



Adequacy of Local Revenues

Washington Tax Structure Study

February 8, 2002

Phoenix Inn, Olympia

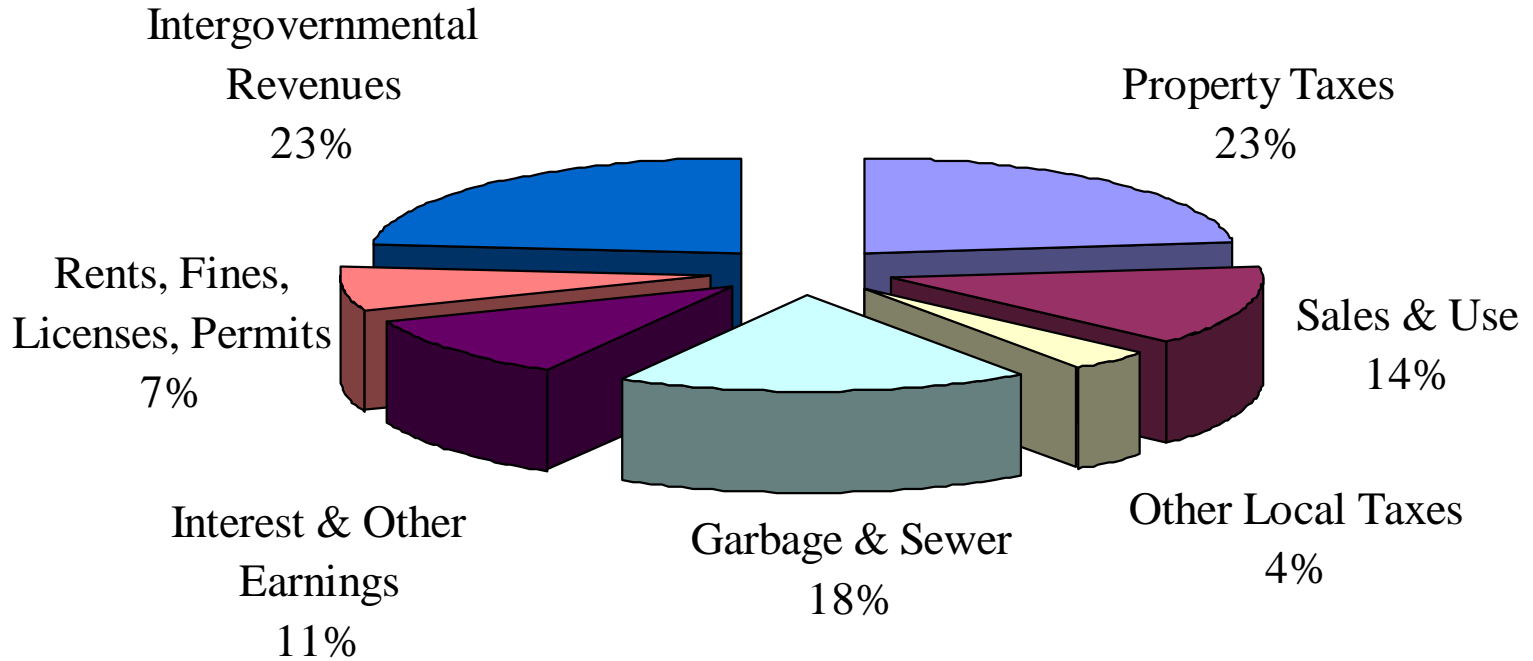
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Revenue, Expenditures and Tax Capacity for Cities and Counties



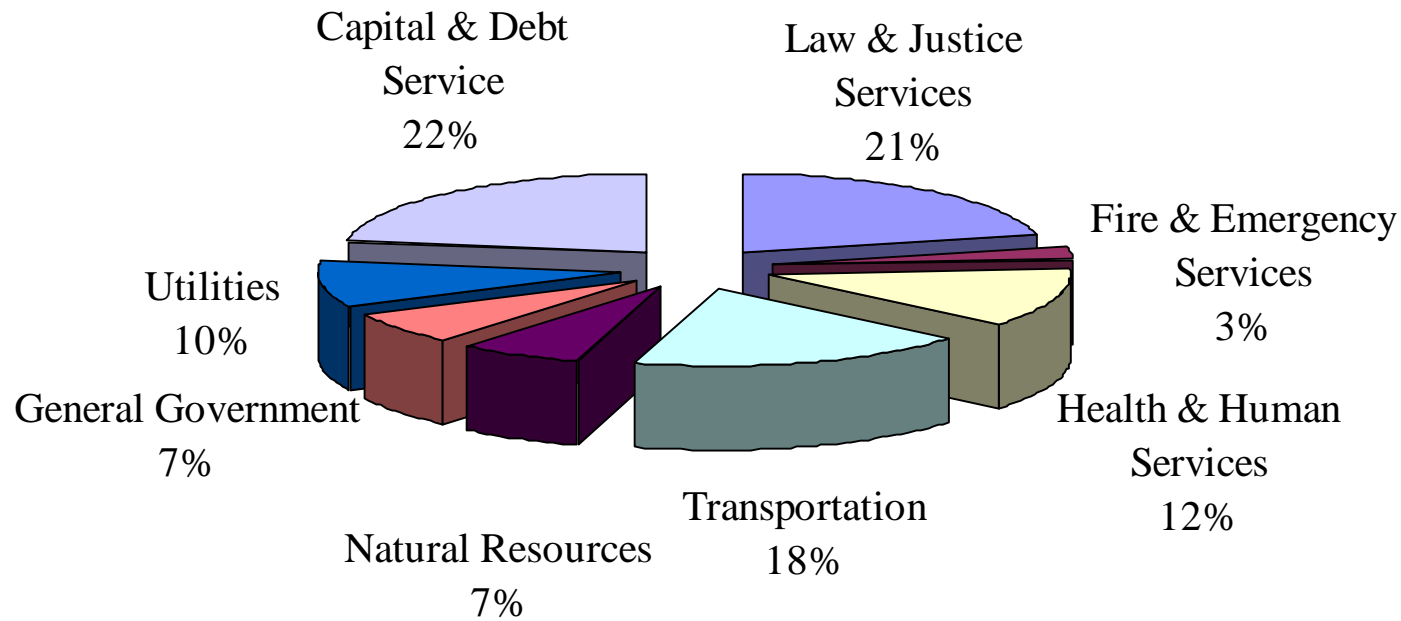
County Revenue 2000



Property and sales taxes provide the majority of county tax revenue. Garbage and sewer charges pay for utility service.



