

HOUSE BILL REPORT

HB 1756

As Reported by House Committee On:

Finance

Title: An act relating to authorizing additional funding for local governments.

Brief Description: Authorizing additional funding for local governments.

Sponsors: Representatives Conway, Kirby, Talcott, Flannigan, Darneille, Shabro, Edwards and Morrell.

Brief History:

Committee Activity:

Finance: 2/18/03, 3/10/03 [DPS].

Brief Summary of Substitute Bill

- Provides new retail sales and use tax authority, subject to voter approval, of up to 0.3 percent to counties with populations of 1 million or less.
- Requires that 40 percent of any revenue received under the new retail sales and use tax be distributed to cities within the county.
- Creates a new taxing district in county unincorporated areas.
- Provides new regular property tax authority of 30 cents per thousand of assessed value to county unincorporated areas and cities, subject to voter approval and to prorationing.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 5 members: Representatives Gombosky, Chair; McIntire, Vice Chair; Conway, Morris and Santos.

Minority Report: Do not pass. Signed by 4 members: Representatives Cairnes, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Ahern and Roach.

Staff: Mark Matteson (786-7145).

Background:

Cities and counties rely on retail sales and use taxes and on property taxes for a substantial part of general revenues.

Local Retail Sales & Use Taxation

The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. The tax base includes goods and certain services purchased at retail. Sales tax is paid by the purchaser and collected by the seller. The seller remits the tax and other taxes with the combined excise tax return to the Department of Revenue.

The use tax is imposed on items used in the state that were not subject to the retail sales tax, and includes purchases made in other states and purchases from sellers who do not collect Washington sales tax. The tax rate is the same as that imposed under the retail sales tax. Use tax is paid directly by the person using the item to the Department of Revenue.

Counties may impose several local sales and use taxes at various rates and for various purposes. The most widely utilized local sales and use taxes are the basic tax at a rate of 0.5 percent and an optional tax at a rate of up to 0.5 percent, both for general purposes. In calendar 2001, about \$260 million basic and optional sales and use taxes were distributed by the State Treasurer to county governments.

County sales and use taxes are imposed by ordinance of the county legislative authority. The basic 0.5 percent tax is not subject to voter referendum nor requires voter approval prior to being imposed. On the other hand, the imposition of the optional 0.5 percent tax is subject to a potential referendum by the county voters. To do so, referendum petitions must be filed within seven days of adoption of the ordinance that imposes or increases the tax. Within the next 30 days the petitioner must gather signatures numbering at least 15 percent of the registered voters of the county in order to force a referendum election.

For most of the sales and use taxes that are authorized to be imposed by counties, the county government is the sole entity that receives and uses the funds. There are several exceptions, however. For example, the receipts from the 0.1 percent tax for criminal justice programs must be shared with the cities within the county. In addition, when implementing the 0.08 percent tax for rural county public facilities, a county must consult with cities, towns, and port districts within the county.

Property Taxation

Property taxes are levied 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 property tax bill for an individual property is determined by multiplying the assessed value of the property by the tax rate for each taxing district in which the property is located. The assessor delivers the county tax roll to the treasurer. The county treasurer collects property taxes based on the tax roll starting February 15 each year.

The sum of property tax rates is limited by the State Constitution to a maximum of 1.0 percent of true and fair value, or \$10 per \$1,000 of market value. Property taxes that are subject to this 1 percent limitation are referred to as regular property taxes. Generally, there are no voting requirements with respect to regular property taxes, which are levied annually. However, there are several exceptions, including requirements for emergency medical service districts, park and recreation districts, and cultural arts, stadium and convention districts, in which regular property taxes may be levied for periods of six years or more. The regular levies for these districts require approval of 60 percent of the voters in the district.

The Legislature has established caps on individual district rates and on the aggregate rate so as to keep the total tax rate for regular property taxes within the constitutional 1 percent limit. For example, the state levy rate is limited to \$3.60 per thousand of assessed value, county general levies are limited to \$1.80 per thousand, county road levies are limited to \$2.25 per thousand, and city levies are limited to \$3.375 per thousand. These districts are known as "senior" districts. Junior districts such as fire, library, and hospital districts each have specific rate limits as well. The tax rates for most of these senior and junior districts must fit within an overall rate limit of \$5.90 per thousand of value. There is a complex system of prorating the various levies so that the total rate does not exceed \$5.90. Under this prorating system, senior districts are given preference over junior districts.

A few regular property tax levies are not placed into the \$5.90 aggregate rate limit for senior and junior districts: emergency medical service, affordable housing, conservation futures, and a portion of a metropolitan park district's rate. However, these districts are subject to reduction if the total aggregate rate for these districts, the state property tax, and the districts subject to the \$5.90 limit together exceed \$10 per thousand of market value.

In addition to the rate limitations, a district's regular property tax levy is limited by a statutory maximum growth rate in the amount of tax revenue that may be collected from year to year. The voters amended this revenue limit most recently with the passage of Initiative 747 in November 2001. The limit requires a reduction of property tax rates as necessary to limit the growth in the total amount of property tax revenue received to the lesser of 1 percent or inflation, generally. The revenue limitation does not apply to new value placed on tax rolls attributable to new construction, to improvements to existing

property, or to changes in state-assessed valuation.

The revenue limit for regular property taxes may be superseded by voter approval; this process is known as a lid lift.— Lid lifts require approval by a majority of the voters in a taxing district, and allow the district to set its levy in an amount that exceeds 101 percent of the previous year's collections, as long as the resulting tax rate is within the statutory rate limit. Lid lifts may be permanent or temporary. If permanent, the collections in the year in which the lid lift occurs become the basis for future levies. If temporary, the ballot title of the measure that authorizes the lid lift must indicate the time period for which the increased levy is to be made, and future levies following the lid lift must be calculated as if the lid lift had not occurred.

