Zone Fund exits the program in accordance with Subsection (4) of this section. The department must notify the Office of the Insurance Commissioner or the Department of Revenue when a Rural Development and Distressed Opportunity Zone Fund exits the program.

Section 9 requires the department to evaluate the number of jobs created or retained by the Rural Development and Distressed Opportunity Zone Fund, and the aggregate state and local government revenues generated by the growth investments, before approving the exit from the fund and determining whether the fund must repay the state any portion of the credit and provide written notice to the fund of repayment due.

The department may contract with a firm with experience in providing economic analysis and revenue projection for government entities in order to evaluate the number of jobs created and retained by the fund and the aggregate state and local government revenues generated by growth investments made by the fund's participation in the program.

Section 10 requires the department to respond within fifteen business days to a request from a Rural Development and Distressed Opportunity Zone Fund with a written determination as to whether the business in which the fund proposes to invest is a rural business concern as defined by this act.

Section 11 requires each Rural Development and Distressed Opportunity Zone Fund to submit data on the outcome of fund's investments to the department within five business days of the second anniversary of its closing date, until the fund has exited the program in accordance with Section 8(4) of this act. The department must consult with the Joint Legislative Audit and Review Committee when developing the specific format and questions included in the accountability report to ensure it provides the information needed for performance evaluation under RCW 43.136. By January 1, 2020, and annually thereafter, the department must submit a report to the economic development committees of the legislature.

Section 12 requires the department to adopt rules to implement this act.

Section 13 requires the department to provide to the Department of Revenue, a copy of amended tax credit certificates and notify the Department of Revenue if a tax credit certificate is revoked.

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.

The cash receipts impact associated with this proposed legislation is indeterminate. No historical data exists to support a reasonable set of assumptions regarding application fees.

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.

Sections 5-13 – Application Determination and Approval

The accomplish this work the department estimates 1.0 FTE Commerce Specialist 4 in FY20 to provide stakeholder outreach and coordination on the application and submittal process (830 hours), accept and review application materials (500 hours) and determine applicant eligibility (750 hours).

As part of the eligibility review, the department is required to analyze the applicant's revenue impact assessment to determine if the applicant's business plan will result in a positive economic impact on the state over a ten-year period that exceeds the cumulative amount of tax credits that would be issued to the applicant's investors. The department assumes the economic analysis and revenue projections for government entities required in section 9 would be executed by the Commerce Specialist 4 rather than opting to contract with an outside firm. The department must deny an application if the credit-eligible capital contributions do not equal at least sixty percent of the total amount of investment authority requested in the applicant's business plan, and ensure that the department does not exceed the maximum amount of investment authority and credit-eligible capital contributions allowed.

The department estimates 0.50 FTE Commerce Specialist 4 in FY21-25 to provide a tax credit certificate to each investor of an approved Rural Development and Distressed Opportunity Zone Fund with copies provided to the Office of Insurance Commissioner and the Department of Revenue (50 hours). Staff will review documentation from Rural Development and Distressed Opportunity Zone Funds about collection and compliance (450 hours), revoke a tax credit certificate if certain conditions that are outlined in the bill exist (50 hours), provide a written determination when requested by a Rural Development and Distressed Opportunity Zone Fund whether a business in which it proposes to invest is a rural business concern (50 hours), review reports from Rural Development and Distressed Opportunity Funds about rural growth investments (200 hours) and prepare and submit an annual report to the economic development committees of the legislature (250 hours).

