AWC ASSOCIATION OF WASHINGTON CITIES

issue brief

Maintain and Restore State-Shared Revenue

Strong Cities Great State

AWC Position

AWC will work to maintain existing state-shared revenues and oppose any further cuts. Cities and towns are willing to work with the state to explore ways to ensure that this funding remains available to our jurisdictions. AWC will continue to seek restoration of diverted liquor taxes as well as removal of the cap on liquor profits.

Background

State revenues distributed to local governments are the product of decades of past decisions. Without the promise of this revenue, cities would have sought local options and authorities. Instead, cities have come to rely on these state funds.

- The Legislature took over $130 million of shared revenues over the last two biennia to help balance their general fund budget.
- Majority of the funding came from local share of liquor revenue.
- Smaller cuts were made to Streamlined Sales Tax (SST) mitigation, Municipal Criminal Justice, and City-County Assistance (6050) accounts.
- In the 2013-14 biennium, cities received more than $150 million in liquor revenue, SST mitigation, municipal criminal justice, and city-county assistance.
- Restoring diverted liquor revenue would bring more than $20 million per year back to cities and counties.

Outlook

In 2012, the State Supreme Court ruled that the state was not funding ***the paramount duty*** to provide basic funding for K-12 education. To meet this obligation, the state will need to dedicate an additional $1.2 - $2 billion to education in the 2015-17 budget.

- The Legislature will need to raise new revenue, dedicate revenue from other sources, cut governmental services, or implement a combination of these.
- Legislators have differing opinions about how to best resolve the budget problem.
- Some legislators remain reluctant to support significant new revenue without major reforms.
- Other legislators are more concerned about implementing an all-cuts budget, which would end some state programs and require significant layoffs.
- New biennial budget must first be proposed by Governor in mid-December. This must include only those programs and services that can be funded with current revenue streams and forecasted yields.
- The Legislature must pass new budget prior to July 1, 2015, to avoid a shutdown.
- Many legislators tell city leaders they do not support more cuts to state revenue shared with cities. Without another source of revenue, however, shared revenues are at risk.

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issue brief

Revenue Options and Reforms

AWC Position

AWC will explore the possibility of enacting new revenue options and reforms to fund needed local services, and look at options for creating greater flexibility within existing funding sources for cities and towns. Options may include:

Lift the 1% Property Tax Cap

AWC supports revisiting the local government 1% property tax revenue limit to determine if there is a better local option approach that will balance the public's desire for property tax limitations with the reality of keeping pace with funding service needs.

Greater Authority and Flexibility for REET

Explore potential Real Estate Excise Tax (REET) changes as an option for enhancing needed infrastructure funding and maintenance.

Background

Our cities and towns all face revenue pressure and challenges. Over the past several months, AWC worked with cities to compile a list of ideas the Legislature could advance to help address the fiscal challenges they are facing. These ideas have been shared with the House Finance Committee at their request, and include providing options to allow lifting the 1% property tax cap, replacing it with something more sensitive to inflation, and providing greater authority and flexibility for REET.

1% Property Tax Cap:

- I-747, which passed in 2001, limited regular levies for all taxing districts to an annual increase of 1%, plus new construction.
- Prior to this law, levy increases were limited to 6%.
- Local governments currently have the option of levy lid lifts and excess levies. Both require voter approval, and neither permanently change the annual percentage increase allowed.

REET:

- Tax on the sale of real estate, usually paid by the seller.
- State levies at 1.28%.
- In 1982, cities and counties were authorized to impose an additional 0.25% to finance capital improvements. This is commonly referred to as REET 1.
- In 1990, cities and counties planning under the Growth Management Act were authorized to impose an additional 0.25% to finance capital projects specified in the capital facilities element of a comprehensive plan. This is commonly known as REET 2.
- Allowable uses for REET 1 and REET 2 are not the same, forcing cities and towns to track and account for them separately.

Outlook

- The Legislature may consider adjusting the 1% property tax limit to address their McCleary obligation to fund basic education. When considering this, legislators should be encouraged to evaluate property tax issues for local governments.
- Raising property taxes remains unpopular with many legislators and voters, so changes must be carefully vetted and considered.
- The Washington State Association of Counties has also expressed interest in lifting the 1% property tax limit.
- Realtors have historically opposed changes to our REET authority.
- Other local revenue ideas and options may be considered in the next legislative session.

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10-6-14

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issue brief

Maintain and Restore Funding for Infrastructure

Strong Cities Great State

AWC Position

Stop divestment in programs that support basic local infrastructure, and have the state commit to a pathway to restore historic levels of investment and partnership in these key programs. Cities and towns and the state must continue to partner on emerging infrastructure challenges to build strong communities and economic opportunities that generate jobs and revenue. Cities are willing to work with the state and explore ways to fund this important priority.

