

# HOUSE BILL REPORT

## HB 2737

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**As Reported by House Committee On:**  
Local Government

**Title:** An act relating to studying the constitutional and statutory obligations and tax revenue capacity of local government entities.

**Brief Description:** Studying the constitutional and statutory obligations and tax revenue capacity of local government entities.

**Sponsors:** Representatives Appleton, Nealey, McBride, Lytton, Peterson, Griffey, Doglio and Wylie.

**Brief History:**

**Committee Activity:**

Local Government: 1/23/18, 1/25/18 [DPS].

**Brief Summary of Substitute Bill**

- Requires the Department of Commerce to study and prepare a report that analyzes counties' revenue capacity in relation to their constitutional and statutory obligations.
- Requires a report to be submitted to the Governor and the Legislature by December 28, 2018.
- Appropriates a total of \$100,000 from the Liquor Revolving Fund to the Department of Commerce for purposes of studying and preparing the report.

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### HOUSE COMMITTEE ON LOCAL GOVERNMENT

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 4 members: Representatives Appleton, Chair; McBride, Vice Chair; Gregerson and Peterson.

**Minority Report:** Do not pass. Signed by 2 members: Representatives Pike, Assistant Ranking Minority Member; Taylor.

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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.*

**Minority Report:** Without recommendation. Signed by 1 member: Representative Griffey, Ranking Minority Member.

**Staff:** Yvonne Walker (786-7841).

**Background:**

Department of Commerce.

The Department of Commerce (COM), formerly known as the Department of Community, Trade and Economic Development, is an executive branch agency that was created in 1994 through the consolidation of the Department of Community Development and the Department of Trade and Economic Development. The COM is responsible for promoting community and economic development statewide by: (1) assisting communities to increase economic vitality and the quality of citizens' lives, and (2) assisting the state's businesses to maintain and increase economic competitiveness while maintaining a healthy environment.

Community and economic development efforts include:

- efforts to increase economic opportunity;
- local planning to manage growth;
- the promotion and provision of affordable housing and housing-related services;
- providing public infrastructure;
- business and trade development;
- assisting firms and industrial sectors to increase their competitiveness;
- fostering the development of minority and women-owned businesses;
- facilitating technology development, transfer, and diffusion;
- community services and advocacy for low-income persons; and
- public safety efforts.

Liquor Revolving Fund.

The State Treasurer maintains and administers the Liquor Revolving Fund (fund) that consists of all license fees, permit fees, penalties, and all other monies, income, or revenue received by the Liquor and Cannabis Board (LCB). Money in the fund, derived from commercial and regulatory activities involving liquor, is subject to quarterly distribution by the LCB in accordance with specified requirements. The money is used for LCB expenses and excess funds are distributed to the State General Fund and to cities, towns, and counties.

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**Summary of Substitute Bill:**

The COM must study and prepare a report that analyzes local governments' revenue capacity in relation to their constitutional and statutory obligations. The report must include:

- a comparison of county expenditures for services provided as agents of the state compared to the state and local revenue capacity for state services;
- an analysis of where funding gaps are most pronounced;
- how the situation has changed over the last 30 years; and
- baseline data and a methodology that can be replicated in future local government comparison studies and analysis.

An interim report must be submitted to the Governor and the appropriate committees of the Legislature by December 31, 2018, that focuses on the results from comparing counties' revenue capacity in relation to expenditures for statutory obligations. The COM must submit its final report to the Governor and the appropriate committees of the Legislature by June 30, 2019.

A total of \$100,000 is appropriated from the fund to the COM for purposes of the study and providing the reports to the Legislature and the Governor.

**Substitute Bill Compared to Original Bill:**

The substitute bill: (1) reduces the scope of the study and requires the COM to study only the revenue capacity and obligations of counties (rather than also studying the revenue and obligations of cities and special purpose districts); (2) reduces the \$250,000 appropriation to \$100,000, which is to be appropriated from the fund to the COM for purposes of studying and preparing the report; (3) requires the COM to submit an interim report by December 31, 2018, and a final report by June 30, 2019, to the Governor and the Legislature; and (4) eliminates the June 2019 expiration date of the act.

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**Appropriation:** The sum of \$100,000.

**Fiscal Note:** Available.

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

**Staff Summary of Public Testimony:**

(In support) This bill is about the statutory obligations that fall on counties and cities that are suffering due to the recession. This bill is a follow up from the work session discussion that the House Local Government Committee had last fall. During that work session, one of the county commissioners from the rural counties talked about how their revenues in 2017 had finally reached the revenue dollars they had in 2008; it took them 9 years to recover from the recession.

This study will help everyone to understand those areas of services that localities are providing on behalf of the state but where the revenue capacities cannot keep up with those responsibilities. This study will also focus on the cost drivers. Local jurisdictions need to know what the state's priorities are for local government because it is getting more difficult for localities to provide all the services they previously provided.

There are resources provided for this study in the Governor's budget.

(Opposed) None.

(Other) It is time to focus on the counties. This particular bill focuses on the statutory responsibilities that the state puts on all local governments. This includes everything from cemetery districts to counties to cities and everyone else. An appropriation of \$250,000 is difficult to get and there is a short timeframe. At this point, it is more important to look at the concerns the counties have regarding their revenue capacity. We need strong, healthy counties.

The structure of city government is a little different. Most of the cost drivers for cities are associated with their responsibilities to provide a range of services. Communities across the state have stated that transportation is their biggest challenge as there is no dedicated funding source for transportation. Cities would like to see a focus on transportation issues so that they can continue to have healthy cities with good access for residents and businesses. The Association of Washington Cities would like to use some of the study money they receive from the Department of Transportation to develop a study on transportation issues.

**Persons Testifying:** (In support) Representative Appleton, prime sponsor; and Josh Weiss, Washington State Association Counties.

(Other) Dave Williams, Association of Washington Cities.

**Persons Signed In To Testify But Not Testifying:** None.