Salaries and Benefits
FY20: $103,063
FY21-25: $51,531 per year

Goods and Services, Travel and Equipment
FY20: $67,551
FY21-25: $29,376 per year

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Total Estimated Costs

FY20: $170,614
FY21-25: $80,907 per year

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2020	FY 2021	2019-21	2021-23	2023-25
001-1	General Fund	State	170,614	80,907	251,521	161,814	161,814
		Total $	170,614	80,907	251,521	161,814	161,814

III. B - Expenditures by Object Or Purpose

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	1.1	0.6	0.9	0.6	0.6
A-Salaries and Wages	75,654	37,827	113,481	75,654	75,654
B-Employee Benefits	27,409	13,704	41,113	27,408	27,408
C-Professional Service Contracts					
E-Goods and Other Services	61,351	28,176	89,527	56,352	56,352
G-Travel	1,200	1,200	2,400	2,400	2,400
J-Capital Outlays	5,000		5,000		
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total $	170,614	80,907	251,521	161,814	161,814

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 2020	FY 2021	2019-21	2021-23	2023-25
Administrative Services (Indirect)	69,552	0.1	0.1	0.1	0.1	0.1
Commerce Specialist 4	75,654	1.0	0.5	0.8	0.5	0.5
Total FTEs		1.1	0.6	0.9	0.6	0.6

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.

Section 12 requires the department to adopt rules to implement this act. The department will adopt rules governing the review of application materials and revenue impact assessments, the determinations of applicant eligibility and the revocation of tax credit certificates.

Department of Revenue Fiscal Note

Bill Number: 1324 E 3S HB	Title: Rural development, zones	Agency: 140-Department of Revenue

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

Account	FY 2020	FY 2021	2019-21	2021-23	2023-25
GF-STATE-State 01 - Taxes 80 - Timber Tax					(26,100,000)
Total $					(26,100,000)

Estimated Expenditures from:

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years				0.2	
Account					
GF-STATE-State 001-1				41,800	
Total $				41,800	

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: 03/08/2019
Agency Preparation: Beth Leech	Phone: 360-534-1513	Date: 03/08/2019
Agency Approval: Don Gutmann	Phone: 360-534-1510	Date: 03/08/2019
OFM Review: Kathy Cody	Phone: (360) 902-9822	Date: 03/08/2019

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 3SHB 1324 (H-2212.1), 2019 Legislative Session.

This version changes the name of the investment fund.

This proposal creates a business and occupation tax or insurance premium tax credit for qualified investments by taxpayers to a rural development and distressed opportunity zone fund.

The Department of Commerce will manage the application process for the rural development and opportunity zone funds and those businesses that qualify for a tax credit certificate. Section 5 of this bill creates a statutory framework for issuing, amending, and revoking tax credit certificates. No more than $100 million in investment authority and no more than $60 million in credit-eligible capital contributions may be approved.

Investment authority is defined as the amount stated on the written approval issued by the Department of Commerce certifying the rural development and opportunity zone fund. At least 60 percent of a rural development and opportunity zone fund's investment authority must be comprised of credit-eligible contributions.

Credit-eligible contributions are investments by a person subject to business and occupation taxes or insurance premium taxes in a rural development and opportunity zone fund. The investment equals the amount specified on a tax credit certificate issued by the Department of Commerce.

Sections 13 through 16 describe the credit and changes to the business and occupation tax:

The business and occupation tax credit is equal to the amount of a taxpayer's credit-eligible capital contribution to the rural development and opportunity zone fund. The taxpayer may claim up to one-third of the credit authorized for each of the calendar years that includes the fourth through sixth anniversaries of the closing date noted on the tax credit certificate, exclusive of amounts carried forward from prior years.

The amount claimed for a tax reporting period may not exceed the amount of business and occupation tax due. Unused credits may be carried forward until used. Taxpayers must file all returns and required information with the Department of Revenue (Department) electronically including a copy of the tax credit certificate issued by the Department of Commerce. Taxpayers claiming this tax credit must file an annual report with the Department as required in RCW 82.32.534.

The credit may not be transferred or allocated to any other entity other than an affiliate subject to business and occupation taxes. The Department of Commerce must provide the Department with a copy of the amended tax credit certificate.

The Department of Commerce must notify the Department if a tax credit certificate is revoked.

This bill also extends the preferential tax rates to 2036 for persons engaging in the business of extracting timber, extracting timber for hire, manufacturing timber, manufacturing timber for hire, wholesaling timber, or selling standing timber.

