COUNTY FINANCES:

Tax and Revenue Systems in Washington Counties

a study by the
League of Women Voters of Washington
and the
Institute for Washington's Future

October 2000

Preface

This study was written by the League of Women Voters of Washington (LWVWA) in partnership with the Institute for Washington's Future (IWF).

There is a need for greater understanding of taxes in our communities. Both the LWVWA and the IWF believe that we should lead our communities in discussing how our governments should be financed. We hope that this study will help our members take an active role in informed public dialogue.

Why did the League of Women Voters of Washington and the Institute for Washington's Future (two state level organizations) study county finances? There are several reasons:

- Counties have increasing state and regional responsibilities and have been affected by several changes in the finance system recently, including Referendum 47 and Initiative 695.
- The authority for counties to tax comes from the state legislature and any changes in the finance system must come at that level.
- Increasing pressure of growth has affected county government more than any other.

One thing is very clear: the complex relationships of taxes in Washington State are difficult to understand. Our goal in publishing this study is to investigate the intricate web of intersecting state and local taxes and find the issues of importance to our county finance system.

How Do You Recognize a Fair Tax?

Fair—just, unbiased; equitable; in accordance with the rules (Oxford English Dictionary)

The League of Women Voters of Washington has used an established set of criteria to evaluate individual taxes and the tax system. These criteria were first outlined in the 1966 Tax Facts publication and revised in the Basic Tax System in Washington articles in the Spring 1982 Voter.

The League of Women Voters of Washington concurs with most authorities that a state revenue system should be:

- **Fair** Fairness means that the burden of payment should not fall unequally on taxpayers when the ability to pay is taken into consideration.
- **Adequate** A tax system must raise enough money in bad times and good times to cover the services requested by the citizens.
- **Balanced** Tax revenues should be obtained from a variety of sources to help achieve fairness and stable revenue.
- **Flexible** A flexible system does not have too many restrictions. It can meet the strains brought on by increases in population, fluctuating job rates and changes in society.
- **Manageable** The tax system should be easily understood by the taxpayer, should encourage voluntary compliance and be easily administered by the taxing authority.
- **Economically Sound** The tax system should not cause business to be at a competitive disadvantage with similar businesses located elsewhere.
- **Safeguarded** The system should contain proper safeguards and limits to raising money without the taxpayers' approval and government should be accountable for the spending of all

revenues.

- **Non-burdensome** A tax system should not take more money from the taxpayer than he can afford.

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Section 1: History and Background on Washington Taxes

Philosophy of Government Finance

Government finance has played and continues to play a central role in the American experiment. This is particularly true of taxation.

“No taxation without representation” was the battle cry of the American Revolution. The Declaration of Independence can be read as a treatise on taxes and tax policy. After the revolution, the new states and their confederation stumbled in finances; the Convention and Constitution were a response to a rising wave of rebellion against taxes and the manipulation of governmental notes.

Since the Constitution was adopted and Hamilton established our federal financial system, we have been alternately arguing about and re-creating our financial system. This evolution has taken place in the context of conflicts over the role of government, basic justice and equity, and the understanding of the needs of the people. It has produced a framework of basic principles to guide the “work” that is forever in progress to meet the constantly changing demands on our governmental system.

The American philosophy of taxation can be summed up in these principles:

- Government is established to provide order and to act positively for the common good.
- All citizens have a right to enjoy the rights and benefits of a government, and the obligation to support the government in this endeavor.
- As a representative government, our government is directly accountable to its citizens for the manner in which it applies its powers and pursues its responsibilities.
- Central to citizen participation and the exercise of governmental responsibility is the provision of a transparent, equitable, and adequate system of government finance.

However much we have failed to achieve the ideals embedded in these principles, they are the ideals that are commonly applied to measure our history, provide standards for the present debate and goals for our future.

Washington's Tax System

Overview of Taxes Levied

In Washington, we pay taxes to the state and to local (county, city and special) taxing districts, which all together form the state tax system. The system of taxes is complex and involves over fifty different taxes. State taxes account for an unusually high 69% of total state and local taxes in our state, while local taxes account for the remaining 31%. This is due to the fact that services such as education and public assistance are provided at the state level. In many other states, these services are provided at the local level, necessitating a higher local tax level. Washington's state general fund is the source of revenue for programs not funded through the earmarked proceeds from dedicated sources.

There are three basic types of taxes: income, property, and excise. **Income taxes** are based on the annual income of individuals and businesses. The state of Washington is one of only seven states that does not levy a net income tax on individuals and one of only five that does not impose a net income tax on businesses. **Property taxes** play an important role in state and county finances and can vary due to voter-approved special levies. Owners of real and personal property pay property taxes annually based on the assessed or fair market value. **Excise taxes** include just about everything else. They are taxes based on manufacture, sale, use, privilege or other transaction. We rely heavily on transaction taxes paid by consumers such as the retail sales tax. Most retail sales are subject to the sales tax, other than sales of grocery store food, prescription drugs, most personal services, real estate, securities, and insurance. The sales tax is combined state and local taxes that range from 7 percent to 8.6 percent, depending on local options. Retail sales taxes are administered by the Washington State Department of Revenue and distributed monthly to the appropriate jurisdiction. There are excise taxes on some specific products such as motor vehicle fuel, cigarettes, and alcoholic beverages. The sale of real estate is also generally subject to an excise tax known as the real estate excise tax or REET. The state motor vehicle excise tax was recently repealed by initiative.

Most businesses in Washington are subject to state business and occupation taxes and/or public utility taxes. These taxes are based on gross receipts of the business. The rates vary depending on the type of business activities and range from .011 percent to 5.029 percent. They also pay employer taxes and sometimes, special purpose taxes. In addition, most cities and towns impose a utility tax on one or more utilities and a few cities impose business and occupation taxes on non-utility businesses.

Washington's Primary Tax Sources and Characteristics

Retail Sales and Use Tax	· A consumption tax on goods and services · Greatest tax revenue source for the state · Second-greatest tax revenue source for counties · A regressive tax: people with lower incomes spend a greater share of their incomes on necessities and thus, on sales taxes · Administrative costs are low
B&O and Utility Taxes	· Major tax paid by businesses · A major source of the revenues in the State General Fund; also levied by cities · Inequitable: taxes the gross sales receipts of businesses, rather than their net profits · A very stable source of revenue
Property Tax	· The oldest tax in Washington; paid by homeowners and businesses · Largest source of tax revenue for counties · Third largest source of tax revenue for the state, but earmarked for K-12 education and is transferred to school districts
Selective Excise Taxes	· Levied on a variety of specific products: gasoline, alcoholic beverages · Includes public utility taxes on electricity, natural gas, water, and sewer · Taxes are passed onto the consumer
Income Tax	· None

History of Taxation

Washington State's tax system has greatly expanded and evolved since the original property tax instituted under the Organic Act of 1853, the federal act that established the Territorial Government of Washington. That property tax was the only significant source of territorial and state revenue until the taxes on insurance premiums and the privilege of incorporating were added in the late 1890s. Since that time, and especially starting in 1935, many new taxes have been adopted, tax rates and assessments raised and lowered, taxes expanded and taxes revoked. The Washington tax structure has developed through a constant juggling of often-conflicting values, while struggling to meet its purpose—to provide adequate funds for the services the voters have demanded. Throughout this evolution the state tax system continues to attract impassioned criticism from all sides.

Two principles that guide the development of any tax are whether the taxpayer receives a benefit from government services or facilities financed by the tax and has the ability to pay it. This does not mean each taxpayer must receive a direct benefit from each tax paid, but that each tax produces a public benefit. Taxes are "compulsory payments to a governmental entity in which the amount paid is not directly related to the cost of, or benefits received from, a service provided by the public jurisdiction." [1] Public benefits received from paying taxes include clean air and water, public safety and public health, and national defense and disaster relief.

Property Tax Evolution/Revolution

The original source of revenue for state and local governments in Washington was the property tax, levied on real property—land and fixed improvements on land, such as a house—and on tangible personal property, such as machinery and supplies. In the early 1930s the property tax failed to meet both the **benefit received** and **ability to pay** criteria. Taxpayer dissatisfaction lead to a significant restructuring of the state tax system that included the income tax rule, the 40 mill limit and the Revenue Act.

The early twenties saw an increase of state residents who did not own real or tangible property. Since the property tax was the only tax levied, they paid no taxes yet benefited from government services. Interest in a state income tax was spurred at this time as a way to evenly disperse the burden of taxes among all residents. As a preliminary to establishing an income tax, the 14th amendment to the State Constitution was passed in 1930. This amendment modified the Organic Act provision that stated, "...All taxes shall be equal and uniform; and no distinction shall be made in the assessment between different kinds of property..." Following the amendment, it stated that, "...All taxes shall be uniform upon the same class of property within the territorial limits of the authority levying the tax." [2]

This constitutional change gave full authority to the county assessors to determine the value of property within their jurisdiction. After this amendment, voters passed a graduated state income tax in 1932 by a 70% margin. But the State Supreme Court overturned it in 1933 on the grounds that net income constituted property and therefore had to be taxed at a uniform (as opposed to graduated) rate. The legislature responded by recommending further constitutional changes that would have allowed an income tax, but voters rejected these efforts.

During the Depression Washington's finance system hit a crisis as property tax revenues dropped significantly. Property owners simply couldn't raise the cash to pay their taxes. Nearly 1/3 of the property on the rolls was delinquent during this period. Concerned voters passed a state initiative in 1932, which imposed an overall 40 mill limit (a mill is 1/10 of a cent) for state and local levies. In 1944 the 40 mill limit and the formal establishment of the legal assessment at 50% of true and fair value became the 17th amendment. The State legislature initiated widespread reforms in the tax structure through the Revenue Act of 1935, which established the retail sales tax, the use tax, the B&O tax, the public utilities tax and selective sales taxes.

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[1] State of Washington. Department of Revenue. Research Division. TAX REFERENCE MANUAL: Information on State and Local Taxes in Washington State. Page Overview-1

[2] Constitution of the State of Washington. Article VII, Section 1.

Sales and Use Taxes

The sales tax was adopted as an integral part of the 1935 Revenue Act. It provides another clear example of government's ongoing struggle to meet the **benefit received** and **ability to pay** criteria. Today, the retail sales tax is the most significant source of revenue for the state general fund. There is little disagreement that the revenues from the sales tax benefit everyone. But this tax is regressive because it imposes a greater burden on lower-income households. While paid by everyone as a set percentage of the price of goods and services, lower-income people pay a larger share of their incomes than higher-income people on necessities that are taxed. People with higher incomes spend a larger share of their incomes on items that are not taxed, like savings and stocks. Since lower- and moderate-income households pay a much greater percentage of their incomes on sales taxes, it does not meet the **ability to pay** criteria.

One effort to decrease the regressivity of the sales tax was the 1977 voter-approved initiative exempting food for off-premise consumption from the sales tax. Many food items (dairy products, eggs, unprocessed fruit and vegetables and bread) were initially exempt in the Revenue Act, but were added as the first revision to the sales tax in 1939. Yet even after the voter mandate in 1977 a revenue shortfall in 1982 forced the state legislature to temporarily reimpose the sales tax on food for 14 months. Currently there is no sales tax on food for off-premise consumption.

Other exemptions and deferrals of sales tax on specific services—such as medical, legal or accounting, and sales of prescription drugs, securities, real property, or insurance, or sales for resale—were either part of the original intent or added by the legislature. Several temporary sales tax deferrals for specific purposes, such as encouraging manufacturing in economically depressed counties, establishing community empowerment zones, recovery for areas affected by natural disaster, military base closure or major employer layoffs, have been added by the legislature as incentives to support the state's economic base. The specific sales tax deferral for research and development equipment for high technology firms, and public facilities such as stadiums or convention centers are a few recent examples of sales tax exemptions and deferrals.

