

SENATE BILL REPORT

2ESSB 5659

As Passed Senate, June 10, 2003

Title: An act relating to authorizing additional funding for local governments.

Brief Description: Authorizing additional funding for local governments.

Sponsors: Senate Committee on Government Operations & Elections (originally sponsored by Senators Winsley, Kastama, Oke, Franklin, Swecker, Rasmussen, Regala and Kohl-Welles).

Brief History:

Committee Activity: Government Operations & Elections: 2/26/03, 3/4/03 [DPS].

Passed Senate: 4/10/03, 37-9.

First Special Session: Passed Senate: 6/10/03, 36-9.

SENATE COMMITTEE ON GOVERNMENT OPERATIONS & ELECTIONS

Majority Report: That Substitute Senate Bill No. 5659 be substituted therefor, and the substitute bill do pass.

Signed by Senators Fairley, Kastama, McCaslin and Reardon.

Staff: Ronda Larson (786-7429)

Background: *Local Retail Sales and Use Taxation.* Cities and counties rely on retail sales and use taxes for a substantial part of their general revenues. The retail sales tax applies to goods and certain services purchased at retail. The buyer pays the sales tax and the retailer collects the tax and remits it to the state.

The use tax is imposed on items used in the state that were not subject to the retail sales tax. This 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. The person using the item pays the use tax directly to the state.

Counties may impose several local sales and use taxes at various rates and for various purposes. The most widely utilized are the basic tax, which is at a rate of 0.5 percent, and an optional tax, which is at a rate of up to 0.5 percent. The basic tax does not require approval of voters in a county, but voters can file referendums for optional taxes. In calendar 2001, the State Treasurer distributed to county governments about \$260 million basic and optional sales and use taxes.

For most of the county sales and use taxes, the county is the sole entity that receives and uses the funds. There are several exceptions, however. For example, a county must share with its cities the receipts from the 0.1 percent tax for criminal justice programs.

Property Taxation. Both state and local government taxing districts levy property taxes. In addition to a constitutional 1-percent limit on the total rate of tax per parcel of property, there

is a statutory 1-percent limit on the amount of revenue that any taxing district can collect compared to what it collected in prior years. Under this revenue "lid," the amount of revenue collected from a regular (i.e., non-voter-approved) property tax levy cannot be more than 1 percent above the highest 1-year amount collected in the past three years. The only exception is if the voters in the district approve a resolution for a "lid lift." A lid lift allows voters in a district to agree to tax themselves above the lid. However, the additional revenue from a lid lift can be collected only for one year per voter-approved resolution.

Growth Management Act. Counties with greater than a certain population and with greater than a certain population growth rate were required, along with the cities located within the counties, to plan under the Growth Management Act (GMA). Counties not meeting the population and growth thresholds could opt into the GMA by resolution of the county legislative authority. Once such a resolution is adopted, a county and the cities located within the county remain subject to all requirements of the GMA.

Comprehensive Plan Updates. Counties and the cities within them must review and update their GMA-comprehensive plans by certain dates. Counties not planning under the GMA must update their plans regarding critical areas and natural resource lands by certain dates. Those counties that must update their plans by December 2004 are Clallam, Clark, Jefferson, King, Kitsap, Pierce, Snohomish, Thurston, and Whatcom counties.

Summary of Bill: *Retail Sales and Use Taxes.* Any county may impose an increase in local sales or use tax of up to 0.3 percent. A county legislative authority may exempt new or used motor vehicle sales and some new or used motor vehicle leases are exempt from this increase. The increase is subject to approval of a majority of voters in the county. The county must distribute 40 percent of the revenues received to cities within the county on a per capita basis. One-third of this tax money must be used only for criminal justice purposes.

Regular Property Taxes. Voters in counties, cities and towns may by majority vote approve, in a primary or general election, a resolution for a levy lid lift that lasts up to six years. The resolution must specify the target dollar amount only for the levy's first year's collection amount. The resolution must specify some type of annual increase scale (e.g., the consumer price index) for setting the levy's succeeding years' amounts.

Growth Management Act. If a county is east of the Cascade crest and north of Interstate 90, has a population of less than 10,000, and has a taxable land base of 15 percent or less, the county may adopt a resolution removing the county, and the cities located within the county, from the requirement to plan under the Growth Management Act.

Comprehensive Plan Updates. Jefferson and Clallam counties are given an additional year to update their comprehensive plans.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on July 1, 2003.

Testimony For: This bill simply gives counties and cities the authority to ask their own citizens if they want to tax themselves at a higher rate. The tax increases would need voter approval in all cases. But to have such authority, the counties and cities need legislative approval, which this bill requests. Because of revenue shortfalls, there are severe staff shortages in public health and safety. 52 percent of those polled in Pierce County said they would support a tax increase for law enforcement. This gives the local elected officials the power to serve their communities.

Testimony Against: A lot of cars come through some cities like Fife, so the bill's per capita redistribution formula would take sales tax money that Fife's businesses have collected and redistribute it to communities that did not collect the tax. Per capita redistribution is inequitable. Fife and other pass-through cities provide law enforcement service to all people coming through. But those people do not count for purposes of the per capita redistribution formula, which is population based.

Testified: PRO: Senator Winsley, prime sponsor; Gerry Horne, Pierce Co.; Bob Young, Mayor, Bonney Lake; Mike Carson, Pierce Co. Sheriff; Randy Lewis, City of Tacoma; Bill Vogler, Washington Association of Counties; Candice Bock, City of Lakewood; CON: Derek Young, City of Gig Harbor; Bill Malinen, City of Fife.

House Amendment(s): In the amended bill, the .3 percent sales and use tax does not apply to new motor vehicles. The Growth Management Act withdrawal criteria are replaced with criteria that limit potential withdrawal to a county of fewer than 10,000 persons, with a privately-owned taxable land base of less than 20 percent, and with only one incorporated city. The bill's effective date is changed to July 1, 2003. The requirement is added for one-third of the sales and use tax revenues received to be used for certain criminal justice purposes. The unamended bill had no requirement as to where the money should be spent. The amended bill adds the requirement for the State Auditor to audit once every five years a jurisdiction that imposes taxes under the bill. A requirement is also added for such jurisdictions to implement a quality management program and to conduct yearly self assessments.