Under current law, the surcharge imposed on the preferential tax rates above is 0.052 percent and is suspended when receipts total at least $8 million during the fiscal biennium. This surcharge expires July 1, 2024.

This bill extends the surcharge expiration to July 1, 2036.

This new tax exemption expires July 1, 2025.

If funding for this bill is not provided by June 30, 2019, it will be null and void.

The bill takes effect 90 days after final adjournment of the session in which it is enacted.

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
- The earliest closing date for earning business and occupation tax credits will be in January 2020.
- One-third of the $60 million in authorized credits may be claimed in the fourth through sixth years after the closing date.
- The fourth, fifth, and sixth years after the closing date are assumed to be Calendar Years 2024, 2025, and 2026.
- The carry-forward provisions allow taxpayers to continue to claim any credit that has not been used in years four through six indefinitely, potentially creating B&O tax impacts in years outside the analysis time frame of this fiscal note.
- The B&O credits authorized by this legislation would result in a decrease in B&O tax revenue (state general fund) starting as early as Fiscal Year 2024. However, the number of taxpayers that will be eligible for the credit and the amount of any authorized credit is unknown, resulting in an indeterminate revenue impact.
- The preferential timber tax rates will be extended, resulting in a revenue impact starting in Fiscal Year 2025. Under current law the timber tax rate in Fiscal Year 2025 would have been 0.484 percent.
- The timber tax surtax of 0.052 percent will be extended, resulting in an additional revenue impact starting in Fiscal Year 2025. Under current law the timber tax surtax will expire June 30, 2024.

DATA SOURCES:
- Department excise tax data base

REVENUE ESTIMATES:
This bill decreases state revenues by an estimated $26.1 million in Fiscal Year 2025 due to the extension of a preferential B&O rate for the timber industry. State revenue decreases due to the B&O tax credit are indeterminate.

TOTAL REVENUE IMPACT:

State Government (cash basis, $000):

FY 2020 -	$	0
FY 2021 -	$	0
FY 2022 -	$	0
FY 2023 -	$	0
FY 2024 -	$	0
FY 2025 -	($ 26,100)	

Local Government, if applicable (cash basis, $000): None

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.

ASSUMPTIONS:
- One Rural Business Investment Company with 500 investor taxpayers will be affected by this legislation.
- The Department of Commerce will process all credit applications and regularly update the Department of the current credit available to taxpayers.

- Taxpayers will begin claiming credits in Fiscal Year 2022.
- A taxpayer claiming this new tax preference must file an annual survey (RCW 82.32.808). These expenditures include the costs to implement the new tax preference.
- The Department may disclose the amount claimed by a taxpayer under this new tax preference after 24 months (RCW 82.32.808).

FOURTH YEAR COSTS:
The Department will incur total costs of $41,800 in Fiscal Year 2023. These costs include:

Labor Costs - Time and effort equates to 0.4 FTE.
- Set up, program and test computer systems for a new credit ID, including program buy-down limits and carry forward.
- Make revisions to the annual survey for the new credit. Set up, program and test these changes.

ONGOING COSTS:
The Department will not incur any further costs with the implementation of this legislation.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years				0.2	
A-Salaries and Wages				26,400	
B-Employee Benefits				7,900	
E-Goods and Other Services				4,800	
J-Capital Outlays				2,700	
Total $				$41,800	

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 2020	FY 2021	2019-21	2021-23	2023-25
EXCISE TAX EX 4	62,148				0.2	
IT SPEC 5	77,616				0.1	
Total FTEs					0.2	

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.

No rule-making required.

Individual State Agency Fiscal Note

Bill Number: 1324 E 3S HB	Title: Rural development, zones	Agency: 160-Office of Insurance Commissioner

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

Non-zero but indeterminate cost. Please see discussion.