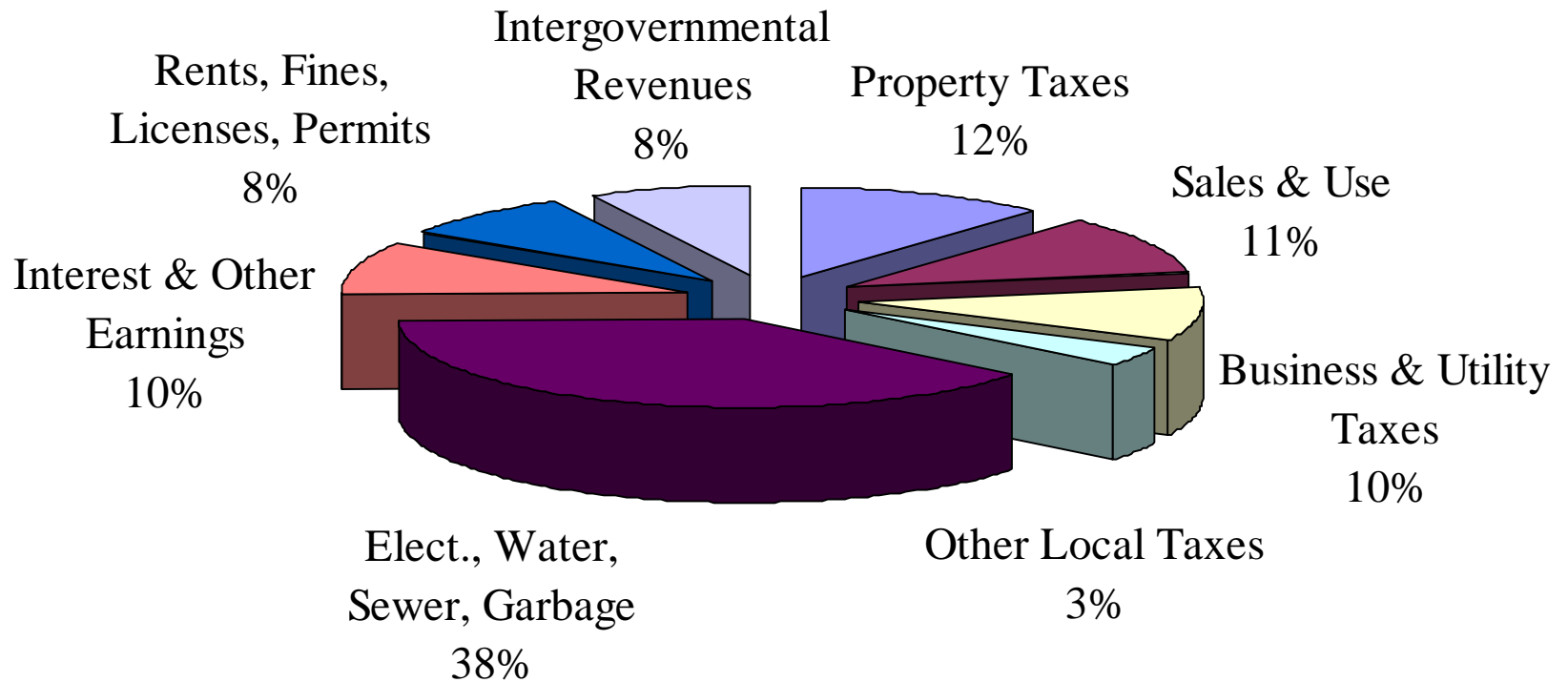
County Expenditures 2000



Expenditures on public services other than utilities comprise well over half of county expenditures. These services include law and justice, health and human services, transportation and fire and emergency services.



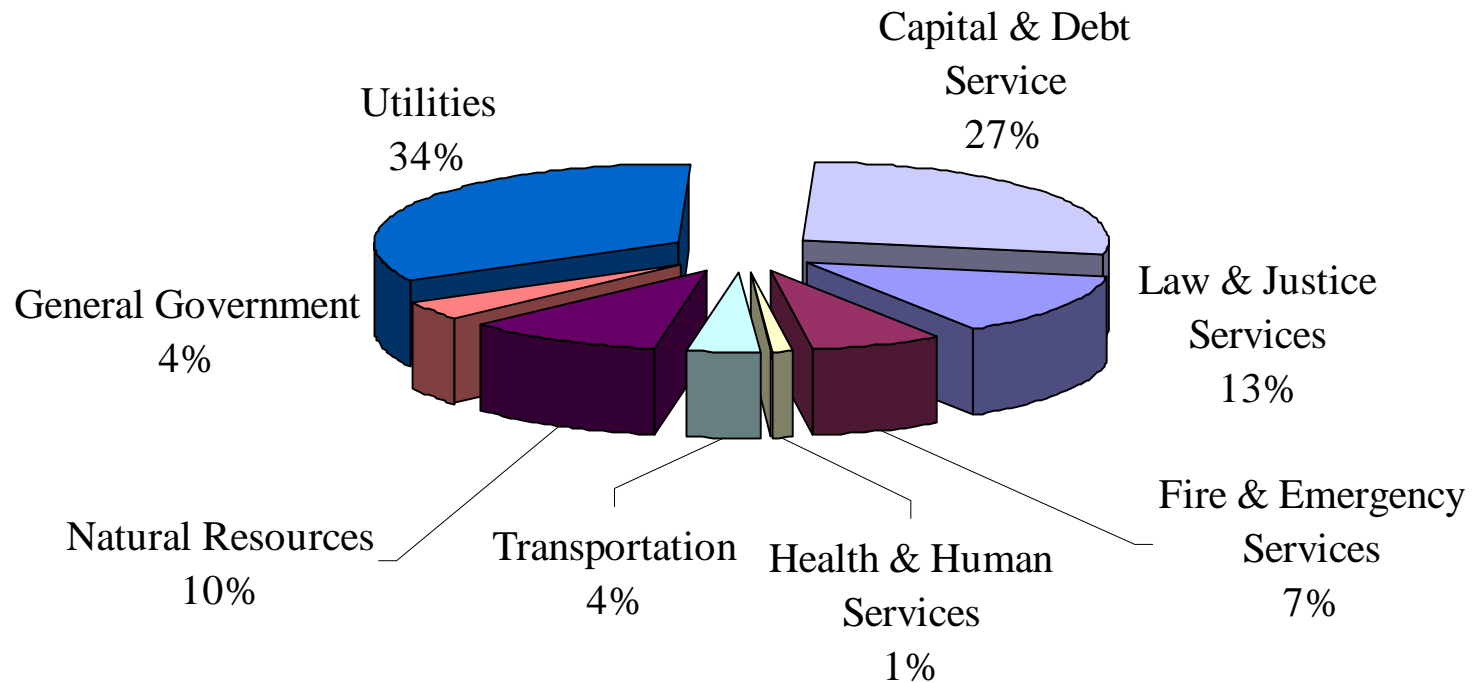
City Revenue 2000



Property, sales, and local B&O taxes provide most of the city tax revenues. Utility charges pay for direct service to customers and a portion of capital and debt service.



City Expenditures 2000



Utilities are the largest portion of city budgets. Public services such as health, human service, law & justice, transportation and fire make up only a quarter of city expenditures.

