

HOUSE BILL REPORT

HB 2428

As Reported by House Committee On:
Local Government

Title: An act relating to allowing cities to voluntarily share certain sales and use tax revenue.

Brief Description: Allowing cities to voluntarily share certain sales and use tax revenue.

Sponsors: Representatives Klicker, Rude and Springer.

Brief History:

Committee Activity:

Local Government: 1/30/24, 1/31/24 [DPS].

Brief Summary of Substitute Bill

- Allows cities and towns to enter into interlocal agreements to share a portion of general purpose local government sales and use tax revenue.

HOUSE COMMITTEE ON LOCAL GOVERNMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Duerr, Chair; Alvarado, Vice Chair; Goehner, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Berg, Griffey and Riccelli.

Staff: Kellen Wright (786-7134).

Background:

A sales tax is a tax applied to the sale, rental, repair, or installation of tangible personal property, digital products, or some services purchased for the buyer's own use. It is a percentage tax based on the selling price of the items. A use tax is similar, except that it applies to the value of goods used within the state when a sales tax for them has not been

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paid. For example, a sales tax would be imposed on the sale of a car inside Washington, while a use tax would be imposed on a car purchased outside of Washington when it is registered in Washington if no sales tax, or a sales tax at a lower rate than Washington's, was paid at the time of purchase.

The state imposes a sales and use tax at the rate of 6.5 percent of the selling price or value of the article sold or used. Counties and cities can also impose sales and use taxes when authorized to do so by the Legislature. In many cases, when the Legislature authorizes the imposition of a tax, it also directs how the tax is to be used.

In two cases, however, the Legislature has authorized the imposition of a sales and use tax while allowing the revenue to be used at the discretion of the local government imposing the tax. Both of these taxes are similar. Both can be imposed legislatively by the governing body of a county or city.

The first of these taxes does not apply to natural or manufactured gas, except for natural gas used as transportation fuel. The tax may be imposed at a rate of up to 0.5 percent by a county, or a city within a county that has not imposed the tax. If both the county and a city within the county impose the tax, then the city's tax rate is reduced to 0.425 percent.

The second of these taxes can also be imposed at a rate of up to 0.5 percent by a county or city. If a county imposes the tax at an equal or greater rate than a city within the county, the county must receive 15 percent of the tax revenue collected by the city. If a county imposes the tax at a lower rate than a city within the county, then the county must instead receive 15 percent of the tax revenue that the county would have collected had the city not imposed a tax. This second tax may be subject to a referendum if 15 percent of voters within the county or city that is imposing the tax sign a petition for a referendum. If sufficient signatures are gathered, the tax will then be approved or rejected by voters at a special or general election.

With both taxes, if a tax would be collected by both a county and a city on the same taxable event, the city tax is instead a credit against the county tax.

The rate of either or both taxes imposed by a city, or the percentage of either or both taxes that a county receives from within a city that imposes the tax, may be altered as part of an agreement between local governments for the provision of government services.

An interlocal agreement is an agreement between local governments or other public agencies to cooperatively conduct government activities or provide services. The agreement must include certain terms, including the duration of the agreement, the precise organization of any entity created, the purpose of the agreement, how the undertaking will be financed, and how the agreement can be terminated.

Summary of Substitute Bill:

Cities and towns may enter into an interlocal agreement to share a portion of the two general purpose sales and use taxes. In addition to the terms required to be included in any interlocal agreement, an agreement to share sales and use tax revenue must include:

- the area or areas in which the agreement applies, if it is only applicable to revenue collected in certain areas, and how the parties will determine the revenue collected in those areas;
- the amount or proportion of revenue to be shared; and
- the mechanism or method the parties will use to share the revenue.

Substitute Bill Compared to Original Bill:

The substitute bill:

- requires cities and towns participating in an interlocal agreement to share sales and use tax revenue collected in a particular area or areas to include in the agreement how they will calculate the revenue collected in those areas; and
- requires such cities and towns to also include the precise mechanism or method that the parties to the agreement will use to share revenue.

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) This is a good little bill. It is important for some towns and cities to be able to share tax revenue. Walla Walla and College Place are a good example, as they work together on many projects and this bill would allow them to use revenue together for those projects. This would be an important change for many communities across the state. Currently, cities compete for coveted sales tax revenue on which they are heavily reliant, but this would remove that competition and allow for a joint pursuit of goals through voluntary interlocal agreements. This will help to promote concentration of projects and the use of existing infrastructure. Other states already allow this kind of cooperation.

(Opposed) None.

Persons Testifying: Representative Mark Klicker, prime sponsor; Michael Rizzitiello, City of College Place; and Elizabeth Chamberlain, City of Walla Walla.

Persons Signed In To Testify But Not Testifying: None.