Estimated Operating Expenditures from:

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	0.0	0.0	0.0	0.0	0.4
Account					
Insurance Commissioners Regulatory Account-State 138-1	0	0	0	0	131,486
Total $	0	0	0	0	131,486

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: 03/08/2019
Agency Preparation: Jim Tompkins	Phone: (360) 725-7036	Date: 03/08/2019
Agency Approval: Gynger Steele	Phone: 360-725-7056	Date: 03/08/2019
OFM Review: Robyn Williams	Phone: (360) 902-0575	Date: 03/08/2019

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.

Section 7(1) authorizes a tax credit against the insurance premium tax for persons that made a credit-eligible capital contribution to a rural growth fund and were issued a tax credit certificate by the Department of Commerce (Commerce).

Section 7(3) allows the taxpayer to claim up to one-third of the credit authorized for each of the calendar years that includes the fourth through sixth anniversaries of the closing date. For purposes of this fiscal note, the Office of Insurance Commissioner (OIC) assumes the earliest closing date will be January 2020, which would make insurance premium tax credits first available in tax year 2023. In addition, section 7(4) allows unused credits to be carried forward until used, even if claimed after the act's expiration date of July 1, 2025. These subsections will require new functionality and modifications to the OIC's core systems and online tax forms.

Section 7(5) requires all persons claiming a credit to file electronically with the OIC all returns, other forms, or any other information as may be required by the OIC. Section 7(6) requires the taxpayer claiming a credit to submit a copy of the tax credit certificate to the OIC when filing the first return in which the taxpayer will claim a credit against taxes due. This will require a change to the OIC's core systems and online tax forms because OIC's tax forms are automated but currently do not have the ability for insurers/carriers/surplus line brokers to submit attachments.

Section 7(8) requires Commerce to notify the OIC if a tax credit certificate was revoked. Upon such notice, the OIC must provide written notice to the taxpayer including the amount of all credits previously claimed and that such amount must be paid back in full within thirty days of the date of the notice. If a taxpayer fails to pay the amount in full by the due date in the notice, the OIC must impose penalties and interest consistent with RCW 48.14.060. This will require a change to the OIC's online and core tax module to account for the revocation in the tax credit calculations.

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.

Section 7(1) authorizes a tax credit against the insurance premium tax for persons that made a credit-eligible capital contribution to a rural growth fund and were issued a tax credit certificate by the Department of Commerce (Commerce).

Section 7(3) allows the taxpayer to claim up to one-third of the credit authorized for each of the calendar years that includes the fourth through sixth anniversaries of the closing date. For purposes of this fiscal note, the Office of Insurance Commissioner (OIC) assumes the earliest closing date will be January 2020, which would make insurance premium tax credits first available in tax year 2023 (revenue impact in FY2024). In addition, Section 7(4) allows unused credits to be carried forward until used, even if claimed after the act's expiration date of July 1, 2025.

Section 7(8) requires Commerce to notify the OIC if a tax credit certificate was revoked. Upon such notice, the OIC must provide written notice to the taxpayer including the amount of all credits previously claimed and that such amount must be paid back in full within thirty days of the date of the notice. If a taxpayer fails to pay the amount in full by the due date in the notice, the OIC must impose penalties and interest consistent with RCW

48.14.060.

This bill would result in a decrease in insurance premium tax revenue (General Fund). However, because the OIC is unable to estimate the number of insurers/carriers that will be eligible for the credit or the amount of the authorized credit, the revenue impact is indeterminate.

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.

Section 7(1) authorizes a tax credit against the insurance premium tax for persons that made a credit-eligible capital contribution to a rural growth fund and were issued a tax credit certificate by the Department of Commerce (Commerce).

Section 7(3) allows the taxpayer to claim up to one-third of the credit authorized for each of the calendar years that includes the fourth through sixth anniversaries of the closing date. For purposes of this fiscal note, the Office of Insurance Commissioner (OIC) assumes the earliest closing date will be January 2020 which would make insurance premium tax credits first available in tax year 2023. In addition, section 7(4) allows unused credits to be carried forward until used, even if claimed after the act's expiration date of July 1, 2025. These subsections will require new functionality and modifications to the OIC’s core systems and online tax forms.

