

HOUSE BILL REPORT

EHB 2084

As Passed House:
March 10, 2015

Title: An act relating to imposing fines, withholding taxes, and other measures to encourage local jurisdictions to timely file state-required reports.

Brief Description: Allowing the state treasurer to withhold taxes to encourage local jurisdictions to timely file financial reports.

Sponsors: Representative Hunter.

Brief History:

Committee Activity:

Local Government: 2/17/15, 2/19/15 [DP];

Finance: 2/23/15, 2/24/15 [DP].

Floor Activity:

Passed House: 3/10/15, 83-15.

Brief Summary of Engrossed Bill

- Requires the state auditor to notify the state and county treasurers of special purpose districts (districts) that do not timely file local government annual financial reports (annual reports).
- Prohibits state treasurers and county treasurers from distributing local sales and use taxes, regular property taxes, and other district charges to districts that are not compliant with filing requirements for annual reports.

HOUSE COMMITTEE ON LOCAL GOVERNMENT

Majority Report: Do pass. Signed by 5 members: Representatives Takko, Chair; Gregerson, Vice Chair; Fitzgibbon, McBride and Peterson.

Minority Report: Do not pass. Signed by 4 members: Representatives Taylor, Ranking Minority Member; Griffey, Assistant Ranking Minority Member; McCaslin and Pike.

Staff: Michaela Murdock (786-7289).

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.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 10 members: Representatives Carlyle, Chair; Tharinger, Vice Chair; Fitzgibbon, Manweller, Pollet, Reykdal, Robinson, Ryu, Springer and Wylie.

Minority Report: Do not pass. Signed by 6 members: Representatives Nealey, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Condotta, Stokesbary, Vick and Wilcox.

Staff: Jeffrey Mitchell (786-7139).

Background:

Special Purpose Districts.

Special purpose districts (districts) are limited purpose local governments separate from a city, town, or county government, created to provide a limited number of public facilities or services. Statute provides for the creation of numerous different types of districts including: cemetery, diking, drainage improvement, fire protection, flood control zone, metropolitan park, mosquito, park and recreation, port, public utility, solid waste collection, and water-sewer districts; county park and recreation service areas, and transportation benefit areas.

County treasurers are the custodian of county money and the administrator of the county's financial transactions. They may also serve as the *ex officio* treasurer for a district and may provide financial services to districts and other units of local government.

Annual Financial Report.

The State Auditor (Auditor) must require every local government to submit annual financial reports (annual reports) for each fiscal year. The term "local government" includes all counties, cities, and other political subdivisions, municipal, corporations and quasi-municipal corporations. Reports must be prepared, certified, and filed with the Auditor within 150 days after the close of each fiscal year.

Annual reports must contain statements of:

- all collections made or receipts received by local government officers;
- all uncollected accounts due the public treasury;
- all expenditures and the authority for making the expenditures;
- costs and income for each public service industry owned and operated by a local government;
- the entire public debt of the local government, including each purpose for which an item of debt was created and any provisions made for payment;
- all receipts and expenditures by any public institution;
- all labor relations consultant expenditures; and
- any other information required by the Auditor.

Statute requires every officer and employee of a local government to make all reports required by the Auditor. Any public officer or employee who refuses or willfully neglects to perform such duties is subject to removal from office.

Sales and Use Taxes.

A state sales tax of 6.5 percent of the selling price is imposed on retail sales made in state. If retail sales taxes were not collected when a person acquired property, products, or services, a state use tax of 6.5 percent of the value of the property, product, or service applies.

In addition to the state sales and use taxes, the governing body of a county or city may by resolution or ordinance impose a local sales and use tax. Local sales and use tax rates vary from 0.5 percent to 3.0 percent, depending on the jurisdiction. Transportation authorities, public facilities districts, public transportation benefit areas, regional transportation investment districts, and transportation benefit districts are authorized by statute to impose sales and use taxes as well.

Funds collected by the Department of Revenue from local sales and use taxes are deposited into the Local Sales and Use Tax Account (Account) in the State Treasury. Moneys in the Account may be withdrawn only for specified purposes, such as distribution to counties, cities, and other local governments imposing a sales and use tax.

Regular Property Taxes.

Real and personal property is subject to regular property taxes each year. "Regular property tax" means a property tax levied by or for a taxing district subject to certain constitutional and statutory limitations. Junior taxing districts, such as cemetery districts, rural library districts, and park and recreation districts, may impose a regular property tax. Property taxes for all property listed, assessed, and placed on county tax rolls is received and collected by the county treasurer.

Summary of Engrossed Bill:

For certain types of districts, the Auditor is required to notify the State Treasurer and applicable county treasurers when a district has not timely filed its annual report for the current year. Notification must be sent by October 1 of each year, beginning in 2015.

If, after the Auditor has sent notice of noncompliance, the district submits its annual report, the Auditor must notify the state and applicable county treasurers within 30 days that the district is compliant.

Districts to which the new requirements apply to: cemetery, diking, drainage improvement, fire protection, flood control zone, metropolitan park, mosquito, park and recreation, port, public utility, solid waste collection, and water-sewer districts; county park and recreation service areas, and transportation benefit areas.

Withholding of Tax Funds.

If the Auditor notifies the state and county treasurers that a district has not timely filed its annual report:

- the State Treasurer may not distribute any local sales and use taxes imposed by the district until the State Treasurer is notified that the district is compliant; and

- the county treasurer may not distribute any regular property taxes imposed by the district, or any other charges that the county collects on the district's behalf, until the county treasurer is notified that the district is compliant.

Upon notification of a district's compliance, the state and county treasurers must remit withheld funds, excluding any interest.

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 (Local Government):

(In support) Washington has a very distributed form of government with numerous small taxing districts and local governments. In order for this form of distributed government to work, governments must be orderly and transparent. This bill responds to an issue raised by the Auditor.

The Auditor is responsible for auditing local government taxing districts' annual reports. Although these local governments assess and collect taxes, many of them—dozens upon dozens—do not file any annual report. As a result, there is no transparency, and no independent review is conducted. This creates a scenario where people can raise taxes, spend money as they wish, and are not subject to an external review. This does not seem like a good idea. Under the bill, if a local government does not report how money is spent, the state or county treasurer will not give the local government the money. If a local government fails to submit an annual report for multiple years, then there may not be a reason for the local government to exist any longer.

(Neutral) The State Auditor's Office is an independent auditing agency and audits about 2,000 local governments. Agencies self-report implementing recommendations made by the Auditor about 86 percent of the time. For over 100 years, local governments have been required to submit an annual report. In 2014 the Auditor provided training on the reporting requirements and demonstrated available tools. In January 2015, the Auditor published a comprehensive report on late or non-filers of annual reports. Since then, the Auditor has seen 13 percent of about 200 non-filer local governments submit reports and become compliant. Others are working with the Auditor to become compliant.

(Opposed) None.

Staff Summary of Public Testimony (Finance):

(In support) None.

(Opposed) None.

Persons Testifying (Local Government): (In support) Representative Hunter, prime sponsor.
(Neutral) Matt Miller and Kelly Collins, State Auditor's Office.

Persons Testifying (Finance): None.

Persons Signed In To Testify But Not Testifying (Local Government): None.

Persons Signed In To Testify But Not Testifying (Finance): None.