Background

- In response to the recession, the state has systematically reduced investment in basic infrastructure programs that benefit cites.
- Over a billion dollars have been diverted from the Public Works Trust Fund (PWTF).
- $250 million has been transferred from the toxic cleanup accounts to the state's general fund.
- Dedicated funding was eliminated, and appropriations to the Centennial Clean Water infrastructure grant program have been reduced over several years.
- The state continues to rely on cities and towns to bear the brunt of costs associated with stormwater management.

Outlook

- Investments that affect state general-fund dollars face the highest hurdles (for example, restoration of PWTF revenue streams).
- Proposals that preserve dedicated funds for their intended purposes may have the best chance (preserving the PWTF cash resources to fund the 2016 loan list, preservation of MTCA toxic funds for traditional purposes, and halting general-fund transfers and raids).
- Significantly increased investments in capital bond dollars, like proposals to increase spending on the Centennial Clean Water program, will face competition within the capital budget. This issue is exacerbated because the state skipped adopting a capital budget in 2014.
- Work continues on a potentially large infrastructure bond package centered on water supply in the Yakima basin, flood control in the Chehalis Valley, and stormwater investments. Proponents of this package believe it can address some of the critical infrastructure issues facing local governments. Other jurisdictions have serious questions about the revenue streams and focus of the proposal. This proposal may or may not go to the ballot.

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issue brief

Transportation Funding

AWC Position

AWC supports a comprehensive transportation package that addresses city transportation needs.

AWC advocates for new and enhanced local transportation revenue options, and to refrain from transferring funds out of state grant programs.

AWC advocates to address city safety and mobility concerns related to increases in freight rail traffic, including increased funding at both the state and federal levels.

Background

- The transportation budget is primarily funded by the motor vehicle fuel tax and other sources such as licenses, permits, and fees.
- A portion of the state gas tax is distributed directly to cities and towns, and funds the TIB.
- With increases in inflation, use of fuel efficient vehicles, and a decrease in vehicle miles traveled, the purchasing power of the gas tax has significantly declined.
- The state is now faced with insufficient funding for maintenance and preservation, the ferry system, and other new transportation projects.
- Transportation Benefit Districts (TBD) can impose specific taxes and fees to fund local transportation projects and maintenance.
- The Legislature failed to agree on a statewide transportation revenue proposal in 2013-14.

Outlook

There is general, bipartisan support for transportation projects and infrastructure investment, but the details have hindered progress on passage of a statewide revenue proposal.

- Recent issues with mega-projects and the ferry system have made some legislators reluctant to increase taxes for transportation projects and WSDOT.
- There is disagreement between political parties on whether a state package should include support for transit and bike/ped projects.
- With the McCleary decision looming, legislators are hesitant to raise revenue to address issues other than education.

Freight Rail Safety

- There is a need to address rail congestion and safety impacts to local communities.
- AWC's Freight Rail Committee is developing recommendations for consideration by state and federal authorities to address impacts.

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Marijuana

Strong Cities Great State

AWC Position

Preserve existing local regulatory authority over marijuana related businesses, and share marijuana excise tax revenue with cities and towns to address criminal justice needs and other local impacts.

- AWC opposes any preemption of local authority over traditional land use, licensing, local taxes and fees, and other regulatory functions in regards to marijuana production or distribution.
- To support the success of I-502 and diminish the impact of the illegal market, cities need a share of anticipated I-502 revenues to cover efforts on education and criminal justice.
- AWC supports reconciling the recreational and medical marijuana markets to ensure legitimate patient access, enforceability, and compliance with federal expectations.

Background

- I-502 passed in 2012, creating a regulated market for marijuana production, distribution, and possession for persons over 21.
- I-502 created a three-tiered excise tax system adding up to 75% in excise taxes, but no taxes come back to local governments.
- Liquor Control Board chose 334 as the first bench mark number of retail marijuana stores in Washington.
- The Legislature has an opportunity to redirect the revenue that I-502 originally dedicated to the basic health program (that has been eliminated due to the expansion of Medicaid).
- In January 2014, the Attorney General issued an opinion reaffirming local authority to regulate marijuana businesses, allowing cities to continue to use zoning, licensing, and regulatory authority.
- Medical marijuana remains unregulated and has the potential to impact the recreational market.
- The state must respond to the federal mandate set forth by the Department of Justice for adequately regulating legalized marijuana.

Outlook

In the 2015 session, the Legislature will be able to make changes to the initiative without a two thirds vote requirement; however, the issue remains complex.

- Pressing budget problems of the McCleary (education) decision and slow economic recovery mean both houses are reluctant to share revenue with local governments.
- Attempts in 2014 to limit cities' local authority to regulate or ban marijuana businesses indicate that this debate will continue, and it could be coupled with deciding how to allocate revenue to cities.
- Regulating medical marijuana is a priority, but there is still some disagreement about how it should be accomplished.

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