

SENATE BILL REPORT

E2SHB 2006

As Reported by Senate Committee On:
Local Government, February 20, 2018
Ways & Means, February 26, 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: Passed House: 2/14/18, 92-6.

Committee Activity: Local Government: 2/20/18 [DP-WM, DNP, w/oRec].
Ways & Means: 2/24/18, 2/26/18 [DPA(WM), DNP, w/oRec].

Brief Summary of Amended Bill

- 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.
- Makes the Veterans' Assistance Levy and the Developmental Disability and Mental Health Levy separate property tax levies, outside of the county general levy.

SENATE COMMITTEE ON LOCAL GOVERNMENT

Majority Report: Do pass and be referred to Committee on Ways & Means.
Signed by Senators Takko, Chair; Palumbo, Vice Chair; Liias.

Minority Report: Do not pass.
Signed by Senator Angel.

Minority Report: That it be referred without recommendation.
Signed by Senator Short, Ranking Member.

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: Greg Vogel (786-7413)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended by Committee on Ways & Means.

Signed by Senators Frockt, Vice Chair; Billig, Carlyle, Conway, Darneille, Hunt, Keiser, Palumbo, Pedersen, Ranker, Rivers, Van De Wege and Warnick.

Minority Report: Do not pass.

Signed by Senators Honeyford, Assistant Ranking Member; Bailey, Becker, Brown, Hasegawa and Schoesler.

Minority Report: That it be referred without recommendation.

Signed by Senators Fain, Mullet and Wagoner.

Staff: Alia Kennedy (786-7405)

Background: 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; 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 \$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 replace existing funds used for the purpose specified in the lid lift ballot proposition with some exceptions.

Veterans' Assistance and County Mental Health. State law requires a portion of the county general levy to be used for community services for people with developmental disabilities and for mental health services (Developmental Disability and Mental Health Levy). State law also requires a portion of the general county levy to be used for veterans' assistance programs and other veteran related purposes (Veterans' Assistance 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 2.5 cents per \$1,000 of assessed value. 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 and one-eighth cents and not more than 27 cents per \$1,000 of assessed value. Both of these levies are considered earmarked funds within the county general levy. If the county general levy rate is reduced by the 1 percent levy limit, the amount of the county general levy allocated to these purposes may be reduced in the same proportion.

Summary of Amended Bill: 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 replace existing funds.

Veterans' Assistance and County Mental Health. The Veterans' Assistance Levy and the Developmental Disability and Mental Health Levy are established as separate property tax levies, outside of the county general levy.

EFFECT OF WAYS & MEANS COMMITTEE AMENDMENT(S):

- Removes the section eliminating the prohibition on replacing existing local government expenditures with proceeds from a locally imposed 0.1 percent sales and use tax dedicated to mental health and substance abuse.
- Restores language specifying levy allocations.
- Removes prohibitions on the ability to use Veterans Assistance Levy revenue for indirect administrative costs.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony on Substitute House Bill (Local Government):

PRO: This bill gives cities and counties more flexibility to use dollars in ways that would benefit their communities. The veterans' levy and county mental health piece also provides every city and county some additional options for flexibility. The bill provides good accountability in that indirect costs may not be paid for administering the Veterans' Relief fund. Further, the bill allows all counties access to the criminal justice levy, which is a good improvement. Overall, the bill is well worked and has solid bipartisan support, addressing some of the challenges counties face in terms of revenue amount and flexibility.

Persons Testifying (Local Government): PRO: Jennifer Ziegler, Washington State Association of Counties; Tana Senn, Representative; Michael Volz, Representative.

Persons Signed In To Testify But Not Testifying (Local Government): No one.

Staff Summary of Public Testimony on Second Engrossed Substitute House Bill (Ways & Means): *The committee recommended a different version of the bill than what was heard.*

PRO: This bill is a solution that provides local governments with flexibility without impacting the state general fund and without changing any existing voter requirements. Statutory requirements on restricted funds are unchanged under this bill. Allowing local governments to supplant tax revenues with operating funds ultimately prevents them from having to cut existing programs in the event that the county or city suddenly receives external mandates with additional costs. The only piece that gives local governments more authority is the section allowing any county to impose a local criminal justice levy.

Persons Testifying (Ways & Means): PRO: Jennifer Ziegler, Washington State Association of Counties.

Persons Signed In To Testify But Not Testifying (Ways & Means): No one.