



STATE OF WASHINGTON

DEPARTMENT OF REVENUE

OFFICE OF THE DIRECTOR

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December 1, 2023

TO: The Honorable June Robinson, Chair The Honorable April Berg, Chair
 The Honorable Lynda Wilson The Honorable Ed Orcutt
 Ways & Means Committee Finance Committee
 Washington State Senate Washington State House of Representatives

 The Honorable Joe Nguyen, Chair The Honorable Cindy Ryu, Chair
 The Honorable Drew MacEwen The Honorable Mike Volz
 Environment, Energy & Technology Innovation, Community & Economic
 Committee Development, & Veterans Committee
 Washington State Senate Washington State House of Representatives

Rob Duff, Executive Director, Policy & Outreach
Office of the Governor

FROM: Drew Shirk, Director
 Department of Revenue

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

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 Section 1 of ESSB 6034 (formerly codified at RCW 54.16.420). Only Kitsap Public Utility District #1 (Kitsap PUD) met these criteria.

During the 2021 Legislative Session, the Washington State Legislature passed [Engrossed Substitute House Bill \(ESHB\) 1336](#) (Chapter 294, Laws of 2021). Among other things, ESHB 1336 repealed the geographic limitation on the provision of retail internet service by PUDs contained in Section 1 of ESSB 6034. ESHB 1336 also provided new or expanded authority for PUDs, port districts, second-class cities, towns, and counties to provide telecommunications services, including retail internet service.

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, as amended by Section 4 of ESHB 1336 and codified at [RCW 54.16.425](#), requires PUDs providing retail telecommunications services to make an annual payment in lieu of tax (PILT) for the PUD's broadband infrastructure used to provide retail telecommunications services. The amount of the PILT is negotiated between the PUD and the county or counties in which the broadband infrastructure is located. Additionally, the PILT amount may not exceed the amount of property tax that would be owed on the broadband infrastructure if it were subject to property taxation. If the parties cannot agree on the amount of the PILT, either party may submit the dispute to binding arbitration.

RCW 54.16.425 also requires the Department of Revenue (Department) to submit a report to the appropriate legislative committees annually by December 1 detailing the amount of PILT payments made under this statute and the amount of property tax that would be owed on the broadband infrastructure used in providing retail telecommunications services by PUDs if the property were subject to property taxation.

The Department's 2023 Report

The Department has learned that the Jefferson County PUD is currently utilizing their broadband infrastructure to serve 13 retail broadband customers. The Department is unaware of any other PUDs that have exercised this authority to use their broadband infrastructure to provide retail telecommunications services.

As of the date of this report, the Jefferson County PUD has **not** started negotiations with the county for an annual payment in lieu of property taxes but are aware of the statutory responsibility to determine a payment amount for April 30th, 2024.

Next year, the Department will calculate the initial estimate of value for the property comprising the broadband infrastructure used in providing retail telecommunications services with an effective date of January 1st, 2024. This valuation and an estimate of property tax liability will be provided in the December 2024 report to the legislature.

If you have any questions or need the report in an alternate format, please contact Steve Ewing, Legislative and External Affairs Liaison, Executive Division, at (360) 534-1545.

cc: Sarah Bannister, Secretary of the Senate, Washington State Senate
Bernard Dean, Chief Clerk, Washington State House of Representatives
Members, Senate Ways & Means Committee
Members, House Finance Committee
Members, Senate Environment, Energy & Technology Committee Members, House Innovation, Community & Economic Development, & Veterans Committee
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