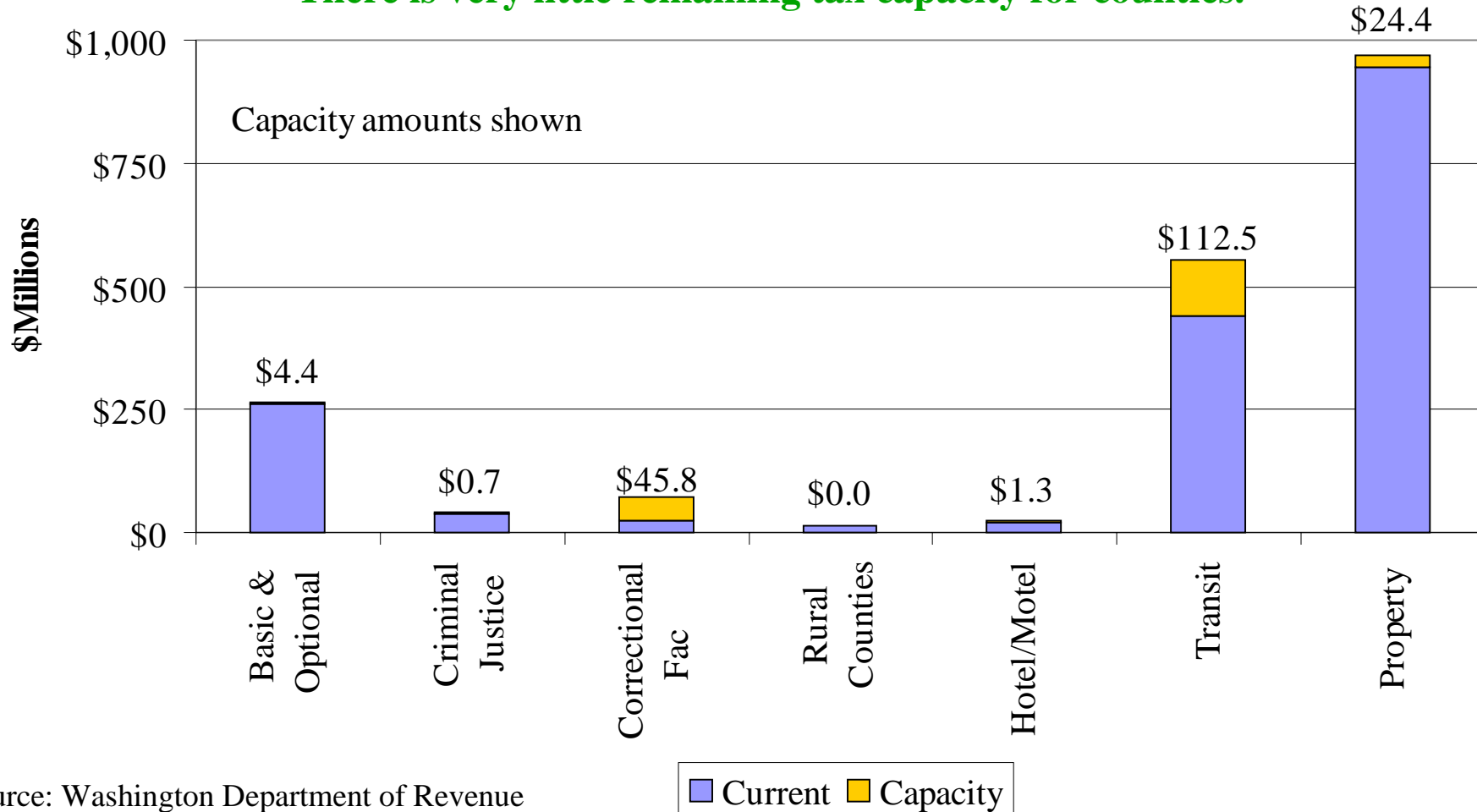


County Taxing Capacity v. Current Tax

Major County and Transit Taxes

Sales & Use (FY 2001) and Property Tax (CY 2001)

There is very little remaining tax capacity for counties.



Source: Washington Department of Revenue

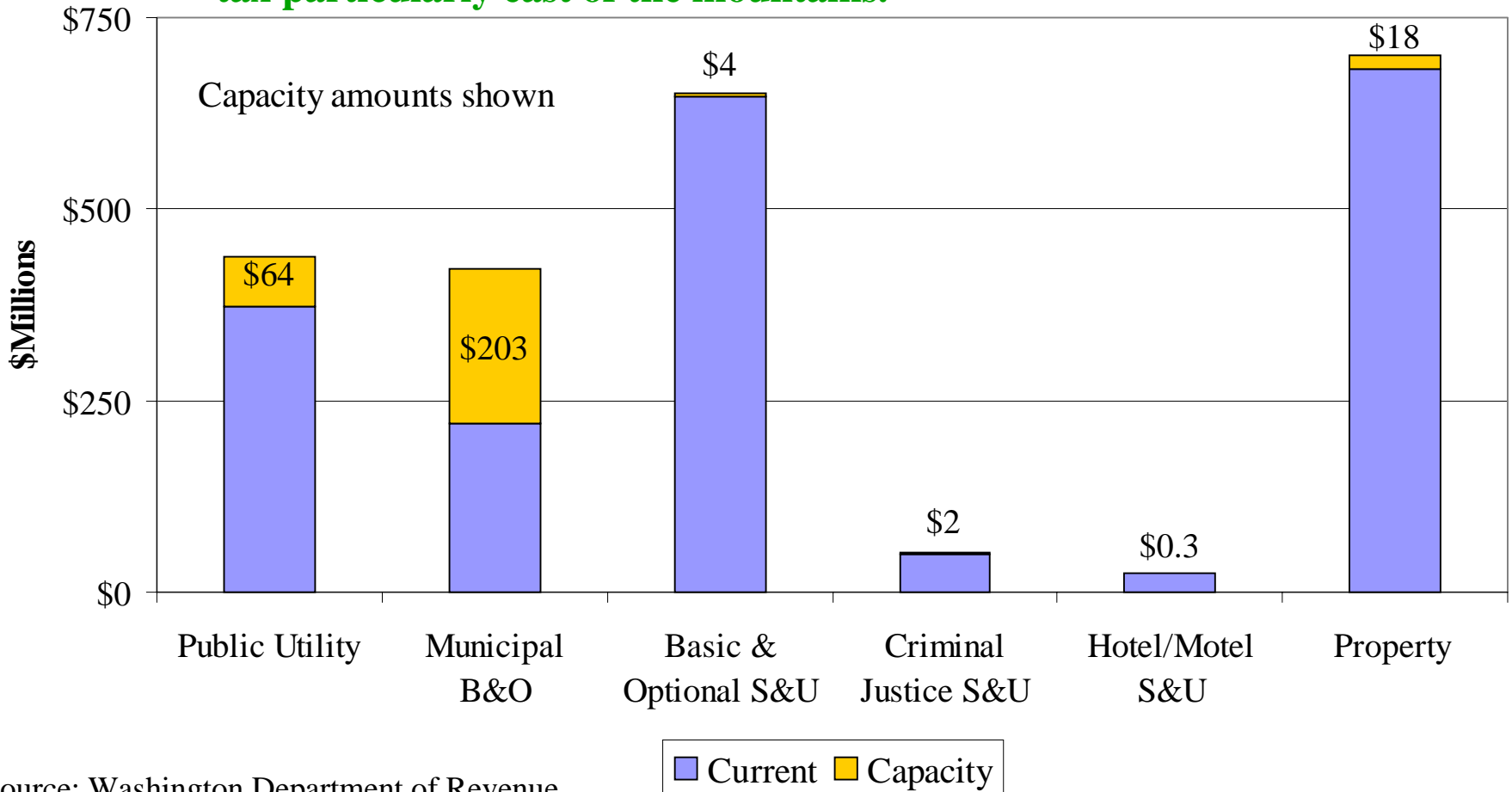


City Taxing Capacity v. Current Tax

Major Municipal Taxes

City B&O and PUT, and Sales & Use (FY 2001), and Property Tax (CY 2001)

There is some municipal B&O tax capacity, but this is an unpopular tax particularly east of the mountains.



Source: Washington Department of Revenue



Questions on Local Government

**Do changes in state law impede local ability
to provide core services?**

(Advisory Group)



Sales tax reductions since the 1970s reduced local revenues by \$600 million.

Local Impact of Major Sales & Use Tax Reductions

by Year of Enactment, 1999-01 Biennium (\$000)

Prescription drugs	1974	\$69,179
Medical devices	1975	15,145
Food products	1977	299,937
Local residential phone service	1983	22,082
Trade-ins	1984	59,083
Rural county plant and M&E	1985	11,983
High technology	1994	21,024
Manufacturing machinery	1995	79,282



City, County and Transportation Losses due to Repeal of MVET (I-695)

1999-01 Biennium in \$Millions

Cities	\$181.8
Counties	66.6
Transit	459.4
Public Health	52.4
Distressed Area Assistance	<u>18.9</u>
	\$779.1



Local Levy Losses due to Property tax Levy Limit (I-747)

	CY 2002	CY 2003	CY 2004
County Current Expense	\$9,801,000	\$20,438,000	\$32,611,000
County Road	\$6,682,000	\$13,927,000	\$22,281,000
Cities	<u>\$19,874,000</u>	<u>\$41,274,000</u>	<u>\$63,669,000</u>
Total City/County	\$36,357,000	\$75,639,000	\$118,561,000



Remote Sales Tax Loss

**Including catalogue sales and e-commerce
low and high estimates in \$millions**

CY 2001	Low end	High end
Total remote		
State impact	\$138	\$148
Local impact	<u>40</u>	<u>43</u>
Total State and local	\$179	\$191
CY 2002	Low end	High end
Total remote		
State impact	\$152	\$185
Local impact	<u>44</u>	<u>54</u>
Total State and local	\$196	\$239



Questions on Local Government

- ◆ Question: Do changes in state law impede local ability to provide core services?
- ◆ Answer:
 - Today, there are \$1.4 billion dollars less in local biennial revenues due initiatives, tax reductions, an Internet tax moratorium, and exemptions.
 - Initiative 747 is expected to reduce local revenues by \$230 million in the next three years. The impacts are cumulative, each year adding to the impact of previous years.
 - Tax loss due to remote sales are close to \$200 million a year.



