
Finance Committee

HB 1756

Brief Description: Authorizing additional funding for local governments.

Sponsors: Representatives Conway, Kirby, Talcott, Flannigan, Darneille, Shabro, Edwards and Morrell.

Brief Summary of Bill

- Provides new retail sales and use tax authority, subject to voter approval, of up to 0.3 percent to counties with populations of one million or less.
- Requires that 40 percent of any revenue received under the new retail sales and use tax be distributed to cities within the county.
- Provides new regular property tax authority of 30 cents per thousand dollars of assessed value to counties and cities, subject to voter approval and to prorationing.

Hearing Date: 2/18/03

Staff: Mark Matteson (786-7145).

Background:

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

Local Retail Sales & Use Taxation

The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. The tax base includes goods and certain services purchased at retail. Sales tax is paid by the purchaser and collected by the seller. The seller remits the tax and other taxes with the combined excise tax return to the Department of Revenue.

The use tax is imposed on items used in the state that were not subject to the retail sales tax, and 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. Use tax is paid directly by the person using the item to the Department of Revenue.

Counties may impose several local sales and use taxes at various rates and for various purposes. The most widely utilized local sales and use taxes are the basic tax at a rate of 0.5 percent and an optional tax at a rate of up to 0.5 percent, both for general purposes. In calendar 2001, about \$260 million basic and optional sales and use taxes were distributed by the state Treasurer to county governments.

County sales and use taxes are imposed by ordinance of the county legislative authority. The basic 0.5 percent tax is not subject to voter referendum nor requires voter approval prior to being imposed. On the other hand, the imposition of the optional 0.5 percent tax is subject to a potential referendum by the county voters. To do so, referendum petitions must be filed within seven days of adoption of the ordinance that imposes or increases the tax. Within the next 30 days the petitioner must gather signatures numbering at least 15 percent of the registered voters of the county in order to force a referendum election.

For most of the sales and use taxes that are authorized to be imposed by counties, the county government is the sole entity that receives and uses the funds. There are several exceptions, however. For example, the receipts from the 0.1 percent tax for criminal justice programs must be shared with the cities within the county. In addition, when implementing the 0.08 percent tax for rural county public facilities, a county must consult with cities, towns, and port districts within the county.

Property Taxation

Property taxes are levied by state and local governments. The county assessor determines assessed value for each property. The county assessor also calculates the tax rate necessary to raise the correct amount of property taxes for each taxing district. The assessor calculates the rate so the individual district rate limit, the district revenue limit, and the aggregate rate limits are all satisfied. The property tax bill for an individual property is determined by multiplying the assessed value of the property by the tax rate for each taxing district in which the property is located. The assessor delivers the county tax roll to the treasurer. The county treasurer collects property taxes based on the tax roll starting February 15 each year.

The sum of property tax rates is limited by the state constitution to a maximum of 1.0 percent of true and fair value, or \$10 per \$1,000 of market value. Property taxes that are subject to this 1 percent limitation are referred to as regular property taxes. Generally, there are no voting requirements with respect to regular property taxes, which are levied annually. However, there are several exceptions, including requirements for emergency medical service districts, park and recreation districts, and cultural arts, stadium and convention districts, in which regular property taxes may be levied for periods of six years or more. The regular levies for these districts require approval of 60 percent of the voters in the district.

The Legislature has established caps on individual district rates and on the aggregate rate so as to keep the total tax rate for regular property taxes within the constitutional one percent limit. For example, the state levy rate is limited to \$3.60 per \$1,000 of assessed value, county general levies are limited to \$1.80 per thousand, county road levies are limited to \$2.25 per thousand, and city levies are limited to \$3.375 per thousand. These districts are known as "senior" districts. Junior districts such as fire, library, and hospital districts each have specific rate limits as well. The tax rates for most of these senior and junior 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. Under this prorating system, senior districts are given preference over junior districts.

A few regular property tax levies are not placed into the \$5.90 aggregate rate limit for senior and junior districts: emergency medical service, affordable housing, conservation futures, and a portion of a metropolitan park district's rate. However, these districts are subject to reduction if the total aggregate rate for these districts, the state property tax, and the districts subject to the \$5.90 limit together exceed \$10 per \$1,000 of market value.

In addition to the rate limitations, a district's regular property tax levy is limited by a statutory maximum growth rate in the amount of tax revenue that may be collected from year to year. The voters amended this revenue limit most recently with the passage of initiative 747 in November 2001. The limit requires a reduction of property tax rates as necessary to limit the growth in the total amount of property tax revenue received to the lesser of one percent or inflation, generally. The revenue limitation does not apply to new value placed on tax rolls attributable to new construction, to improvements to existing property, or to changes in state-assessed valuation.

The revenue limit for regular property taxes may be superseded by voter approval; this process is known as a lid lift. Lid lifts require approval by a majority of the voters in a taxing district, and allow the district to set its levy in an amount that exceeds 101 percent of the previous year's collections, as long as the resulting tax rate is within the statutory rate limit. Lid lifts may be permanent or temporary. If permanent, the collections in the year in which the lid lift occurs become the basis for future levies. If temporary, the ballot title of the measure that authorizes the lid lift must indicate the time period for which the increased levy is to be made, and future levies following the lid lift must be calculated as if the lid lift had not occurred.

Summary of Bill:

New retail sales and use tax authority 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 one million persons or less may impose a new local sales and use tax of up to 0.3 cents, subject to approval of a majority of voters in the county. Any county that imposes the new tax must allow 40 percent of the revenues received to 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 thousand dollars of assessed valuation of the property within the district, subject to approval of a majority of the voters in the city or county. 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 the \$5.90 aggregate rate limitation per thousand dollars of assessed value for senior and junior taxing districts is exceeded, then any new tax levied under the new regular property tax authority must be subject to prorationing before any other regular property tax that has been levied.

Appropriation: None.

Fiscal Note: Requested on February 11, 2003.

Effective Date: The bill takes effect ninety days after adjournment of session in which bill is passed.