In 1970 the Legislature authorized cities and counties to levy local optional sales/use taxes and added additional optional sales/use taxes in 1982 to help offset the loss of revenue from a change in the personal property taxes for businesses. Additional increases were made for transit, high capacity transportation systems, criminal justice programs and public facilities. Both local option taxes are at a rate of .5%, for a total local option sales/use tax rate of 1%. In effect, a county receives 100% of the receipts from this tax on taxable events in the unincorporated area and 15% of the receipts from this tax from taxable events in cities and towns in the county, and each city or town receives 85% of the receipts from this tax on taxable events in the city or town. This assumes both the county and city or town impose the taxes at the same rate, which is commonly true. The 1982 Legislature also established an equalization program to supplement the revenues of counties and cities having low per capita sales tax receipts. The equalization program used funds from the Motor Vehicle Excise Tax (MVET) to provide funds to those jurisdictions that receive less than 70% of the statewide average per capita local sales tax receipts during the previous year.

The Revenue Act of 1935 also included several selective sales taxes that were imposed on the purchase of specific items. The revenues collected were dedicated to specific purposes. These original selective sales taxes have been joined by several other special sales and use taxes that provide earmarked funds for specific long- and short-term purposes. The cigarette tax, liquor tax, convention center tax, local hotel-motel tax, solid waste collection tax, and the brokered natural gas use tax are examples of selective-use sales taxes.

Selective sales taxes generally address the economic effect of a **benefit received** for a tax paid, with the earmarked funds providing service to those paying the tax. For example, telephone taxes fund enhanced-911 emergency systems and local hotel-motel taxes provide financial assistance to tourist-related local facilities and tourist promotion efforts. There are some exceptions. Some taxes are used to encourage a certain behavior believed to be in the public good or to discourage a behavior that is believed to be harmful to the public good or the environment. Some taxes are imposed to generate money without much consideration of a direct benefit or without discouraging behavior, e.g., additional sales tax on auto rentals, additional sales tax on selling food in restaurants, and a cigarette tax to retire bonds issued for veterans' programs.

One of the primary dedicated revenue sources is the motor vehicle fuel tax (also know as the gas tax). Adopted in 1921, it is the third-oldest state tax. The motor vehicle fuel tax is the fifth largest revenue source in the state and with the other vehicle-related fees, is the largest source of funds earmarked for a single government program. In 1944 the 18th amendment to the state constitution was passed, requiring that gas tax revenues be dedicated to roads. The motor vehicle fuel tax is expressed as cents per gallons rather than as a percentage of the price. Therefore, gas consumption, rather than inflation, determines the tax revenue. In the 1970s and 1980s, the tax rate fluctuated according to fuel price and highway needs. In 1983, however, the variable rate was repealed. In 1990 legislation was approved allowing counties to levy gas taxes in addition to the state gas tax.

The Motor Vehicle Excise Tax (MVET) was established in 1937 removing vehicles from the property tax rolls. A local option MVET was passed (credited against the state tax so the auto owner pays no more and the transit authority receives the money that otherwise would go to the state general fund) to fund local mass transit facilities, construction and operation of ferries and in 1982, to fund the local sales tax equalization program. In 1990 the rate was reduced to 2.2% with authorization for a local option. At that time the assessment was changed to the suggested retail price with three subsequent depreciations rather than the original twelve depreciations. A MVET increase was authorized in 1993 to fund clean air. A local option MVET and additional 0.3% local option sales and use tax were authorized in 1990 to finance high capacity transportation systems. Any transit authority, including Public Transit Benefit Areas and the newly authorized Regional Transit Authorities, may impose these taxes. However, only the RTA imposes these taxes. Approved by voters in 1998, Referendum 49 established a maximum credit of $30 per vehicle against the MVET and revised formulas for distribution of the tax receipts, shifting funds from the general fund into the transportation fund. Voters approved Initiative 695 in 1999, repealing the Motor Vehicle Excise Tax and limiting the flat fee to $30 as of January 1, 2000. The local option MVET was not eliminated by I-695.

The Business and Occupation tax, established in 1933 was originally known as the Tax on Business Activities, and was incorporated into the Revenue Act of 1935. It is an excise tax on the privilege of engaging in business, and is levied on gross sales receipts of most businesses operating in Washington. It is the second leading source of state revenue in the general fund. Over the years several new categories of rates have been added. There are six different rates applying to different classifications of businesses. Several exemptions and tax credits have been implemented, such as those to address court rulings against potential double taxation, to encourage investment in pollution control, and to offset the burden to small businesses.

The Public Utility Tax was established on public utilities in lieu of the B&O tax under the 1935 Revenue Act. Five rates apply: 1) distribution of water; 2) generation and distribution of electrical power; 3) telegraph companies, distribution of natural gas and collection of sewerage; 4) urban transportation and water craft vessels under 65 feet; 5) railroads, railroad car companies, motor transportation and all other public service businesses. Several surtaxes were applied to the base rates over the years and some rates reduced. Telephone service was determined to be subject to the B&O tax. Garbage collection and sewerage were transferred from B&O taxing to public utility taxing; however solid waste was returned to B&O tax when the new solid waste tax was instituted.

Cities and towns were authorized to license businesses for purposes of regulation and revenue in the initial legislation providing for different classes of cities and towns that was enacted in 1890. These laws effectively granted cities and towns the authority to impose business and occupation taxes and utility taxes at any rate. The 1982 legislation granting counties, cities, and towns the second option local sales and use taxes also capped city and town business and occupation taxes and most city and town utility taxes at 0.2% for general business activities and a limitation of 6.0% for most utilities. These taxes are levied and collected by local jurisdictions and have little uniformity in rates and tax bases. The greatest difference between city and town, and county, taxing authority is that cities and towns may impose B&O taxes and utility taxes, but counties can't. These tax receipts go into the city's or town's current expense fund or general fund and may be expended on any legal city or town purpose.

Recent Changes by Voters

There have been several recent initiatives aimed at limiting state government and state taxes.

Referendum 47

Referendum 47 was passed by voters in 1997 to further limit regular property tax levies. Prior to its passage, increases in regular property tax levies were subject to a 6% limit. Referendum 47 changed this limit for taxing districts having a population over 10,000. The new limit for these districts is either 6% or the level of inflation, whichever was smaller. In addition, increasing the previous year's levy up to the rate of inflation requires a majority vote by the district's governing board at a public meeting. However, districts demonstrating a "substantial need" can return to the 6% limit by a two-thirds vote of the governing body.

Initiative 601

In 1979 the voters approved Initiative 62, which sought to limit growth in state revenue collection to the growth in personal income. This tax-limiting program was replaced by Initiative 601, approved by the voters in 1993. The intent of I-601 was to limit the growth of state government expenditures from the general fund, and to impose a supermajority voting requirement on state tax increases. Initiative 601 limits the growth of general fund expenditures to a level tied to increases in population and inflation. Spending above this level is prohibited. The limit is based on prior actual state general fund expenditures and must be adjusted when program costs or revenues are transferred from the general fund to another account. It is possible that the expenditure level will be decreased over time as subsequent budgets fall below the expenditure level.

I-601 also addresses tax revenue in excess of the expenditure limit. This excess is deposited into an emergency reserve fund, which is limited to an amount equal to five percent of the state revenues in the general fund. Any excess in the emergency reserve fund is transferred to an education construction fund. A two-thirds vote of both houses of the Legislature is necessary to utilize the emergency reserve fund but can only access up to the overall expenditure limit. Initiative 601 also mandates a two-thirds approval from both houses of the Legislature to increase state revenues or to implement revenue-neutral tax shifts. Tax increases to respond to natural disasters must be approved by a declaration of emergency by the Governor and two-thirds of the Legislature.

I-601 also included a provision requiring the state to fund any new program or increased levels of service to an existing program that the Legislature requires local governments to perform. This is the so-called anti-state mandates provision. It was originally included in I-62, but that provision was altered by the Legislature, when it gave money to counties and cities for criminal justice purposes, to provide a credit for the state on additional taxing authority and grants that were provided to the local governments. That change was reversed by I-601.

Initiative 695

Initiative 695 was on the November 1999 ballot after receiving the second highest number of signatures gathered in Washington State history. The initiative passed with 56% of the vote. The ballot questions were, "Shall voter approval be required for any tax increase, license tabs fees be $30 per year for motor vehicles, and existing vehicle taxes be repealed?"

The initiative makes two important changes:

I-695 sets all motor vehicle license fees at $30; (they were $27.75 for new automobiles, and $23.75 for annual renewals), and expressly repeals existing state Motor Vehicle Excise Taxes (MVET), which were set at 2.2% of the vehicle's value and included a $2.00 clean air tax. "Motor vehicle" includes cars, sport utility vehicles, motorcycles and motor homes. By inference, I-695 may have also repealed the local option MVET that transit authorities may impose to support mass transit.

The Initiative also prevents state and local governments from raising or imposing any taxes except by voter approval. I-695 defines “tax” as sales and use taxes, property taxes, business and occupation taxes, excise taxes, fuel taxes, impact fees, license fees, permit fees and any monetary charge by government. The three exceptions to the initiative's requirement for voter approval are higher education tuition, civil and criminal fines, and a two-thirds vote by both houses of the legislature for emergencies.

The impact of I-695 on state revenues is significant. Estimates by the Washington State Office of Financial Management are that I-695 would reduce motor vehicle taxes and fees by up to $1.1 billion in the 1999-2001 biennium and by up to $1.7 billion in the 2001-03 biennium. Counties and local governments would feel the effects of I-695, especially in areas of public health, criminal justice, local transit, city and county tax equalization, and distressed county assistance. Further impacts would be felt as jurisdictions need additional funds over time but cannot raise those funds without voter approval.

Since the requirement for voter approval for increases in "any monetary charge" applies not only to general-purpose governments, such as the state, cities and counties, but also to special purpose districts and "other political subdivisions within the state", it can be anticipated that proposed revenue increases at the state and local level could result in frequent public votes.[3]

The constitutionality of Initiative 695 was challenged and on March 14, 2000, Judge Robert H. Alsdorf handed down his decision on I-695 in King County Superior Court. The court declared Sections 1, 2 and 3 of the Initiative unconstitutional. The judge decided that I-695 as a whole violates the Constitution because it covers more than one subject; that Sections 2 and 3 of the Initiative violate the Constitution because not all subjects in their text are identified in the Ballot Title; and that the Initiative as a whole violates the Constitution because it is not a complete Act, and neither sets forth the text of those other laws that it necessarily amends nor explains how those amendments are worded or would be implemented. Judge Alsdorf found Section 2 of the Initiative unconstitutional because it mandates universal referenda without complying with the Constitution's four percent requirement. He also found Section 2 unconstitutional because it mandates universal referenda on laws and acts necessary for the support of State government and its existing institutions. At the time of publication, the Superior Court ruling on I-695 was being appealed to the state Supreme Court.[4]

Even after the Superior Court found I-695 unconstitutional, the state legislature passed a bill making the motor vehicle license fee $30, and preserving the initiative’s tax cut. The legislature struggled to adjust the budget to make up for these lost funds. They have provided funds to restore one third of the state's highway-construction budget, including $31 million to complete priority road projects that had been eliminated when I-695 passed. Partial funds were restored to Sound Transit, ferries, rail, buses, and multimodal freight transportation, as well as to public health and county and city assistance. These replacement funds are for the current year only. It is unclear how the legislature will meet future funding gaps from the loss of MVET revenue. The legislature did authorize a local option increase of .3 cents in the retail sales tax for transportation.

With this brief overview of Washington’s tax system, we can now look in more detail at Washington’s counties, to understand how they raise and spend revenues. We will look at a history of county responsibilities and explore the differences and similarities between counties that contribute to the health of their finance systems.

