HOUSE BILL REPORT
ESSB 6050

As Reported by House Committee On:
Capital Budget

Title: An act relating to providing financial assistance to cities, towns, and counties.

Brief Description: Providing financial assistance to cities, towns, and counties.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Parlette, Doumit, Morton and Mulliken).

Brief History:
Committee Activity:
Capital Budget: 3/28/05, 4/1/05 [DPA].

Brief Summary of Engrossed Substitute Bill
(As Amended by House Committee)

- Creates the City-County Assistance Account in the state treasury. Funds deposited in the account will be distributed equally to cities and counties.
- Specifies a separate distribution formula for cities and counties.
- Directs the Joint Legislative Audit and Review Committee (JLARC) to review the distribution of funds to cities and counties to determine the extent to which the distributions target needs of cities and counties for which the repeal of the Motor Vehicle Excise Tax had the greatest fiscal impact.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: Do pass as amended. Signed by 21 members: Representatives Dunshee, Chair; Ormsby, Vice Chair; Jarrett, Ranking Minority Member; Hankins, Assistant Ranking Minority Member; Blake, Chase, Cox, Eickmeyer, Ericks, Flannigan, Green, Hasegawa, Kretz, Lantz, Moeller, Morrell, Newhouse, O'Brien, Schual-Berke, Springer and Upthegrove.

Minority Report: Do not pass. Signed by 6 members: Representatives DeBolt, Holmquist, McCune, Roach, Serben and Strow.

Staff: Susan Howson (786-7142).

Background:

The passage of Initiative 695 in November 1999 repealed the Motor Vehicle Excise Tax (MVET), which had been forecasted to generate approximately $1.6 billion in revenues during the fiscal 1999-01 biennium. The MVET statute apportioned 23.6 percent of collections to counties, cities, and public health districts for the purposes of criminal justice assistance, fire and police protection, sales tax equalization, and public health. For some jurisdictions, the MVET assistance represented a relatively significant part of the operating budget, in some cases providing over 50 percent of operating expenditures.

The MVET collections were distributed on a quarterly basis to city and county jurisdictions and on a monthly basis to public health districts and county public health departments. The final distributions to jurisdictions occurred in January, 2001, based on collections in October through December, 1999.

For the past three biennia, state appropriations have provided financial assistance to counties and cities to mitigate the loss of local revenue following the passage of Initiative 695. For the 2003-05 biennium, the operating budget provides $14 million to specified cities and counties for this purpose.

Summary of Amended Bill:

The City-County Assistance Account is created in the state treasury. Funds deposited in the account must be distributed equally to cities and counties. Expenditures from the account are subject to legislative appropriation.

A separate distribution formula for cities and counties is specified.

<u>County Distribution Formula</u>

Funds deposited into the account will increase local sales and use tax revenue by each county to the greater of $250,000 or:

- for a county with 100,000 population or less, 70 percent of the statewide per capita level of sales and use tax revenue for unincorporated areas of all counties imposing the sales and use tax; and
- for a county with more than 100,000 population, 65 percent of the statewide per capita level of sales and use tax revenue for unincorporated areas of all counties imposing the sales and use tax.

For each county with 15,000 population or less, the county shall receive the greater of the amount identified above or the amount received in local government assistance provided by the Department of Community, Trade and Economic Development (DCTED) as established in the 2004 omnibus operating budget.

For a county with 15,000 to 22,000 population, the county will receive in calendar years 2006 and 2007, the greater of the amount above or the amount in local government assistance provided by the DCTED in the 2004 omnibus operating budget.

Distributions will be ratably reduced should revenues be insufficient to fund distributions as provided in the bill. Should revenues exceed the amounts needed for the distributions, excess funds will be divided ratably, based on unincorporated population, among recipient counties that impose sales and use tax at the maximum rate.

City Distribution Formula

For a city with 5,000 population or less with a per capita assessed property value less than twice the statewide average for all cities, the city will receive the greater of:

- an amount necessary to increase revenues to 55 percent of the statewide per capita level of sales and use tax revenues for all cities imposing the tax in the previous calendar year;
- the amount received in local government assistance provided for Fiscal Year 2005 in the 2003-05 omnibus operating budget; and
- for a city with a per capita assessed property value less than 55 percent of the statewide average per capita assessed property value for all cities, an amount determined by subtracting the city's per capita assessed property value from 55 percent of the statewide average per capita assessed property value, divided by 1,000, and multiplied by the city's population.

For each city with more than 5,000 population with a per capita assessed property value less than the statewide average for all cities, the city will receive the greater of:

- an amount necessary to increase revenues to 50 percent of the statewide per capita level of sales and use tax revenues for all cities imposing the tax in the previous calendar year;
- for calendar years 2006 and 2007, the amount received in local government assistance provided for Fiscal Year 2005 in the 2003-05 omnibus operating budget; and
- for a city with a per capita assessed property value less than 55 percent of the statewide average per capita assessed property value for all cities, an amount determined by subtracting the city's per capita assessed property value from 55 percent of the statewide average per capita assessed property value, divided by 1,000, and multiplied by the city's population.

No city may receive more than $100,000 a year.

Distributions shall be ratably reduced should revenues be insufficient to fund distributions as provided in the bill. Should revenues exceed the amounts needed to make distributions as provided, excess funds shall be divided ratably, based on population, among recipient cities that impose sales and use tax at the maximum rate.

Other Provisions
The bill authorizes annual increases based on inflation for the $250,000 county distribution and the $100,000 city limit.

The JLARC is directed to review the distributions to cities and counties to determine the extent to which the distributions target needs of cities and counties for which the repeal of the Motor Vehicle Excise Tax had the greatest fiscal impact. The JLARC will report its findings, including any recommendations for changes to the distribution formulas, to the Legislature by December 31, 2008.

Amended Bill Compared to Engrossed Substitute Bill:

The Engrossed Substitute bill diverted a portion of the state Real Estate Excise Tax (REET) that is deposited into the Public Works Assistance Account (PWAA) to the City-County Assistance Account. The bill as amended removes this fund source from the bill.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill takes effect on August 1, 2005.

Testimony For: (In support) Since the passage of Initiative 695, cities and counties have been struggling to balance their budgets. Local law enforcement needs make up the greatest percentage of county budgets and services have been cut as a result of budget reductions, leaving many services unmet, especially in counties with a low tax base. This proposal would take 1.6 percent of the 7.7 percent of REET going to the PWAA, approximately $20 million next biennium, and dedicate it to local governments on a formula basis with no restrictions as to how the local governments could use the funds.

(With concerns) REET is not an extremely reliable funding source. Local governments could be better served by another funding option. This solution does not befit the problem.

Testimony Against: The PTWF funds important local projects that protect health and safety infrastructure. Although the needs of local governments are important, diverting revenue from the PWTF, a program with it's own great needs, will not solve the problem. Setting a precedent of diverting revenue from the PWTF could jeopardize the future of funding for public safety and health projects.

Persons Testifying: (In support) Senator Parlette, prime sponsor; Bill Vogler, Washington State Association of Counties; Dean Burton, Garfield County; Steve Jenkins, City of Bridgeport; Jim Justin, Association of Washington Cities; Mike Whelan, Grays Harbor Sheriff; and Steve Whybark, Mason County Sheriff.

(With concerns) Bryan Wahl, Washington Association of Realtors.

(Opposed) Rick Slunaker, Associated General Contractors; David Ducharme, Utility Contractors Association of Washington; and Paul Locke.

Persons Signed In To Testify But Not Testifying: None.