

HOUSE BILL REPORT

HB 2823

As Reported by House Committee On: Ways & Means

Title: An act relating to redirecting existing state revenues into the state general fund.

Brief Description: Redirecting existing state revenues into the state general fund.

Sponsors: Representative Hunter.

Brief History:

Committee Activity:

Ways & Means: 4/4/12 [DPS].

Brief Summary of Substitute Bill

- Redirects certain existing state revenues from the Education Construction Fund, the Public Works Assistance Account, the Liquor Revolving Fund, and the Liquor Excise Tax Fund into the State General Fund.

HOUSE COMMITTEE ON WAYS & MEANS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 14 members: Representatives Hunter, Chair; Darneille, Vice Chair; Alexander, Ranking Minority Member; Carlyle, Cody, Dickerson, Hunt, Kagi, Kenney, Ormsby, Pettigrew, Seaquist, Springer and Sullivan.

Minority Report: Do not pass. Signed by 11 members: Representatives Hasegawa, Vice Chair; Bailey, Assistant Ranking Minority Member; Dammeier, Assistant Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Chandler, Haler, Hudgins, Parker, Ross, Schmick and Wilcox.

Staff: Jeff Olsen (786-7175).

Background:

Education Construction Fund.

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.

In 2000 Washington voters approved Initiative 728, which redirected state lottery revenue from the State General Fund to several education funds, beginning July 1, 2001. From July 1, 2004, to July 1, 2009, all net lottery revenues allocated for education were deposited in the Education Construction Fund. In 2010 the Legislature created the Washington Opportunity Pathways Account. The Opportunity Pathways Account is dedicated to a number of different education programs. The 2010 legislation also redirected the deposit of state lottery revenue from the Education Construction Fund into the Opportunity Pathways Account. The 2010 legislation required the State Treasurer to transfer \$102 million each year from the State General Fund into the Education Construction Fund. In recent years, including the current 2011-13 biennium, the transfers from the State General Fund have effectively been suspended.

Liquor Excise Taxes.

State sales taxes and volume taxes apply to the sale of spirits in their original package. Spirits are subject to a state volume tax of \$3.7708 per liter for retail sales and \$2.4408 per liter for sales to restaurants. All tax proceeds are deposited in the State General Fund. A state sales tax rate of 20.5 percent applies to spirits sold to consumers in the original package. A sales tax rate of 13.7 percent applies to spirits sold to establishments that sell the spirits on their premises. Approximately 26 percent of both liquor taxes are deposited in the Liquor Excise Tax Fund and then distributed quarterly to cities and counties on the basis of population. A portion of the counties' funding is deposited in the County Research Services Account to support municipal research services.

Liquor Revolving Fund.

The Washington State Liquor Control Board (WSLCB) was formed in 1933 by the Steele Act to regulate the importation, manufacture, distribution, and sale of alcohol. The WSLCB currently handles the purchase, distribution, and sale of liquor through a state-owned distribution center and state-owned stores and certain contract stores. Washington liquor is currently marked up and taxed prior to sale. A portion of the markup supports the operations of the retail state liquor stores and the excess profits received from sales are deposited in the Liquor Revolving Fund and returned to state and local governments. A portion of the cities' funding is deposited in the City and Town Research Services Account to support municipal research services.

With the passage of Initiative 1183 in November 2011, the WSLCB will cease state liquor store and liquor distribution operations by June 1, 2012. Initiative 1183 specifies that distributions from the Liquor Revolving Fund to border areas, counties, cities, towns, and the municipal research center will be made in a manner that provides each category of recipient an amount from the Liquor Revolving Fund no less than that received during comparable periods prior to the effective date of the initiative plus an additional \$10 million for public safety.

Public Works Assistance Account.

The Public Works Assistance Account is used to make loans and to give financial guarantees to local governments for public works projects. There are several sources of revenue to the account including the solid waste collection tax (SWCT), real estate excise tax (REET), public utilities tax (PUT), and loan repayments.

Real Estate Excise Tax.

An excise tax of 1.28 percent of the selling price is imposed upon each sale of real property. An amount equal to 6.1 percent of the proceeds of the tax is deposited in the Public Works Assistance Account, 1.6 percent is deposited in the city-county assistance account, and the remaining amounts are deposited in the General Fund. During fiscal year 2011, the 6.1 percent portion for the Public Works Assistance Account was redirected to the State General Fund for general purpose expenditures.

Public Utility Tax.