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[3] League of Women Voters of Washington. Analysis of Initiative 695, October 1999.
[4] League of Women Voters of Washington. Message to LWVWA Topics, March 14, 2000.

Section 2: Counties in Washington

County Responsibilities

Local Governments

Washington State has three forms of local government: counties, cities and towns, and special purpose districts. Counties, cities, and towns are general-purpose governments, providing a broad range of services to their residents. In contrast, special purpose districts are established to deliver a specific service to a particular population. There are currently 39 counties, 280 cities and towns and approximately 1400 special purpose districts.[5] Thirty-four of Washington's counties were formed during the days of its Territorial Government, and were recognized and retained by the state constitution. The other five counties were created by the legislature between 1889 and 1911.

What Do Our Counties Do?

Washington State has a unique history of county government that has changed over time. On the one hand, the absolute and relative authority of counties has diminished significantly since territorial times. On the other hand, counties have been given new authority.

At one time counties were the basic unit of government in Washington Territory, with authority in virtually all spheres of government activity. The territorial government was very small, basically only including the Legislative Assembly and Governor. Counties essentially acted as territorial agencies or direct political subdivisions of the territorial government, carrying out all territorial activities, and acting as separate local governments. Among other authorities, counties created, regulated, and financed school districts, provided public assistance, provided public health, provided all means of transportation in the Territory, imposed and collected taxes, provided all law enforcement, and enforced regulations. Many of these functions are no longer provided by county government.

However, modern county government possesses some authority that did not exist in territorial times. Counties now possess express statutory authority to provide water and sewer systems and mass transit systems, adopt comprehensive plans and zoning, provide airports, and provide 911 dispatch services.

Counties have three major roles: (1) as administrative arms or political subdivisions of the state; (2) as regional governments; and (3) and as local service providers. As state agents, some of the services they provide include public defenders, courts, jail systems, mental health and developmental disability services, elections, document recording, marriage licenses and administration and collection of property taxes. In their role as regional governments, counties provide, among other things, transit services, airports, housing programs, veterans assistance, 911 dispatch, growth management policies, solid waste management, juvenile justice facilities and services, and public health services. Finally, as local service providers, counties perform duties, which include law enforcement, construction of roads and bridges, land use planning, garbage and recycling, parks and recreation, and water and sewer services. In general, this latter list is only provided in the unincorporated areas.

The state legislature can pass laws requiring counties to perform certain functions, such as legal defense for indigents or growth management planning. Citizens in counties that have adopted home rule charters also have the ability to require certain county functions, by means of the initiative process. Responsibilities passed by the legislature are referred to as mandates. The legislature can also grant specific powers to counties, such as the authority to operate park facilities or water and sewer systems. In these cases, counties can pass legislation to establish those authorized services. So, counties throughout the state do perform some similar functions—those mandated by the state legislature -- but they also carry out different services, depending on the needs and desires of their residents.

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[5] Municipal Research & Services Center website: http://www.mrsc.org

County responsibilities vary across the nation as well. Like Washington, most counties have historically performed state mandated duties as political subdivisions of the state, such as record keeping, conducting elections and assessing property. In addition, many counties have taken on increased service-provider responsibilities such as child welfare, planning and zoning and water quality. However, county responsibilities are in no way uniform. For example, while one of the primary duties of most counties includes constructing and maintaining local roads, North Carolina counties have no responsibilities for this function.[6]

Structure of Washington's County Government

The structure of county governments is set out in the state constitution. Article XI, Sections 4 and 5 establishes a uniform system of government for counties with a uniform array of elected officials. This state requirement for a uniform array of officials creates a multi-headed executive system of government for counties, unlike any other local government. Voters approved two constitutional amendments in 1948 allowing for county voters to adopt home rule charters and vary from these requirements for a uniform structure of county government.

First, the 21st Amendment to the state constitution allows the voters of any county to adopt a "home rule" charter and vary the array of elected officials in that county, as well as assume an added degree of home rule authority beyond that granted to all counties, cities, and towns by Article XI, Section 11, of the original state constitution. Five counties—Clallam, King, Pierce, Snohomish and Whatcom—have adopted home rule charters. While Clallam County maintains a three-commissioner form of government, the other four counties have created the council-executive form, in which the legislative and executive powers are separated into different bodies.

Home rule counties have the authority to enact laws for local governance, but are subordinate to state law requirements regarding issues having broader (than local) impact. Counties adopting home rule charters also have the authority to use the powers of citizen initiative and referendum.

Second, the 23rd Amendment to the state constitution allowed voters in King County to adopt a home rule charter establishing a combined city-county government. This Amendment was altered in 1972 by the 58th Amendment to the state constitution allowing voters of any county to approve a combined city/county charter and expanding the nature of the combined city/county home rule charter to control every aspect of local government throughout the county. Proponents believed this combined government could improve the provision of local government services, by increasing cooperation between local jurisdictions providing similar services. While some counties have explored this option, none have created city-county governments.

County as State Agent

During Washington's territorial days and early statehood, the only forms of local government were counties, cities, towns, school districts, and road districts. They each had distinct roles: counties were large geographic areas, serving as local arms of the territorial or state government, while cities were created around economic centers to provide protective services, such as police, to its residents. As a sub-unit of the state, counties were responsible for maintaining birth, death and land transfer records; providing courts and law enforcement; building and maintaining roads and public buildings; granting licenses; supporting indigents and collecting taxes. Road districts were subunits of county government created to construct roads throughout the county, including in early cities and towns. School districts were separate units of government, but were under the general regulatory control of county government.

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[6] National Association of Counties website: http://www.naco.org

General Powers

General grants of police power authority for counties to act unless prohibited by statute from acting enjoys a checkered history in Washington. Today the state constitution and statutes expressly grant counties the authority to act unless prohibited by law from acting. However, this general authority has not always existed.

In theory, the laws granting powers to a unit of government could: (1) expressly prohibit the government from acting without express authority; (2) not address the issue of whether a government could act without express authority; or (3) expressly authorize a government to act unless expressly prohibited from acting. County government has experienced each of these three alternatives.

Initially, counties were expressly prohibited from acting unless they were granted express authority. The initial laws providing for counties listed several powers and then stated that counties "shall have no other powers except as are or may be given by law." (See, Section 6 (6), of legislation enacted on March 20, 1854, entitled "creating the board of county commissioners and defining their duties.") This express prohibition was soon removed from statutes establishing county government. Laws providing for counties was altered in 1869 to remove this express prohibition, but were silent as to the authority to act without express authority. (See, in Section 11(6) of legislation enacted on December 2, 1869, that was entitled "to provide for the election of county commissioners and defining their duties.") Then the initial provisions of the state constitution reversed this silence and expressly granted counties the authority to act unless expressly prohibited, but statutory law was not altered. (See, Article XI, Section 11, Washington State Constitution.) Finally statutes were amended in 1947 to expressly recognize this broad grant of home rule authority. (See, Section 1, Chapter 61, Laws of 1947.)

However, state courts have more often than not interpreted the "police power" narrowly, denying the implied powers of self-rule and maintaining that local governments only have the powers conferred on them by the legislature. More recent decisions have given a more favorable reading to the broad home-rule powers of local governments, especially with regard to charter counties and cities. On a practical level, the police power has been used to support the changing nature of county governments, specifically county roles in providing urban services. These complexities contribute to the confusion surrounding the structure of our tax system.

County as Service Provider

In the early 1900's, Washington experienced significant growth. Booming timber and mining industries along with the development of the railroad and the appearance of automobiles provided new opportunities and attracted many people to the state. During the 1930's and the Great Depression, the federal and state governments sponsored many public works projects—such as building roads, bridges and dams—to spark the local economy. These projects started the movement of people out of cities and into rural areas. As people settled in unincorporated areas, they demanded the same services—fire, sewer, and water—that were available in cities. But counties, which were responsible for unincorporated areas, did not yet have the express authority to provide these municipal services, and cities were reluctant to incorporate the newly settled areas because of financial constraints. As a result, special purpose districts were created to provide these services in unincorporated areas.

With renewed growth spurred by manufacturing industries during WWII, the population of Washington State continued to expand, as many people immigrated to work in the shipbuilding and plane-building industries. At the same time, federally sponsored programs such as the insurance of long-term mortgage loans and the building of federal highways, further facilitated the growth of unincorporated areas.

To meet the growing demands for services in unincorporated areas, counties began requesting authority from the legislature to provide municipal services. They argued this power would make services more efficient and centralized by cutting down on the number of special purpose districts that had risen to meet increasing needs. In 1967, the legislature passed the County General Services Act, allowing counties for the first time to provide water, sanitary sewer, and storm sewers -- powers that had previously only been granted to cities and some special purpose districts.[7] With the granting of this new authority to counties, some of the historically distinct roles carried out by city and county governments in Washington disappeared. Utility services, such as that granted by the County General Services Act, typically are financed by rates and charges and are not financed by general tax revenues.

Greater Responsibilities

Under the current system, counties, cities, towns, and some special purpose districts have the power to provide urban services. Some of these local governments are struggling to meet needs. Counties face increasing demands for services in unincorporated areas as well as increasing mandates from state and federal governments. But revenue has not kept pace.

During this period, the legislature has substantially increased county revenues in the form of both increased taxing authority and increased grants of state revenues. Perhaps the greatest increase has been granting the authority for counties, cities, and towns to impose sales and use taxes and the related sales tax equalization provisions. This period has also seen the incorporation of many new cities and major annexations by cities, which has removed some major sources of sales and use tax revenues for counties. Of course, counties also lost the requirement to provide some services to these areas that were incorporated or annexed.

As county roles have shifted and increased, counties have come into competition with cities, towns, and special purpose districts for funding. Revenues have been further stretched as state and federal mandates have increased county responsibilities and standards of performance without making provisions for increased funds. In these cases, new programs and requirements must compete with other county services for general fund dollars. In addition, rapid growth in Washington has led to increased infrastructure needs—such as roads, schools and utilities—which have seriously outpaced available county revenues.

This evolution in local government roles and responsibilities raises questions about the adequacy and flexibility of our public finance system. Does it provide sufficient revenues as county functions expand? Next we will explore the powers of county governments to raise and expend revenues as they face new challenges and responsibilities.

How Can County Taxes Be Changed?

Can we ask our elected County Officials to change the County tax structure? You could ask, but they in turn would have to ask the state legislature for any changes not currently allowed under state law. Fiscal home rule does not exist in this state – counties, cities, and towns may only impose taxes if they are granted express statutory authority to impose the tax. In essence, the state legislature determines not only what kind of taxes a county can levy, but also what the maximum rate the tax can be. For example the state constitution limits the cumulative amount of the property tax without a vote of the people, but the legislature has also limited the amount of annual increase of the total property tax. Some taxes that the legislature approves are permissive, allowing the local government to impose it if it chooses to do so. Sometimes the legislature requires a vote of the people when they approve a new local tax, and sometimes it allows the local government to impose it without a vote of the people.

Can the Legislature enact a tax change for a single county? That depends. The Legislature is expressly prohibited from granting powers to local government by special legislation, but it can narrow the law's application by definition. For example it can enact a law that would apply to counties with over a million people, thus applying only to King County. Or they could enact a law applying only to counties made up entirely of islands, which would include only Island and San Juan Counties. Other examples would be counties under a certain size, counties that border Oregon or Canada and so on.

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[7] Ibid p. 39.

Could the county tax structure be changed by state initiative? An initiative is the same as a law, so it can do anything the legislature can do, but it cannot change the constitution. And neither can the Legislature, for that matter, without a two-thirds vote in both houses and the approval of the voters. So you could change county tax structure by initiative, but if you wanted to change it for just one county, the same number of signatures would be required as for any other initiative and would be voted on by all the voters in the state. Home rule counties have the power of local initiative and could enact change with that mechanism.

