HOUSE BILL REPORT
2SSB 5433

As Passed House - Amended:
April 17, 2009

Title: An act relating to modifying provisions of local option taxes.

Brief Description: Modifying provisions of local option taxes.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Regala, Swecker, Rockefeller, Morton, Fraser, Ranker, Fairley and Shin).

Brief History:
Committee Activity:
Finance: 3/24/09, 3/27/09 [DPA].
Floor Activity
Passed House - Amended: 4/17/09, 52-46.

Brief Summary of Second Substitute Bill
(As Amended by House)

- Allows counties to partially supplant existing funds until January 1, 2015, for the county public safety sales and use tax.
- Allows counties to partially supplant existing funds until January 1, 2015, for the mental health/chemical dependency sales and use tax.
- Allows multi-year lid lifts to supplant existing funds. (In King County, this is allowed only for lid lifts approved in 2009, 2010, and 2011.)
- Limits the ferry district property tax rate in King County to 7.5 cents per $1,000 of assessed value and authorizes an additional property tax in King County at a rate of 7.5 cents per $1,000 to fund transit projects.
- Authorizes certain public transportation systems to seek voter approval for an annual congestion reduction tax of up to $20 per vehicle.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass as amended. Signed by 5 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Conway, Ericks and Springer.

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.

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

Staff: Jeffrey Mitchell (786-7139)

Background:

A county public safety sales and use tax was authorized in 2003. Subject to voter approval, counties may impose a tax up to .3 percent. At least one-third of the tax receipts must be devoted to criminal justice programs, including funding of additional police officers and the relief of congested court systems and overcrowded correctional facilities. The levying county is to retain 60 percent of the receipts and the remaining 40 percent will be distributed to cities within the county on a per capita basis. The statute requires that the use of the revenues be stated in the ballot proposition that goes before the voters; further, the receipts may not be used to replace existing funds for such programs. This local sales tax features another differential tax base which departs from the state sales tax base in that the sales of motor vehicles are not subject to the local tax. The tax has been implemented in five counties: Kittitas, Walla Walla, Spokane, Whatcom, and Yakima.

A county mental health/chemical dependency sales and use tax of .1 percent was authorized in 2005. The proceeds of the tax must be devoted to new or expanded county programs devoted to mental health treatment, chemical dependency services, or therapeutic court programs. The tax may not supplant (replace) existing funds for these purposes. The sales and use tax has been imposed in 13 counties: Clallam, Clark, Island, Jefferson, King, Okanogan, San Juan, Skagit, Snohomish, Spokane, Thurston, Wahkiakum, and Whatcom.

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.

A county may create a ferry district in all or a portion of the county, including the area within the corporate limits of any city or town within the county. The governing body of a ferry district is the members of the county legislative authority. A ferry district may levy a property tax on all taxable property located in the district, not to exceed 75 cents per $1,000 of assessed value. The levy must be sufficient for the provision of ferry services as shown to be required by the budget prepared by the governing body of the ferry district.

Summary of Amended Bill:

Counties are allowed to supplant existing funds until January 1, 2015, for the county public safety sales and use tax. In calendar year 2010, 100 percent of the tax may be used to supplant existing funding. This 100 percent amount is then phased down by 20 percent each year through calendar year 2014.

Counties may partially supplant existing funds until January 1, 2015, for the mental health/ chemical dependency sales and use tax. The initial percentage amount that may be supplanted is 50 percent, which is then reduced by 10 percent each year through calendar year 2014.

The anti-supplanting provisions for multi-year lid lifts are eliminated for levies approved by the voters after the effective date of the bill. However, for King County, this change only applies to lid lifts approved in calendar years 2009, 2010, and 2011.

The ferry district property tax rate for King County is capped at 7.5 cents per $1,000 of assessed value. (The current rate maximum is 75 cents per $1,000.) King County is authorized to impose a property tax at a rate of 7.5 cents per $1,000 to fund transit projects.

Public transportation systems may seek voter approval of an annual congestion reduction tax of up to $20 on vehicles registered within the benefit area. "Public transportation systems" are public transportation benefit areas, unincorporated public transportation benefit areas, metropolitan municipal corporations, city-owned transits, county transportation authorities, and regional transit authorities.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended 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) With the current fiscal situation, this bill gives local, elected officials more flexibility to work with their constituents to help solve budget problems. Every year, counties and cities have smaller budgets and are forced to make cuts. This bill represents a basic finance "toolkit" that local officials can use. This is a comprehensive proposal to give counties and cities hope for the future.

Counties have a variety of regional services they are mandated to provided; however, there is not the same amount of allocated revenue streams. In 2007 the Department of Community, Trade and Economic Development was charged by the Legislature to conduct a study on the fiscal health of counties. It was found that counties only have two primary revenue sources, where as the state and cities have three. This bill will help counties diversify their sources.

Buyers of BNG should be taxed the same regardless of how it was purchased. If this bill does not pass, then it will create a tax loophole for large buyers of natural gas.

The bill allows cities to impose a utility tax on water-sewer districts, which will create greater fairness and close a loophole that now exists.

This bill will help prevent cuts to human services provided by counties and cities.

(With concerns) The utility tax allowed in this bill could result in people canceling their landline telecommunications services, which would result in job loss.

(Opposed to striking amendment) A 6 percent utility tax would substantially increase the cost of electricity and natural gas, which is necessary for oil refineries. These refineries generate millions in property taxes and do not place a huge demand on local services. Many of their purchases on the wholesale level are not from the local utility and this bill should not deal with wholesale transactions. This bill only hands the debate from Olympia to the county seat and if this bill passes, it should be amended so that the utility tax would be voter-approved.

The 6 percent utility tax could harm many industries that use a significant amount of electricity, which will affect the economic vitality of local communities. Even though the tax sunsets in 2015, there is concern, once a tax is implemented it will never be reversed.

This bill does not address the proliferation of taxes at the local level. Instead of simplifying and streamlining, more taxes are just being added.

(Opposed to original bill) None.

Persons Testifying: (In support) Senator Regala, prime sponsor; Dan Satterberg, King County Prosecutor; Eric Johnson, Washington Association of Counties; Jim Justin, Association of Washington Cities; Kent Meyer, City of Seattle; Doug Levy, Cities of Renton, Federal Way, and Kent; Mary Ellen Stone, King County Alliance for Human Services; Linda Benson, Hopelink; and Lee Harper, Northshore Senior Center.

(With concerns) Jeff Dennison, Embarq Communitcations.

(Opposed to striking amendment) Greg Hanon, Western States Petroleum Association; Tim Boyd, Industrial Customers of Northwest Utilities; Bill Stauffacher, Northwest Pulp and Paper Association; Amber Carter, Association of Washington Business; and Steve Gano, AT&T Wireless, Aviation Technical Services, and Goodrich Aviation.

Persons Signed In To Testify But Not Testifying: (In support) Lynda Ring-Erickson, Washington Association of Counties.