
Local Government Committee

HB 1069

Brief Description: Concerning local government fiscal flexibility.

Sponsors: Representatives Pollet, Duerr and Leavitt.

Brief Summary of Bill

- Allows revenue from criminal justice sales taxes, the criminal justice assistance account, and certain King County property tax levies to supplant existing funds through December 31, 2023.
- Removes exemption for motor vehicle sales and leases in voter-approved criminal justice sales tax.
- Broadens the allowed use of funds from criminal justice sales taxes, lodging taxes, and real estate excise taxes through December 31, 2023.
- Increases the amount of time a water and electricity or sewage lien can be applied after the declaration of an emergency by the Governor that prevents collection.

Hearing Date: 1/13/21

Staff: Kellen Wright (786-7134).

Background:

Cities and counties only possess the taxation power that is granted to them by the state Constitution or by the Legislature. The Legislature has granted the power to tax to these local governments in a variety of ways. Some of the taxes authorized by the Legislature can be used without restriction for purposes determined by the cities and counties. Other taxes authorized by the Legislature can only be imposed for limited purposes, and local governments are often

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prohibited from using this revenue to supplant other revenue that was used for the designated purpose.

Criminal Justice Sales Tax

One subject for which the Legislature has authorized a local government to impose a tax is for criminal justice expenses. A county legislative authority may, subject to a referendum, impose a sales tax of .01 percent to be used for criminal justice purposes. Ten percent of the revenue from this tax goes to the county, with the remainder distributed between the county and cities based on population. Similarly, a county may submit a proposition to the voters to authorize an additional .03 percent sales tax. A city may also impose a .01 percent sales tax; the county tax within the city must be reduced by the amount imposed by the city, so the total rate cannot exceed .03 percent. One-third of the revenue from this tax is required to be used for criminal justice purposes. Motor vehicle sales and the lease of motor vehicles for up to 36 months are exempt from this latter tax.

Criminal Justice Assistance Account

Transfers from the state represent another revenue source for local governments. With the county criminal justice assistance account and the municipal criminal justice account, the state directly provides funding for criminal justice purposes to local governments. The amount that a county or city receives from the account depends on various factors, including its crime rate, population, and whether it has imposed the criminal justice sales taxes. These funds must be used for criminal justice purposes and may not supplant existing funds.

Lodging Tax

Another tax authorized by the Legislature for a limited purpose is a lodging tax. This may be imposed by a county or a city that is outside of King County. If the tax is imposed by both the county and the city, the county must credit against the county tax the full amount imposed by the city. This tax is credited against the 6.5 percent state sales tax. Revenues from this tax must generally be used for tourism promotion, and, in King County, revenue over \$5.3 million must additionally be used in ways proscribed by the Legislature. This tax applies to the furnishing of lodging, but not to the rental or lease of property, and a sale of lodging of more than one month is presumed to be a rental or lease.

Real Estate Excise Tax

Cities and counties are also authorized to impose an excise tax on the sale of real property.

Counties may impose this tax in unincorporated areas, while cities may impose the tax within the city. In either case, the tax may not exceed .0025 percent of the sale price. The revenue from this tax must be used solely to finance capital improvements, cities and counties with fewer than 5,000 people that don't plan under the Growth Management Act may instead use the revenue for any capital purpose. A city or county that satisfies various criteria, including producing a written report demonstrating that its capital projects are fully funded, may use \$100,000 or 25 percent of this revenue, whichever is greater, for the maintenance of capital projects. The amount used for maintenance may not, however, exceed \$1,000,000. Cities and counties planning under the Growth Management Act may, with voter approval, impose an additional .0025 percent tax for

use on certain identified capital projects. Of this revenue, \$100,000 or 25 percent, whichever is greater, may be used for infrastructure maintenance or for other capital projects. This amount used in this way may not exceed \$1,000,000.

Property Tax Levies

Aside from excise or sales taxes, the other primary funding source for local governments is property tax. The amount of property tax that can be imposed is limited. This limit, however, can sometimes be exceeded when authorized by voters. In King County, and outside of revenue from levies approved in 2009-2011, this additional revenue cannot supplant existing funding sources. In other counties, revenues from levies approved after 2009 can be used to supplant existing local government funds.

Utility Liens

Another revenue source for local governments is the fees charged for the provision of water or electricity. A city or town may impose a lien on the property for four months of past due charges, but may not impose a lien for any charges more than four months past due. Similarly, a city or town that owns its own sewer system may charge a fee for sewer service. A lien of up to six months of delinquent charges may be imposed without any recording. A lien for a longer period must be filed with the county auditor.

Summary of Bill:

Criminal Justice Sales Tax

Through December 31, 2023, the criminal justice purposes for which revenue from this tax can be used includes local government programs with a reasonable relationship to reducing interactions with the criminal justice system, including by reducing homelessness or improving behavioral health. The vote-approved .03 percent county tax and .01 percent city tax is applicable to the sale or lease of a motor vehicle.

Criminal Justice Assistance Account

Through December 31, 2023, revenue received from these accounts may be used to supplant existing funding.

Lodging Tax

Through December 31, 2023, revenue from this tax may be used for housing and rental assistance, including providing shelter housing, supportive housing, and housing for those requiring quarantine or isolation due to an illness or other health conditions. Sales of lodging of less than one month are presumed to not be a rental or lease and thus subject to sales and use tax.

Real Estate Excise Tax

Cities and counties imposing the first .0025 percent real estate tax may use the greater of \$100,000 or 25 percent of revenue received for the maintenance of capital projects through December 31, 2023. Cities and counties imposing the additional .0025 percent real estate tax may similarly use the greater of \$100,000 or 25 percent of that revenue for the operation and

maintenance of capital projects through December 31, 2023.

Property Tax Levies

In King County, revenues from levies approved in 2015-2018 and 2020-2022 may be used to supplant existing revenue.

Utility Liens

A lien for water or electricity may apply for charges more than four months past due if the city or town has been unable to pursue collection or a lien against the premises due to an emergency declaration by the Governor. After the expiration of the declaration, a lien for such past due charges may be imposed within the latter of three months of the expiration or within three months of the ratepayer's failure to abide by a payment plan that would have allowed the ratepayer to pay over a period of six months or more.

Similarly, a lien for past due sewage charges may be effective for more than six months of past due charges without recording of the lien if collection of the charges was impacted by a declaration of an emergency by the Governor. In such circumstances, a lien may be filed for all charges within the period covered by the declaration and may be effective for six months after the expiration of the emergency.

Appropriation: None.

Fiscal Note: Requested on 1/12/2021

Effective Date: The bill contains an emergency clause and takes effect immediately, except for section 10, which, because of a double amendment, takes effect July 1, 2022.