County Revenues

Where Do Counties Get Their Money?

Counties raise money in many ways. In fact, there may be hundreds of different sources of revenue in a county. Money may be obtained from taxing authority, grants and loans, imposing fees or charges for providing a service, or imposing special assessments. An important factor in understanding county revenues is the fact that there is money that has strings attached (mandated) and money that doesn't (discretionary). The section below on county expenditures contains more information on the distinctions among revenues.

The most significant source of money for counties is taxes. Some of that money comes indirectly from taxes by way of the federal government or state government. In other words, money that you pay to the federal government through your income taxes may come back to the county for specified projects. Money collected by the state may be distributed to the county. Money distributed by the federal and state governments back to the county accounts for about one-third of county revenues. In most instances this money must be spent for specific programs; the county has no discretion over this money. Other revenue sources produce small amounts from specialized taxes or fees that also support only a specific activity.

The primary direct tax source for counties is the property tax. Property taxes comprise about one-third of all county revenues. Unlike the state or a city, counties generally are not authorized to collect business taxes, business license fees, or utility taxes. However, in a few very limited circumstances, counties have been authorized to impose business taxes for very limited purposes, such as imposing voter approved B&O taxes in lieu of sales taxes to finance public transportation and imposing a B&O tax to fund solid waste disposal services. No county currently uses that authority to impose these B&O taxes. Other sources of revenue include sales tax, local taxes, fees for services, interlocal agreements (agreements between jurisdictions), investment earnings, and rent for public facilities. The actual collection of tax monies is frequently done by the state, which then distributes the money to the counties, according to various formulas. Counties also levy taxes themselves, but with the exception of property taxes, these taxes are usually collected by the state and then distributed back to the counties.

Summary of Revenues for All Counties[8]

Revenues	**1997**	**1998**
General Property Taxes	875,321,922	877,158,621
Sales & Use Taxes	480,133,732	507,968,947
Business & Utility Taxes	607,485	--
Other Local Taxes	225,640,286	240,765,186
Licenses & Permits	46,063,325	50,727,477
Charges & Fees for Services	674,323,072	722,339,553
Interest & Investment Earnings	159,688,492	149,354,515
Fines & Forfeits	77,297,928	83,830,850
Rents, Ins Prem, Internal, Contrib, Misc	144,147,010	138,536,836

[8] State of Washington. State Auditor's Office. Local Government Finance Reporting System. 1999.

Intergovernmental Revenues	913,670,694	906,135,226
Debt Proceeds	549,831,701	464,796,644
Total Revenues	4,146,725,647	4,141,613,855
Operating Transfers-In	328,233,270	409,204,031
Total Revenues	**4,474,958,917**	**4,550,817,886**

This report includes partial data as of 11/15/99.

Federal Distributions (Part of Intergovernmental Revenues)

The total distributed from the federal government to Washington counties in 1998 was $347.1 million. Counties receive federal direct grants (money goes directly to the county) mainly from the U. S. Departments of Housing and Urban Development (HUD), Justice (DOJ), and Health and Human Services (HHS). Federal entitlement programs include money for social security and retirement benefits, and Medicare and Medicaid. Federal indirect grants (money for county use that goes to the state first and is then distributed to the county) come from the Departments of Agriculture, Housing & Urban Development, Justice, Labor (DOL), Transportation (DOT), Federal Emergency Management Agency (FEMA), and HHS to fund programs including wetlands preservation, higher education, homeless programs, emergencies, hospitals, and infrastructure.

State Distributions (Part of Intergovernmental Revenues)

State funds distributed to counties in 1998 totaled $564.3 million. For example, distributions from the state Motor Vehicle Fuel Tax (MVFT) help pay for highways, county roads, and city streets. The liquor excise tax goes primarily to the state general fund, but also to cities and counties. Liquor board profits go 50% to the state general fund, 40% to cities and towns and 10% to qualifying counties. State grants from the Department of Ecology (DOE), the Department of Transportation (DOT), the County Road Administration Board (CRAB), the Transportation Improvement Board (TIB), Community, Trade and Economic Development (CTED), the Department of Social and Health Services (DSHS), and the Department of Health (DOH) also support county and city programs.

Property Taxes

Property taxes are the foundation of local government. Property taxes are based on assessed valuation of the property determined by the county assessor. The statutory basis for assessed value is market value. Property tax levy rates are expressed in terms of dollars per $1000 of assessed value. The tax rate is based on the levy rates of the state and the 27 different types of taxing districts that have levy authority. Currently, there are over 1,700 taxing districts throughout the state. Due to the many overlapping districts, there are in fact over 3200 different combinations of levy rates.[9]

The county levies property taxes and all property taxes are collected and administered by the county on behalf of all other jurisdictions. Property taxes are the sole source of tax revenue for many types of special districts. Property taxes are a significant source of tax revenue for cities and towns.

Which local governments receive property taxes? Of each dollar collected of regular and special levies, 57.1¢ goes to school districts, 18.5¢ to counties, 13.4¢ to cities and towns, 4.5¢ to fire districts, and 6.5¢ to all other special districts including ports and hospitals.[10] School districts receive property taxes from two sources. First, all of the state's property tax levy is earmarked to be distributed to school districts. Second, voters may approve excess property tax levies for school districts, including maintenance and operation (M&O) levies and bond retirement levies.

A complicated array of separate limitations has been placed on property taxes and property tax collections. Some of these limitations are established in the state constitution. Other limitations are established by state statute, either enacted by the Legislature or by initiative action of state voters.

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[9] State of Washington. Department of Revenue. Research Division. TAX REFERENCE MANUAL: Information on State and Local Taxes in Washington State. Page 118.
[10] Ibid p.120.

The basic 1% constitutional limitation on property taxes establishes a limitation on the cumulative rate of most property taxes that may be imposed on any property in the state. Some property taxes are not subject to this limitation, i.e., may be imposed above this limitation, including the so-called voter approved excess levies and all property taxes imposed by port districts or public utility districts, whether or not voter approved. The remaining property taxes, which are called regular property taxes, are subject to this constitutional limitation. The cumulative rate of regular property taxes on any property in any year may not exceed one percent of the true and fair value of the property.

A number of statutory limitations also exist on property taxes, including an additional limitation on the cumulative rate of regular property taxes that may be imposed, as well as separate limitations on the maximum rate of property taxes that most governments may impose.

There is no constitutional limit on special or excess levies, which must be approved by voters. The total assessed value of property in the state is $351,908 billion dollars for the year 1998. The average levy rate was $13.52 per $1000 of assessed value: the effective tax rate was 1.22%. This includes both regular levies and special or excess levies. Due to revaluation schedules lagging behind the market, effective tax rates express taxes as a percent of current market value rather than current assessed value.[11]

Limits on Regular Property Levies

Many taxing districts are authorized by state law to levy property taxes at a certain rate each year without approval by the voters; these are commonly referred to as regular levies. However, some regular property tax levies must be voter approved.

Statutes classify regular property tax levies into three categories and provide cumulative limitations on these levies beyond the constitutional one percent limitation.

The first category of regular property tax limitations is on the state's property tax levy. The state property tax levy that is imposed to finance public education, may not exceed a rate of $3.60 per thousand dollars of assessed valuation, adjusted to the state equalized value, which is a special adjustment to county established assessed valuations to achieve the actual true and fair value of the property. Other limitations have been enacted further reducing this levy.

The second category of regular property tax limitations is on most other regular property taxes imposed by local governments (counties, cities, towns, and special districts). The aggregate regular property tax levies on these taxing districts may not exceed $5.90 per thousand of assessed valuations (RCW 84.52.043). These levies are classified into status levels. If the cumulative rate of regular property taxes subject to this limitation exceeds the limit, then levies in the lowest class are reduced or eliminated. If this is not sufficient to keep within the limit, then levies in the next lowest status are reduced or eliminated, and so on until the cumulative rate no longer exceeds the limit. This process is called prorating levies.

The third category of limitations is on a few other levies that some local governments may impose. These include levies for emergency medical services and levies for conservation futures.

Port district and public utility district property tax levies are unique excess levies. Property tax levies by these two special districts are above the one percent limitation, but may be imposed without voter approval. All other of the so called excess levies may only be imposed if a ballot proposition authorizing the levies is approved by a super-majority vote, i.e., a 60% affirmative vote with a 40% validation requirement.

[11] Ibid.

Sales and Use Taxes

The sales and use tax that is paid in any area is a combination of the state's sales and use tax rate and all of the applicable local sales and use tax rates. The state's sales and use tax rate is uniform throughout the state and local sales and use tax rates vary among local jurisdictions. The combined state and local tax rate ranges from 7 percent to 8.6 percent, depending on local options. Retail sales and use taxes are administered by the Washington State Department of Revenue and distributed monthly to the appropriate jurisdiction.

The state imposes a sales and use tax of 6.5%. Counties, cities, and towns have a number of different local option sales and use taxes. The basic county, city, and town sales and use taxes are two separate taxes of 0.5% for a total of 1.0%. Every county, city, and town imposed the first tax and most impose all of the second tax. However, a few counties, cities, and towns either impose none or a portion of the second tax. Transit districts may impose voter-approved sales and use taxes up to 0.9%. Counties may also impose a sales and use tax of 0.1% for criminal justice purposes and, with voter approval yet another sales and use tax of 0.1% for juvenile detention facilities and jails. A few other local option sales and use taxes are authorized.

Other County Taxes

Counties are also authorized to impose the following excise taxes:

- various hotel-motel taxes, which may be used for promotion of tourism or construction and operation of tourism facilities
- admission taxes
- various real estate excise taxes (REET) normally used for capital improvements
- timber harvest tax (levied by counties on private land) which goes to the state and is then redistributed to districts according to a priority formula
- various gambling taxes, which are supposed to be used primarily for enforcement of gambling laws but may be used for general law enforcement.
- leasehold excise tax, which can be imposed up to 6% on the lease of public property.

Annexation of unincorporated areas into cities or towns reduces a county's tax base and tax receipts, but also reduces the responsibility for the county to provide some services and facilities. Frequently, a net loss of revenue results. After an annexation or incorporation of an area, the distribution of local tax receipts is altered, as well as the responsibility to provide services and facilities. A county receives reduced tax revenues from such an area as follows: (1) Road district property taxes collections are reduced since these taxes are not imposed in the area; (2) distribution of receipts from the general local option 1% sales and use tax is altered so that the county only receives 15% of these receipts rather than 100% of these receipts; (3) the county receives no receipts from the basic local option REET, admissions tax, gambling taxes, or hotel-motel room rental taxes. Frequently, areas are annexed or incorporated that include prime taxing areas where significant tax receipts are generated, such as commercial shopping areas. If this occurs the county will probably experience a net loss of tax revenues, i.e., the reduced tax receipts will be greater than the reduced requirement to provide services and facilities to the newly annexed or incorporated area.

Non-Tax Revenue

Non-Tax Revenue is an extremely important source for counties. Licenses, permits, and fees are typically dedicated to support the activities for which they are charged and provide 18.7% of revenue. In almost every instance receipts from these non-tax sources are earmarked to pay for a portion of the service or item for which the license or fee is imposed. Some of the licenses, permits, and fees include marriage licenses, recording fees, candidate filing fees, election services fees, impact fees for parks and traffic abatement, development and planning permits, building permits, code enforcement, water resources permits, infraction and misdemeanor fees, fees for sheriff services (such as fingerprinting and criminal background checks), and parks admissions. Interest & investment earnings account for another 3.6% of total revenue.

