

HOUSE BILL REPORT

HB 2249

As Reported by House Committee On:
Finance

Title: An act relating to modifying local government revenue options in counties with a population of one million five hundred thousand or more.

Brief Description: Modifying local government revenue options in counties with a population of one million five hundred thousand or more.

Sponsors: Representative Hunter.

Brief History:

Committee Activity:

Finance: 2/24/09, 3/2/09 [DPS].

Brief Summary of Substitute Bill

- Extends the annexation commencement date to January 1, 2012, in order for cities in King County to impose annexation sales and use tax.
- Requires cities in King County to commence annexations by January 1, 2012, to continue receiving funds from the Transportation Improvement Account and the Public Works Assistance Account.
- Authorizes King County to impose utility taxes until January 1, 2012.
- Authorizes cities and towns in King County to impose business taxes on water-sewer districts, if the city or town has annexed its potential annexation areas.
- Allows cities and counties to use the voter-approved real estate excise tax for park maintenance and operation expenditures.
- Eliminates the anti-supplanting language for property tax lid lifts for levies approved by the voters in 2009, 2010, and 2011.
- Requires the State Auditor to conduct a performance audit of King County by January 1, 2011, to assess the quality of services and goods provided by the county.

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.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Conway, Ericks, Santos and Springer.

Minority Report: Do not pass. Signed by 3 members: Representatives Orcutt, Ranking Minority Member; Parker, Assistant Ranking Minority Member; Condotta.

Staff: Jeffrey Mitchell (786-7139)

Background:

The King County Annexation Initiative is an effort to promote annexation or incorporation of the largest remaining urban, unincorporated areas. These 10 areas are also referred to as potential annexation areas (PAAs). To support annexation or incorporation of the PAAs, the Annexation Initiative provides information to communities on their governance options and financial incentives to cities that annex or incorporate.

A local sales/use tax of up to 0.2 percent was authorized in 2006 for certain cities to provide municipal services related to annexation areas. This tax is referred to as the annexation sales and use tax. The tax may be imposed only if the cost of extending municipal services exceeds the potential local revenue to be derived from the annexation area. The local tax is credited against the state sales tax, thus shifting the cost to the State General Fund. The tax is restricted to cities in King, Pierce, or Snohomish counties, except for Seattle. The annexation area must contain a population of at least 10,000 and the annexation process must be initiated by January 1, 2010. The local tax may run for a maximum of 10 years.

Cities and counties may impose a 0.25 percent real estate excise tax to finance capital projects. Subject to voter approval, cities and counties may impose an additional 0.25 percent real estate excise tax to finance capital projects specified in a comprehensive plan. This tax was authorized in 1990 and to date has been implemented by 132 cities and 19 counties.

Counties are not authorized to impose utility taxes. Cities, while authorized to impose utility taxes, may not impose utility taxes on another municipality unless state statute explicitly authorizes the tax.

Regular property tax revenue for local governments is restricted to a growth rate of 1 percent plus new construction. However, voters may approve regular property tax increases above this 1 percent amount. This voter-approved increase is referred to as a lid lift. A lid lift may be for a single year or for multiple years, not exceeding six years. Multi-year lid lifts must be for a specific purpose and lid lift funds may not supplant (replace) existing funds used for the purpose specified in the lid lift ballot proposition.

The Legislature created the Transportation Improvement Board (TIB) in 1988 to provide grants to cities and counties for high priority local transportation projects that enhance the movement of people, goods, and services. The TIB administers six competitive programs:

Urban Arterial Program, Urban Corridor Program, Small City Arterial Program, Sidewalk Program (urban and small city), Small City Preservation Program, and the Road Transfer Program (City Assistance Hardship Program).

The Public Works Assistance Account, commonly known as the Public Works Trust Fund, was created by the Legislature in 1985 to provide a source of funding to assist local governments with infrastructure projects. The Public Works Board, within the Department of Community, Trade and Economic Development, is authorized to make low-interest or interest-free loans from the Public Works Assistance Account to finance the repair, replacement, or improvement of the following public works systems: bridges, roads, water and sewage systems, and solid waste and recycling facilities. All local governments except port districts and school districts are eligible to receive loans.

Summary of Substitute Bill:

The requirement to commence an annexation by January 1, 2010, in order for cities to impose the annexation sales and use tax, is extended to January 1, 2012.

Cities in King County must commence annexations by January 1, 2012, in order to continue receiving funds from the Transportation Improvement Account and the Public Works Assistance Account.

A county with a population of 1.5 million or more may impose utility taxes on cable, electrical, gas, sewer, solid waste, telephone, and water utilities. The county may not impose the tax after December 31, 2011. The county must provide a credit against the cable utility tax for any franchise fee paid by the cable service company. The county may provide exemptions from the county utility tax for business customers. The county may not provide a general exemption for residential customers unless business customers are also exempt.

A city or town located wholly or partially within a county with a population of 1.5 million or more and that has annexed any potential annexation areas may impose utility taxes on water-sewer districts.