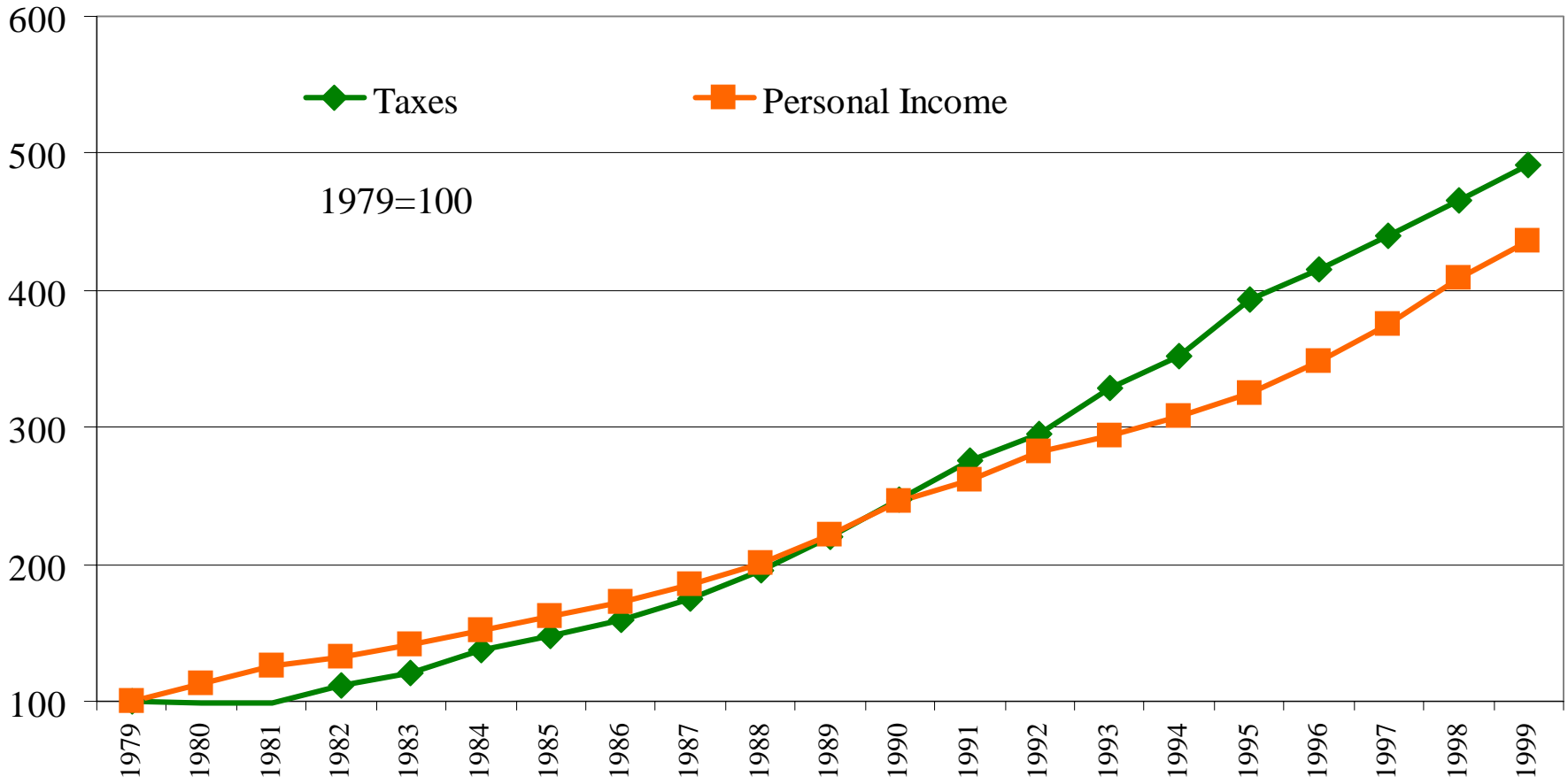
Questions on Local Government

**Do local revenues keep up with, fall short
of or exceed service needs?**

(Advisory Group)



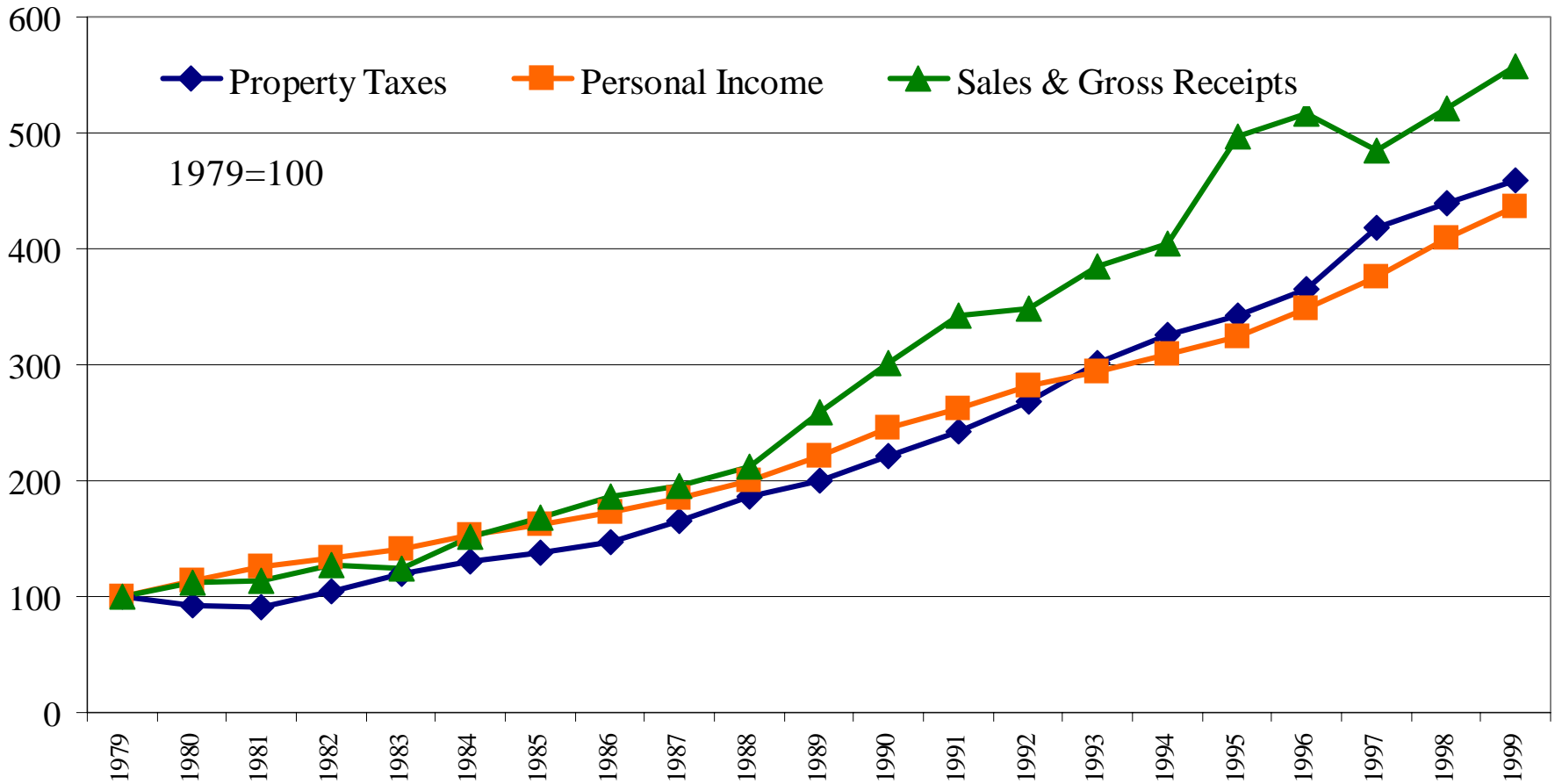
Local taxes have grown faster than personal income in the last decade.



Source: Census, Government Finances



Sales and local gross receipts taxes have outpaced property taxes.