Bonds

To raise funds for special purposes, such as construction of public buildings, counties may issue bonds. There are two types of bonds: general obligation bonds and revenue bonds. General obligation (GO) bonds are backed by the "full faith and credit" of the county. They are guaranteed by the county's property taxing authority. GO bonds that are approved by the board of county legislative authority (“councilmanic” bonds) may be sold without a public vote and repaid from existing income. GO bonds may also be voter approved. These bonds require a 60% vote but have a higher debt limit. Excess bond retirement levies are always associated with voter approved GO bonds. These levies must be approved by a 60% vote with a 40% validation requirement. Revenue bonds are sold for capital acquisition or construction. The revenue that the project generates retires the bond debt.

County Funds and Expenditures

County governments spend money to meet their responsibilities as set out by state law and to meet the demands of their residents. State law largely determines how counties spend their money. The state places requirements on counties to provide services, as agents of the state (criminal justice, public health, and elections), as regional governments (housing, human services, emergency management, and economic development), and as local government for unincorporated areas (local law enforcement, roads, and land use). Many of these services are partially funded by state and federal distributions. When counties receive money from the state or federal government, that money is usually earmarked for specific services and cannot be used at the discretion of the county government. However, significant moneys are provided to counties without restrictions on use of the moneys. For example, sales tax equalization moneys may be expended for any county purpose. Counties must use their general funds to make up any shortfall in the funding. Many services provided by county governments are paid for by licenses, fees, and permits, such as solid waste management, surface water management and airport facilities. None of the money raised by those licenses, fees, and permits can be used for other expenditures.

Relationship between Source of Taxes and Use of Taxes

How do the taxes you pay relate to the services that you receive? In general, there is little relationship. For example, when you pay property taxes, those taxes do not directly relate to the maintenance of your property. Those revenues go to provide benefits to the community at large, primarily the school district but also the roads, fire services, hospital services, library services and others. It could be argued that roads help you access your home and that fire services protect your home. Most of those services are aimed at providing a safe and livable community. The same is true of sales taxes. Sales taxes do not directly support consumerism and use. They support a broad range of state services. There are a few taxes that support a specific activity such as the Motor Vehicle Fuel Tax (gas tax), which specifically funds highways. (See Appendix A: Outline of Major Taxes in Washington State)

Counties and other government agencies jointly fund many county projects, often with assistance from volunteers and private businesses. Each project may have many sources of revenues that, as a package, provide funding for that project. On the other hand, some projects may have a single source of funding. Because of this, it is difficult for a citizen to directly chart the money that comes in and the way in which it is spent. That doesn't mean that the government is not concerned with keeping track of money: it is. The method that has been developed to do that tracking is **budgeting through funds**.

Funds

Governments are legally required to track dollars in different funds. This process is set up for greater accountability and to help establish—when possible—a direct connection between dollars and their expenditure.

There are several types of funds.

- **General Fund**: These funds are used for a wide variety of purposes as determined by the county.
- **Special Revenue Funds**: These funds are used to collect and spend monies earmarked for specific purposes.
- **Capital Projects Funds**: These are funds that are used for construction projects.
- **Internal Service Funds**: These funds contain money paid by one agency to another for goods and/or services, and operate as revolving funds.
- **Enterprise Funds**: These funds are used to provide goods and services to the public and recover expenditures through user charges.
- **Debt Service Funds**: These funds are used to repay public debt (such as that incurred through the sale of bonds.)

All funds have restricted uses except the General Fund. Funds are not always set up identically in every county. This can cause confusion in regional or statewide comparisons.

Example: Funds Used in Snohomish County Include

General Fund

Special Revenue Funds
County Road
River Management
Extradition Services
Revenue Stabilization
Corrections Commissary
Veteran's Relief
Regional Tourism Tax Fund
Convention and Performing Arts
Crime Victims/Witness
Mental Health
Developmental Disability
Alcohol/Substance Abuse
Grant Control
Human Svcs - Children's Service
Human Svcs - Community Services
Human Services - Aging
Energy/Weatherization
Search & Rescue Helicopter
Sheriff Drug Buy
Arson Investigation and Equipment
US Department of HUD Grants
Housing Trust
Emergency Svcs Communication
Evergreen Fairground Reserves
Conservation Futures Tax Fund
Auditor's O&M
Public Works Facility Construction
Elections Equipment Reserve
Snohomish County Tomorrow
Real Estate Excise Tax Fund
Transportation Mitigation
Community Development
Boating Safety
Anti-profiteering Revolving
Parks Mitigation
Fair Sponsorships and Donation

Enterprise Funds
Solid Waste Management
Airport
Surface Water Management

Capital Projects Funds
Capital Projects
Parks Construction Fund
Facility Construction Fund
Elevator Construction
Data Processing Capital
Facilities Improvements
Construction Projects

Debt Service Funds
RID 13 Long Term Debt
RID 11A Assessment
Limited Tax Debt Service
Road Improvement District 24

Internal Services Funds
Equipment Rental and Revolving
Information Services
Snohomish County Insurance
Pit and Quarries
Employee Benefit Trust

Expenditures

What do counties spend our money on? The primary expenditures by county governments are for law and justice, public health, social and community services, administrative functions, construction, acquisition and maintenance, roads, utilities, emergency services, debt service, planning and development, culture and recreation, and environmental programs.

The general fund provides money for Law and Justice, including the office of the Clerk, Detention and Correction, District Court, the Coroner/Medical Examiner, Prosecutor, the Sheriff, Superior Court and Juvenile Services. Law and Justice makes up the single largest expense in the general fund and averages 60% of counties' general funds.

General Government expenditures (also from the General Fund) support the Executive and Legislative functions of the county, including the Assessor, the Auditor, the Treasurer, the Council or Commission, Finance, Human Resources, and the County Executive.

Infrastructure and Development includes spending on land decisions, Planning and Development, and operations of Parks and Recreation. Other expenditures are for Human Services, Debt Service, Education, Libraries, and Utilities.

These expenditures must compete against one another for resources in the budget process.

Example: In Thurston County, approximately 62% of the General Fund supports Law and Justice Agencies (Sheriff, Courts, Clerk, Prosecuting Attorney, etc.) expenditures. The next largest expenditure at 29% is General Government, which includes the offices of the Assessor, Auditor, Treasurer, Board of County Commissioners, and other programs such as Planning, Parks, Fair, and Public Health service.

As an agent of the state government, a county's expenditures are mandated and non-discretionary. The county must follow the law as set out by the legislature. Counties are provided with taxing authority, and distributions of moneys from the state, to pay for the services and facilities they provide. There is no precise correlation between the level of moneys any county receives and the requirement to provide services and facilities. Clearly, counties with large tax bases are able to provide enhanced levels of service and facilities. Sometimes counties do not have sufficient funding to provide many discretionary services and facilities desired by county residents or even what is seen to be an adequate level of services and facilities that are required by state law. This situation creates what are called "unfunded mandates" since the majority of county responsibilities are required by law to be provided. In addition, the legislature at times requires new county services or increased levels of county services and may or may not provide adequate additional moneys to finance these services. These requirements are also called "unfunded mandates." Recent examples of unfunded mandates are highway accident investigation, supervision of dangerous mentally ill offenders, juvenile justice chemical dependency, truancy and related court costs, indigent defense, judges' wages and benefits, domestic violence reporting, and several others.

Whenever a new service or level of service is required by the legislature, without adequate funding, the county must make up any gaps in funding these requirements from its general fund. This can provide a real strain on the county budget. Insufficient revenue to support growing services is a fundamental tension of government finance.

Summary of Expenditures for All Counties[12]

Expenditures	1997	1998
Law & Justice Services	909,545,679	995,212,420
Fire & Emergency Services	112,137,915	115,460,780
Health & Human Services	679,263,893	740,240,209
Transportation	704,573,918	750,926,810
Natural Resources	308,615,432	329,035,796
General Government	431,122,530	456,500,395
Utilities	315,751,840	356,240,444
All Other	271,609	155,289
Capital	257,056,837	253,546,135
Debt Service-Interest	183,960,226	177,500,664
Debt Service-Principal	0	0
Total Expenditures	3,902,299,879	4,174,818,942

[12] State of Washington. State Auditor's Office. Local Government Finance Reporting System. 1999.

Operating Transfers-Out	333,324,576	403,640,403
Total Expenditures	4,235,624,455	4,578,459,345

This report includes partial data as of 11/15/99

Municipalities and Districts: Relationships

The state, counties, cities and towns, and special districts form a complex pattern of services and taxes. There are several types of municipalities within counties.

Cities and Towns

Cities and towns provide services within their boundaries though some contract with other jurisdictions—such as a county—to provide services. Alternatively, those services may be provided by an overlapping special district.

Special Districts

A wide array of special districts may be created in this state. Depending on how these special districts are counted, over 60 different types of special districts may be created. A special district has specialized or limited functions. They are delineated by geographic area, and are run by part time elected officials, often with appointed managers. Their location may be based on the property parcel itself, or on residence (or a business activity) associated with the parcel.

Special purpose districts have the authority to raise revenue to carry out their functions, by imposing different taxes or by imposing fees for their services. The particular array of taxes that may be imposed, and fees that may be charged, vary with the different special districts. Property taxes are the most common taxes that may be imposed by a particular type of special district. However, due to the pecking order of property taxes, these districts may have their property tax levies prorated or reduced, as was previously discussed.

A large number of special districts exist in this state (over 1400). The large number of these districts means that there is no jurisdiction that is responsible for all planning for services. People cannot predict a tax rate within a county. For example, there are over 660 tax code areas in King County and over 340 within Snohomish County. Near-by neighbors may have tax bills higher or lower, depending on the property's location, because of overlapping tax districts.

Competition, Annexation, Incorporation, Urban Growth Areas

In effect, every taxing district competes (at the taxpayer's pocketbook) with every other district in which a resident lives. Not all local governments (i.e., special districts) are taxing districts. Normally, that term is used to refer to governments that may impose property taxes. However, a number of different special districts (e.g., public transit benefit areas) may impose various excise taxes and are not authorized to impose property taxes. In theory water districts and sewer districts are “taxing” districts, in that they may receive voter approval to impose excess levies, but very few do this.

Cities and towns are competitors to both the special districts and to the county itself. Unlike counties, cities and towns can—and do—impose utility taxes and a few impose business and occupation taxes. Counties are adversely affected by annexation because they lose sales tax revenue, as well as property tax revenue and minor tax revenues. In unincorporated areas, counties keep all of the basic 1% local option sales taxes. When the area is annexed or incorporated, counties lose 85% of the sales taxes to cities. Counties also lose the real estate excise taxes from that area. Counties have become more and more dependent on property taxes.

Taxes and services often determine the growth patterns in jurisdictions. A city’s horizontal growth was often haphazard, occurring without consideration of the financial, social and environmental consequences of annexation. Property-owners near a city could petition for annexation, and accomplish it based simply on a satisfactory vote of owners and some limited criteria of acceptance by the city. The advisability of the annexation, from a whole-community standpoint, received relatively little formal community hearing. Rural land became city land, almost on the whim of the property-owners at the time.

The Growth Management Act (GMA) changed that. The GMA gave far greater jurisdictional significance to the fringe areas bordering cities in most counties. It required counties subject to the GMA to establish urban growth areas within which urban growth was to be encouraged and outside of which urban growth could not occur. City and town input is obtained before the county designates its urban growth area. The authority of the county to make the designations, rather than cities and towns, is one of the most basic misunderstandings of the GMA. Each city and town must be included in an urban growth area, and adjacent areas outside of cities and towns may also be included. A county could also designate “free standing” UGA’s that do not include a city or town. Cities and towns in such counties may not annex territory beyond an urban growth area and a new city or town may not incorporate outside of an urban growth area. Because people want urban-level services in urban growth areas, counties must spend more—but lack the revenue base to do so. There can be a duplication of services and a lack of coordination between jurisdictions. Some counties have a very high population density in unincorporated urban growth areas.

