

SENATE BILL REPORT

SB 6164

As of February 3, 2010

Title: An act relating to providing local flexibility with existing revenues during severe economic downturns.

Brief Description: Providing local flexibility with existing revenues during severe economic downturns.

Sponsors: Senator Regala.

Brief History:

Committee Activity: Ways & Means: 2/02/10.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Dianne Criswell (786-7433)

Background: Real Estate Excise Tax. The state imposes real estate excise tax (REET) on all sales of real estate, measured by the full selling price, including the amount of any liens, mortgages, and other debts given to secure the purchase at a rate of 1.28 percent.

The Legislature has also authorized locally-imposed real estate excise taxes. However, the rate at which it can be levied and the uses to which it may be put differs by city or county size, and whether the city or county is planning under the Growth Management Act (GMA).

All cities and counties may levy a quarter percent tax (REET I). Revenues generated from REET I must be used for financing qualifying capital projects and for housing relocation assistance and may not supplant other funds reasonably available for these capital projects. Counties, cities, and towns that are planning under the GMA may levy an additional quarter percent tax on the selling price (REET II). If a county is required to plan under the GMA, the legislative authorities of a county, city, or town located within the county may levy REET II. However, if a county has opted to plan under GMA, the additional quarter percent tax (REET II) must be approved by the majority voters in the county, city, or town. In general, revenues generated from REET II may only be used for financing capital projects specified in the capital facilities element of a comprehensive plan adopted under the GMA and may not supplant other funds reasonably available for these capital projects.

Local Sales/Use Tax for Criminal Justice. Counties may impose a local sales and use tax of

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0.1 percent for criminal justice programs. This tax may be levied only by counties; however, the receipts are shared with cities: 10 percent goes to the county, and the remaining 90 percent is apportioned to county and all cities within the county on the basis of population. Currently, 32 counties are levying the tax.

Local Gambling Tax. Counties, cities, and towns are authorized to impose a tax on gambling activities. Tax rates vary depending upon the type of activity. State law requires any jurisdiction imposing a gambling tax to use the revenue primarily for local gambling enforcement programs.

Local Lodging Tax. A hotel-motel tax is a special sales tax on lodging rentals by hotels, motels, rooming houses, private campgrounds, RV parks, and similar facilities. Cities and counties may impose a tax rate of 2 percent on these rentals; however, the tax is credited against the state sales tax on these charges. Therefore, the total amount of tax paid by the consumer does not increase as a result of this tax. Currently, 37 counties and 144 cities impose the tax. In general, hotel-motel taxes must be used solely for the purpose of tourism promotion, acquisition of tourism-related facilities, or operation of tourism-related facilities.

Summary of Bill: From the effective date through December 31, 2012:

- revenues generated from REET I may also be used for the maintenance of capital facilities;
- revenues generated from REET II may also be used for park maintenance and operation expenditures and maintenance of capital projects (the following facilities are added to the definition of capital project: parks, recreational facilities, law enforcement facilities, fire protection facilities, trails, libraries, administrative and/or judicial facilities, and river and water control facilities);
- the 0.1 percent local criminal justice tax may be used to replace or supplant existing funding (removes nonsupplant); adds human services to activities that assist criminal justice systems; expands criminal justice purposes include services with ancillary benefits to the civil justice system;
- the use of revenues from local gambling taxes are expanded to include public safety; and
- local lodging taxes may also be used for governmental purposes that will maintain or enhance tourism, including safety improvements.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony: PRO: This proposal, introduced last year, aligns with other proposals introduced this year, such as SB 6424, to provide local governments with revenue flexibility during these economic challenging times. Local governments, especially counties, are struggling to provide resources for public safety. Many cities and counties have already cut budgets through a variety of actions, including programmatic cuts,

layoffs, and furloughs. Some areas have cut budgets deeply, back to the same levels of ten or more years ago. Yet, the demand for basic services is rising. Funding for local programs is decreasing, but not the need. Local governments face the same budget crisis as the state; however, unlike the state, which received federal stimulus and had funds to transfer, many local governments have had to respond to their falling revenues only with cuts in services and employment. The Legislature should provide locals with more tools and flexibility, particularly for public safety. We are working on a package of proposals, which make temporary and permanent changes to provide locals with some options. Local needs vary by community. Flexibility helps us manage and prioritize services. The locals are united in providing mandated services. Allow us to preserve core services. Last year's local flexibility bill was a good tool for local governments. No amount of flexibility or reductions, however, will close the local governments' budget gaps. We may need additional authority. For example, one option would be to authorize a similar county utility tax in unincorporated areas, similar to the city tax. People rely on these services and we can help our citizens who are pulling themselves up during this economic downturn. Keep local government running while the entire state faces these challenges together. REET has provided revenue for capital projects. Now, we would like to be able to use REET I and II for maintenance and operations to keep up these facility and keep them open to the public. Another option, SB 5432, would help locals fund veterans' services. Also, a mineral severance tax, shared with the state, could provide necessary funding. Fiscal home rule would allow us to work best in our home communities. Public safety programs or functions are affected. We are doing less with less. Enforcement and other criminal justice functions cannot be maintained at pre-economic-crisis levels. Human services funding has been decimated. Lines at food banks are growing, but the budgets supporting them are being cut or eliminated. Those who serve the most vulnerable populations are working with the cities and counties to try to get additional resources for these basic needs. Programs for basic needs help public safety. Please include more flexibility for local funding to support human services.

CON: REET I and II are currently dedicated to local infrastructure. These projects make growth management work. They also encourage job creation and economic development. These taxes are not the mechanism to fund parks or maintenance and operations.

Persons Testifying: PRO: Senator Regala, prime sponsor; Julie Murray, Office of Financial Management; Dow Constantine, King County Executive; Don Gerand, City of Sammamish Mayor; Lynda Ring Erickson, Mason County Commissioner; Kathy Turner, Puyallup Mayor; Mike Whelan, Grays Harbor County Sheriff; Kelsey Beck, Food Lifeline.

CON: Bill Clark, Washington Realtors.