Source: Census, Government Finances



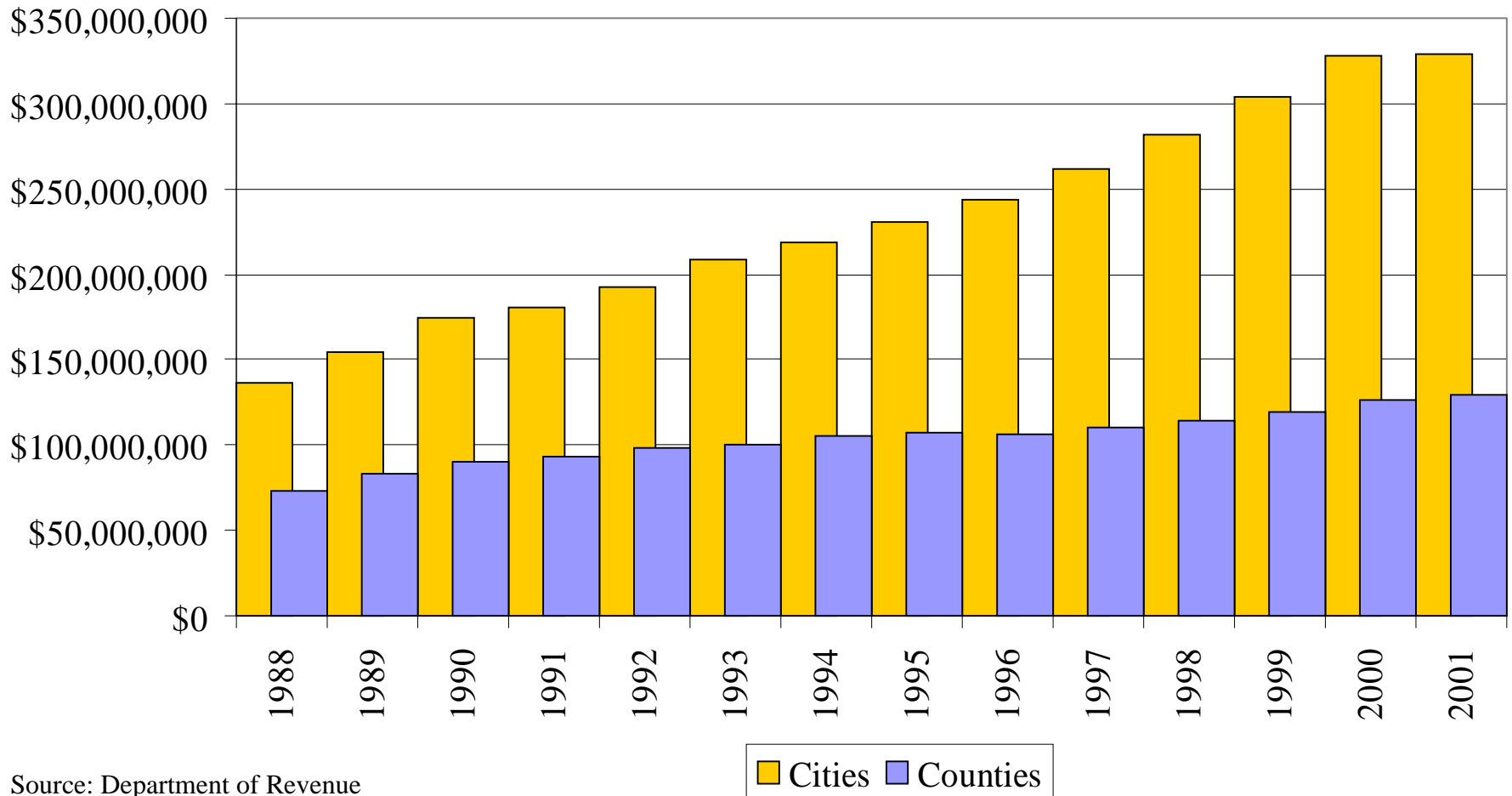
Breakdown of local sales taxes over time.

	Enactment	(\$000's) FY 99-01
Criminal Justice	1990	\$177,332
Public Facilities	1991	11,816
King Co. Food/Drink	1995	29,693
Baseball Stadium	1996	13,453
Football Stadium	1997	12,613
Rural Public Facilities	1998	29,087
Zoo/Aquarium	1999	7,269
Regional Centers	1999	3,629



County tax base has flattened and share of total tax base has decreased.

Basic .5% sales/use tax distributions

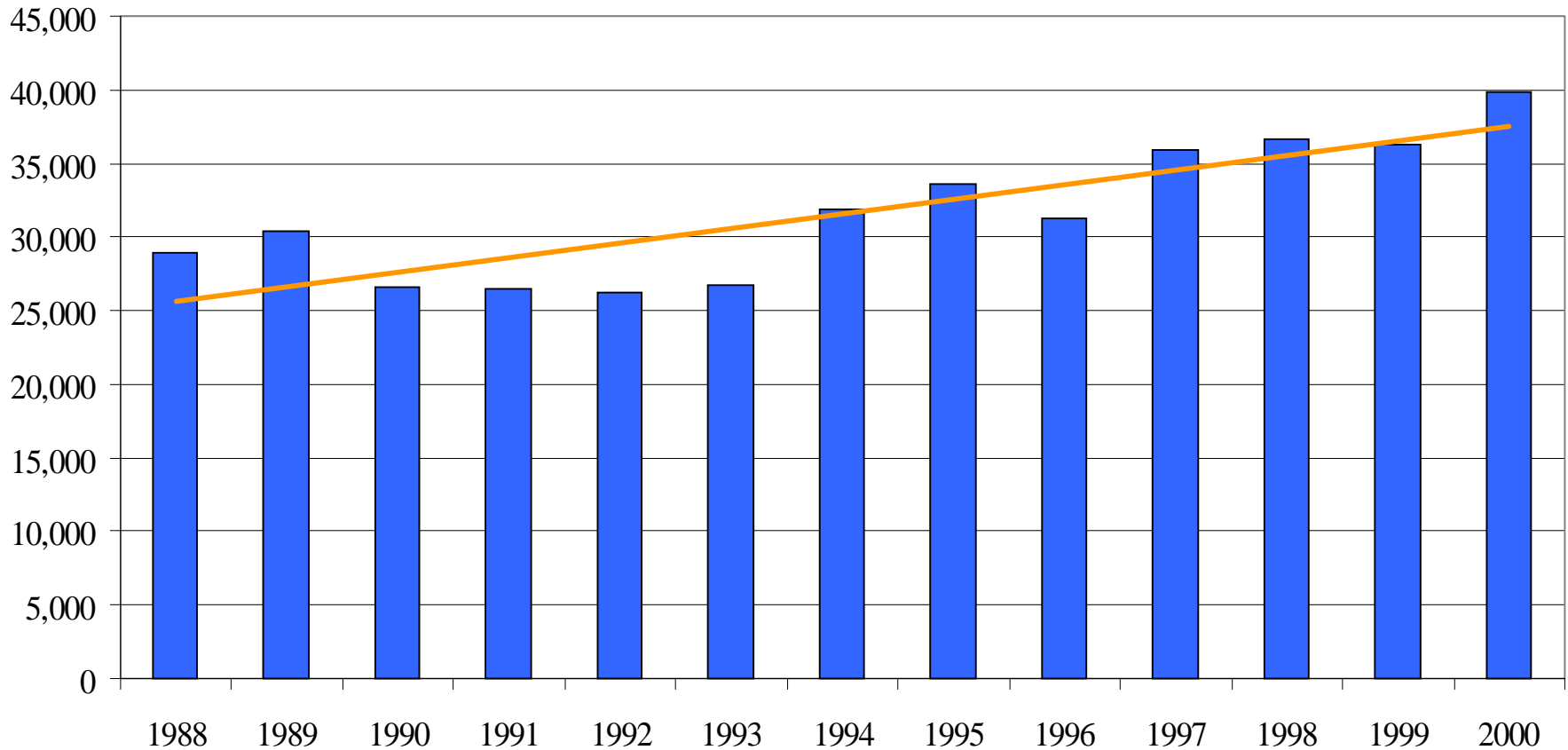


Source: Department of Revenue



Arrests have increased 37% since 1988.

