

HOUSE BILL REPORT

SHB 2357

As Passed Legislature

Title: An act relating to sales and use tax for chemical dependency, mental health treatment, and therapeutic courts.

Brief Description: Concerning sales and use tax for chemical dependency, mental health treatment, and therapeutic courts.

Sponsors: House Committee on Ways & Means (originally sponsored by Representatives Darneille, Kirby, Ladenburg, Green, Jinkins, Kagi and Tharinger).

Brief History:

Committee Activity:

Ways & Means: 1/23/12, 3/7/12 [DPS].

Floor Activity:

Passed House: 3/8/12, 76-22.

Passed Senate: 3/8/12, 41-8.

Passed Legislature.

Brief Summary of Substitute Bill

- Extends the partial suspension of the non-supplant restriction for the county mental health/chemical dependency sales and use tax.

HOUSE COMMITTEE ON WAYS & MEANS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 23 members: Representatives Hunter, Chair; Darneille, Vice Chair; Hasegawa, Vice Chair; Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Dammeier, Assistant Ranking Minority Member; Carlyle, Chandler, Cody, Dickerson, Haigh, Haler, Hinkle, Hudgins, Hunt, Kagi, Kenney, Ormsby, Pettigrew, Seaquist, Springer, Sullivan and Wilcox.

Minority Report: Do not pass. Signed by 4 members: Representatives Orcutt, Assistant Ranking Minority Member; Parker, Ross and Schmick.

Staff: Jeffrey Mitchell (786-7139).

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.

Background:

Retail sales and use taxes are imposed by the state, most cities, and all counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the property, digital products, or services were acquired by the user, then use taxes apply to the value of most tangible personal property, digital products, and some services when used in this state. The state sales and use tax rate is 6.5 percent. Local tax rates vary from 0.5 percent to 3 percent, depending on the location. The average local tax rate is 2 percent, for an average combined state and local tax rate of 8.5 percent.

A county mental health/chemical dependency sales and use tax of 0.1 percent was authorized in 2005. In 2010 cities within a county of more than 800,000 were also authorized to impose the tax if the county was not imposing the tax by January 1, 2011. The proceeds of the tax must be devoted to county mental health treatment, chemical dependency, and therapeutic court programs and services. The sales and use tax has been imposed in 15 counties: Clallam, Clark, Ferry, Grays Harbor, Island, Jefferson, King, Okanogan, San Juan, Skagit, Snohomish, Spokane, Thurston, Wahkiakum, and Whatcom. Total tax collections in 2010 for all counties imposing the mental health/chemical dependency sales and use tax were approximately \$74 million.

Until calendar 2010, tax receipts could not supplant (replace) existing funds being used for these programs and services. This non-supplant restriction was temporarily suspended in 2010, allowing counties and cities to redirect an amount equal to 50 percent of the tax to other uses in calendar year 2010 and then reduced by 10 percent for the following four years.

In 2011 the non-supplant restriction was again extended and modified as follows:

Year	Amount of Revenue That May Be Supplanted	
	Counties with population > 25,000 and cities with population > 30,000	Counties with population < 25,000
2011	Up to 50%	Up to 80%
2012	Up to 50%	Up to 80%
2013	Up to 40%	Up to 60%
2014	Up to 30%	Up to 40%
2015	Up to 20%	Up to 20%
2016	Up to 10%	Up to 10%

Also in 2011, revenues used to support the cost of a judicial officer and support staff of a therapeutic court were exempted from supplant restrictions.

Summary of Substitute Bill:

A county with a population larger than 25,000 and a city with a population over 30,000 may use up to 50 percent of the mental health/chemical dependency sales and use tax to supplant

existing funds in the first three calendar years in which the tax is imposed. Up to 25 percent may be used to supplant existing funds in the fourth and fifth years in which the tax is imposed. This new supplant timeline applies to jurisdictions imposing the tax after December 31, 2011.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) The genesis from a couple of years ago for the language authorizing certain cities to impose the tax is a result of the fact that Pierce County is the only urban county that has not imposed the tax. Large cities in Pierce County have the authorization to impose the tax to address mental health and chemical dependency service needs. The supplant timeline is a bit problematic if the tax was not being imposed at the time the earlier bill was enacted. This would allow new jurisdictions to have a separate supplant timeline. The City of Tacoma is considering the tax; however, the existing supplant schedule is tied to specific dates. Therefore, Tacoma is asking for the bill so it can have the same authority as jurisdictions currently imposing the tax. Several other counties have recently imposed the tax and appreciate the supplant flexibility.

The National Alliance on Mental Illness of Washington (NAMI) supports the tax for new and enhanced programs for mental health and chemical dependency programs. The NAMI has concerns about the expanded supplanting authority. Last year, the NAMI supported a bill that originally allowed supplanting for new jurisdictions imposing the tax; however, the bill was amended to allow supplanting for jurisdictions currently imposing the tax. The NAMI does not want the same thing to happen this year. The fundamental purpose of the tax to provide essential, core mental health and chemical dependency services must be maintained. The tax was not meant to be an alternative source for existing programs. The tax was meant to provide local funds for the mental health transformation plan that was developed with funding from the federal government. The goal was to provide prevention and early intervention in the provision of mental health services. The original supplant language had a specific purpose. Any extension of supplanting is borrowing from a better tomorrow to support barely functioning mental health system of today. The original intent needs to be preserved.

(With concerns) The Washington State Association of Counties has an amendment that would clarify that the new supplant schedule in the bill will apply to jurisdictions that impose the tax in the future and not to jurisdictions that have been imposing the tax.

Persons Testifying: (In support) Representative Darneille, prime sponsor; Seth Dawson and Jim Bloss, National Alliance on Mental Illness of Washington; and Briahna Taylor, City of Tacoma.

(With concerns) Rashi Gupta, Washington State Association of Counties.

(Opposed) None.

Persons Signed In To Testify But Not Testifying: None.