

HOUSE BILL ANALYSIS

HB 1976

Redistribution Funding for Community Growth

BACKGROUND:

Real Estate Excise Tax

The real estate excise tax was initially authorized, by the Legislature in 1951, as a county tax. The authorizing statute permitted a tax of up to 1 percent of the selling price of real property, and all revenues from the tax were dedicated to school districts within the county.

In 1981, when the state assumed responsibility for full funding of public schools under the basic education act, the tax was shifted to the state level. All receipts from the tax, except for 1.0 percent for county tax collection costs, are deposited into the state general fund and dedicated for public education.

The Legislature increased the state rate to 1.07 percent in 1982, and approved two local real estate tax options: 0.25 percent for general purposes and 0.5 percent if a city or county does not levy the second 0.5 percent of the local retail sales tax. The 0.5 percent must be used by the local government for capital improvements.

In 1987, the Legislature repealed a real estate conveyance tax and in its place the rate of the real estate excise tax was raised by an equivalent amount, so that the state rate was increased from 1.07 percent to 1.28 percent.

In 1990, the Legislature authorized an additional local option to the real estate excise tax, a 1.0 percent county tax for conservation areas. That same year the legislature placed a restriction on the 0.50 percent local tax for capital improvements by requiring half of that amount be used for capital projects specified in the comprehensive plan under the Growth Management Act.

The current tax rate in most cities and counties is 1.78 percent (1.28 percent state plus .5 percent local) of the selling price of real property. The highest actual rate is 2.78 percent which applies in the city of Friday Harbor. The total state revenue from this tax is projected to be \$573 million during the 1997-99 biennium.

Real Estate Excise Tax

Rate	Purpose	Comment
1.28 percent state	State General Fund for Education 1.0 percent of revenues may be retained by county for collection expenses 7.7 percent of revenues for Public Works Trust Fund	
0.25 percent cities and counties	Capital Improvements	Most cities and counties have imposed this tax
0.25 percent cities and counties	Capital Projects specified in a comprehensive plan	Most cities and counties have imposed this tax
0.5 percent cities and counties	General Purposes May only be imposed if city or county does not levy the second 0.5 percent local retail sales tax	Only one city (Clarkston) has imposed this rate
1.0 percent counties only	Acquisition and maintenance of conservation lands	Only San Juan County has imposed this rate.

Environmental mitigation actions and fees

The State Environmental Policy Act (SEPA) adopted in 1971, requires local governments and state agencies to prepare a detailed environmental impact statement, if proposed legislation or other action may have a probable significant, adverse impact on the environment. If it appears that a probable significant adverse environmental impact may result from an action, including the issuing of building permits or master plans for new development, the proposed action must be altered, its adverse impact mitigated, or denied. Mitigation measures to compensate or correct the adverse impact are limited to the specific adverse environmental impacts identified in the environmental impact statement and must be reasonable and capable to be accomplished.

Impact Fees:

The Growth Management Act (GMA), enacted in 1990 and expanded in 1991, requires most counties and cities in the state to adopt plans to manage growth where necessary and to encourage growth in areas not experiencing economic prosperity. The GMA statutes require

counties and cities to set goals and planning policies to guide the development and adoption of comprehensive plans and development regulations. The comprehensive plans must designate urban growth areas where urban growth must be encouraged and outside of which urban growth may not occur. The comprehensive plans must also designate critical areas and natural resource areas to preclude development that is incompatible with such areas. Once the comprehensive plan is adopted, the county and city must adopt development regulations for implementing its comprehensive plan. Part of the implementation is the authority to charge development impact fees for public owned facilities such as streets and roads, parks and open space, school buildings and fire protection facilities.

Impact fees may be imposed only for public facility improvements that are reasonably related to new development, and may not exceed a proportionate share of the costs of public facility improvements that are reasonable related to the new development. The fees can only be used for public facilities that will benefit the new development.

School Construction:

The state provides financial assistance to local school districts for school construction projects. The state program for financial assistance is generally described in the statute with specific details for implementation delegated to the State Board of Education. The State Board of Education has developed an eligibility process and an allocation model for distributing state dollars appropriated by the Legislature to local school districts. The first step in the eligibility process requires school districts to secure voter approval of a local bond issue to finance the local share of a school construction project. The amount of state assistance has averaged about 50% of the total cost of construction projects statewide. The percentage amount will vary between districts depending on the value of taxable property in the district.

Local Option Transportation Tax:

In 1990, the Legislature authorized counties to impose a tax equal to 10% of the statewide motor vehicle fuel tax on each gallon of motor vehicle fuel sold within the county. Before a county came impose the motor vehicle fuel tax, the tax must be approved by the voters in the county. Once approved by the voters the local option fuel tax is collected by the Department of Licensing and transmitted to the county treasurer on a monthly basis. The proceeds from the tax can only be used for highway purposes as used in Article II, section 40 of the State Constitution.

SUMMARY: The state real estate excise tax (REET) is reduced by 10 percent from 1.28 percent to 1.152 percent and a new county real estate excise tax of an equivalent amount (.128 percent) is authorized. The new county tax can be imposed only if the school districts, representing the majority of students in the county, request the new tax. The proceeds from the new county REET are deposited into a new non-appropriated fund called the Excess Real Estate Excise Tax School Capital Construction Account.

No county can impose the 1 percent REET for conservation areas that has not already imposed the tax before January 1997. The Governor's power to resend the REET tax if a city or county does not comply with the Growth Management Act is removed.

The definition of capital facility that can be funded by the local option REET is redefined to mean a government owned and operated facility. Removed from the definition of eligible projects are the construction and repair of roads, streets, sidewalks, traffic signals, law enforcement facilities, libraries and administration or judicial facilities.

A new twelve member board called the Washington State School Capital Facilities Board is created to distribute the money in the Excess Real Estate Excise Tax School Capital Construction Account to school districts in proportion to state matching funds to school districts. The money in the new fund can only be used for levy relief on school construction projects.

Impact fees under the Growth Management Act and mitigation actions under the State Environmental Policy Act are prohibited. Any city or county that imposes a local optional REET cannot impose impact fees or mitigation fees.

Future local government development agreements can only obligate the developer to on-site infrastructure. Public utility systems must use a rate-based user charge rather than the current authority to charge a proportionate share of the utility systems capital cost. A public utility system cannot charge a hookup fee above the actual physical connection cost.

The local option motor vehicle fuel tax is increased from 10 percent to 25 percent of the state rate and the voters' approval requirement of the local motor vehicle fuel tax is removed.

FISCAL NOTE: Available

EFFECTIVE DATE: Ninety days after adjournment of session in which bill is passed.