The influence of annexations on taxes is both direct and indirect. It is direct in that it moves the principal taxing jurisdiction from the unincorporated area of the county to the city or town. Some of the county’s taxes are imposed countywide, but many are only imposed within the unincorporated area. Also, in effect, only 15% of the county’s basic 1% sales and use tax is imposed within a city or town. The county loses revenue and the city or town gains. Cities and towns, desirous of revenue-producing areas, have a vested interest in annexation. The indirect influence of annexations on taxes is that property values and the cost of city or town services tend to increase. Historically, the cost of service increases exceeds revenue increases. Annexing land into a city or town can be a questionable deal for the future taxpayers of the city or town.

The same revenue/expense inflation effects cited in annexations applies—often to a far greater degree for a new area because of the early load of start-up expenses. It is no coincidence that many new incorporations take many attempts at the ballot box before becoming a reality—it is a heavy burden. The last new county was created by the Legislature in 1911.

Regional Cooperation

Counties, cities and towns continue to find ways to work together on regional issues. The GMA requires a countywide strategy and that cities cooperate with counties. King, Pierce, and Snohomish Counties, for example, are cooperating on a salmon recovery plan and regional transportation. However, counties, cities and towns often disagree on development issues and who should pay for infrastructure. Cities and towns argue that since the GMA calls for dense in-fill to benefit the preservation of open space the counties should help share the burden of the associated costs. Counties complain that they are already providing regional services, such as criminal justice, at costs beyond their means. On top of all this, special districts do not often share in the overall planning and may have goals that conflict with those of cities and counties.

Another example of conflicts involves the siting of public facilities to serve several jurisdictions, such as criminal justice centers, transportation centers, or solid waste-processing centers. The siting process becomes complex. Efforts have been made to establish cooperation on such questions as development of fair-share housing policies (where and how to locate low-income housing throughout a county).

While interlocal agreements (agreements between local jurisdictions) are not uncommon, they usually represent purchasing of services rather than shared planning and cooperation. The complications of over 1700 different jurisdictions make taxing complicated and providing services demanding.

Section 3: *Key Comparisons and Contrasts among Washington Counties*

Thus far, we have looked at the history of Washington's counties and their changing responsibilities. We have seen that county governments provide services mandated by federal and state government or requested by residents. To help meet the needs of their populations, counties have been given the authority to levy certain taxes—namely property and sales taxes—on their residents. But each county's tax base varies widely, often without regard to the population of the county. This means that the ability of counties to raise revenue and provide services varies significantly. This section provides a snapshot of Washington counties, to demonstrate some of the factors that contribute to the health of their finance systems.

Economic Base for Selected Washington Counties

A state line is more than a sign. Each state has its own unique character. Washington seems to have some of just about everything, making it even more unique. It shares a border with another country. It has a coastline. It has a dominant mountain range with the most glaciers in the lower 48. It has volcanoes. It has high desert. It has fertile farmland. It has rainforests. The only thing it might lack is oil wells.

Within the State, the thirty-nine counties are equally unique. Each has geographical and topographical features that influence the economic viability and the quality of life for its citizens. Washington counties differ in their needs and their capacities to raise revenue. Some factors that vary from county to county and help determine how counties raise and spend revenue include size of population, land area and type, number of businesses, employment levels, per capita income and property and sales tax bases. The following tables help illustrate these differences, and their revenue and expenditure implications for selected Washington counties.

Table 3.1 shows the 1997 total assessed population and unincorporated population, property valuation, square miles and miles of county roads for all 39 counties in Washington State. The counties are listed in order from highest property valuation (King County at $126 billion) to lowest (Garfield at $127 million). In 1997, Washington's 39 counties had a combined population (incorporated and unincorporated areas) of 5.6 million and total assessed property value of $330 billion. Valuations are useful statistics for comparing the taxing capacity (or tax base) of various taxing jurisdictions. Within our public finance system, counties having higher property value can raise greater revenues and provide better services and infrastructures than those with lower property values. Of course, some counties have fewer needs than others, and therefore do not need as much revenue. But the question that remains is whether each county can raise enough revenues to adequately serve its residents. While this table alone cannot answer those questions, it provides a baseline for understanding county finance systems.

Table 3.1 — 1997 Overview of Economic Base: All Washington State Counties

County	Assessed Total Population	Unincorporated Population	Valuation for Taxes Due	Area in Square Miles	Miles of County Road
King	1,646,200	432,084	126,262,590,045	2,128	2,169
Snohomish	551,200	275,810	33,284,468,249	2,098	1,605
Pierce	674,300	301,196	31,711,633,590	1,676	1,531
Clark	316,800	160,907	17,094,043,730	627	1,289
Spokane	409,900	199,088	16,966,830,691	1,758	2,961
Kitsap	229,400	158,740	12,056,129,129	393	922
Thurston	197,600	113,130	10,296,381,495	714	1,002
Whatcom	156,200	72,402	9,853,481,779	2,126	950
Yakima	208,700	93,017	7,693,469,080	4,268	1,733
Skagit	96,900	45,893	6,259,955,967	1,735	804
Benton	134,100	34,555	5,804,924,082	1,722	876
Cowlitz	92,000	39,413	5,753,720,404	1,144	538
Island	71,600	48,710	5,380,503,181	212	592
Chelan	62,200	27,939	3,673,549,336	2,918	659
Clallam	66,400	39,675	3,502,026,412	1,753	487
Lewis	68,300	41,777	3,280,269,883	2,423	1,056
Grant	68,300	34,455	3,025,616,767	2,675	2,504
Grays Harbor	68,300	26,926	3,014,571,285	1,910	560
Mason	47,900	40,130	2,909,446,306	926	617
San Juan	12,500	10,625	2,624,946,192	179	272
Walla Walla	54,000	16,375	2,310,260,593	1,262	961
Jefferson	26,300	17,970	2,044,016,369	1,805	392
Franklin	43,900	15,215	1,767,986,189	1,253	1,010
Kittitas	31,500	13,534	1,667,334,346	2,317	559
Okanogan	38,400	22,908	1,582,356,302	5,301	1,377
Douglas	30,800	21,176	1,568,338,380	1,831	1,640
Stevens	37,400	27,972	1,496,663,054	2,481	1,496
Whitman	41,200	6,673	1,357,077,216	2,153	1,927
Pacific	21,300	14,375	1,172,146,530	908	353
Klickitat	19,000	12,799	889,120,342	1,908	1,080
Adams	15,800	7,757	870,491,735	1,894	1,774
Lincoln	9,800	4,127	649,915,032	2,306	2,047
Asotin	19,700	11,724	636,801,066	633	395
Pend Oreille	11,200	8,117	628,289,119	1,402	547
Skamania	9,900	8,151	532,060,692	1,672	246
Ferry	7,300	6,260	293,660,154	2,202	727
Columbia	4,200	1,472	213,703,951	853	504
Wahkiakum	3,900	3,355	187,576,249	261	143
Garfield	2,400	955	127,040,376	709	457
Total	**5,606,800**	**2,417,387**	**330,443,395,298**	**66,536**	**40,762**

Table 3.2. shows business and employment figures for 22 counties in Washington State. It compares number of employees in each county, total annual county income and total number of business establishments in each county.[13] Household incomes, while not included in this table, are another measure by which we can compare the economic conditions of Washington's counties. The 1999 median household income in the state was $47,897. King County had the highest median household income, at $64,795, while Pacific County had the lowest at $24,569.[14]

Table 3.2 — Business and Employment Figures for Selected Counties

County	Number of Employees	Annual Income (in thousands)	Total # of Business Establishments
King	928,971	$33,740,593	58,441
Snohomish	189,134	$6,213,145	14,349
Pierce	187,268	$4,779,962	14,979
Clark	88,963	$2,492,028	7,470
Spokane	158,322	$4,044,406	11,676
Kitsap	44,775	$934,974	5,001
Thurston	49,604	$1,143,487	4,950
Whatcom	56,304	$1,335,277	5,269
Yakima	58,886	$1,395,569	4,824
Skagit	32,163	$760,227	3,165
Benton	46,232	$1,381,269	3,190
Cowlitz	32,308	$912,774	2,340
Island	9,543	$187,014	1,503
Clallam	15,208	$324,952	1,985
Grays Harbor	17,669	$428,226	1,967
Mason	8,500	$182,360	1,063
San Juan	3,280	$79,570	797
Franklin	12,960	$299,754	1,082
Kittitas	6,954	$134,883	984
Whitman	6,759	$128,501	872
Ferry	1,171	$29,776	160
Garfield	404	$6,878	55

Again, these figures can help us compare the relative tax base of each county. While Washington state does not levy an income tax, counties levy property taxes, which homeowners and businesses pay, and cities and towns are authorized to impose utility taxes and business and occupation taxes, a tax on the gross receipts of all businesses. Most cities and towns impose one or more utility taxes, while only about 34 cities impose business and occupation taxes. Utility taxes are gross receipt taxes on utility businesses so, other than the rate and the type of business required to pay, there is no difference between the two types of taxes. It is important to remember that not all property is appraised at its highest use value, so property tax revenues from businesses vary. For example, to support agriculture, by helping farmers preserve their farms instead of selling them off for more profitable development of their land, farms are valued at their current, instead of their highest possible use. So counties with higher proportions of farms raise less revenue from property taxes than counties whose industry base is manufacturing, or high-tech. The difference between highest and best or true and fair value of

[13] Information Table 3.2 obtained from http://www.census.gov/datamap/www/53.html.

[14] State of Washington. Office of Financial Management. City and County Data Book, Table 34: Median Household Income by County, 1989-1999.

timberland and trees on the one hand, and the timber land valuation scheme and harvest tax on the other hand, is even more dramatic.

County Revenues

Tables 3.3 and 3.4 compare the median, highest and lowest per capita county revenues for 1998. Table 3.3 compares revenue per capita from various sources on a countywide (incorporated cities and towns and unincorporated areas) basis. Table 3.4 compares revenue per capita from the same sources, but only for the unincorporated areas. Both tables list counties having the highest and lowest per capita revenues, for each revenue source. The revenue sources include general property taxes, sales and use taxes, other local taxes, licenses and permits, charges and fees for services, interest and investment earnings, fines and forfeits, rents and insurance, intergovernmental revenues and debt proceeds.

Comparing the median per capita revenues countywide versus median per capita revenues for the unincorporated areas only, it is evident that counties raise more revenue per capita in unincorporated areas. As areas incorporate, these new cities compete with the counties for tax base to provide needed services.

