



January 16, 2019

Washington State Elected Officials:

Governor Inslee introduced a proposed two-year budget that calls for \$3.7 billion in new and higher taxes. It includes a 9 percent capital gains tax, which would take Washington from a state with no capital gains tax to the fourth-highest in the country, and a 67 percent increase in the B&O tax on service businesses, among others. The state budget has grown considerably since the recession, primarily on the strength of the economy, going from \$31.3 billion in 2011-13 to more than \$50 billion today, raising the question of whether additional tax revenue is really needed.

Of concern to us in Kent is that the Governor's new budget does not include continued mitigation payments for the Streamlined Line Sales Tax (SST) program. Cities have received SST Mitigation payments since the state transitioned from origin-based to destination-based sales tax sourcing effective July 1, 2008. At that time, the Legislature and Governor Gregoire **committed to providing our communities with SST Mitigation payments in recognition that changing the sales tax sourcing laws had negative fiscal impacts for many communities throughout the state.** Our communities have relied on the state's commitment and the ongoing SST Mitigation payments to provide key services to the businesses and residents of our communities.

When the Washington Marketplace Fairness Act (MFA) was enacted in 2017, the Legislature indicated an intent to discontinue SST Mitigation payments in October 2019 under the belief that cities would receive enough additional sales tax revenue under the MFA to offset the loss of SST Mitigation payments. At the Legislature's request, the Department of Revenue provided a report on November 1, 2018. In that report, the Department states that "it does not appear that Marketplace Fairness revenues will equal or exceed the losses in these cities in the next ten years."

Data in the report goes on to demonstrate that discontinuing SST Mitigation payments as planned will have a significant impact on jurisdictions that have a high concentration of warehousing, distribution, and manufacturing activities. Below is a list of the 2018 Quarter 1 SST mitigation payments (multiply this number by four to get an estimated annual amount of SST mitigation payments).

2018 Quarter 1 Streamlined Sales Tax Mitigation Payments:

KENT	\$1,136,711.13
AUBURN	\$414,606.59
TUKWILA	\$259,185.05

Despite the requests to continue the SST mitigation program from the Mayors of many cities and over 25 legislators, the Governor's proposed budget does not continue funding for the SST mitigation program beyond October 2019. This is disappointing. The Governor's proposal is just beginning of the state budget development process – there is much more process to come prior to the state budget being final.

Starting January 14<sup>th</sup>, the Legislature will begin developing its take on the state budget. We can work through the Legislature to have funding for the program extended beyond October 2019. We are hopeful that everyone will continue to advocate for funding the program into future years and that we can work with the Governor to find a way to continue to invest in Kent and South King County and create a more equitable and sustainable budget to encourage economic development for our region.

Thank you and we look forward to working with you in the future regarding this issue.

April Sta. Rosa  
President of the Kent Chamber of Commerce  
Owner of Valley Floor Company