Cities and counties may use the voter-approved 0.25 percent real estate excise tax for park maintenance and operation expenditures.

The anti-supplanting language for property tax lid lifts is eliminated for levies approved by the voters in 2009, 2010, and 2011.

By January 1, 2011, the State Auditor is required to conduct a performance audit in a county with a population of 1.5 million or more. The audit must assess whether policy changes and programs in the county will effectively reduce overhead and other costs, improve services, and streamline operations. The audit must also identify current deficiencies in recognized best practices in the provision of goods and services by the county.

Substitute Bill Compared to Original Bill:

The substitute bill eliminates the provision reducing a city's basic and optional sales and use taxes, if the city has not commenced an annexation effort. The public safety sale and use tax provisions are eliminated. Cities in King County must commence annexations by January 1, 2012, in order to continue receiving funds from the Transportation Improvement Account and the Public Works Assistance Account. The State Auditor will use Initiative-900 revenue to pay for the King County performance audit. A county must provide a credit against the cable utility tax for any franchise fee paid by the cable service company. A county may provide exemptions from the county utility tax for business customers. A county may not provide a general exemption for residential customers unless business customers are also exempt.

Appropriation: None.

Fiscal Note: Preliminary fiscal note available.

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

Staff Summary of Public Testimony:

(In support) There has been consistent concern from counties, which are creatures of the state and have responsibilities that are largely assigned by the state, that they have been provided inadequate revenue options for them to meet the criminal justice and other responsibilities that have been given to them. Over the last 20 years, a number of studies have concurred with some of the structural concerns, but have also pointed out a number of problems that could get resolved.

Unfortunately, these problems have not been resolved and it is not clear that the county can resolve these problems without cooperation from the cities. The biggest of these structural problems is the urban subsidy, where there are differences in taxation, differences in service levels, and different people providing the services between urban and rural areas. The Growth Management Act concluded that the cities were the best providers of local services to people in urban areas. A number of urban areas remain unincorporated. The issues of how to deal with large annexation areas in King County and how to address the significant costs of serving those areas is central in King County. These annexations will take significant time as the public process elements are very complicated. Section two of this bill gives us additional time to commence annexation, but this bill also has both carrots and sticks for the counties and the cities to conclude the annexations.

The bill calls for an audit of the King County fund. This is a great opportunity for King County to demonstrate an additional new degree of openness, transparency, and accountability. After they identify best practices, as performed in King County, they can share this with the other 38 counties around the state.

This bill provides counties with some very critical tools that can be used to maintain very important health and human service programs currently supported by our general revenue funds. Providing an opportunity to impose an unincorporated utility tax will be extremely valuable. Also, addressing the nonsupplantation requirement of existing revenue sources like the sales tax in the mental health and drug dependency moneys are extremely valuable.

This bill gives authority to impose the utility tax on sewer and water services and flexibility with the existing real estate excise tax revenues. Public health programs, women, infants, and children programs; domestic violence, and senior services are all in jeopardy in Martin Luther King county and counties throughout the state without affording these counties the option to exercise their priority to put vulnerable people first in economically distressed times. Failure to authorize revenue tools for local jurisdictions would undermine efforts to prevent and end homelessness including youth shelter programs, housing and other supportive services for those leaving incarceration. In the name of social justice and the common good, please pass House Bill 2249 so that systemic poverty may be overcome by the choices of wise investment in the county's future.

(With concerns) Cities agree with the uniformity and unincorporated utility tax this bill provides, but have concerns about some of the sales tax provisions.

(Opposed) King County is one of the most complicated areas of the state to do business in, whether the business is in the City of Seattle, in the county, or even doing business in the area. This bill will further exacerbate the problem that exists with the utility tax and sales tax provisions afforded in this bill. Streamlining government should not have to include additional taxes, and this bill only imposes more taxes without fixing problems in the area.

Water and sewer districts oppose the provisions of the bill that relate to the utility tax on our customers. Water and sewer districts that are self-sufficient have not asked for money because they have kept their systems up. This bill will impact all the ratepayers. The money the Legislature will be taking in the utility tax is money that is used to keep our system in good working order.

Persons Testifying: (In support) Representative Hunter, prime sponsor; Brian Sontag, Washington State Auditor's Office; Larry Gossett, King County; Suzanne Dale Estey, City of Renton; Jeanne Burbidge, City of Federal Way; Doug Levy, Washington Recreation and Parks Association; Michael Ramos, Church Council of Greater Seattle; Bill Block, Committee to End Homelessness in King County; and Kelsey Bech, King County Alliance for Human Services.

(With concerns) Jim Justin, Association of Washington Cities.

(Opposed) Amber Carter, Association of Washington Business; and Joe Daniels, Washington State Association of Water and Sewer Districts.

Persons Signed In To Testify But Not Testifying: (Opposed) Scott Hazlegrove, Washington State Auto Dealers Association.