

SENATE BILL REPORT

E2SHB 2006

As Reported by Senate Committee On:
Local Government, February 20, 2018

Title: An act relating to providing cities and counties flexibility with existing resources.

Brief Description: Providing cities and counties flexibility with existing resources.

Sponsors: House Committee on Appropriations (originally sponsored by Representatives Koster, Lytton, Springer, Volz, Senn, Tharinger, Fey, Stokesbary, Appleton, Nealey, Chapman and Ormsby).

Brief History: Passed House: 2/14/18, 92-6.

Committee Activity: Local Government: 2/20/18, 2/20/18 [DP-WM, DNP, w/oRec].

Brief Summary of Bill

- Removes prohibitions on supplanting existing local government expenditures with proceeds from a locally imposed 0.1 percent sales and use tax dedicated to mental health and substance abuse.
- Allows all county authorities to seek voter approval for the criminal justice regular levy.
- Allows jurisdictions to use revenue generated with a levy lid lift to supplant existing funds.

SENATE COMMITTEE ON LOCAL GOVERNMENT

Majority Report: Do pass and be referred to Committee on Ways & Means.
Signed by Senators Takko, Chair; Palumbo, Vice Chair; Liias.

Minority Report: Do not pass.
Signed by Senator Angel.

Minority Report: That it be referred without recommendation.
Signed by Senator Short, Ranking Member.

Staff: Greg Vogel (786-7413)

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.

Background: Mental Health/Chemical Dependency Sales and Use Tax. The Legislature authorized a locally imposed county mental health/chemical dependency sales and use tax of 0.1 percent in 2005. Local governments may use the proceeds of the tax for county mental health treatment, chemical dependency, and therapeutic court programs and services. With certain limited exceptions, tax receipts cannot be used to replace existing funds being used for these programs and services.

Revenues used to support the cost of a judicial officer and support staff of a therapeutic court are exempted from replacement restrictions. Also exempted from the replacement restrictions are revenues used to replace previously lapsed federal funding for the operation or delivery of certain services.

Counties with a population larger than 25,000 or a city with a population over 30,000, that initially impose the tax after December 31, 2011, may replace a portion of existing funding for the first five years after adoption. The amounts permitted to be replaced range from 50 percent in the first three years of collections to 25 percent in years four and five of collections.

For calendar years 2010-2016, a portion of the tax receipts were partially and temporarily allowed to replace existing funds being used for these programs and services. The amount permitted depended on the calendar year, size of the jurisdiction, and when the local option tax was imposed. Counties with both a population of not more than 25,000 and who imposed the tax prior to January 1, 2012, were provided the greatest ability to replace funding.

Every county that authorizes the tax must establish and operate a therapeutic court component for dependency proceedings designed to be effective for the court's size, location, and resources.

The sales and use tax has been imposed in 23 counties: Clallam, Clark, Columbia, Cowlitz, Ferry, Grays Harbor, Island, Jefferson, King, Kitsap, Lewis, Mason, Okanogan, Pacific, San Juan, Skagit, Skamania, Snohomish, Spokane, Thurston, Wahkiakum, Walla Walla, and Whatcom.

In 2010, cities within a county of more than 800,000 were also authorized to impose the tax if the county was not imposing the tax by January 1, 2011. Tacoma is the only city that collects the sales tax under this provision.

Total tax collections in fiscal year 2017 for all counties and cities collecting the mental health/chemical dependency sales and use tax were approximately \$130 million.

Regular Property Taxes. All real property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law. The annual growth of all regular property tax levy revenue, except the state levies, is limited to the lesser of inflation or 1 percent plus the value of new construction for jurisdictions with a population of 10,000 or more. For jurisdictions with a population less than 10,000, revenue growth is limited to 1 percent.

For taxes levied for collection in calendar years 2018-2021, the combined rate for both state regular levies is \$2.70 per \$1,000 assessed value. The revenue growth limit does not apply to the state levies during this time. Beginning with taxes levied for collection in calendar year 2022 and thereafter, the revenue growth limit applies to both state levies.

The Washington Constitution limits regular levies to a maximum of 1 percent of the property's value (\$10 per \$1,000 of assessed value). There are individual district rate maximums and aggregate rate maximums to keep the total tax rate for regular property taxes within the constitutional limit. For example:

- the state levy rate is limited to \$3.60 per \$1,000 of assessed value;
- county general levies are limited to \$1.80 per \$1,000 of assessed value; and
- city levies are limited to \$3.375 per \$1,000 of assessed value.

For property tax purposes, the state, counties, and cities, with respect to the levies listed above, are collectively referred to as senior taxing districts. Junior taxing districts, a term that includes fire, hospital, flood control zone, and most other special purpose districts, each have specific rate limits as well.

