HOUSE BILL REPORT

ESB 6408

As Passed Legislature

Title: An act relating to the use of locally imposed real estate excise tax proceeds for financing capital projects.

Brief Description: Financing capital projects.

Sponsor(s): By Senators Matson, Vognild, Hayner, Sutherland, Madsen, McCaslin and Roach.

Brief History:
Reported by House Committee on:
Local Government, February 28, 1992, DPA;
Passed House, March 11, 1992, 97-0;
Passed Legislature.

HOUSE COMMITTEE ON LOCAL GOVERNMENT

Majority Report: *Do pass as amended.* Signed by 12 members: Representatives Haugen, Chair; Cooper, Vice Chair; Ferguson, Ranking Minority Member; Mitchell, Assistant Ranking Minority Member; Bray; Edmondson; Horn; Nealey; Rayburn; Roland; Wynne; and Zellinsky.

Minority Report: *Without recommendation.* Signed by 3 members: Representatives Franklin; Nelson; and Wood.

Staff: Steve Lundin (786-7127).

Background:

1. <u>First 0.25 percent real estate excise tax.</u>

In 1982, counties and cities were authorized to impose an excise tax on the sale of real property, not to exceed 0.25 percent of the selling price, and expend these moneys for "capital improvements."

This authority was modified by the Growth Management Act in 1990. Receipts from this tax could only be used for "local" capital improvements. After July 1, 1990, counties and cities that plan under all the requirements of the Growth Management Act must expend these moneys "primarily" on capital projects specified in the capital facilities element of its comprehensive plan, except that these receipts may be used to retire "outstanding" debt for other capital projects that was incurred prior to July 1, 1990.

2. <u>Second 0.25 percent real estate excise tax.</u>

The Growth Management Act that was enacted in 1990 authorized counties and cities that are required to plan under all the requirements of the act to impose an additional excise tax on the sale of real property, not to exceed 0.25 percent of the selling price, and expend these solely for financing "capital projects" specified in a capital facilities plan element of the comprehensive plan. Other counties and cities that choose to plan under the Growth Management Act can impose this additional real estate excise tax if a ballot proposition authorizing the tax is approved by voters of the county or city.

Summary of Bill: Whenever a county or city adopts a budget on capital projects funded by either the first or second 0.25 percent real estate excise tax, it must indicate that the tax is intended to be in addition to other funds that may be reasonably available for such capital purpose.

The uses of the <u>first</u> 0.25 percent real estate excise tax are somewhat restricted, as follows:

(1) The capital projects that may be financed by a county or city that plans under all the requirements of the Growth Management Act are defined to include the planning, acquisition, construction, or repair of a variety of projects, including, streets, domestic water systems, libraries, parks, administrative and judicial facilities, and law enforcement facilities. In addition, a county or city that has used these moneys to finance river and/or waterway flood control projects as of the effective date of this act may continue to finance such projects with these moneys. Further, a county or city that has used these moneys to finance housing projects prior to the effective date of this act may continue to finance such projects until December 31, 1995;

(2) Revenues that a county or city pledged to retire debt or finance projects prior to April 30, 1992, for projects that are not included in this list, may continue to be retired or financed until the original debt is retired or the project is completed; and

(3) Any expenditure of moneys from this tax that was made prior to the effective date of this act is deemed to be in compliance with the requirements of this statute.

The capital projects that may be financed by receipts from the second 0.25 percent real estate excise tax are limited to a shorter list of projects than may be financed under the first 0.25 percent real estate excise tax. These projects include planning, acquiring, constructing, and repairing streets, storm and sanitary sewers, domestic water systems, and traffic signals. In addition, such moneys may be used to construct or repair parks, but not to acquire parks. Revenues that a county or city pledged to retire debt or finance projects prior to March 1, 1992, for projects that are not included in this list, may continue to be retired or financed until the original debt is retired or the project is completed.

The county treasurer may place 1 percent of any local real estate excise tax receipts, instead of just receipts from the first one-quarter real estate excise tax, into the county current fund to defray collection costs.

Fiscal Note: Not requested.

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

Testimony For: Some local jurisdictions are expending the tax receipts for purposes other than those that are permitted. These tax receipts should be limited to financing infrastructure, not general capital needs.

Testimony Against: Flexibility should remain to use these moneys to finance housing projects, cultural arts projects, and the acquisition of parks. The first 0.25 percent real estate excise tax was authorized in 1982, before the Growth Management Act was enacted, so its receipts were shown not be tied to infrastructure.

Witnesses: (Pro): Brent McFall, city of Federal Way; Gary Lowe, Washington Association of Counties; Stan Finkelstein, Association of Washington Cities; Tom Weeks and Andrew Lofton, city of Seattle; Glen Hudson, Washington Association of Realtors; and Dick Ducharme, Building Industry of Washington. (Con): Mike Ryherd, representing Low Income Housing, Washington Association of Housing Authority and Human Services Roundtable.