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## Local Government & Housing Committee

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### HB 2903

**Brief Description:** Concerning benefit charges for regional fire protection service authorities.

**Sponsors:** Representatives Simpson and Sullivan.

#### Brief Summary of Bill

- Establishes that a regional fire protection service authority's "banked levy capacity" is not reduced if it opts to collect benefit charges in lieu of a portion of its maximum allowable tax levy.
- Requires the planning committee for the creation of a regional fire protection service authority to hold a public hearing on a proposal to impose benefit charges before such proposal can be submitted for voter approval.

**Hearing Date:** 1/27/10

**Staff:** Thamas Osborn (786-7129).

#### **Background:**

##### Overview of Regional Fire Protection Service Authorities.

A Regional Fire Protection Service Authority (Authority) may be created for the purpose of conducting specified fire protection functions at a regional level. An Authority may be established by the merger of two or more adjacent fire protection jurisdictions, including fire protection districts, cities, port districts, and Indian tribes.

The fire protection jurisdictions proposing the creation of an Authority must establish a planning committee to develop and adopt a service plan. The plan must provide for the design, financing, and development of fire protection services. The planning committee must also recommend statutorily authorized sources of revenue and as well as a financing plan for the funding of selected fire protection service projects.

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*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.*

An Authority is governed by a board consisting of persons identified in the plan. Board members must all be elected officials. When it first meets, the board of an Authority must adopt bylaws and operational procedures. The board is responsible for the execution of the voter-approved plan.

#### Financing the Operation of Regional Fire Protection Service Authority.

An Authority may obtain revenues through property taxes which are based on the assessed value of taxable property within the Authority. Subject to specified conditions, an Authority is authorized to impose three separate tax levies to fund its operations, each of which is limited to \$0.50 per \$1,000 of assessed value. The third \$0.50 levy may be imposed only if the Authority has at least one full-time employee.

An authority may also impose excess levies for maintenance and operation purposes or for bond retirement for capital facilities when authorized by law. Bond levies pay the annual principal and interest required for the term of the bond, typically 20 years. Excess levies must be approved through a ballot proposition that receives a 60 percent majority of the votes cast.

An Authority may also obtain revenues through the imposition of "benefit charges."

#### "Benefit Charges" Imposed by an Authority.

A benefit charge is a type of assessment that may be imposed by an Authority or a fire protection district. Benefit charges are not based on the value of real property, but are instead linked to other factors such as insurance savings, water sources, or the distance from fire service facilities. An Authority may use this funding approach as a means for reducing property taxes and equitably apportioning the real costs of service to an individual property in a manner that more accurately reflects the actual benefits provided to that property.

If the board proposes the imposition of a benefits charge, it must hold a public hearing on the proposal not fewer than 10 days nor more than six months before the election at which the proposition is submitted to the voters.

The imposition of benefit charges must be approved through a ballot proposition that is approved by a 60 percent majority of the voters living within the jurisdiction of the Authority.

Subject to such voter approval, an Authority has the option of imposing benefit charges in lieu of a portion of the property tax it is otherwise authorized to impose. If an Authority imposes a benefits charge, it is prohibited from imposing all or part of the property tax authorized for those Authorities having at least one full-time employee. This property tax is limited to \$.50 per \$1,000 of the assessed value of the taxable property within the jurisdiction of the Authority.

In effect, therefore, the imposition of a benefits charge acts to suspend an Authority's ability to impose the maximum lawful tax levy upon the properties within its jurisdiction. This, in turn, has a negative effect on an Authority's "banked levy capacity," insofar as the amount of such capacity is calculated in proportion to the maximum tax levy amount an Authority is authorized to impose.

## Property Taxes and "Banked Levy Capacity".

Property taxes are imposed by state and local governments. The county assessor determines assessed value for each property. The county assessor also calculates the tax rate necessary to raise the correct amount of property taxes for each taxing district. The assessor calculates the rate so the individual district rate limit, the district revenue limit, and the aggregate rate limits are all satisfied.

The annual increase in district property taxes is restricted by the property tax revenue limit. This limit requires the district's tax rate to be reduced as necessary to limit the total amount of property taxes to the highest property tax amount in the three most recent years, plus 1 percent, plus an amount equal to last year's tax rate multiplied by the value of new construction in the district. This limit acts to reduce district rates below the maximum rate allowed for the district.

While the limit factor constrains regular property tax growth over time, a regular property tax district that chooses to levy an amount that is less than the highest lawful amount allowed under the full limit factor may retain the unused levy capacity for future use. This is known as "banked levy capacity." As the result of banked levy capacity, the amount of tax that a district levies in any one year may be more or less than the amount that would otherwise be expected to be imposed by a district. The levy growth depends on whether the district is banking capacity for future use, tapping previously banked capacity, or neither. The amount of banked levy capacity retained by a district is calculated by reference to the maximum tax levy that the district could have imposed in preceding years minus the actual levies imposed by the district during that same period.

The purpose of authorizing a taxing district to maintain banked levy capacity is to remove the incentive for a taxing district to maintain its tax levy at the maximum level permitted under state law. Allowing the use of banked levy capacity also protects the future levy capacity of a taxing district that reduces its tax levy below the maximum level that it could otherwise impose under state law.

Fire protection districts that impose benefit charges and are thus required to forego a portion of the property taxes to which they would have otherwise been entitled, do not suffer a reduction in their banked levy capacity as a result of such tax reduction. In such cases, a district's banked levy capacity is calculated as if the district had imposed the maximum permissible tax levy during the pertinent tax years.

Under state law, an Authority's banked levy capacity does not have the protection provided to fire protection districts which impose benefit charges. Unlike a fire protection district, an Authority's banked levy capacity suffers a reduction if it opts to impose benefit charges in lieu of the maximum lawful tax levy.

### **Summary of Bill:**

#### Utilization of "Banked Levy Capacity" by an Authority.

An Authority that imposes benefit charges in lieu of collecting a portion of the maximum lawful tax levy is not subject to a reduction of its banked levy capacity as the result of such tax

reduction. In such cases, an Authority's banked levy capacity is calculated as if it had utilized its full taxing authority rather than imposing the benefits charge.

Proposal for the Imposition of a Benefits Charge by an Authority Planning Committee.

If the planning committee for the creation of an Authority proposes the imposition of a benefits charge as a source of revenue for the proposed Authority, then it must hold a public hearing on the proposal not fewer than 10 days nor more than six months before the election at which the proposal to create the authority is submitted to the voters.

**Appropriation:** None.

**Fiscal Note:** Requested on January 25, 2010.

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