HOUSE BILL REPORT
HB 1232

As Reported by House Committee On:
Local Government

Title: An act relating to the use of local government real estate excise tax proceeds for the acquisition of equipment and software related to business applications.

Brief Description: Clarifying that certain local government real estate excise tax proceeds may be used for the acquisition of equipment and software related to business applications.

Sponsors: Representatives Hunt, Alexander, Curtis, Simpson, Chandler, Armstrong and Appleton.

Brief History:

Committee Activity:

Local Government: 2/5/08 [DP2S].

Brief Summary of Second Substitute Bill

- Establishes new county, city, and town expenditure provisions for proceeds from locally-imposed real estate excise taxes (REET).
- Validates previous expenditures made by counties, cities, and towns using local REET proceeds for qualifying capital purposes, local capital improvements, and capital projects.
- Expires all amendatory provisions on June 30, 2010.

HOUSE COMMITTEE ON LOCAL GOVERNMENT

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass. Signed by 7 members: Representatives Simpson, Chair; Takko, Vice Chair; Warnick, Ranking Minority Member; Schindler, Assistant Ranking Minority Member; Eddy, Nelson and Schmick.

Staff: Ethan Moreno (786-7386).

Background:

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

County legislative authorities may impose an excise tax on each sale of real property in unincorporated areas of the county. Similarly, city legislative authorities also may impose an excise tax on each sale of real property within the city's corporate limits. The rate of these real estate excise taxes (REET) may not exceed 0.25 percent of the selling price.

Cities and counties with 5,000 or fewer residents and cities and counties that do not fully plan under the Growth Management Act (GMA) may use local REET revenues only for capital purposes identified in a capital improvements plan and for local capital improvements. Counties with more than 5,000 residents and cities with more than 5,000 residents that fully plan under the GMA may use local REET revenues only for financing qualifying capital projects, as that term defined in statute, and for housing relocation assistance. Exceptions to these expenditure limits are specified in statute for projects that use revenues pledged or committed by counties and cities prior to April 30, 1992.

"Capital project" means public works projects of a local government for planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of specific infrastructure, including:

- streets;
- domestic water systems;
- recreational facilities; and
- administrative and/or judicial facilities.

Summary of Second Substitute Bill:

"Capital projects" for which locally-imposed REET revenues may be used include equipment items that may contain and employ a software element necessary for initial installation and operation that may be included in the capital expenditure on a one-time basis during initial acquisition by a jurisdiction in the regular course of business in connection with associated capital improvements. These expenditures must be capitalized with a lifetime of at least five years and must be tied directly to the dollar amount used solely for the economic development value of an existing or planned capital improvement. Proceeds from a locally-imposed REET may not be used for daily operations or upgrading the original capital investment.

Additional directives regarding the use of locally-imposed REET revenues are specified. Proceeds from the tax may be used for the initial acquisition and installation of computer hardware and computer business systems and applications that are: capitalized with a useful life of five or more years; and directly related to an existing or planned capital project. Proceeds from the tax may not be used for: ongoing maintenance, operation or upgrades of computer hardware or software; computer peripherals; or computer accessories.

Expenditures made by counties, cities, and towns using proceeds from a locally-imposed REET for qualifying capital purposes, local capital improvements, and capital projects on or before the effective date of the act are declared valid.

All amendatory provisions of the act expire on June 30, 2010.

Second Substitute Bill Compared to Original Bill:

Descriptions of "capital purpose" and "local capital improvements" are deleted and replaced with a description of "capital projects." Capital project expenditure limitations are established and specify, in part, that these expenditures must be capitalized with a lifetime of at least five years, and that proceeds from a locally-imposed REET may not be used for daily operations or upgrading the original capital investment.

A proposed description of "capital project" within the definition of "capital project" is deleted and replaced with delineated permitted and prohibited uses of proceeds from a locally-imposed REET. Expenditures made by counties, cities, and towns using proceeds from a locally-imposed REET for qualifying capital purposes, local capital improvements, and capital projects on or before the effective date of the act are validated. The intent section is deleted. An expiration date is added.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date of Second Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony:

(In support of original bill) Funding is needed for information technology projects, and this bill is a clarification of issues raised by the State Auditor (Auditor). This bill clarifies, but does not expand, the use of local REET revenues for business applications. The bill aligns expenditure authorizations with legislative intent. In 2005, the Auditor raised questions about computer expenditures made by Thurston County. The Auditor did not believe that REET revenues, under current law, should be used for computer software purchases, although hardware purchases were acceptable. The Auditor recommended that the county seek legislative clarification. This bill addresses only the first one-quarter percent of REET. Information technology and services have become integral to business operations and they are linked together during facility construction. The Legislature needs to make it clear that these integrated expenses are proper uses of REET revenues. Counties are trying to provide full-service to residents, and integrated systems are part of this service effort.

(Opposed to original bill) This bill siphons revenue away from infrastructure when more funds, not less, are needed for infrastructure. The lack of infrastructure has contributed to rising housing costs. This bill also authorizes a retroactive use of REET revenues.

Persons Testifying: (In support of original bill) Representative Hunt, prime sponsor; Representative Alexander, Kim Wyman, Washington Association of County Auditors; and Julie Murray, Washington State Association of Counties.

(Opposed to original bill) Bill Riley, Washington Realtors.

Persons Signed In To Testify But Not Testifying: None.