

HOUSE BILL REPORT

HB 1368

As Reported by House Committee On:
Local Government

Title: An act relating to the distribution of state liquor revenues to cities and counties.

Brief Description: Concerning the distribution of state liquor revenues to cities and counties.

Sponsors: Representatives Tharinger, Springer, Orcutt, Ryu, Fey, Zeiger, Moscoso, Kochmar, Magendanz, Hayes, Sells, Hargrove, Morrell and Freeman.

Brief History:

Committee Activity:

Local Government: 2/8/13, 2/12/13 [DP].

Brief Summary of Bill

- Deletes requirements obligating the State Treasurer to make quarterly transfers of \$2.5 million from the Liquor Excise Tax Fund to the State General Fund, thus resulting in additional moneys being transferred to counties, cities, and towns.
- Establishes a new distribution formula for moneys in the Liquor Revolving Fund.

HOUSE COMMITTEE ON LOCAL GOVERNMENT

Majority Report: Do pass. Signed by 8 members: Representatives Takko, Chair; Fitzgibbon, Vice Chair; Kochmar, Assistant Ranking Minority Member; Buys, Crouse, Liias, Springer and Upthegrove.

Minority Report: Do not pass. Signed by 1 member: Representative Taylor, Ranking Minority Member.

Staff: Ethan Moreno (786-7386).

Background:

Liquor Excise Taxes.

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.

Numerous state sales taxes and volume taxes apply to the sale of spirits in their original package. For example, the general public pays a spirits sales tax of 20.5 percent of the selling price and a spirits liter tax of \$3.7708 per liter. Taxes collected on liquor sales are deposited in the State General Fund (General Fund) and the Liquor Excise Tax Fund.

Legislation adopted in 2012 (*i.e.*, Engrossed Substitute House Bill (ESHB) 2823, enacted as chapter 5, Laws of 2012, 2nd Sp. Sess.), modified distribution provisions for moneys in the Liquor Excise Tax Fund. During fiscal year (FY) 2012, 66.19 percent of specific retail and spirits distributor licensee taxes were directed to be deposited in the General Fund with the remainder deposited in the Liquor Excise Tax Fund. During FY 2013, these same taxes and other liquor taxes are directed to be deposited only in the General Fund.

In accordance with ESHB 2823 (2012), beginning in 2014 the State Treasurer (Treasurer) is required to annually make quarterly transfers of \$2.5 million from the Liquor Excise Tax Fund to the General Fund. The Treasurer is also required to make quarterly transfers to the Liquor Revolving Fund for legislative appropriations for county research and services. Following these transfers, 20 percent of the remaining moneys in the Liquor Excise Tax Fund are divided among and distributed to counties, and 80 percent to cities, with both distributions occurring according to population-based formulas.

Liquor Revolving Fund.

Prior to the passage of Initiative 1183 in November 2011, the purchase, distribution, and sale of liquor was regulated and administered by the Washington State Liquor Control Board (Board), and realized through a state-owned distribution center, state-owned stores, and certain contract stores. Under this state-based system, the excess profits received from liquor sales were deposited in the Liquor Revolving Fund and returned to state and local governments.

Currently, the Liquor Revolving Fund consists of all license fees, permit fees, penalties, forfeitures, and all other moneys, income, or revenue received by the Board. Moneys from the Liquor Revolving Fund are distributed to various recipients, including for municipal research and services, qualifying border areas, and the General Fund. Initiative 1183 (I-1183) specified that distributions from the Liquor Revolving Fund to border areas, counties, cities, towns, and the municipal research center must be made in a manner that provides each category of recipient an amount from the Liquor Revolving Fund no less than that received during comparable periods prior to the effective date of the initiative plus an additional \$10 million for public safety.

In addition to modifying provisions governing the Liquor Excise Tax Fund, ESHB 2823 (2012) modified distribution provisions for moneys in the Liquor Revolving Fund. Effective July 1, 2012, instead of distributing moneys to cities and counties by a formula based on amounts deposited in the Liquor Revolving Fund, distributions are made as provided under I-1183. Prior to distributing the cities' portion of the Liquor Revolving Fund, an amount must be retained to support municipal research services consistent with I-1183.

Beer and Brewery Taxes.

Licensed microbrewers, breweries, and beer distributors must pay volume taxes for the manufacturing and selling of beer in Washington. The distribution of certain brewery and beer distributor taxes occurs as follows:

- three-tenths of 1 percent are distributed to border areas; and
- 20 percent of the remaining funds are distributed to counties, and 80 percent of the remaining funds are distributed on a ratable basis to cities and towns according to population-based formulas.

Summary of Bill:

Liquor Excise Taxes.