Table 3.3 — Revenue Per Capita: Countywide (Based on 1998 Reporting)

Tax	Highest		Median	Lowest	
General Property Taxes	San Juan	$325	**$159**	Benton	$97
	Lincoln	$233		Whitman	$99
Sales & Use Taxes	San Juan	$187	**$44**	Asotin	$15
	King	$182		Skamania	$19
				Garfield	$22
				Whitman	$22
Other Local Taxes	San Juan	$250	**$25**	Walla Walla	$5
	Wahkiakum	$144		Whitman	$6
	Pacific	$117			
Licenses & Permits	San Juan	$60	**$9**	Ferry	$3
Charges & Fees for Services	King	$243	**$74**	Benton	$20
Interest & Investment Earnings	Wahkiakum	$181	**$27**	Franklin	$13
				Yakima	$14
Fines & Forfeits	Lincoln	$45	**$20**	Columbia	$6
	Adams	$44		Asotin	$7
				Snohomish	$7
Rents, Insurance Premiums, Internal, Contributions, Misc.	Wahkiakum	$362	**$22**	Island	$3
	Klickitat	$348			
	Skamania	$325			
Intergovernmental Revenues	Columbia	$1318	**$219**	Benton	$94
	Garfield	$1216		Clark	$94
Debt proceeds	Pacific	$347	**$26**	Lewis	$0
	King	$209		Adams	$1
	San Juan	$206		Whitman	$2

Table 3.4 — Revenue Per Capita: Unincorporated Areas (Based on 1998 Reporting)

Tax	Highest		Median	Lowest	
General Property Taxes	King	$722	**$304**	Ferry	$120
	Whitman	$612		Island	$195
	Lincoln	$547		Wahkiakum	$197
	Walla Walla	$525		Asotin	$198
Sales & Use Taxes	King	$747	**$86**	Asotin	$24
	San Juan	$220		Wahkiakum	$24
Other Local Taxes	King	$343	**$46**	Asotin	$9
	San Juan	$294			
Licenses & Permits	San Juan	$70	**$18**	Ferry	$3
				Garfield	$5
				Snohomish	$5
Charges & Fees for Services	King	$999	**$128**	Douglas	$52
	Whitman	$412		Klickitat	$52
Interest & Investment Earnings	Wahkiakum	$210	**$51**	Stevens	$21
	Garfield	$200		Douglas	$25
				Mason	$26
Fines & Forfeits	Lincoln	$105	**$38**	Asotin	$12
Rents, Insurance Premiums, Internal, Contributions, Misc.	Klickitat	$518	**$48**	Island	$4
	Wahkiakum	$421			
Intergovernmental Revenues	Columbia	$3736	**$412**	Mason	$175
	Garfield	$3055		Clark	$187
Debt proceeds	King	$858	**$60**	Lewis	$0
				Adams	$1

Property Taxes

Property taxes produce the greatest revenue for counties in Washington State accounting for 32% of their revenue.[15] Compared to other states, property taxes in Washington are not particularly high. In 1995 state and local property taxes were $36.30 per $1,000 of income, making Washington 24th in the nation. On a per capita basis, this equaled $805—or 18th in the nation. [16]

Many people believe that the more a house is worth, the more one pays in property taxes. This is not necessarily so. Once assessed value has been determined, property tax rates are set by the county in accordance with its responsibilities to fund its services. Once a county figures out how much money it needs from property tax revenue, it looks at the total value of the property within its boundaries to determine the rate of tax that needs to be collected to meet the county need.

A simpler example helps illustrate how this works. If you needed to borrow $1000 from your friends to pay your rent you could ask one for the entire $1,000. Or you could ask 10 friends for $100 each, or 100 friends for $10 dollars each. The property tax calculation, while more complex, is similar. The rate of the tax depends on how much money the county needs and how many houses of what value it has. The rate is the tool for balancing resources and needs. In 1999, the statewide average property tax levy rate was $13.56 per $1,000 of home value. Some counties had higher levy rates and some lower.

How does the county arrive at a property value to figure the appropriate tax? "The assessed value of most real property is determined by the county assessor. The goal of the appraisal process is the fair market value of the property, according to its highest and best use."[17]. Counties reassess the values of

[15] Local Government Finance Study, 1999 Update p.11.
[16] State of Washington. Department of Revenue. Research Division. TAX REFERENCE MANUAL: Information on State and Local Taxes in Washington State. p.129
[17] Ibid p.117

property on a regular basis from every year to every four years. The advantage to yearly revaluation is that the assessed value more closely mirrors the actual market value, so the assessed value increases more moderately, probably causing the net tax burden on each property to increase more moderately every year. A less frequent revaluation means that the assessment is always lagging behind the market and that property taxes increase all at once rather than more gradually. Market values are linked to the rate of growth in a county. The Puget Sound counties have been experiencing explosive growth, resulting in faster increases in value than more rural counties.

Revaluation[18]

Every Year	Adams, Benton, Clallam, Clark, Cowlitz, Garfield, Island, King, Kitsap, Lincoln, Pierce, Skagit, Skamania, Spokane, Thurston, Whitman, Yakima, Wahkiakum,
Every 2 Years	Douglas
Every 3 Years	San Juan
Every 4 Years	Asotin, Chelan, Columbia, Ferry, Franklin, Grant, Grays Harbor, Jefferson, Kittitas, Lewis, Mason, Okanogan, Pacific, Pend Oreille, Snohomish, Stevens, Wahkiakum, Walla Walla, Whatcom

King, Pierce and Snohomish counties have the highest property values in the state (see following figures), and raise the most money from property taxes, while Garfield, Wahkiakum, Columbia and Ferry have the lowest property values and raise the least from property taxes. San Juan has the highest countywide per capita assessed value, at $224,908, while Asotin has the lowest, at $35, 269.[19]

Assessed Value of All Taxable Property (1999)

Highest		Lowest	
King (annual revaluation)	$144,591,978,810	Garfield (annual revaluation)	$132,371,595
Snohomish (4-yr revaluation)	$ 36,305,805,264	Wahkiakum (4-yr revaluation)	$206,966,310
Pierce (annual revaluation)	$ 34,438,780,179	Columbia (4-yr revaluation)	$232,074,620
		Ferry (4-yr revaluation)	$290,540,844

Property Taxes Due in 1999 (Regular Levies)

Highest		Lowest	
King	$1,282,543,701	Garfield	$1,286,730
Pierce	$331,637,696	Wahkiakum	$1,690,943
Snohomish	$328,377,366	Columbia	$2,113,757
		Ferry	$2,861,298

Additional Voted Property Taxes Due in 1999 (Special Levies)

Highest		Lowest	
King	$661,623,201	Wahkiakum	$649,876

[18] Washington State Department of Revenue, Property Tax Division. "A Comparison of County Assessor Statistics: 1998 County Comparison."
[19] Washington State Department of Revenue. Property Tax Statistics 1999, Table 16.

Pierce	$201,300,415	Ferry	$748,316
Snohomish	$189,647,689	Skamania	$749,922

Higher assessed values means the county can raise more revenue on a smaller base (number of households) or with a lower rate per household than counties with lower assessed value. Assessed value does not indicate how much (per $1,000 of value) homeowners pay in taxes. In fact, since counties with high assessments have greater capacity to meet their expenditure needs, they often have lower levy rates than counties with lower property values. For example, in 1999, Garfield County, one of the lowest property-value counties in the state, had the highest levy rate, at $16.90 per $1,000 of assessed value. On the other hand, San Juan, having the highest per capita property value, had the lowest levy rate, at $8.10 per $1,000 of assessed value.

In the current finance structure, counties with lower tax capacity (lower property values) may not be able to raise as much revenue as other counties. They may not be able to provide comparable services as counties with higher property values, or, to provide those services they may have to charge a higher tax rate than high value counties. Using the same example, people in Garfield County pay twice as much per $1,000 of the value of their homes as those living in San Juan. This is also reflected in Table 3.5, showing the effective property tax rates for all counties for 1992-1999. In 1999, San Juan had the lowest effective property tax rate (tax as a percentage of the current market value), while Garfield had the highest.

Table 3.5 — Comparison of Effective Property Tax Rates* for Taxes Due in 1992-1999: All Counties

County	1992	1993	1994	1995	1996	1997	1998	1999
Adams	0.0132	0.0134	0.0136	0.014	0.0137	0.0136	0.013	0.0134
Asotin	1.32	1.41	1.34	1.24	1.15	1.17	1.19	1.22
Benton	1.32	1.34	1.32	1.62	1.24	1.33	1.38	1.36
Chelan	1.3	1.22	1.22	1.17	1.13	1.09	1.11	1.12
Clallam	0.97	0.97	0.97	1.05	1.06	1.1	1.13	1.12
Clark	1.25	1.26	1.3	1.34	1.34	1.36	1.28	1.31
Columbia	1.29	1.38	1.39	1.41	1.21	1.23	1.16	1.35
Cowlitz	1.07	1.11	1.1	1.08	1.05	1.1	1.06	1.11
Douglas	1.29	1.35	1.32	1.23	1.22	1.29	1.23	1.26
Ferry	1	0.87	0.93	1.04	0.99	1.07	1	1.04
Franklin	1.5	1.45	1.49	1.38	1.34	1.38	1.38	1.4
Garfield	1.31	1.39	1.53	1.31	1.3	1.37	1.59	1.53
Grant	1.27	1.18	1.26	1.23	1.16	1.27	1.29	1.26
Grays Harbor	1.25	1.32	1.26	1.26	1.22	1.17	1.14	1.25
Island	0.87	0.89	0.88	0.92	0.92	0.99	0.98	0.98
Jefferson	0.95	1	1.07	1.07	1.04	1.08	1.12	1.17
King	1.06	1.13	1.17	1.22	1.23	1.27	1.18	1.19
Kitsap	1.1	1.21	1.22	1.08	1.25	1.31	1.26	1.32
Kittitas	1.1	1.07	1.01	0.98	0.96	0.98	0.87	0.98
Klickitat	1.18	1.1	1.15	1.05	0.98	1	1.05	1.04
Lewis	1.13	1.15	1.13	1.08	1.04	1.06	1.08	1.13
Lincoln	1.36	1.44	1.43	1.36	1.33	1.34	1.28	1.21
Mason	1.1	1.12	1.06	1.01	1	1.04	1.04	1.13
Okanogan	1.21	1.22	1.29	1.17	1.14	1.12	1.07	1.05
Pacific	1.22	1.09	1	1.01	0.95	1.03	1.07	1.13
Pend Oreille	0.94	0.95	1.09	0.96	0.93	0.94	0.96	1.04
Pierce	1.41	1.46	1.42	1.43	1.38	1.44	1.47	1.4
San Juan	0.71	0.7	0.73	0.77	0.73	0.76	0.76	0.78
Skagit	1.07	1.07	1.04	1.13	1.15	1.2	1.21	1.23

Skamania	0.98	0.92	0.93	0.96	0.93	0.93	0.87	0.92
Snohomish	1.04	1.15	1.17	1.19	1.21	1.24	1.23	1.22
Spokane	1.37	1.32	1.32	1.34	1.33	1.37	1.3	1.32
Stevens	1.07	1.09	1.02	0.92	0.93	0.99	1.05	1.07
Thurston	1.41	1.38	1.38	1.25	1.29	1.36	1.38	1.36
Wahkiakum	0.97	1	1	0.98	0.93	0.93	0.9	0.96
Walla Walla	1.25	1.3	1.37	1.36	1.28	1.29	1.31	1.31
Whatcom	0.92	1	1.04	1.06	1.07	1.12	1.14	1.17
Whitman	1.29	1.36	1.32	1.24	1.2	1.28	1.26	1.29
Yakima	1.17	1.18	1.12	1.22	1.16	1.17	1.21	1.1
Statewide	**0.0112**	**0.0118**	**0.012**	**0.0122**	**0.0119**	**0.0126**	**0.0122**	**0.0122**

*Effective property tax rates express taxes as a percent of current market value rather than current assessed value. This rate is calculated by dividing the total amount of taxes due by the total full market value.
http://dor.wa.gov:80/reports/protax99/table18.htm

Sales and Use Taxes

Sales and use taxes provide the second largest source of tax revenue for Washington's counties, but the largest source of tax revenue for the state. How much revenue the sales tax generates for each county depends on many factors, including county retail base and the balance between incorporated and unincorporated areas. Counties that have higher retail activity have a greater capacity to raise revenue from sales taxes. As the Taxable Retail Sales chart below shows, King, Pierce and Snohomish counties had the highest retail activity (sales) in 1998, while Columbia, Wahkiakum and Garfield had the lowest. King, Pierce and Snohomish counties have such strong retail bases that their combined sales tax payments are almost three times greater than the sales taxes paid by all other counties combined. In 1998, King, Pierce and Snohomish paid $416,393,837 in sales taxes, while the other 36 counties together paid $147,895,886.

