

HOUSE BILL REPORT

E2SHB 2006

As Passed House:
February 14, 2018

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

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

Sponsors: House Committee on Appropriations (originally sponsored by 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 [DPS], 1/22/18, 1/24/18 [DP2S].

Floor Activity:

Passed House: 3/7/17, 87-10.

Floor Activity:

Passed House: 2/14/18, 92-6.

Brief Summary of Engrossed Second 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.
- Allows jurisdictions to use revenue generated with a levy lid lift to supplant existing funds.
- Establishes the Developmental Disability and Mental Health Levy as a separate property tax levy outside the county general levy.
- Establishes the Veterans' Assistance Levy as a separate property tax levy outside the county general levy.
- Requires the county legislative authority to budget the direct costs of administering the Veterans' Assistance Fund and prohibits the charging of indirect costs or fees.

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 APPROPRIATIONS

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass. Signed by 27 members: Representatives Ormsby, Chair; Robinson, Vice Chair; Chandler, Ranking Minority Member; Stokesbary, Assistant Ranking Minority Member; Bergquist, Caldier, Cody, Condotta, Fitzgibbon, Graves, Haler, Hansen, Harris, Hudgins, Jinkins, Kagi, Lytton, Pettigrew, Pollet, Schmick, Senn, Springer, Stanford, Sullivan, Tharinger, Vick and Volz.

Minority Report: Do not pass. Signed by 4 members: Representatives Buys, Manweller, Taylor and Wilcox.

Minority Report: Without recommendation. Signed by 1 member: Representative MacEwen, Assistant Ranking Minority Member.

Staff: Dave Johnson (786-7154).

Background:

Mental Health/Chemical Dependency Sales and Use Tax.

The Legislature authorized a locally imposed county mental health/chemical dependency sales and use tax of 0.1 percent in 2005. Local governments may use the proceeds of the tax for 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, that 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 2010–2016, 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 fiscal year 2017 for all counties and cities collecting the mental health/chemical dependency sales and use tax were approximately \$130 million.

Regular Property Taxes.

All real 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 all regular property tax levy revenue, except the state levies, 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.

For taxes levied for collection in calendar years 2018-2021, the combined rate for both state regular levies is \$2.70 per \$1,000 assessed value. The revenue growth limit does not apply to the state levies during this time. Beginning with taxes levied for collection in calendar year 2022 and thereafter, the revenue growth limit applies to both state levies.

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.
- 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 \$0.50 "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 per \$1,000 of the assessed value of property in the county. The revenues may 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. The 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 with some exceptions.

County Developmental Disability and Mental Health Levy.

State law requires a portion of the county general levy to be used for community services for persons with developmental disabilities or the provision of mental health services (Developmental Disability and Mental Health Levy). For the Developmental Disability and Mental Health Levy, the county legislative authority must levy a sum equal to the amount that would be raised by a 2.5 cents per \$1,000 of assessed value. Proceeds from this levy are considered earmarked funds within the county general levy.

Veteran's Assistance Levy.

State law also requires a portion of the county general levy to be dedicated to the veterans' assistance fund (Veterans' Assistance Levy). Expenditures from the fund may only be used for veteran's assistance programs or for the burial or cremation of a deceased indigent veteran or the family member of a deceased indigent veteran. For the Veterans' Assistance Levy, the county legislative authority must levy a sum equal to the amount that would be raised by a levy of not less than 1-1/8 cents and not more than 27 cents per \$1,000 of assessed value levy. Proceeds from this levy are also considered earmarked funds within the county general levy.

The direct and indirect costs of administering the veterans' assistance fund are determined by the county, at least annually, and may be transferred to the county current expense fund. Direct and indirect costs are computed by the county auditor, or the chief financial officer in a county operating under a charter.

Summary of Engrossed Second 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.

Levy Lid Lift.

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

County Developmental Disability and Mental Health Levy.

The Developmental Disability and Mental Health Levy is established as a separate property tax levy outside the county general levy.

Veteran's Assistance Levy.

The Veterans' Assistance Levy is also established as a separate property tax levy outside the county general levy. Provisions allowing the direct and indirect costs of administering the Veterans' Assistance Fund to be transferred to the county current expense fund are eliminated. Instead, the direct costs in the administration of the Veterans' Assistance Fund must be budgeted by the county legislative authority and are not subject to indirect charges or other fees.

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:

(In support) Providing authority for more counties to have the criminal justice option is important. The non-supplant language contained in current law is a challenge as many counties struggle to pay for existing services. If a county pursues a new revenue source it can only use that revenue for a new item. Removing the non-supplant language enables counties to use new revenue sources for the dedicated purpose and take a more flexible revenue source and use that for some other existing purposes.

(Opposed) None.

Persons Testifying: Jennifer Ziegler, Washington State Association of Counties.

Persons Signed In To Testify But Not Testifying: None.