The tax rates for senior and junior districts, excluding the state, must fit within an overall rate limit of \$5.90 per \$1,000 of assessed value. If the \$5.90 limit is exceeded, statute establishes the sequential order in which the levies of various junior taxing district levies must be proportionally reduced or eliminated—a process referred to as prorationing—to conform to the \$5.90 limit.

Some regular property tax levies, including levies for criminal justice purposes, port districts, and emergency medical services, are not subject to the \$5.90 aggregate rate limit. These levies have protections from general prorationing requirements and exist within the \$0.50 gap that remains after subtracting the \$3.60 state levy and the \$5.90 in local regular levies from the constitutional \$10 limit per \$1,000 of assessed value.

Criminal Justice Regular Property Tax. Counties with a population of 90,000 or less are authorized to impose a regular property tax of up to \$0.50 per \$1,000 of the assessed value of property in the county. The revenues may be used for criminal justice purposes only. Criminal justice is not defined in the statute. The levy is not subject to the \$5.90 per \$1,000 of assessed value limitation that applies to other junior and senior districts, but is subject to the 1 percent of true and fair value limitation. The tax may be imposed for up to six consecutive years, but only after a voter approval of 60 percent on the proposition at a general or special election.

Levy Lid Lift. Regular property tax revenue for local governments is restricted to a growth rate of 1 percent plus new construction. Voters may approve regular property tax increases above this 1 percent amount. This voter-approved increase is referred to as a lid lift. A lid lift may be for a single year or for multiple years, not to exceed six years. Multi-year lid lifts must be for a specific purpose, and lid lift funds may not replace existing funds used for the purpose specified in the lid lift ballot proposition with some exceptions.

Veterans' Assistance and County Mental Health. State law requires a portion of the county general levy to be used for community services for people with developmental disabilities

and for mental health services (Developmental Disability and Mental Health Levy). State law also requires a portion of the general county levy to be used for veterans' assistance programs and other veteran related purposes (Veterans' Assistance Levy). For the Developmental Disability and Mental Health Levy, the county legislative authority must levy a sum equal to the amount that would be raised by 2.5 cents per \$1,000 of assessed value. For the Veterans' Assistance Levy, the county legislative authority must levy a sum equal to the amount that would be raised by a levy of not less than 1 and one-eighth cents and not more than 27 cents per \$1,000 of assessed value. Both of these levies are considered earmarked funds within the county general levy. If the county general levy rate is reduced by the 1 percent levy limit, the amount of the county general levy allocated to these purposes may be reduced in the same proportion.

Veterans' Assistance Fund. County veterans' assistance programs funding from the Veterans' Assistance Levy is established in a veterans' assistance fund. The fund may be used for the veterans' assistance programs, the burial or cremation of indigent veterans or their families, and direct or indirect costs of the administration of the fund.

Summary of Bill: Mental Health/Chemical Dependency Sales and Use Tax. The prohibition on replacing existing local government expenditures with proceeds from a locally imposed 0.1 percent sales and use tax dedicated to mental health and substance abuse is eliminated.

Provisions allowing replacing funds in certain circumstances are also eliminated as the bill generally allows replacing existing local government funds. Various time-limited provisions applying only to previous biennia are removed.

Criminal Justice Regular Property Tax. All counties are permitted to seek voter approval for the criminal justice levy.

Levy Lid Lift. Local governments are permitted to use revenue generated from a levy lid lift to replace existing funds.

Veterans' Assistance and County Mental Health. The Veterans' Assistance Levy and the Developmental Disability and Mental Health Levy are established as separate property tax levies, outside of the county general levy.

Veterans' Assistance Fund. Veterans' Assistance Fund levy revenue may no longer be used for indirect administrative costs. Direct costs incurred in the administration of the veterans' assistance fund must be budgeted by the county legislative authority. Indirect charges or other fees may no longer be assessed on the direct costs incurred in the administration of the veterans' assistance fund.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: This bill gives cities and counties more flexibility to use dollars in ways that would benefit their communities. The veterans' levy and county mental health piece also provides every city and county some additional options for flexibility. The bill provides good accountability in that indirect costs may not be paid for administering the Veterans' Relief fund. Further, the bill allows all counties access to the criminal justice levy, which is a good improvement. Overall, the bill is well worked and has solid bipartisan support, addressing some of the challenges counties face in terms of revenue amount and flexibility.

Persons Testifying: PRO: Jennifer Ziegler, Washington State Association of Counties; Tana Senn, Representative; Michael Volz, Representative.

Persons Signed In To Testify But Not Testifying: No one.