

HOUSE BILL REPORT

HB 2006

As Reported by House Committee On: Appropriations

Title: An act relating to providing cities and counties flexibility with existing resources.

Brief Description: Providing cities and counties flexibility with existing resources.

Sponsors: Representatives Koster, Lytton, Springer, Volz, Senn, Tharinger, Fey, Stokesbary, Appleton, Nealey, Chapman and Ormsby.

Brief History:

Committee Activity:

Appropriations: 2/20/17, 2/22/17, 2/23/17 [DPS].

Brief Summary of Substitute Bill

- Removes prohibitions on supplanting existing local government expenditures with proceeds from a locally imposed 0.1 percent sales and use tax dedicated to mental health and substance abuse.
- Allows all county authorities to seek voter approval for the criminal justice regular levy.
- Provides a definition of criminal justice, with respect to the levy.
- Allows jurisdictions to use revenue generated with a levy lid lift to supplant existing funds.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 26 members: Representatives Ormsby, Chair; Robinson, Vice Chair; Chandler, Ranking Minority Member; Stokesbary, Assistant Ranking Minority Member; Bergquist, Caldier, Cody, Fitzgibbon, Haler, Hansen, Harris, Hudgins, Jinkins, Kagi, Lytton, Nealey, Pettigrew, Pollet, Sawyer, Schmick, Senn, Springer, Sullivan, Tharinger, Volz and Wilcox.

Minority Report: Do not pass. Signed by 6 members: Representatives MacEwen, Assistant Ranking Minority Member; Buys, Condotta, Manweller, Taylor and Vick.

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.

Staff: Dave Johnson (786-7154).

Background:

Mental Health/Chemical Dependency Sales and Use Tax.

A locally imposed county mental health/chemical dependency sales and use tax of 0.1 percent was authorized in 2005. The proceeds of the tax must be devoted to county mental health treatment, chemical dependency, and therapeutic court programs and services. With certain limited exceptions, tax receipts cannot be used to supplant (replace) existing funds being used for these programs and services.

Revenues used to support the cost of a judicial officer and support staff of a therapeutic court are exempted from supplant restrictions. Also exempted from the supplant restrictions are revenues used to replace previously lapsed federal funding for the operation or delivery of certain services.

Counties with a population larger than 25,000 or a city with a population over 30,000, who initially impose the tax after December 31, 2011, may supplant a portion of existing funding for the first five years after adoption. The amounts permitted to be supplanted range from 50 percent (first three years) of collections to 25 percent (years four and five) of collections.

For calendar years 2010 through 2016, a portion of the tax receipts were partially and temporarily allowed to supplant existing funds being used for these programs and services. The amount of supplanting permitted depended on the calendar year, size of the jurisdiction, and when the local option tax was imposed. Counties with both a population of not more than 25,000 and who imposed the tax prior to January 1, 2012, were provided the greatest ability to supplant funding.

Every county that authorizes the tax must establish and operate a therapeutic court component for dependency proceedings designed to be effective for the court's size, location, and resources.

The sales and use tax has been imposed in 23 counties: Clallam, Clark, Columbia, Cowlitz, Ferry, Grays Harbor, Island, Jefferson, King, Kitsap, Lewis, Mason, Okanogan, Pacific, San Juan, Skagit, Skamania, Snohomish, Spokane, Thurston, Wahkiakum, Walla Walla, and Whatcom.

In 2010 cities within a county of more than 800,000 were also authorized to impose the tax if the county was not imposing the tax by January 1, 2011. Tacoma is the only city that collects the sales tax under this provision.

Total tax collections in 2015 for all counties and cities collecting the mental health/chemical dependency sales and use tax was approximately \$114 million.

Regular Property Taxes.

All property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law. The annual growth of regular property tax levy (regular levy) revenue is limited to the lesser of inflation or 1 percent plus the value of new construction for

jurisdictions with a population of 10,000 or more. For jurisdictions with a population less than 10,000, revenue growth is limited to 1 percent. The Washington Constitution limits regular levies to a maximum of 1 percent of the property's value (\$10 per \$1,000 of assessed value).

There are individual district rate maximums and aggregate rate maximums to keep the total tax rate for regular property taxes within the constitutional limit. For example:

- the state levy rate is limited to \$3.60 per \$1,000 of assessed value;
- county general levies are limited to \$1.80 per \$1,000 of assessed value;
- county road levies are limited to \$2.25 per \$1,000 of assessed value; and
- city levies are limited to \$3.375 per \$1,000 of assessed value.