Certain gross income derived from the operation of public and privately owned utilities is subject to the PUT. Six different tax rates apply to utility activities, including 5.029 percent for the distribution of water and 3.852 percent for the collection of sewerage. The Public Works Assistance Account receives 20 percent of the moneys collected from water distribution and 60 percent of the moneys collected on sewerage collection. During fiscal year 2011, moneys from these sources were redirected from the Public Works Assistance Account to the State General Fund for general purpose expenditures.

Solid Waste Collection Tax.

Washington imposes a separate tax on solid waste collection services by firms that collect, transfer, store, or dispose of solid waste. This tax is in lieu of the state PUT; however, solid waste collection services are also subject to state business and occupation taxes. The SWCT rate is 3.6 percent. The tax is deposited in the Public Works Assistance Account where it is dedicated to making loans and financial guarantees to local governments for public works projects. The requirement to deposit the tax into the Public Works Assistance Account was suspended in fiscal year 2011, allowing the money to be deposited into the State General Fund.

Summary of Substitute Bill:

Education Construction Fund.

The annual \$102 million transfer from the State General Fund into the Education Construction Fund is suspended during the 2013-15 biennium.

Real Estate Excise Tax.

The requirement to deposit an amount equal to 6.1 percent of the proceeds of the REET into the Public Works Assistance Account is suspended during the 2011-13 biennium, and the funds are deposited in the State General Fund for general purpose expenditures.

Public Utility Tax.

The requirement to deposit a portion of the moneys from the PUT for water distribution and sewerage collection activities into the Public Works Assistance Account is suspended during the 2011-13 biennium, and the funds are deposited in the State General Fund for general purpose expenditures.

Solid Waste Collection Tax.

The requirement to deposit the SWCT into the Public Works Assistance Account is suspended from July 1, 2011, through June 30, 2015. During that period, funds must be deposited in the State General Fund for general purpose expenditures.

Liquor Excise Taxes.

In fiscal year 2013, all liquor excise taxes that would normally be deposited into the Liquor Excise Tax Fund for distribution to local governments are deposited into the State General Fund. Distributions to local governments are suspended for a year to correspond to this reallocation of the tax.

Beginning in fiscal year 2014 and every year thereafter, quarterly distributions from the Liquor Excise Tax Fund of \$2.5 million are made to the State General Fund.

The County Research Services Account is eliminated and any remaining moneys are deposited into the State General Fund. Prior to distributing the counties' portion of the Liquor Excise Tax Fund, the State Treasurer shall transfer an amount to the Liquor Revolving Fund to support legislative appropriations for county research services.

Liquor Revolving Fund.

Beginning July 1, 2012, the distributions to cities and counties from the Liquor Revolving Fund are modified. Instead of distributing moneys to cities and counties by a formula based on amounts deposited in the Liquor Revolving Fund, distributions will be made as provided under Initiative 1183. The City and Town Research Services Account is eliminated and any remaining moneys are deposited into the State General Fund. Prior to distributing the cities' portion of the Liquor Revolving Fund, an amount must be retained to support municipal research services consistent with Initiative 1183.

Substitute Bill Compared to Original Bill:

The substitute bill eliminates the deposit of the state PUT and the REET to the Public Works Assistance Account for the remainder of the 2011-2013 biennium.

Appropriation: None.

Fiscal Note: Requested on April 2, 2012.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect on July 1, 2012, except for sections 2, 13, and 14, relating to redirecting the SWCT, the PUT, and the REET, which contain an emergency clause and take effect immediately.

Staff Summary of Public Testimony:

(In support) None.

(With concerns) The Public Works Assistance Account supports local improvement projects, providing needed infrastructure and jobs. Dedicated funds are an easy target during these

challenging times, but we should not redirect SWCTs, REETs, and PUTs out of public works projects. The number of liquor retail outlets is increasing significantly, and funding for enforcement for the Liquor Control Board has not increased. This will impact local governments, who need additional funding to address this issue. There needs to be a work group to review implementation impacts from Initiative 1183.

(Opposed) The Public Works Assistance Account receives 6.1 percent of REETs. Moneys from the account go to support local projects, the best job creator. This will result in less funding available for water systems.

(Other) While counties support the additional support for General Fund programs in the operating budget, a substantial amount of money has already been transferred out of the Public Works Trust Fund to the General Fund. The permanent transfer of \$10 million of liquor excise tax moneys from local governments to the General Fund is a concern.

Persons Testifying: (With concerns) David Myers, Washington State Building Trades; and Victoria Lincoln and Ashley Probart, Association of Washington Cities.

(Opposed) Bill Clarke, Washington Realtors and Washington Public Utility Districts Association.

(Other) Scott Merriman, Washington State Association of Counties.

Persons Signed In To Testify But Not Testifying: None.