

HB 2084 Strategic Investment Program (SIP) Modernization

Testimony for House Revenue 3.3.2015



Problem: The SIP law was written in 1993 and hasn't been updated for inflation or reconsidered in light of our 20 years of experience with the legislation.

Solution: HB 2084

- Indexes required investment and the amount on which property taxes are paid from 1993 base. For a new 2015 agreement, this would increase the amounts from \$100 m to \$165 m for Urban SIPs and from \$25 m to \$33 m for Rural SIP.
- Limits maximum time of use, thus eliminating the potential stacking of SIPs within a 30 year period of time as does the recently negotiated Intel SIP.
- Adds educational districts to fee distribution agreement committee. Without participation, K-12, Community Colleges and ESD's have not been receiving the share they would receive if these fees were called property taxes. [Not our preferred solution.]
- Requires that use of the agreement begin within six years of signing for agreements with new companies and within four years for subsequent agreements. Currently some agreements are negotiated long before their use is anticipated.
- Requires County to publish terms of agreement at least four weeks before public hearing and the parties to the agreement to reconsider it after the public hearing, so that public hearings take on more than a per forma role.

The SIP needs a workgroup. Possible additional changes to the bill:

- 1) Index the CSF as well as the property investment/tax amount, and continue indexing throughout the life of the agreement.
- 2) Remove the caps on the CSF.
- 3) Distribute all receipts, whether identified as fees or property taxes, as local voters have voted that property taxes will be distributed. Under current practice, most education districts receive no distribution, or they receive money outside the school funding formula or for special Community College programs. Could also extend this provision beyond the SIP to other property tax laws -- the same practice is used in 15-year Rural Enterprise Zone agreements.
- 4) Reduce the amount required in rural areas since some are unlikely to ever get a \$25 m investment, but may prefer to use the SIP rather than the tax free 15-year Rural Enterprise Zone. A lowered initial investment/taxable amount will, in most circumstances, be offset by the fact that the community service fee cap is removed. Perhaps requiring an investment of and property taxes on \$5 million, with the CSF as 50% of the property taxes otherwise due on any value between \$5 and \$25 million, and as 25% of the property taxes otherwise due on any value above \$25 million, with no cap.

We believe a workgroup is needed. In discussing SIP Modernization with some of the rural communities, it has become clear that there should be time for additional ideas to come forward.

For example, Tony Hyde in Columbia County says they may get a \$2 b facility and he doesn't think the business should be eligible for the low taxation level of the Rural SIP--- taxes on only \$25 million of a \$2 billion project seems unnecessarily generous to him.

A possible solution would be to remove the cap on the Community Service Fee so that taxes are paid on 25% of all exempt property. But there may be better ideas.

In fact, under current law a \$800 m property and a \$2 billion property pay the same taxes. As an example, were there no cap on the CSF, Intel's most recent payments on their two SIP properties would have been \$53.66 m rather than \$22.91 m.

The current mechanics of the SIP program are:

The buildings and equipment are exempt from taxes beyond the two items below unless the parties to the agreement require additional fees, as have some agreements.

For Urban SIPs:

- Property Taxes are paid on \$100 million of building and equipment – distributed the same as are all property taxes to taxing districts of the facility.
- A Community Service Fee (CSF) is paid on 25% of the value of the facilities in excess of \$100 million, capped at \$2 million – distribution decision is by all taxing districts, except education districts. Often no money given to education and when there is, it is done outside the school funding formula and/or to community colleges for programs specifically training the business' workforce.
- Parties can and often do agree to additional fees.

For Rural SIPs:

Rural SIPs: \$25 m investment requirement/taxation and CSF capped at \$500,000.

For quick comparison:

Urban SIPs: \$100 million investment requirement/taxation and CSF capped at \$2 m.

Rural SIPs: \$25 m investment requirement/taxation and CSF capped at \$500,000.