Section 7(5) requires all persons claiming a credit to file electronically with the OIC all returns, other forms, or any other information as may be required by the OIC. Section 7(6) requires the taxpayer claiming a credit to submit a copy of the tax credit certificate to the OIC when filing the first return in which the taxpayer will claim a credit against taxes due. This will require a change to the OIC's core systems and online tax forms because OIC’s tax forms are automated but currently do not have the ability for insurers/carriers/surplus line brokers to submit attachments.

Section 7(8) requires Commerce to notify the OIC if a tax credit certificate was revoked. Upon such notice, the OIC must provide written notice to the taxpayer including the amount of all credits previously claimed and that such amount must be paid back in full within thirty days of the date of the notice. If a taxpayer fails to pay the amount in full by the due date in the notice, the OIC must impose penalties and interest consistent with RCW 48.14.060. This will require a change to the OIC’s online and core tax module to account for the revocation in the tax credit calculations.

Section 7 will require new functionality and modifications to all of the OIC’s online tax forms and associated reports. Specifically, a new section and calculation logic for fifteen online tax forms and creating a new Application Xtender (AX) instance to store the tax credit certificates. In addition, changes will be required to several screens and reports in the Fiscal module of the OIC’s enterprise system (ORCA) in order to collect, store, monitor and audit the new tax credits. The new forms will be required beginning January 2024 for entities to report for calendar year 2023. IT resources will be required to make these changes at an estimated total of 1,805 hours. The estimate is based on prior projects requiring tax form modifications with similar complex calculation logic.

One-time costs:
Salary, benefits and associated costs, in FY2024, for an ITS4, ITS5 and ITSAS6 for IT system modifications.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2020	FY 2021	2019-21	2021-23	2023-25
138-1	Insurance Commissioners Regulatory Account	State	0	0	0	0	131,486
		Total $	0	0	0	0	131,486

III. B - Expenditures by Object Or Purpose

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years					0.4
A-Salaries and Wages					79,078
B-Employee Benefits					26,111
C-Professional Service Contracts					
E-Goods and Other Services					26,297
G-Travel					
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 $	0	0	0	0	131,486

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 2020	FY 2021	2019-21	2021-23	2023-25
Information Technology Specialist 4	79,548					0.1
Information Technology Specialist 5	87,792					0.2
IT System/Applications Specialist 6	96,912					0.2
Total FTEs						0.4

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.

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 1324 E 3S HB	**Title:** Rural development, zones

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

Legislation Impacts:

- [ ] Cities:
- [X] Counties: Counties with population densities less than 100 people per square mile, or with a total area less than 250 square miles
- [ ] Special Districts:
- [ ] Specific jurisdictions only:
- [ ] Variance occurs due to:

Part II: Estimates

- [X] No fiscal impacts.
- [ ] Expenditures represent one-time costs:
- [ ] Legislation provides local option:
- [ ] Key variables cannot be estimated with certainty at this time:

Part III: Preparation and Approval

Fiscal Note Analyst: Tom Gilmore	Phone: 360-725-5038	Date: 03/14/2019
Leg. Committee Contact:	Phone:	Date: 03/08/2019
Agency Approval: Renee Martine-Tebow	Phone: 360-725-5045	Date: 03/14/2019
OFM Review: Kathy Cody	Phone: (360) 902-9822	Date: 03/14/2019

Part IV: Analysis

A. SUMMARY OF BILL

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

CHANGES FROM PREVIOUS VERSION
This version does not contain changes that impact local governments.

CURRENT VERSION OF THE BILL
This bill would establish a tax exemption under RCW 82.04 for specific businesses operating in rural development and opportunity zones.

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.

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 would not impact local government revenues.

This bill would provide an exemption to a state tax under RCW 82.04 to promote development of business in rural areas. Any fiscal impacts resulting from development would be secondary impacts not under consideration in this note.

SOURCES:
Department of Revenue Fiscal Note