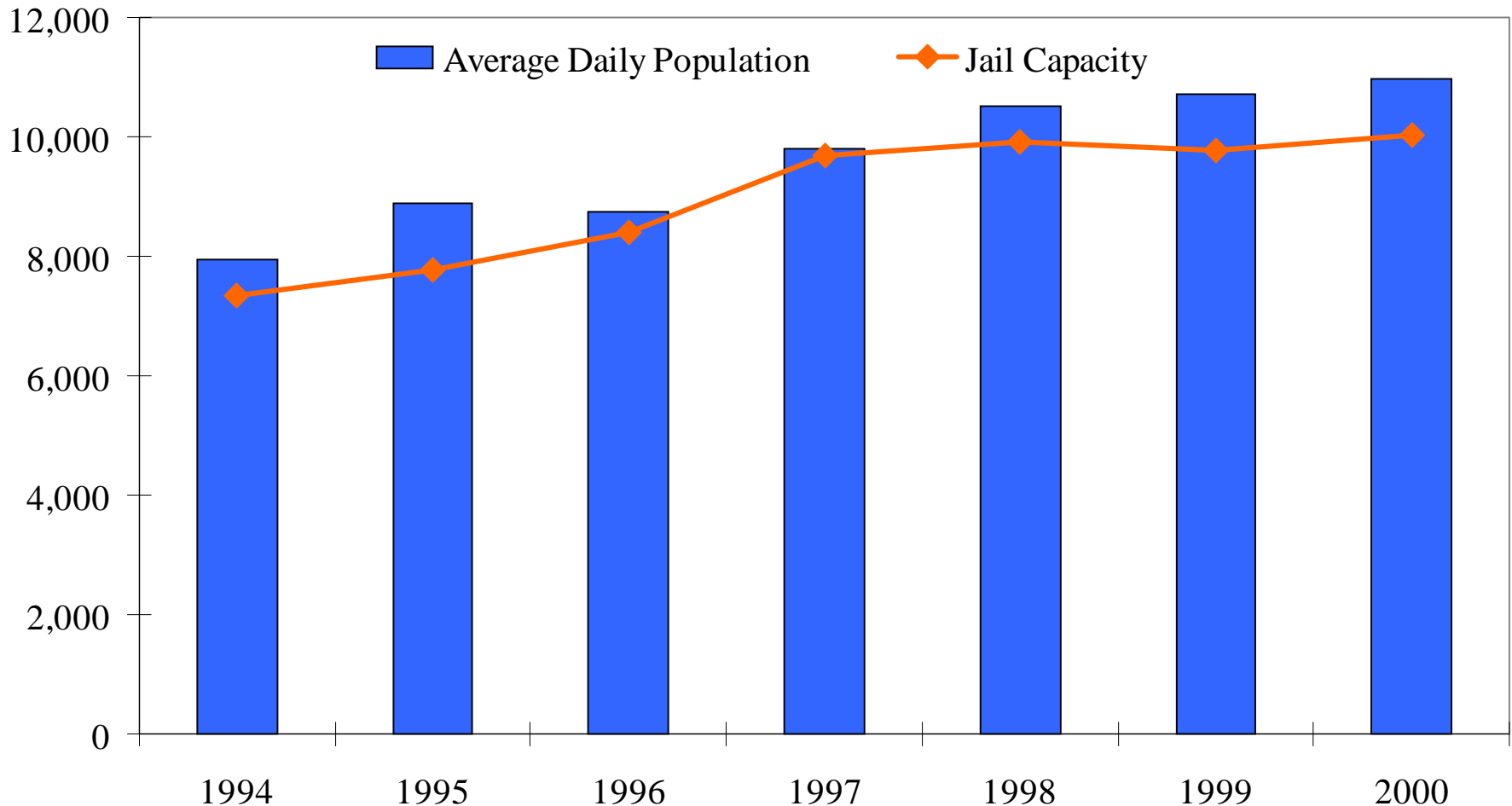
Total Reported Arrests



Source: Caseload Forecast Council, Washington Pocket Data Book (OFM)



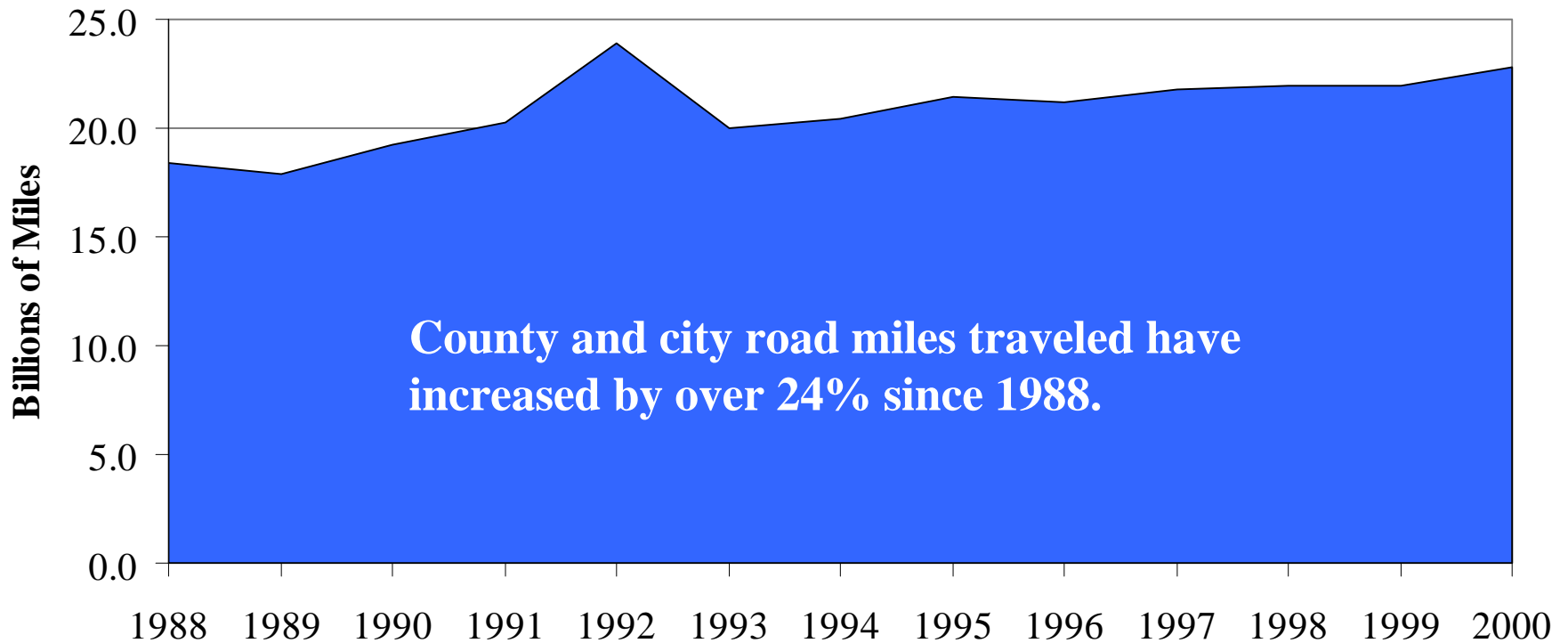
County jail populations are growing and have been exceeding capacity.



