**BILL ANALYSIS**

# Ways & Means Committee

# HB 2072

**Brief Description**: Consolidating revenues into the general fund.

**Sponsors**: Representative Hunter.

**Brief Summary of Bill**

- Moves 6.1 percent of the real estate excise tax from the Public Works Assistance Account to the State General Fund.
- Moves the tobacco settlement money to the General Fund.
- Removes the designation of the strategic contribution payments under the tobacco settlement to the Life Sciences Discovery Fund.
- Eliminates the $2 million annual transfer from the General Fund to the Fair Fund.

**Hearing Date**: 4/13/11

**Staff**: Rick Peterson (786-7150).

**Background**:

Real Estate Excise Tax.

Washington imposes a tax on the sale of real property. The tax also applies to transfers of controlling interests in entities that own real property in the state. The tax is referred to as the real estate excise tax (REET). A majority of the state REET goes to the State General Fund. However, a small portion is earmarked for local public works (6.1 percent) and assistance to certain cities and counties (1.6 percent). Generally, the state REET and any local REET is collected by the treasurer of the county within which the real property was sold.

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 loan funds to assist local governments and special purpose districts with infrastructure projects. The Public Works Assistance Account

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receives dedicated revenue from utility taxes on water distribution, sewerage collection, and garbage collection. In 1985 a portion of the real estate conveyance tax was also placed in the Public Works Assistance Account. In 1987 the conveyance tax was repealed and the real estate tax rate was increased. A portion of the REET was placed in the Public Works Assistance Account in an amount equivalent to the share of the conveyance tax.

Tobacco Settlement Account.

In June 1996 Washington brought suit against the major tobacco companies, seeking reimbursement for costs incurred in treating tobacco-related illnesses as well as damages for violations of consumer protection and anti-trust laws. On November 23, 1998, the Attorneys General and representatives of 46 states announced a national settlement with the five largest tobacco manufacturers.

The national master settlement agreement requires annual payments by the tobacco companies to the participating states. The settlement agreement does not restrict the state's use of the moneys; the Legislature may direct the moneys to be expended for any purpose. The Tobacco Settlement Account (TSA) was created in 1999 to receive Washington's share of the tobacco master settlement agreement money. In addition to the normal payments, Washington also receives strategic contribution payments through 2017. Initially money in the TSA could be transferred to the Health Services Account (later changed to the General Fund when the Health Services Account was rolled into the General Fund) and to the Tobacco Prevention and Control Account.

In 2002 the Tobacco Settlement Authority was established as a state agency, governed by a five-member board appointed by the Governor, with administrative support provided by the staff of the state Housing Finance Commission. The Tobacco Settlement Authority purchased the right to receive a portion (29.2 percent) of the state's annual share of the revenue from the national master tobacco settlement agreement in order to generate $450 million net proceeds to the State General Fund.

In 2005 the Life Sciences Discovery Fund Authority (Authority) was created to promote life sciences research in Washington. The Authority was authorized to receive tobacco settlement strategic contribution payments.

Fair Fund.

The Fair Fund was created in 1941 to provide allocations to fairs for the purpose of encouraging agricultural fairs and training rural youth. The source of revenue for the Fair Fund for many years was a portion of the state revenue from the parimutuel tax on horse racing. In 1992 $2.8 million was allocated to fairs and youth shows from revenue derived from the parimutuel tax. With the closure of Longacres racetrack, and reduced gambling on horse racing, the revenues from the parimutuel tax declined.

To provide relief to the horse racing industry, the parimutuel tax rate was reduced in 1998, and distributions to the Fair Fund were temporarily suspended subject to a sunset review. In 1999 the Joint Legislative Audit and Review Committee conducted an evaluation of the parimutuel tax reduction. Due to the increased competition for gambling dollars, and with the goal of maintaining an economically viable horse racing industry, the Joint Legislative Audit and

Review Committee recommended a permanent reduction of the parimutuel tax and that a different source of funding be identified to fund fairs.

During the 2000 session, a budget proviso created the Fair Funding Task Force to seek to identify a source and amount of funding for fairs and youth shows. In the October 2000 report, the Fair Funding Task Force recommended funding at $3 million per year to be adjusted yearly by the amount of the fiscal growth factor. After looking at a number of options, the recommended source of funding was the State General Fund. Legislation adopted in 2001 provided for a $2 million per year transfer from the General Fund to the Fair Fund. The transfer was temporally reduced to $1.103 million in 2011.

**Summary of Bill**:

The dedication of 6.1 percent of the state real estate excise tax to the Public Works Assistance Account is removed.

The tobacco master settlement agreement monies are placed in the General Fund rather than the Tobacco Settlement Account and the dedication of the strategic contribution payments to the Life Sciences Discovery Fund is ended.

The annual transfer of $2 million from the General Fund to the Fair Fund is eliminated.

**Appropriation**: None.

**Fiscal Note**: Requested on April 12, 2011.

**Effective Date**: The bill contains an emergency clause and takes effect on July 1, 2011.