

HOUSE BILL REPORT

HB 1744

As Reported by House Committee On:
Local Government & Housing
Finance

Title: An act relating to real estate excise tax expenditures for parks and capital projects.

Brief Description: Concerning real estate excise tax expenditures for parks and capital projects.

Sponsors: Representatives Ericks, Springer and Clibborn.

Brief History:

Committee Activity:

Local Government & Housing: 2/9/09, 2/16/09 [DPS];

Finance: 2/24/09, 3/2/09 [DPS(LGH)].

Brief Summary of Substitute Bill

- Allows, until June 30, 2012, proceeds from a locally-imposed real estate excise tax (REET) to be used for park maintenance and operation expenditures.
- Prohibits, with some exceptions, jurisdictions that are using proceeds from a locally-imposed REET for park and maintenance operation expenditures from using REET proceeds for the acquisition of capital projects.
- Modifies, subject to expiration provisions, the list of capital projects for which certain REET proceeds may be used.

HOUSE COMMITTEE ON LOCAL GOVERNMENT & HOUSING

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Simpson, Chair; Nelson, Vice Chair; Cox, Assistant Ranking Minority Member; Miloscia, Springer, White and Williams.

Minority Report: Do not pass. Signed by 3 members: Representatives Angel, Ranking Minority Member; Short and Upthegrove.

Staff: Ethan Moreno (786-7386)

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:

County legislative authorities may impose an excise tax on each sale of real property in unincorporated areas of the county. Similarly, city and town legislative authorities also may impose an excise tax on each sale of real property within their corporate limits. The rate of these real estate excise taxes (REETs) may not exceed 0.25 percent of the selling price. Revenues generated from this tax must be used for financing qualifying capital projects, as that term is defined in statute, and for housing relocation assistance.

Counties, cities, and towns that fully plan under the Growth Management Act (GMA) may impose an additional REET on each sale of real property that may not exceed 0.25 percent of the selling price. Counties that opted to fully plan under the GMA, and the cities and towns within, may impose the additional REET with voter approval.

With some exceptions, revenues generated from this additional REET may only be used for financing capital projects specified in the capital facilities element of a comprehensive plan adopted under the GMA. "Capital project," for purposes of the additional REET, means public works projects of a local government for planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of specific infrastructure, including:

- streets;
- domestic water systems;
- recreational facilities; and
- planning, construction, reconstruction, repair, rehabilitation, or improvement of parks.

Summary of Substitute Bill:

Revenues generated from the additional REET that may be imposed by counties, cities, and towns that fully plan under the GMA may, until June 30, 2012, be used for park maintenance and operation expenditures. Revenues from this tax may not be used to supplant existing sources of funding for park maintenance and operation expenditures. Counties, cities, and towns using REET proceeds for park maintenance and operation expenditures may not use these proceeds for the acquisition of capital projects specified in a capital facilities plan element of a comprehensive plan. This limitation does not apply to capital projects that are necessary for the health and safety of residents within the county, city, or town imposing the tax.

The definition of "capital project," for purposes of the additional REET, is modified to allow proceeds from the tax, until June 30, 2012, to be used for additional purposes, including:

- parks;
- recreational facilities;
- law enforcement facilities;
- trails; and
- administrative and/or judicial facilities.

Until June 30, 2012, "capital projects" do not include local government expenditures for the planning, construction, reconstruction, repair, rehabilitation, or improvement of parks. "Capital projects" after June 30, 2012, include expenditures for the planning, construction, reconstruction, repair, rehabilitation, or improvement of parks.

Substitute Bill Compared to Original Bill:

The substitute bill specifies that revenues generated from the applicable REET may be used for park maintenance and operation expenditures until June 30, 2012. Counties, cities, and towns using REET revenues for park maintenance and operation expenditures may not use these revenues for the acquisition of capital projects specified in a capital facilities plan element of a comprehensive plan. The substitute includes allowances for spending REET revenues on capital projects that are necessary for the health and safety of residents within the county, city, or town imposing the tax. Projects that do and do not qualify as "capital projects" after June 30, 2012, are delineated in the substitute bill.

Appropriation: None.

Fiscal Note: Not requested.

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 allows REET proceeds to be used for the maintenance and operation of parks. It gives cities and counties financial flexibility to maintain things that are already constructed, but it does not include a tax increase. A similar bill was previously passed by the House of Representatives.

This bill is a request for greater flexibility with existing funds and will allow communities to make choices about using REET proceeds. Local governments need to be more creative in their use of existing revenue sources. The budget process proposed by this bill is transparent. Parks are central to a community: resources for parks are being depleted, but this bill will help. Proceeds from the additional REET will continue to be used for capital needs. Citizens, during these economic times, may not be willing to authorize additional taxes. This bill will stabilize park services. Many rural communities are revenue challenged and citizens are unhappy with current park maintenance levels. This bill will result in safer, cleaner environments for children and recreation.

(Opposed) This bill is the wrong approach to funding infrastructure. Proceeds from the REET are volatile, limited, and already fall short of existing needs. There are other and more appropriate sources for funding infrastructure. This bill masks the costs of government by siphoning revenues for capital projects to maintenance and operation expenditures. The Legislature needs to maintain fiscal responsibility and limit the use of REET proceeds to funding infrastructure.

Persons Testifying: (In support) Representative Ericks, prime sponsor; and Mary Dodsworth, Paul Simmons, Ray Towry and Michael Lareniere, Recreation and Parks Association.

(Opposed) Mike Flynn, Washington Association of Realtors.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill by Committee on Local Government & Housing be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Conway, Ericks, Santos and Springer.

Minority Report: Do not pass. Signed by 3 members: Representatives Orcutt, Ranking Minority Member; Parker, Assistant Ranking Minority Member; Condotta.

Staff: Jeffrey Mitchell (786-7139)

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Local Government & Housing:

No new changes were recommended.

Appropriation: None.

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) There is a struggle, especially in the communities that border dense urban areas, to provide open space as the cities comply with the Growth Management Act (GMA) to increase densities. Often times, the budget difficulties in smaller communities have been exacerbated by the national and international fiscal crisis. These communities have difficulties finding the means to maintain their open space in small community parks with the budget constraints they have. This bill gives them flexibility to maintain some of those parks. The REET 1 uses are far more flexible than REET 2 uses and the county has REET 1 commitments to debt service that must be paid. Maintaining the limitations on the use of REET 2 at a time when Snohomish County and other counties are under pressure to meet obligations really hurts our ability to deliver basic services. The traditional uses of REET are extremely important to the county, and we will return to them in the future when we can. The bill has a sunset date, and it places an emphasis on making sure that those communities that want to avail themselves of this maintenance and operation tool would not also use it for acquisitions.

(Opposed) Despite the amendments to make it sunset, we do not hold much confidence that that would be retained. The second quarter REET option was authorized almost simultaneously with the GMA to provide a funding tool to local governments to meet concurrency requirements in the GMA. Nothing has really changed since 1992. This is infrastructure available at the time development is ready for occupancy, and cities and counties are still struggling to meet concurrency requirements. Funding for infrastructure is still needed. The Office of Financial Management and the Department of Community, Trade and Economic Development recently reported that the funding gap between identified need and identified funding sources is \$7.5 billion for the last six-year time period. This bill will only widen that gap. The volatility of the REET collections make it an especially poor funding source for ongoing operations and maintenance.

Persons Testifying: (In support) Representative Ericks, prime sponsor; Roger Neumaier, Snohomish County; and Doug Levy, Washington Recreation and Parks Association.

(Opposed) Terri Jeffreys, Washington Realtors.

Persons Signed In To Testify But Not Testifying: None.