

# SENATE BILL REPORT

## EHB 2084

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As Reported by Senate Committee On:  
Government Operations & Security, March 31, 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:** Passed House: 3/10/15, 83-15.

**Committee Activity:** Government Operations & Security: 3/24/15, 3/31/15 [DPA, DNP].

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### SENATE COMMITTEE ON GOVERNMENT OPERATIONS & SECURITY

**Majority Report:** Do pass as amended.

Signed by Senators Roach, Chair; Benton, Vice Chair; Pearson, Vice Chair; Liias, Ranking Minority Member; Habib and McCoy.

**Minority Report:** Do not pass.

Signed by Senator Dansel.

**Staff:** Sam Thompson (786-7413)

**Background:** Special Purpose Districts (SPDs). SPDs are local governments that provide limited facilities and services, such as parks, dikes, fire suppression, or electricity. They are thus different from general purpose local governments – counties and cities – which provide a broad array of facilities and services. Beginning in the nineteenth century, Washington has authorized more than 80 different types of SPDs to be formed by local officials or residents. There are currently more than 1700 individual SPDs in Washington. Most are in areas outside of cities. SPDs are financed by diverse funding sources. County treasurers may serve as treasurers for certain SPDs.

Financial Reports. Like other local governments, SPDs must file annual financial reports with the State Auditor within 150 days after the close of each fiscal year. The reports must include information regarding revenue, expenditures, operational costs and income, debt, and other matters. Officials who fail to file financial reports are subject to removal from office.

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*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.*

Revenue. Certain transportation-related SPDs, including transportation benefit areas, may impose sales and use taxes. Revenue is collected by the state. The State Treasurer distributes revenue to the SPD.

Several SPDs may impose property taxes. Regular levies do not require voter approval. Other levies may require voter approval. Property tax revenue is collected by counties. County treasurers distribute revenue to the SPD.

Some SPDs, including public utility districts and water-sewer districts, may impose rates and charges for services, which may be collected by county treasurers on behalf of the SPD.

**Summary of Bill (Recommended Amendments):** A revenue-withholding penalty is imposed on certain SPDs with annual budgets of at least \$1 million if they do not timely file annual financial reports with the State Auditor. SPDs subject to the penalty include cemetery districts, metropolitan park districts, water-sewer districts, fire protection districts, port districts, public utility districts, county park and recreation service areas, park and recreation districts, flood control zone districts, diking districts, drainage improvement districts, solid waste collection districts, mosquito districts, and transportation benefit areas.

The State Auditor must notify the State Treasurer and county treasurers by October 1 if an SPD has not timely filed an annual financial report. If the SPD later submits the report the State Auditor must, within 30 days, notify treasurers that the SPD is compliant.

Beginning with tax distributions made in October 2015:

- The State Treasurer may not distribute SPD sales and use taxes until notified that the SPD is compliant. The State Treasurer must then remit withheld funds, without interest; and
- County treasurers may not distribute SPD regular property taxes, or SPD charges, until notified that the the SPD is compliant. A county treasurer must then remit withheld funds, without interest.

**EFFECT OF CHANGES MADE BY GOVERNMENT OPERATIONS & SECURITY COMMITTEE (Recommended Amendments):** Provides that the withholding penalty does not apply to SPDs with annual budgets of less than \$1 million. Technical changes clarify notification provisions.

**Appropriation:** None.

**Fiscal Note:** Available. New fiscal note requested on March 20, 2015.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony on Engrossed House Bill:** PRO: Taxpayers have a right to know where public funds are coming from and how they are spent. Many SPDs do not file mandated financial reports. Taxpayers in those SPDs have no idea how their money

is being spent, and the auditor cannot conduct audits. Concerns have arisen about fraud. This bill provides an incentive for SPDs to file mandated financial reports. If an SPD is so small that it has difficulty complying with reporting requirements, it may be best for the county to take over its operations.

**Persons Testifying:** PRO: Representative Hunter, prime sponsor.

**Persons Signed in to Testify But Not Testifying:** No one.