For property tax purposes, the state, counties, and cities, with respect to the levies listed above, are collectively referred to as senior taxing districts. Junior taxing districts, a term that includes fire, hospital, flood control zone, and most other special purpose districts, each have specific rate limits as well.

The tax rates for senior and junior districts, excluding the state, must fit within an overall rate limit of \$5.90 per \$1,000 of assessed value. If the \$5.90 limit is exceeded, statute establishes the sequential order in which the levies of various junior taxing district levies must be proportionally reduced or eliminated (a process referred to as prorationing) to conform to the \$5.90 limit.

Some regular property tax levies, including levies for criminal justice purposes, port districts, and emergency medical services, are not subject to the \$5.90 aggregate rate limit. These levies have protections from general prorationing requirements, and exist within the 50 cent "gap" that remains after subtracting the \$3.60 state levy and the \$5.90 in local regular levies from the constitutional \$10 limit per \$1,000 of assessed value.

Criminal Justice Regular Property Tax.

Counties with a population of 90,000 or less are authorized to impose a regular property tax of up to \$0.50 cents per \$1,000 of the assessed value of property in the county. The funds are to be used for criminal justice purposes only. Criminal justice is not defined in the statute. The levy is not subject to the \$5.90 per \$1,000 of assessed value limitation that applies to other junior and senior districts, but is subject to the 1 percent of true and fair value limitation. Tax may be imposed for up to six consecutive years, but only after a voter approval of 60 percent on the proposition at a general or special election.

Levy Lid Lift.

Regular property tax revenue for local governments is restricted to a growth rate of 1 percent plus new construction. Voters may approve regular property tax increases above this 1 percent amount. This voter-approved increase is referred to as a lid lift. A lid lift may be for a single year or for multiple years, not to exceed six years. Multi-year lid lifts must be for a specific purpose, and lid lift funds may not supplant existing funds used for the purpose specified in the lid lift ballot proposition.

Summary of Substitute Bill:

Mental Health/Chemical Dependency Sales and Use Tax.

The prohibition on supplanting existing local government expenditures with proceeds from a locally imposed 0.1 percent sales and use tax dedicated to mental health and substance abuse is eliminated.

Provisions allowing supplanting of funds in certain circumstances are also eliminated as the bill generally allows supplanting of existing local government funds.

Various time-limited provisions applying only to previous biennia are removed.

Criminal Justice Regular Property Tax.

All counties are permitted to seek voter approval for the criminal justice levy. Criminal justice is defined, by reference as meaning, activities that substantially assist the criminal justice system, which may include circumstances where ancillary benefit to the civil or juvenile justice system occurs, including domestic violence services such as those provided by domestic violence programs, community advocates, and legal advocates.

Levy Lid Lift.

Local governments are permitted to use revenue generated from a levy lid lift to supplant existing funds.

Substitute Bill Compared to Original Bill:

Provisions that would have permitted local governments to supplant funds with distributions received from the County Criminal Justice Assistance Account and the City Criminal Justice Assistance Account are removed. All county authorities may seek voter approval for the criminal justice regular levy. Local jurisdictions may use revenue generated with a levy lid lift to supplant existing funds. The term criminal justice is defined with respect to the criminal justice levy.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) We ask counties and cities to take on a lot, so we should give them flexibility with the revenues that they already have. The non-supplant language in the County and City Criminal Justice Assistance Accounts gets in the way of the conversation between local governments and their voters. Law enforcement may raise concerns about changes to the County and City Criminal Justice Assistance Accounts, but this does not change the

requirement that those distributions may be spent only on criminal justice. This will save law enforcement jobs. The Legislature needs to do something to help local governments this session, and this bill is one way to do that. Local governments have been vocal in asking for local option revenue authority so we can support primarily public safety. One of the things you can do to reduce the pressure to raise local option revenues is to provide increased flexibility to local budget authorities to move funds around. With more flexibility, there is less pressure to go out and raise additional resources. For a long time, local governments have been asking for relief particularly on the mental health local option sales tax. There is a high level of commitment to funding important services, but sometimes you need the ability to move money around even as you are committed to funding those services.

(Opposed) The only likely consequence of passing this bill is to spend less on criminal justice programs tomorrow than are spent today. Criminal justice programs deserve more support, not less, and those provisions of the bill should not move forward.

Persons Testifying: (In support) Representative Koster, prime sponsor; and Josh Weiss, Washington State Association of Counties.

(Opposed) James McMahan, Washington Association of Sheriffs and Police Chiefs.

Persons Signed In To Testify But Not Testifying: None.