

# SENATE BILL REPORT

## ESSB 6424

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As Passed Senate, February 15, 2010

**Title:** An act relating to local excise tax authorities for counties and cities.

**Brief Description:** Concerning local excise tax authorities for counties and cities.

**Sponsors:** Senate Committee on Ways & Means (originally sponsored by Senators Regala and Fairley; by request of Governor Gregoire).

**Brief History:**

**Committee Activity:** Ways & Means: 2/02/10, 2/09/10 [DPS, DNP, w/oRec].

Passed Senate: 2/15/10, 39-9.

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Substitute Senate Bill No. 6424 be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Tom, Vice Chair, Operating Budget; Keiser, Kline, Kohl-Welles, McDermott, Murray, Oemig, Pridemore, Regala and Rockefeller.

**Minority Report:** Do not pass.

Signed by Senators Zarelli, Ranking Minority Member; Carrell and Pflug.

**Minority Report:** That it be referred without recommendation.

Signed by Senators Brandland, Fairley, Hewitt and Parlette.

**Staff:** Dianne Criswell (786-7433)

**Background:** The 0.3 Percent Voter-Approved Local Sales/Use Tax for Public Safety. Subject to voter approval, counties may impose a tax up to 0.3 percent. At least one-third of the tax receipts must be devoted to criminal justice purposes, fire protection purposes, or both. A levying county retains 60 percent of the receipts, and the remaining 40 percent is distributed to cities within the county on a per capita basis. The use of tax receipts must be stated in the ballot proposition that goes before the voters. Until calendar year 2010, tax receipts could not supplant (replace) existing funds being used for the purpose of the sales and use tax as provided in the ballot proposition. In 2009 the Legislature amended this non-supplant restriction, allowing counties to partially supplant existing funds until January 1,

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2015. The sales and use tax has been implemented in five counties: Kittitas, Walla Walla, Spokane, Whatcom, and Yakima.

The 0.1 Percent Local Sales/Use Tax for Criminal Justice. Counties may impose a local sales and use tax of 0.1 percent for criminal justice programs. This tax may be levied only by counties; however, the receipts are shared with cities: 10 percent goes to the county, and the remaining 90 percent is apportioned to the county and all cities within the county on the basis of population. The initial imposition of the tax is subject to potential referendum by the voters. Currently, 32 counties are levying the tax.

Local Gambling Tax. Counties, cities, and towns are authorized to impose a tax on gambling activities. Tax rates vary depending upon the type of activity. State law requires any jurisdiction imposing a gambling tax to use the revenue primarily for local gambling enforcement programs.

Real Estate Excise Tax. The state imposes real estate excise tax (REET) on all sales of real estate, measured by the full selling price, including the amount of any liens, mortgages, and other debts given to secure the purchase at a rate of 1.28 percent.

The Legislature has also authorized locally-imposed real estate excise taxes. However, the rate at which it can be levied and the uses to which it may be put differs by city or county size, and whether the city or county is planning under the Growth Management Act (GMA).

All cities and counties may levy a quarter percent tax (REET I). Revenues generated from REET I must be used for financing qualifying capital projects and for housing relocation assistance and may not supplant other funds reasonably available for these capital projects. Counties, cities, and towns that are planning under the GMA may levy an additional quarter percent tax on the selling price (REET II). If a county is required to plan under the GMA, the legislative authorities of a county, city, or town located within the county may levy REET II. However, if a county has opted to plan under GMA, the additional quarter percent tax (REET II) must be approved by the majority voters in the county, city, or town. In general, revenues generated from REET II may only be used for financing capital projects specified in the capital facilities element of a comprehensive plan adopted under the GMA and may not supplant other funds reasonably available for these capital projects.

**Summary of Engrossed Substitute Bill:**

- The requirement that the 0.3 percent public safety tax not supplant existing funding is removed.
- The nonsupplant provisions from the 0.1 percent county legislative imposed sales/use tax for criminal justice and language relating to the 1989 base year from which to calculate actual expenditures is removed.
- Until January 1, 2014, the use of revenues from gambling enforcement to public safety is expanded.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony on Original Bill:** PRO: This proposal aligns with other proposals to provide local governments with revenue flexibility during these challenging economic times. Local governments, especially counties, are struggling to provide resources for public safety. Many cities and counties have already cut budgets through a variety of actions, including programmatic cuts, layoffs, and furloughs. Some areas have cut budgets deeply, back to the same levels of ten or more years ago. Yet the demand for basic services is rising. Funding for local programs is decreasing, but not the need. Local governments face the same budget crisis as the state; however, unlike the state, which received federal stimulus money and had funds to transfer, many local governments have had to respond to their falling revenues only with cuts in services and employment. The Legislature should provide locals with more tools and flexibility, particularly for public safety. We are working on a package of proposals, which make temporary and permanent changes to provide locals with some options. Local needs vary by community. Flexibility helps us manage and prioritize services. The locals are united in providing mandated services. Allow us to preserve core services. Last year's local flexibility bill was a good tool for local governments. No amount of flexibility or reductions, however, will close the local governments' budget gaps. We may need additional authority. For example, one option would be to authorize a similar county utility tax in unincorporated areas, similar to the city tax. People rely on these services and we can help our citizens who are pulling themselves up during this economic downturn. Keep local government running while the entire state faces these challenges together. REET has provided revenue for capital projects. Now, we would like to be able to use REET I and II for maintenance and operations to keep up these facilities and keep them open to the public. Another option, SB 5432, would help locals fund veterans' services. Also, a mineral severance tax, shared with the state, could provide necessary funding. Fiscal home rule would allow us to work best in our home communities. Public safety programs or functions are affected. We are doing less with less. Enforcement and other criminal justice functions cannot be maintained at pre-economic-crisis levels. Human services funding has been decimated. Lines at food banks are growing, but the budgets supporting them are being cut or eliminated. Those who serve the most vulnerable populations are working with the cities and counties to try to get additional resources for these basic needs. Programs for basic needs help public safety. Please include more flexibility for local funding to support human services.

CON: These changes to local option taxes send a poor message to voters. Changing voter approved tax authority and dedicated funding mechanisms is a concern. This broadened tax authority for local governments can impact businesses, which must retool their operations and systems to accommodate new local taxes.

**Persons Testifying:** PRO: Senator Regala, prime sponsor; Julie Murray, Office of Financial Management; Dow Constantine, King County Executive; Don Gerand, Mayor of the City of Sammamish; Lynda Ring Erickson, Mason County Commissioner; Kathy Turner, Mayor of Puyallup; Mike Whelan, Grays Harbor County Sheriff; Kelsey Beck, Food Lifeline.

CON: Amber Carter, Association of Washington Business.