SENATE BILL REPORT
SB 5659

As Reported By Senate Committee On:
Government Operations & Elections, March 4, 2003

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

Brief Description: Authorizing additional funding for local governments.

Sponsors: Senators Winsley, Kastama, Oke, Franklin, Swecker, Rasmussen, Regala and Kohl-Welles.

Brief History:
Committee Activity: Government Operations & Elections: 2/26/03, 3/4/03 [DPS].

SENATE COMMITTEE ON GOVERNMENT OPERATIONS & ELECTIONS

Majority Report: That Substitute Senate Bill No. 5659 be substituted therefor, and the substitute bill do pass.
Signed by Senators Fairley, Kastama, McCaslin and Reardon.

Staff: Ronda Larson (786-7429)

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

Local Retail Sales and Use Taxation. The retail sales tax applies to goods and certain services purchased at retail. The buyer pays the sales tax and the retailer collects the tax and remits it to the state.

The use tax is imposed on items used in the state that were not subject to the retail sales tax. This 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. The person using the item pays the use tax directly to the state.

Counties may impose several local sales and use taxes at various rates and for various purposes. The most widely utilized are the basic tax, which is at a rate of 0.5 percent, and an optional tax, which is at a rate of up to 0.5 percent. The basic tax does not require approval of voters in a county, but voters can file referendums for optional taxes. In calendar 2001, the State Treasurer distributed to county governments about $260 million basic and optional sales and use taxes.

For most of the county sales and use taxes, the county is the sole entity that receives and uses the funds. There are several exceptions, however. For example, a county must share with its cities the receipts from the 0.1 percent tax for criminal justice programs.

Property Taxation. Both state and local government taxing districts levy property taxes. The state Constitution limits the overall property tax rate of all districts taxing a parcel to a maximum of 1 percent of property's value, or $10 per $1,000 of market value. Property taxes subject to this 1 percent limitation are called regular property taxes. Generally, regular property taxes do not require approval of the voters in the taxing district.

To keep the total tax rate for regular property taxes within the constitutional 1 percent limit, the Legislature has devised a system for apportioning the taxes among the various taxing districts. The tax rates for most districts must fit within an overall rate limit of $5.90 per $1,000 of value. There is a complex system of prorating the various levies so that the total rate does not exceed $5.90.

In addition to the rate limitations, revenue limitations apply. With Initiative 747 in November 2001, voters limited the increase of revenue from property taxes to the lesser of 1 percent or inflation, with some exceptions. Voters in a district may approve permanent or temporary increases to the 1 percent lid in their district.

Summary of Substitute Bill: New authority to impose retail sales and use taxes 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 up to one million persons may impose a new local sales tax of up to 0.3 percent of sales price and a new local use tax of up to 0.3 percent of the value of the article used. The increase is subject to approval of a majority of voters in the county. Forty percent of the revenues received must be distributed to cities within the county on a per capita basis.

Regular Property Taxes. Any county or city may impose a new regular property tax of up to 30 cents per $1,000 worth of property within the district, subject to approval of a majority of the county's or city's voters. If the voters 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 regular property tax authority is in addition to the regular property tax authority already provided under law.

If a county and city both want to impose the tax, there is no double taxation, within city limits. In such cases, the revenue from city property goes to the city ultimately. The local governments are responsible for creating ordinances that distribute the revenue consistent with this statutory framework.

If the revenue collected exceeds the $10 total rate limitation per $1,000 of property for taxing districts, then the county or city must prorate all of the new revenue before it levies any other regular property tax.

Substitute Bill Compared to Original Bill: The substitute bill prevents double taxation if both the county and the city want to levy a property tax. In such cases, the revenue from property within the city boundaries will go to the city. The substitute bill requires the title of a tax ballot measure to identify what areas will be benefitted by the proposed tax. The substitute bill designates the new property taxing authority as senior taxing district authority, but it will be the first among the other senior district authorities to be prorated out if total property levies exceed the constitutional property tax limit of 1 percent of property value. It is not subject to the statutory $5.90 property tax limit, so it also will not infringe upon junior taxing district authority if the 1 percent limit is exceeded. The substitute also clarifies that the new taxing authority applies to towns, in addition to cities and counties.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: This bill simply gives counties and cities the authority to ask their own citizens if they want to tax themselves at a higher rate. The tax increases would need voter approval in all cases. But to have such authority, the counties and cities need legislative approval, which this bill requests. Because of revenue shortfalls, there are severe staff shortages in public health and safety. 52 percent of those polled in Pierce County said they would support a tax increase for law enforcement. This gives the local elected officials the power to serve their communities.

Testimony Against: A lot of cars come through some cities like Fife, so the bill's per capita redistribution formula would take sales tax money that Fife's businesses have collected and redistribute it to communities that did not collect the tax. Per capita redistribution is inequitable. Fife and other pass-through cities provide law enforcement service to all people coming through. But those people do not count for purposes of the per capita redistribution formula, which is population based.

Testified: PRO: Senator Winsley, prime sponsor; Gerry Horne, Pierce Co.; Bob Young, Mayor, Bonney Lake; Mike Carson, Pierce Co. Sheriff; Randy Lewis, City of Tacoma; Bill Vogler, Washington Association of Counties; Candice Bock, City of Lakewood; CON: Derek Young, City of Gig Harbor; Bill Malinen, City of Fife.