Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 1667

Brief Description: Making changes affecting city-county assistance account distributions in response to the recommendations of the joint legislative audit and review committee.

Sponsors: Representatives Springer, Ericks, Kretz and Moeller; by request of Department of Revenue.

Brief Summary of Bill
• Makes changes to the city-county assistance account.

Hearing Date: 2/12/09

Staff: Jeff Mitchell (786-7139)

Background:

Prior to 2000 the state collected revenues from a Motor Vehicle Excise Tax (MVET). Part of the MVET revenues provided funds to local governments for a variety of purposes, including sales and use tax equalization. A statutory formula was used to provide funds to jurisdictions and took into account whether local sales and use tax revenues were low relative to the state average. In 2000, the Legislature repealed the MVET and appropriated temporary funds to cities and counties to replace portions of lost revenues.

In 2005, the Legislature created the City-County Assistance Account (CCAA). The account receives funds from a portion of the state Real Estate Excise Tax. Distributions from the account are divided equally between cities and counties. Similar to the former MVET equalization, the formula for distributing funds from the CCAA takes into account jurisdictions' sales tax revenues relative to the state average along with other criteria. The CCAA also includes a property valuation component for city distributions. By March 1 of each year, the Department of Revenue (DOR) is required to certify to the State Treasurer the amount of distributions. This is based on the prior calendar year's sales and use tax collections and property values, as well as the

---

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

most recent population estimate by the Office of Financial Management. The State Treasurer is responsible for making distributions to cities and counties.

As part of the legislation that created the CCAA, the Joint Legislative Audit and Review Committee (JLARC) was required to determine the extent to which the distributions to cities and counties targeted the funding shortfalls created by the repeal of the state MVET, and make any recommendations for changes to the distribution formulas. The report was due December 31, 2008. Using a 2006 timeframe, JLARC found that the majority of funds were distributed to low tax base jurisdictions as they would have been under the former MVET. However, the funding provided by the CCAA was less than what would have been provided for equalization through the MVET. JLARC also made two recommendations: (1) the Legislature should change the date for certification of distributions from March to June, allowing the DOR to the use the prior year's assessed valuation data as required in statute (the DOR does not have access to the necessary property tax data until after March); and (2) the DOR should provide the Legislature with a report on the interaction between streamlined sales tax mitigation funding to cities and counties and distributions provided through the CCAA.

In 2007, the Legislature adopted legislation (SSB 5089) to conform with the streamlined sales and use tax agreement (SSUTA). The SSUTA is a multi-state effort to simplify and improve the administration and collection of sales and use taxes. As part of the legislation, the Streamline Sales and Use Tax Mitigation Account (Account) was created to mitigate the effect of the change in sourcing rules that negatively impacted local jurisdictions. Sourcing is the process of determining which local jurisdictions receive local sales and use taxes. The conforming legislation directs the State Treasurer to periodically transfer from the Account an amount determined by the DOR to fully mitigate negatively impacted local jurisdictions. The State Treasurer makes distributions quarterly.

Summary of Bill:

For city distributions from the City-County Assistance Account (CCAA), streamlined sales tax mitigation funds are included within the per capita sales and use tax computation.

The March 1 certification date by the Department of Revenue (DOR) to the State Treasurer is changed to September 1. The September 1 date is a preliminary certification. The DOR must make any final adjustments by October 1st. The September 1 certification by the DOR applies to the following October 1, January 1, April 1, and July 1 distributions by the State Treasurer to cities and counties. This change allows DOR to determine the assessed value for cities for the prior calendar year, as required in statute.

To determine prior per capita sales and use tax collections within a city or county, the prior fiscal year is used as opposed to the prior calendar year.

The bill clarifies that the computation for the amount of local sales and use taxes is based on actual tax distribution and not tax collections.

The bill applies retroactively to March 1, 2009, as well as prospectively.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.