Source: Washington Association of Sheriffs and Police Chiefs Jail Information Program

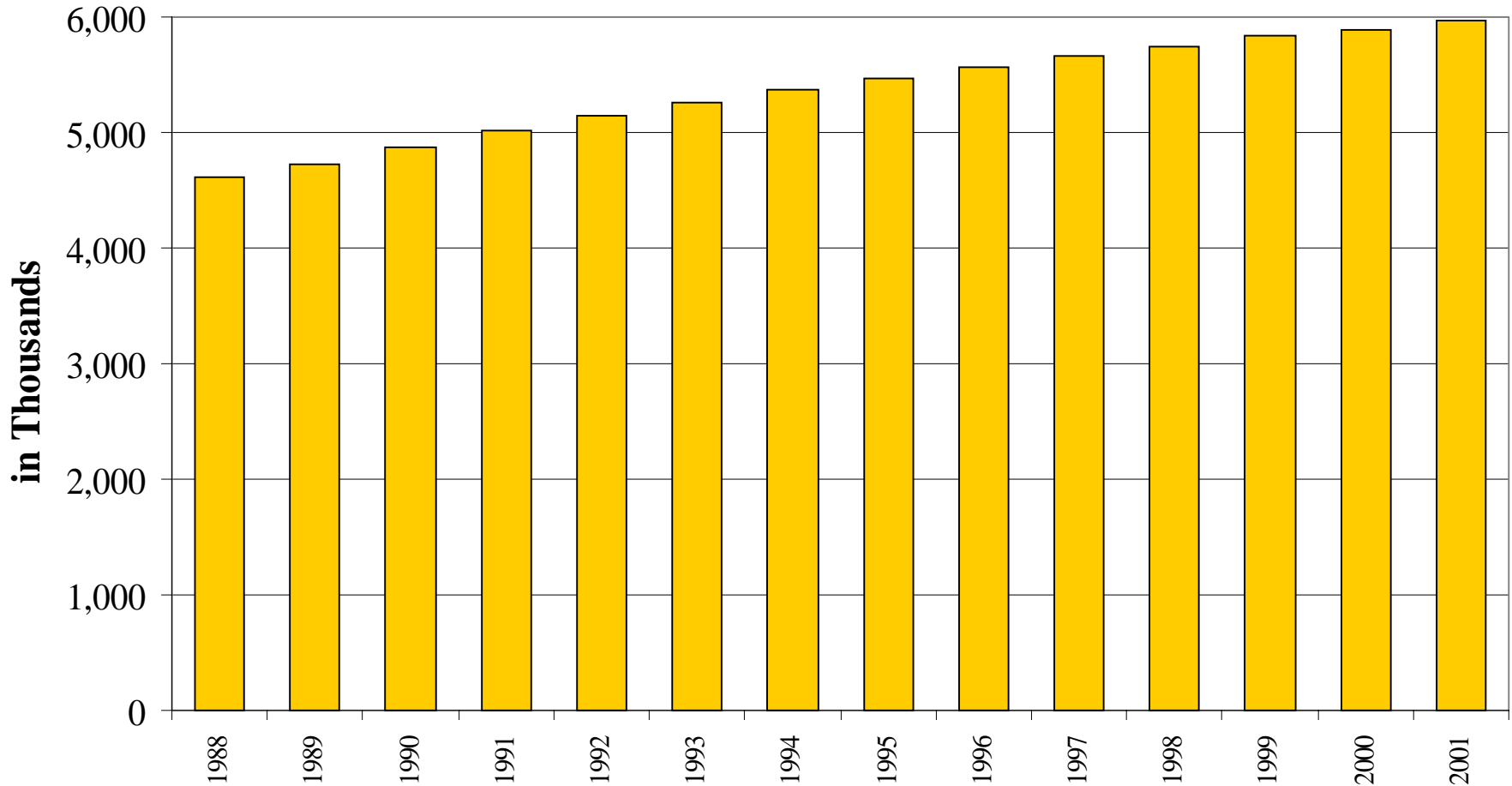


County Road & City Street Vehicle Miles





Population is growing more slowly in the last three years.



Source: Office of Financial Management



Questions on Local Government

- ◆ Question: Do local revenues keep up with, fall short of or exceed service needs?
- ◆ Answer:
 - The county sales tax base has flattened while the city tax base continues to grow.
 - Local property tax collections have kept pace with personal income.
 - Local sales taxes have grown faster in the last decade, but new taxes are used to fund major construction projects and criminal justice, and not general operation.
 - Population growth and other pressures have exacerbated the need for local operating revenues.



#7 Dedicated Funding Question

Does dedicated funding give policymakers the flexibility to respond to state and local shortages? (Competitiveness Council)

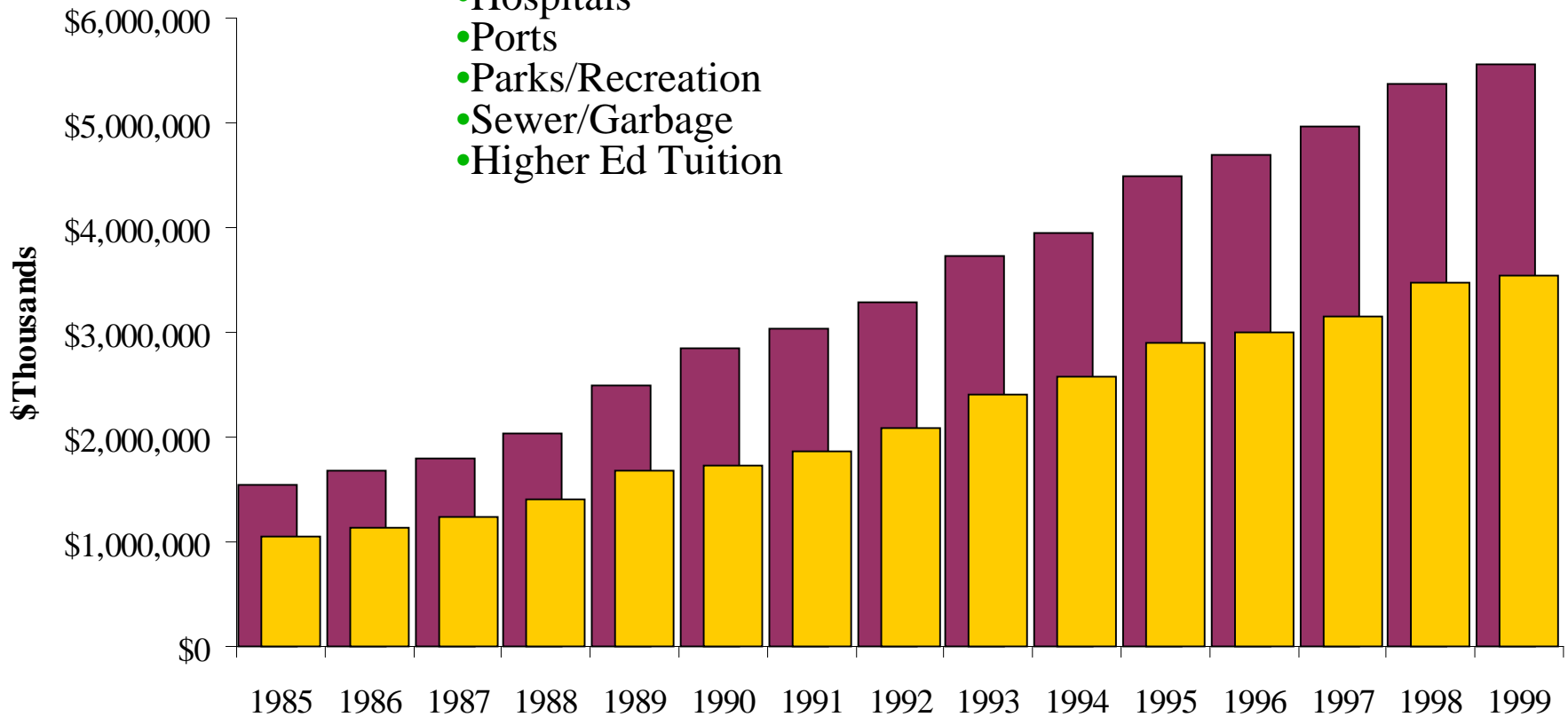
- Users fees and charges paid to government
- Dedicated taxes



