



STATE OF WASHINGTON
DEPARTMENT OF REVENUE
OFFICE OF THE DIRECTOR

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November 18, 2019

TO: The Honorable Christine Rolfes, Chair
The Honorable John Braun
Ways & Means Committee
Washington State Senate

The Honorable Gael Tarleton, Chair
The Honorable Ed Orcutt
Finance Committee
Washington State House of Representatives

The Honorable Reuven Carlyle, Chair
The Honorable Doug Ericksen
Environment, Energy & Technology Committee
Washington State Senate

The Honorable Zack Hudgins, Chair
The Honorable Norma Smith
Innovation, Technology & Economic Development Committee
Washington State House of Representatives

Keith Phillips, Policy Director
Office of the Governor

FROM: Vikki Smith, Director
Department of Revenue

**SUBJECT: REPORT ON PAYMENTS IN LIEU OF PROPERTY TAX ON CERTAIN
PUBLIC UTILITY DISTRICT BROADBAND NETWORK PROPERTY**

Background

During the 2018 Legislative Session, the Washington State Legislature passed Engrossed Substitute Senate Bill (ESSB) 6034 (chapter 186, Laws of 2018). The legislation authorized certain public utility districts (PUDs) to provide limited retail internet service on the PUD's broadband network. Those PUDs authorized to provide retail internet service under this bill are

those that, as of June 7, 2018, provide only water, sewer, and wholesale telecommunications services in a county with an area less than 500 square miles and located west of the Puget Sound. See RCW 54.16.420. Only Kitsap Public Utility District #1 (Kitsap PUD) meets these criteria.

As municipal corporations, PUDs are exempt from property tax under RCW 84.36.010 and Article VII, Section 1 of the Washington Constitution. Section 3 of ESSB 6034 (codified at RCW 54.16.425) requires PUDs providing retail internet service to make an annual payment in lieu of tax (PILT) for the PUD's broadband network property used to provide retail internet service. The amount of the PILT is negotiated between the PUD and the county or counties in which the broadband network property is located and may not exceed the amount of property tax that would be owed on the broadband network property if it were subject to property taxation. If the parties cannot agree on the amount of the PILT, the dispute may be submitted to binding arbitration.

Section 3 of ESSB 6034 also requires the Department of Revenue (Department) to submit a report to the appropriate legislative committees detailing the amount of PILT payments made under this legislation and the amount of property tax that would be owed on the broadband network property used in providing retail internet service by PUDs if the property were subject to property taxation.

The Department's 2019 Report

Kitsap PUD has not exercised the authority granted by ESSB 6034 to use its broadband network property to provide retail internet service. As a result, the district made no PILT payment to Kitsap County in 2019.

Although Kitsap PUD is not currently providing retail internet service, we note that there are eight internet service providers currently providing retail internet service in Kitsap County. This is up from three retail internet service providers serving Kitsap County before June 7, 2018, the effective date of ESSB 6034.

If you have any questions or need the report in an alternate format, please contact David Duvall, Legislative and External Affairs Liaison, Executive Division, at (360) 534-1545 or DavidD@dor.wa.gov.

cc: Brad Hendrickson, Washington State Senate
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