Provisions governing the distribution of liquor excise taxes are modified. The requirement to deposit 66.19 percent of specific retail and spirits distributor licensee taxes in the State General Fund (General Fund) with the remainder deposited in the Liquor Excise Tax Fund during fiscal year (FY) 2012 is deleted. The requirement to deposit these same taxes solely in the General Fund in FY 2013 is deleted. Additionally, the requirement obligating the State Treasurer to, beginning in 2014, annually make quarterly transfers of \$2.5 million from the Liquor Excise Tax Fund to the General Fund is deleted.

Liquor Revolving Fund.

Provisions governing the distributions from the Liquor Revolving Fund are modified. Prior to making distributions to cities, sufficient moneys must be retained to fund legislative appropriations for city research and services. The legislative appropriation for these services may not be less than the amount dedicated for those services, in the aggregate, from the Liquor Revolving Fund during comparable periods prior to December 8, 2011. Also, prior to making distributions of excess funds, the quarterly portion of the \$10 million amount mandated by Initiative 1183 (I-1183) for public safety must be disbursed to local governments.

Provisions governing quarterly distributions to counties, cities, towns, and border areas from the Liquor Revolving Fund, and as mandated by I-1183, are modified and must occur as follows:

- three-tenths of 1 percent is directed to border areas; and
- except during FY 2014 and 2015, 50 percent of the remainder is directed to the General Fund, 10 percent of the remainder is directed to counties, and 40 percent of the remainder is directed to cities and towns.

During FY 2014 and 2015, three-tenths of 1 percent continues to be directed to border areas, but of the remainder, 55 percent is directed to the General Fund, 9 percent is directed to counties, and 36 percent directed to cities and towns.

The total annual quarterly-based distributions to local governments may not be less than the "comparable periods" amounts required by I-1183, excluding the annual \$10 million distribution to border areas, counties, cities, and towns for public safety.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) Local governments have seen an increase in liquor enforcement costs and a decrease of resources. This bill will help restore moneys that local governments had for public safety before Initiative 1183; a revenue stream that cities have shared with the state for 80 years. The state, counties, and cities are all in this issue together. The Association of Washington Cities was originally formed to provide a voice in Olympia on liquor issues. This bill will undo some of what was done in legislation enacted last year. Currently, growth in excess funds will not occur for cities, even as costs, populations, and liquor impacts increase. This bill recognizes the challenges that the state is facing and eases into excess funds growth.

The City of Olympia, like most cities, is struggling during these difficult economic times. This bill will restore \$428,000 for Olympia. Olympia passed a public safety levy, but the city has exhausted its tools. Liquor excise taxes are a critical component of a city's budget and will help preserve front-line resources and public safety positions. Public safety costs represent 77 percent of the City of Hoquiam's general fund. Sharing liquor proceeds with local governments is critical to keeping peace officers on the streets. Across the state, liquor thefts by teens and alcoholics have increased, the value of liquor thefts has increased, the number of liquor-related arrests has increased, and the number of minors in possession of spirits has increased. This bill is an attempt to share revenues that are paying the price of new alcohol laws.

The Joint Select Committee on Junior Taxing Districts, Municipal Corporations, and Local Government Finance recently examined the issue and voted to restore liquor revenues to local governments. This bill restores permanent cuts and gradually phases in growth in liquor revenues for local governments.

All municipalities are impacted by the recent reduction in liquor revenues. Renton, for example, will annually lose \$171,000, and \$200,000 from an absence in revenue growth. Every municipal fire department in the state will be impacted, as alcohol has an impact on law enforcement and fire services.

Counties are creatures of statute and the implementation agencies of the state. The Legislature dictates what revenues counties may collect and what actions counties must take. Counties would like to have the Legislature solve problems of the state without exacerbating county problems, as counties have been experiencing serious fiscal problems longer than the state. State-shared revenues are important to counties, and this bill restores the revenue growth for counties while many of the revenue sources available to counties are capped.

(Opposed) None.

Persons Testifying: Representative Tharinger, prime sponsor; Victoria Lincoln, Association of Washington Cities; Mayor Stephen Buxbaum, City of Olympia; Jeff Myers, City of Hoquiam; Jay Convington, City of Renton; Briahna Taylor, Gordon Thomas Honeywell Governmental Affairs; Mitch Barker, Washington Association of Sheriffs and Police Chiefs; Bill Flora, Washington Fire Chiefs Association; Kelly Fox, Washington State Council of Firefighters; James McMahan, Washington Association of County Officials; Rob Hendrickson, City of Covington; and Josh Weiss, Washington State Association of Counties.

Persons Signed In To Testify But Not Testifying: None.