

HOUSE BILL REPORT

ESSB 5659

As Passed House - Amended:

April 18, 2003

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

Brief Description: Authorizing additional funding for local governments.

Sponsors: By Senate Committee on Government Operations & Elections (originally sponsored by Senators Winsley, Kastama, Oke, Franklin, Swecker, Rasmussen, Regala and Kohl-Welles).

Brief History:

Floor Activity:

Passed House - Amended: 4/18/03, 56-42.

Brief Summary of Engrossed Substitute Bill (As Amended by House)

- Provides new retail sales and use tax authority, subject to voter approval, of up to 0.3 percent to counties.
- Requires that 40 percent of any revenue received under the new retail sales and use tax be distributed to cities within the county or a per capita basis.
- Allows property taxing districts, subject to voter approval, to increase property tax collections year-over-year at a rate that exceeds 1 percent, for up to six consecutive years.
- Allows certain small counties to opt out of the requirement to plan under the Growth Management Act.
- Provides Clallam and Jefferson Counties with an additional year by which to complete a review and evaluation of plans and regulations under the Growth Management Act.

HOUSE COMMITTEE ON FINANCE

Majority/Minority Report: None.

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 Tax Revenue Limit

A property taxing 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 for the following year only in an amount that exceeds 101 percent of the current 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.

Growth Management Act “ Comprehensive Plans

The Growth Management Act was enacted in 1990 and 1991 establishing a few requirements for all counties and cities in the state and a larger number of requirements for counties and cities in the state planning under all of the requirements of the act.

A county is required to plan under all the requirements of the Growth Management Act if either of the two population and 10-year growth rates apply to the county:

- The county has a population of 50,000 or more and had or has either of the following growth rates: (1) Prior to May 16, 1995, the county population increased by 10 percent or more over the preceding 10-year period; or (2) on or after May 16, 1995, the county population increased by 17 percent or more over the preceding 10-year period; or
- The county that has a population of less than 50,000 and the population of the county has increased by 20 percent or more over the preceding 10 years.

In addition, the governing body of a county may adopt a resolution requiring the county to plan under all of the requirements of the Growth Management Act.

A city plans under all of the requirements of the Growth Management Act if the county in which it is located is subject to those requirements.

Once a county is required to plan under all of the requirements of the Growth Management Act, the county and cities in the county remain subject to the requirement of planning under all of the requirements of the Growth Management Act.

Twenty-nine of the 39 counties in the state plan under all of the requirements of the Growth Management Act.

Comprehensive Plan Reviews

Comprehensive land use plans and development regulations are subject to continuing review and evaluation by the adopting county or city. Any amendments or revisions of development regulations must comply with GMA requirements and must be consistent with comprehensive plans. There are specific schedule and criteria information for counties and cities reviewing and/or revising comprehensive plans and development regulations. The review and evaluation of the plans and regulations must be completed by December 1, 2004, for Clallam, Clark, Jefferson, King, Kitsap, Pierce, Snohomish, Thurston, and Whatcom Counties.

Summary of Amended Bill:

New retail sales and use tax authority is provided to counties, which must share any new revenues with cities in the county. The authority to increase regular property tax levies in excess of 1 percent from year to year is increased to six consecutive years, subject to voter approval. Relief from the Growth Management Act planning requirements is provided to certain counties.

Retail Sales and Use Taxes

Counties may impose a new local sales and use tax of up to 0.3 cents, subject to approval of a majority of county voters. Retail sales of or the lease of new motor vehicles are exempt from any tax imposed. Of the money received under the tax, 40 percent must be distributed to cities within the county on a per capita basis. One-third of all moneys received must be used solely for the purpose of additional police protection, mitigation of congested court systems, and relief of overcrowded local correctional facilities.

Regular Property Tax Revenue Limit

Property taxing districts are given the authority, subject to voter approval, to approve a lid lift which sets the growth rate for the property tax revenue limit calculation for up to six years. The growth rate may be fixed, variable, or linked to an index, such as the consumer price index. Districts may use the property tax amount at the end of lid lift period as the base for future calculations of the 1 percent revenue limit.

Growth Management Act “ Comprehensive Plans

Certain counties, and the cities within the counties, may be relieved from the requirement to plan under the GMA. Counties that may be relieved include only those counties that

meet three criteria: the county has a population of 10,000 or less, has a privately owned taxable land base of less than 20 percent, and has no more than one incorporated city.

To be relieved of the requirement to plan under the GMA, a county must adopt a resolution that removes the county and the city within the county from the requirement to plan and must file the resolution with the Department of Community, Trade, and Economic Development.

Comprehensive Plan Reviews

Clallam and Jefferson Counties must review and evaluate their comprehensive plans and development regulations under the GMA by December 1, 2005.

Quality Management Program and Performance Audits

For any jurisdiction that imposes a new sales and use tax or increases property taxes in excess of the one percent revenue limit, the State Auditor must conduct a performance audit every five years. In addition, the jurisdiction must implement a quality management program and conduct yearly quality management self-assessments.

Appropriation: None.

Fiscal Note: Not Requested.

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

Testimony For: None.

Testimony Against: None.

Testified: None.