HOUSE BILL REPORT
HB 2438

As Reported by House Committee On:
Commerce & Gaming

Title: An act relating to gradually increasing the local government share of excess liquor revenues until the percentage-based method for distributions is restored.

Brief Description: Concerning gradually increasing the local government share of excess liquor revenues until the percentage-based method for distributions is restored.

Sponsors: Representatives Nealey, Reykdal, Wylie, Vick, Orcutt, Senn, Wilcox, Kirby, Condotta, Hudgins, Stokesbary, Schmick, Tharinger, Rodne, Magendanz, Zeiger, Walsh, Muri, Rossetti, Springer, Sells, McBride, Kuderer, Bergquist, Hargrove and Goodman.

Brief History:
Committee Activity:
Commerce & Gaming: 1/26/16, 2/1/16 [DP].

Brief Summary of Bill

- Increases the distribution of excess liquor revenues to local jurisdictions, incrementally adding to the fixed annual amount.
- Changes the fixed annual distribution amount to a percentage-based formula for local distributions of excess liquor revenues beginning in fiscal year 2024.

HOUSE COMMITTEE ON COMMERCE & GAMING

Majority Report: Do pass. Signed by 9 members: Representatives Hurst, Chair; Wylie, Vice Chair; Condotta, Ranking Minority Member; Holy, Assistant Ranking Minority Member; Blake, Kirby, Scott, Van De Wege and Vick.

Staff: Dominique Meyers (786-7150).

Background:

<u>Liquor Fee Revenue Distributions</u>.
Initiative 1183 (I-1183), which was approved by the voters in November 2011, privatized the purchase, distribution, and sale of liquor in Washington State. Prior to I-1183, the Liquor

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and Cannabis Board (LCB) handled the purchase, distribution, and sale of liquor through a state-owned distribution center, state-owned stores, and certain contract stores.

Under the pre-I-1183 system, the liquor was marked up and taxed prior to sale. A portion of the markup supported the operation of the state retail liquor stores. The excess profits from sales were deposited into the Liquor Revolving Fund (Fund), and excess funds were distributed by a statutory formula. Three-tenths of 1 percent were distributed from the Fund to border areas. The remaining excess funds were distributed as follows:

- 50 percent to the state;
- 10 percent to the counties; and
- 40 percent to incorporated cities and towns.

Initiative 1183 eliminated state collection of liquor profits and instead created two license fees. One fee is paid by distributors and another is paid by retailers. All licensure fees are deposited into the Fund.

Initiative 1183 specified that amounts distributed from the Fund to border areas, counties, cities, towns, and the municipal research center must be made in a manner that provides each category of recipient an amount that is no less than that received from liquor profits in the Fund during comparable periods prior to December 8, 2011, plus an additional $10 million distributed from the Fund for public safety.

Since fiscal year 2013, distributions from the Fund to these local governments are no longer based on a statutory formula but rather a fixed amount determined by distributions during a comparable period prior to December 8, 2011, plus the $10 million specified in I-1183. Any amounts remaining in the Fund after these distributions are deposited into the State General Fund. The total fixed amount is $49.4 million per year.

Summary of Bill:

Beginning fiscal year 2018, additional revenues, above the current fixed amount of $49.9 million per year, from the Fund will be distributed to local governments as follows:

- for the 2017-19 biennium, $7.5 million in additional revenue from the Fund;
- for the 2019-21 biennium, $17.5 million in additional revenue from the Fund; and
- for the 2021-23 biennium, $27.5 million in additional revenue from the Fund.

The additional revenues must be distributed using the following formula. Three-tenths of 1 percent distributed to border areas, and of the remaining revenues:

- 20 percent to the counties; and
- 80 percent to the cities.

For fiscal year 2024 and beyond, the distribution of revenues in the Fund reverts back to a statutory formula as follows. Three-tenths of 1 percent distributed to border areas, and of the remaining revenues:

- 50 percent to the State General Fund;
- 10 percent to the counties; and

- 40 percent to the cities.

The distributions made using the formula are in addition to the required $10 million for public safety.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on July 1, 2016, except for section 3, relating to the future distribution formula, which takes effect on July 1, 2023.

Staff Summary of Public Testimony:

(In support) The public expected local governments to continue to receive adequate funding when I-1183 was passed. This bill brings back fairness and transparency to the public, based on what they voted on. This is a great long-term plan to restore liquor funds to local communities. Liquor revenues have always primarily covered public safety expenditures for local jurisdictions. With the increased number of stores selling liquor, there has been an increase in underage drinking and other crimes related to drinking. Local governments need the revenue to deal with this increase in public safety issues. In addition to the economic downturn, local jurisdictions saw a decline in liquor revenues the state got instead. After 79 years of partnership with the state and sharing excess liquor revenues 50-50, the partnership and trust were broken when the state changed the 50-50 revenue sharing agreement. Local governments need these funds to complete the mission of keeping the public safe. With more stores selling liquor since privatization, there is an increased number of calls for service the police need to respond to. This is a public policy issue around safety, not just a revenue issue for the state. The Joint Select Committee on Junior Taxing Districts, Municipal Corporations, and Local Government Finance examined this in 2012 and made the recommendation to restore these revenues and make distributions based on pre-I-1183 formula. This is a reasonable and modest way to slowly increase local revenues back to what was intended. This is an important revenue source for counties as well as cities. Seventy-five percent of county expenditures are in public safety. The counties need this revenue; they are not coming out of the recession as fast as the state and cities.

(Opposed) None.

Persons Testifying: Representative Nealey, prime sponsor; Representative Reykdal; Pat Johnson, City of Buckley; Sean Guard, City of Washougal; Bob Metzger, City of Pasco; Doug Levy, cities of Everett, Fife, Issaquah, Kent, Lake Stevens, Puyallup, Redmond, and Renton; Michael White, Washington State Council of Fire Fighters; John Weiss, Washington State Association of Counties; and Joe Kendo, Washington State Labor Council.

Persons Signed In To Testify But Not Testifying: None.