Current charges paid to state & local governments

Current Charges

- Hospitals
- Ports
- Parks/Recreation
- Sewer/Garbage
- Higher Ed Tuition

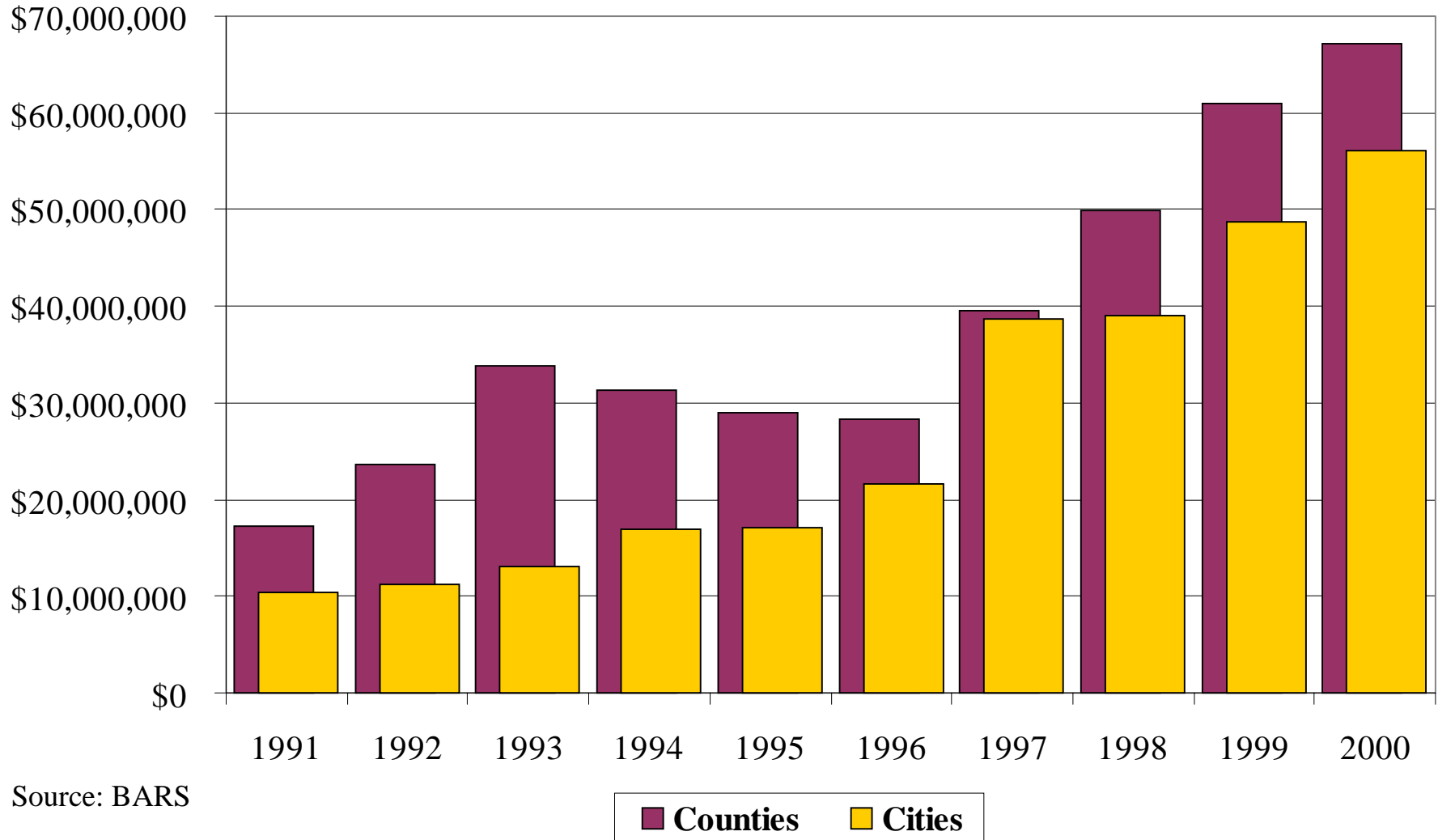


Source: Census, Government Finances

■ State and Local ■ Local



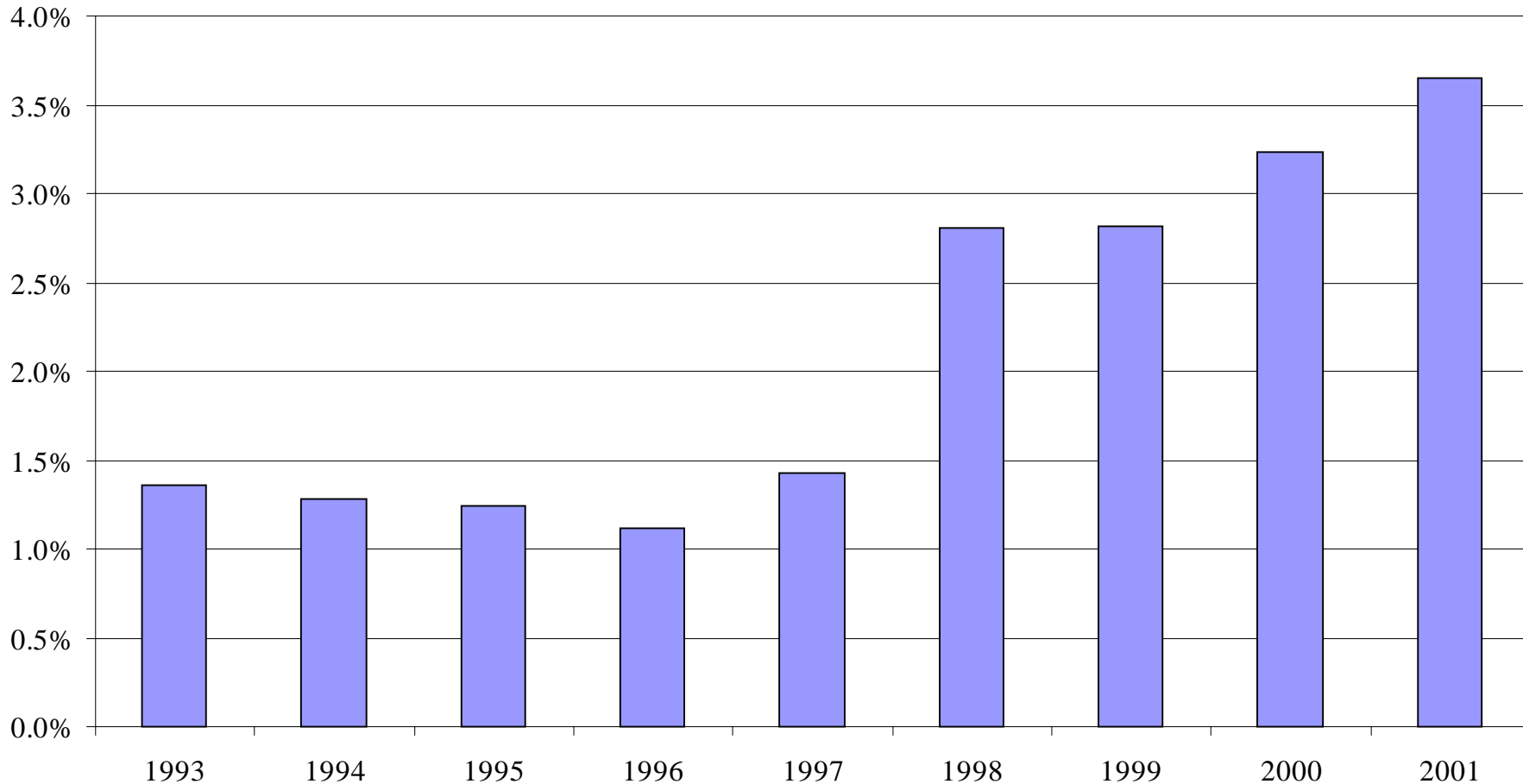
Housing impact fees are increasing rapidly for both cities and counties





Dedicated state taxes are growing as a share of revenues.

State Dedicated Funds As a Percent of All DOR Collections



Source: DOR, Non General Fund Revenues



Dedicated taxes enacted since 1990

- **Oil spill tax, 1991 (state)**
- **Syrup tax, 1989 and 1995 (state)**
- **Baseball stadium taxes, 1996 (local)**
- **Football stadium taxes, 1997 (local)**
- **Regional Transit Authority (RTA) taxes, 1997 (local)**
- **Wireless Enhanced 911 tax, 1994 (local)**



Questions on Local Government

- ◆ Question: Does dedicated funding give policymakers the flexibility to respond to state & local shortages?
- ◆ Answer:
 - Current charges paid to state and local governments have doubled in the last decade. These charges pay for higher education tuition, hospitals, ports and sewer/garbage.
 - Counties and cities adopted development impact fees in the 1990's to fund public facilities to accommodate growth.
 - Dedicated state & local taxes in the 1990's are funding oil spill cleanup, a baseball stadium, a football stadium, and a regional transit system.