Formation of New Taxing Districts

There are many districts authorized to levy property taxes. These include "senior" districts, consisting of the state, counties, county road districts, and cities (including towns), as well as "junior" districts, which include fire, library, cemetery, hospital, port, and a number of other districts. Counties are authorized to levy regular property taxes countywide, while county road districts are authorized to levy just within unincorporated areas of the county. County road districts' levies must be used for the purposes of constructing or improving roads.

The authority to levy regular property taxes and the associated rate limitation of \$10 per \$1000 of assessed property valuation derive from the State Constitution. The State Constitution does not enumerate the types of districts that may levy regular property taxes. Rather, in creating new districts with regular property taxation authority, the Legislature has expressly provided in statute that the district derives its authority from the State Constitution.

Governmental entities, like businesses, may be structured as corporations for the purposes of existing as a single legal entity that may enter into contracts, sue and be sued and do the many other things necessary to carry on governmental functions.

Summary of Substitute Bill:

New retail sales and use tax authority is provided to most counties, which must share any new revenues with cities in the county. New regular property tax authority is provided to counties and cities.

Retail Sales and Use Taxes

A county with a population of one million persons or less may impose a new local sales and use tax of up to 0.3 cents, subject to approval of a majority of voters in the county.

Any county that imposes the new tax must allow 40 percent of the revenues received to be distributed to cities within the county on a per capita basis.

Regular Property Taxes

A city may impose a new regular property tax of up to 30 cents per thousand dollars of assessed valuation of the property within the city, subject to approval of a majority of the voters in the city. The new regular property tax authority is in addition to the regular property tax authority already provided under law.

A new senior taxing district, known as a county unincorporated service area, is authorized to be created in county unincorporated areas for general purposes. The creation of the new district is subject to approval by the voters. The new district is given the same constitutional authority and corporate identity that other taxing districts have. The county legislative authority is the governing body for the new district. The new district is authorized to levy regular property taxes of up to 30 cents per thousand dollars of assessed valuation, subject to voter approval.

If the voters for either the city or the county unincorporated service area approve new taxes at a rate less than the maximum allowed under the new tax, any future increase in the amount of levy to be collected must be approved by the voters.

The new property tax authority for a county unincorporated service area or city is exempted from the \$5.90 rate limitation to which most junior and senior districts are subject. However, the new authority is required to be prorated so as to keep all combined levy rates below the \$10 per thousand dollars limit, and must be prorated before the rates of either emergency medical service, affordable housing, conservation futures, or a portion of a metropolitan park district's.

Substitute Bill Compared to Original Bill:

Removes the additional regular property tax levy authority for counties of 30 cents per thousand dollars of assessed valuation. Provides the authority to create county unincorporated service areas with taxing authority in the unincorporated portions of counties. Provides the new unincorporated areas with regular property tax levy authority of 30 cents per thousand dollars of assessed valuation. Modifies the prorationing provisions, such that the new property taxing authority would be prorated or reduced first under the \$10 per \$1000 of true and fair value limitation. Exempts the new property taxing authority from the \$5.90 per thousand dollars assessed valuation limitation that applies to most junior and senior taxing districts.

Appropriation: None.

Fiscal Note: Available on original bill.

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

Testimony For: Counties and cities are facing the same sort of budget crisis as the state. They are having difficulty even funding basic services. We need to act on some bill that would provide them new revenue options now.

We are in need of additional criminal justice funding. We spend 80 percent of our general funds on criminal justice related issues. Crime is a serious problem in Pierce County. This bill does not create a tax, it simply gives us the authority to go to the local voters. The bill would allow a choice of how to fund services.

Pierce County has the fewest deputies per capita of any county, and we also have the highest part one crime rate. People want more law enforcement services. Let people decide locally how and whether to fund additional services.

The cities are on the same page as the counties. We've included two options because, for some communities, either the sales tax or the property tax won't work. The City of Tacoma has faced a budget that was \$18 million out of balance; \$12 million of this was the result of recent initiatives. We believe that the voters of Pierce County and Tacoma would vote for this.

The City of Lakewood faces a very difficult budget situation. We lost quite a lot of state distributions from the passage of Initiative 695. We spend about 70 percent of our general budget on criminal justice purposes. We are concerned with the sales tax piece and would like to see at least 20 percent of the revenues go toward countywide services.

(Concerns) Fife has a population of only 5,000 people, but 25,000 work in Fife during the day. If sales taxes were distributed on the basis of where sales occurred we would received \$1.4 million. Under the bill, we would get only \$150,000.

Testimony Against: We oppose the sales tax distribution piece of this. The county is in a unique position, but for cities with strong sales tax bases the distribution mechanism is not equitable. We would prefer to have the sales taxes distributed on the basis of where the sales occurred. While some of the cities in the county were heavily subsidized under the Motor Vehicle Excise Tax equalization model, we do not believe this is the right way to institute a replacement mechanism.

Testified: (In support) John Landenburg, Pierce County Executive; Paul Pastor, Pierce County Sheriff; Gerry Horne, Pierce County Prosecutor's Office; Randy Lewis, City of Tacoma; and Candice Bock, Community Relations Manager, City of Lakewood.

(Concerns) Bill Malinen, City Manager, City of Fife.

(Opposed) Derek M. Young, City of Gig Harbor.