
Local Government Committee

HB 1828

Brief Description: Addressing the fiscal conditions of local government.

Sponsors: Representatives Springer, Wilcox, Takko, Chandler, Hunter, Condotta, Nealey, Fey and Tharinger; by request of State Treasurer.

Brief Summary of Bill

- Creates a local government fiscal health commission (commission) to identify and respond to financial problems encountered by local government.
- Establishes the commission's authority, powers, responsibilities, and liability with respect to identifying and responding to financial stress in local governments.

Hearing Date: 2/19/13

Staff: Michaela Murdock (786-7289).

Background:

City-County Assistance Account.

Prior to 2000 Washington's Motor Vehicle Excise Tax (MVET) provided a revenue stream for localities throughout the State. For example, the 1999-2001 State budget directed approximately \$360 million of the MVET to local governments for a variety of programs. In 1999 however, the MVET was repealed by Initiative 695. Although the Washington Supreme Court ultimately found Initiative 695 unconstitutional, the Legislature subsequently repealed the MVET in 2000 and provided funds to cities and counties to backfill funds previously received from the MVET.

Legislation adopted in 2005 (*i.e.*, ESSB 6050, enacted as ch. 450, Laws of 2005) created a new source of funding for cities and counties. Among other things, the bill created a city-county assistance account (CCAA). The account receives funds from a portion of Real Estate Excise Tax (REET) revenues, and distributes the funds to cities and counties based on an equalization formula similar to one formerly used by the MVET.

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.

Engrossed Substitute Senate Bill 6050 also directed the Joint Legislative Audit and Review Committee (JLARC) to review CCAA fund distributions to cities and counties to determine the extent to which the distributions target the needs of cities and counties for which repeal of the MVET had the greatest impact. The JLARC was directed to report its findings to the Legislature by December 31, 2008.

Recent Studies of Local Government Fiscal Health.

In 2005 Ferry County requested that the State intervene in its financial operations and provide supplemental operating funds sufficient for the county to meet its expenses. In response, the State provided the county with an emergency fund of \$150,000, and required that a management review of the county be completed. The management review found that Ferry County had insufficient revenue and an insufficient revenue base to meet its on-going basic operating expenses and that the county would likely need continued state assistance. The review also identified fiscal stress in other counties.

In 2007 the Legislature directed the Department of Community, Trade, and Economic Development (CTED) (now the Department of Commerce) to conduct a study examining the fiscal health of counties and to present it to the Legislature by December 1, 2007. The study, *County Financial Health and Governance Alternatives*, found that "counties' revenue base had become more inelastic over the last decade, significantly contributing to fiscal distress and jeopardizing equal access across the State to basic services provided by counties." In particular, three actions were found to have changed county general fund revenues: reductions in sales tax revenue due to annexation and incorporation; elimination and replacement of the MVET; and limitations on property taxes.

A year later on December 3, 2008, the JLARC released its report to the Legislature on distributions from the CCAA, *Review of Distributions from the City-County Assistance Account*. In its report, the JLARC found that funding provided through the CCAA was less than what would have been provided to local governments for equalization through the MVET. The report also found that the REET revenues deposited into the CCAA are influenced by changes in the real estate market, and the revenues were volatile over the review period.

In June 2010 the Office of the State Treasurer (treasurer's office) requested the assistance of the Department of Commerce's Research Services in updating an earlier 2005 study of local government by the CTED. The treasurer's office released its report, *Washington State Local Government Financial Health Indicators*, in August 2010. The study found that the financial condition of Washington's local governments generally declined between 2004 and 2008 based on selected stress indicators. Cities and counties showed more financial stress overall than in 2004.

Summary of Bill:

Intent. The Legislature finds that some local governments, such as cities, towns, counties, and special purpose districts, are showing signs of declining financial health. The Legislature intends to create a fiscal health review and response capability that will allow the State and local governments to identify and respond to financial problems encountered by local governments.

Commission. A nine-member local government fiscal health commission (commission) is created. The commission is composed of the State Treasurer, the State Auditor, representatives from cities and counties, the executive director of the Municipal Research and Services Center, and Governor appointees. The members hold four-year terms of office. The offices of the State Auditor and Treasurer must provide staff support for the commission, and the commission is authorized to hire staff.

Commission Duties. The commission must monitor, track, and research factors that can cause fiscal stress in local governments. For local governments that may be experiencing financial stress, the commission may offer the local government resources and support, engage professionals to provide guidance and assistance to the local government, or create financial and management plans.

Preliminary and Formal Review of Financial Condition. Local governments may request that the commission conduct a preliminary review of the local government based on an existing or emerging financial condition. If the commission and the local government determine that factors exist supporting a finding of financial stress, the commission may appoint a three-person committee to conduct a thorough formal review of the financial condition of the local government. A formal review may not be conducted without the consent of the local government.

Liability. The state, the commission, and certain individuals are not liable for any obligation or claim against a local government resulting from actions taken pursuant to this bill.

Appropriation: None.

Fiscal Note: Available.

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