Taxable Retail Sales

Highest		Lowest	
King	$31,498,687,000	Wahkiakum	$14,157,000
Pierce	$7,095,957,000	Garfield	$14,666,000
Snohomish	$6,889,434,000	Columbia	$24,032,000

While the three largest urban counties have the highest taxable sales, not all urban counties generate significant sales tax receipts and revenue. The relationship between a county's taxable sales and its population makes a big difference. For example, another urban county, Thurston, has smaller taxable sales compared to its population than many rural counties. Since many of its residents live in unincorporated Thurston County but work (and shop) in larger cities to the north, Thurston's retail sales per person, and thus the revenue it receives from sales taxes, are fairly low. In addition, almost 85% of the sales taxes collected in Thurston is from incorporated areas, which diminishes the county's share of sales tax revenue because counties only receive $.15 of every sales tax dollar spent in their incorporated areas (as opposed to $1 of every sales tax dollar spent in their unincorporated areas).[20]

The two charts (above and below) further illustrate that county population, mix of unincorporated vs. incorporated areas, and location of retail centers, among other factors, are necessary to understanding what a county's taxable sales means in terms of revenue for the county. While Pierce and Snohomish counties have high taxable retail sales, lower-population San Juan and Skagit displace them in terms of sales-per-person. The sales tax is a slightly better revenue generator for San Juan than for King. Table 3.3, Revenue Per Capita—Countywide, shows that San Juan raises $187 per capita from sales and use taxes, $5 per capita more than the county having the highest taxable sales in the state—King.

[20] Statistics on Thurston county generated from information at the Department of Revenue web site: www.dor.wa.gov/reports/lst/allcy99.htm

Per Capita Retail Sales

Highest		Lowest	
King	$18,909	Wahkiakum	$3,630
San Juan	$18,650	Ferry	$4,451
Skagit	$14,431	Pend Oreille	$4,518

Expenditures

Expenditures are another component of the public finance system. In their varied roles as state agents, regional governments and municipal service providers, counties spend their revenues on a range of programs, services and infrastructures for the benefit of their residents.

The counties that spend the most per capita are often those with lower populations and weaker economies. Counties without economic diversity do not sustain their populations. When one industry is dominant and that industry dries up, workers have few options. The decline of the timber industry, the lack of manufacturing or high tech jobs and a reliance on agriculture have left these counties with few family-wage jobs and unstable economies. In turn, these counties must provide a base level of service, much of which is mandated by higher levels of government. Residents want a good quality of life with public safety needs met, protection of their public health and environment, and mobility. While the economy in Washington is booming in many areas, there are distressed areas that are not sharing in that boom. Beyond the base level needed everywhere, when the economy is weak, the population has greater needs.

Table 3.5 — Expenditures Per Capita: Countywide (Based on 1998 Reporting)

Expense	Highest		Median	Lowest	
Law and Justice	Wahkiakum	$394	**$158**	Whitman	$77
Fire and Emergency	Garfield	$83	**$15**	Lincoln	$4
	Columbia	$75			
Health and Human Services	Wahkiakum	$253	**$53**	Franklin	$1
	Columbia	$227		Chelan	$17
	Douglas	$204		Benton	$19
Transportation	Garfield	$690	**$119**	Benton	$31
Natural Resources	San Juan	$137	**$47**	Yakima	$12
General Government	Wahkiakum	$233	**$71**	King	$22
	Garfield	$224		Yakima	$25
Utilities	King	$130	**$36**	Pacific	$0
	San Juan	$100		Benton	$2
				Clallam	$3
Capital	Wahkiakum	$530	**$109**	Walla Walla	$10
	San Juan	$481			
Debt Service – Interest	King	$86	**$7**	Clallam	$0
				Grant	$0
				Klickitat	$0
Debt Service – Principal	Columbia	$203	**$11**	Clallam	$0
				Whitman	$1

Table 3.6 — Expenditures Per Capita: Unincorporated (Based on 1998 Reporting)

Expense	Highest		Median	Lowest	
Law and Justice	King	$576	$300	Island	$155
				Kitsap	$174
	Columbia	$527		Stevens	$177
Fire and Emergency	Garfield	$210	$32	Lincoln	$9
	Columbia	$211		Clallam	$10
Health and Human Services	Columbia	$644	$109	Franklin	$4
	King	$528			
Transportation	Garfield	$1735	$223	Mason	$90
	Columbia	$1447		Spokane	$92
	Lincoln	$1771		Kitsap	$93
	King	$1049			
Natural Resources	King	$396	$86	Yakima	$27
	Columbia	$339			
General Government	Garfield	$563	$146	Yakima	$57
				Clark	$65
Utilities	King	$535	$69	Pacific	$0
Capital	Columbia	$900	$222	Walla Walla	$32
	Lincoln	$812			
Debt Service – Interest	King	$353	$12	Clallam	$0
				Klickitat	$0
Debt Service – Principal	Columbia	$575	$20	Clallam	$1
	King	$191			

County Government Interviews and Surveys

We know that numbers don't tell the whole story and decided to survey counties to investigate the impact of these differences and to hear about similarities in how the tax system serves our counties. Ten counties responded: Clark, Grays Harbor, King, Kitsap, Pierce, San Juan, Skagit, Snohomish, Whatcom, and Yakima.

Trends

The impact of Initiative 695 overshadowed most other concerns. The loss of the Motor Vehicle Excise Tax (MVET) revenue had significant impact on counties' abilities to provide transit services, public health, and law and justice programs. Some counties were affected less than others because those counties do not handle health or transit. There are several public transit benefit areas and health districts that operate as separate entities. The legislature attempted to provide some relief for the loss of those funds in the current budget. The source of future funding is not determined at this time.

In addition to the loss of MVET revenue, counties expressed concern over the ever-growing criminal justice responsibilities that are given to the counties by state legislation without adequate funding. Counties said that the law and justice portion of their general fund budgets range from 60 to 70%, leaving little for discretionary spending.

Differences

The lack of a tax base was cited as an issue by some counties, and is due to many different factors. Some counties are residential only. Federal/state/tribal lands dominate some counties such as Yakima County (only about 24% of the land is taxable). Some counties have agriculture-based economies which are traditionally unstable and produce little sales tax. Clark County has proximity to Oregon, a state with no sales tax. Grays Harbor County is dependent on one particular type of income, timber harvest taxes. Other factors are also cited: King County mentions more urban problems than any other county. Snohomish County cites rapid growth. The larger and increasingly urbanized counties see islands of unincorporated areas surrounded by more and larger cities. These unincorporated areas demand the same level of services that are provided by cities. Whatcom County mentioned that their proximity to Canada means that their infrastructure takes a beating from tourists passing through, for which the county receives no compensation. Another geographic difference is location on or near earthquake fault lines, which requires seismic retrofitting of public buildings and other infrastructure. Small counties mentioned that there is a minimum amount of revenue needed to provide services and that they lack the population or tax base to support even the minimum required.

On the positive side, San Juan County has passed a 1% real estate excise tax for the purchase and conservation of land. This tax is in addition to the basic real estate excise taxes that most counties impose. This reflects their residents' commitment to natural resources. Any Washington State county may impose this tax, but it requires a vote of the people. San Juan County is the only county to have instituted the tax.

Similarities

State and Federal mandates on criminal justice and environmental protection play a significant role for most counties' budgets. Social programs and transportation rely on grants and/or matching funds, as do public works, parks, community services, health, and law and justice. All counties attempt to keep costs down through as many measures as possible, such as by increasing their use of technology to increase productivity. In addition, several counties have instituted performance audits and evaluations to test whether or not they are meeting the needs of their residents in the most effective and efficient manner.

National Trends

An April 2000 study by the National Association of Counties showed that economic good times have kept counties across the country in positive financial condition. Counties stayed the course. Taxes were not generally increased but fees were increased in over one-third of the counties surveyed. There is a trend toward greater reliance on fees to fund services. Twenty percent of counties said that their responsibilities have increased in the last fiscal year, primarily in the area of law and justice. "Counties reporting fair or poor financial health usually attributed their condition to state mandates and a lack of economic development."[21] Most counties operate under property tax restrictions. Counties spent an average of $395 per capita on general fund activities including $101 per capita on general fund law and justice. Figuring general fund only expenditures for Washington, counties here spend an average of $198 per capita on general fund activities including $123 on general fund law and justice. There are difficulties that arise in making these comparisons. We don't know what is included in the general fund for counties in other states. We don't know how many services carried out by county general fund activities in other states are carried out by special districts here. We can at least guess that we are responsible for more law and justice programs at the county level in Washington than in other states. That would just be a guess without further research.

[21] National Association of Counties. County Revenue and Expenditure Patterns. April 2000. Page 6.

Section 4: Gaps

How well do Washington's counties meet citizens' needs for services, from building and maintaining roads to providing public health, criminal justice and water and sewerage services? As we have seen, Washington's counties have taken on different roles as the state has developed. These roles and responsibilities vary from county to county, and cities and special purpose districts also perform many functions carried out by counties. As illustrated in the previous section, Washington counties vary significantly in their ability to raise revenues. Some counties—those with more and higher-valued taxable land for instance—can raise greater property tax revenues than those having little and lesser-valued taxable land. This gap between counties' tax bases creates a significant rural-urban gap in Washington, whereby urban areas can raise greater revenues—and hence provide better services—than rural ones. This does not however, mean that all urban counties are meeting the needs of all residents within their counties. Many factors combined determine a county's overall financial health. In addition to the overriding gaps between county tax bases, this section explores gaps that most counties in Washington face: gaps between their mandated responsibilities and revenues available to meet those responsibilities, and growing gaps between county revenues and county capacities to meet growing infrastructure needs. This section also looks at efforts to equalize the differences counties throughout Washington face in their abilities to raise revenues.

As outlined earlier, our criteria for a fair public finance system demand that the system be adequate, flexible and equitable: It must produce adequate revenues to cover needs in good and bad economic times. It should be flexible enough to meet growing needs brought on by population growth and a changing economy. And its method of taxation should take into account peoples' ability to pay, so that the burden of paying taxes is equitable. Using these criteria, we can look at unfunded mandates, infrastructure needs and equalization efforts to measure the health of our public finance system.

Unfunded Mandates

Washington's counties were originally established as subdivisions of the state. The purpose for their existence, before state agencies were created, was to carry out responsibilities of the state in local jurisdictions. Today, a mix of county and state agencies carry out the state's responsibilities, and counties have regional and local service responsibilities as well.

How do counties pay for the functions they perform on behalf of the state or federal government? In theory, they receive money from the higher level of government that requires the county to implement the service, but in practice this is not always true. Mandates passed onto county governments without funding to carry them out are known as unfunded mandates. Unfunded mandates impact the health of county finance systems because, absent county revenue surpluses, they either force the county to make cuts in other programs in order to fulfill the mandates, or the mandates go unfulfilled for lack of funding. In either scenario, mandated services for county residents go unmet.

Over the past decade unfunded mandates passed from the state onto Washington's counties have increased, particularly in the areas of criminal justice, land use and environmental regulations. These mandates are placing increasing pressure on county governments.

For example, increases in criminal justice requirements, including sentencing guidelines and incarceration lengths, have hit counties hard. While increasing mandates in this area have required counties to increase levels of construction and maintenance of criminal justice facilities, state funding has not increased in proportion with requirements. Grays Harbor County reports a 200% increase in budgeted criminal justice expenditures over the last ten years and 70% of Pierce County's general fund is currently spent on criminal justice.

The Washington State Association of Counties (WSAC) has been monitoring county criminal justice expenditures since 1990, when the Local Government Criminal Justice Assistance Act was passed.

Before passage of this act, the state did not provide funding assistance to counties for criminal justice. According to WSAC figures, criminal justice expenditures by counties statewide increased by 127.5% over the last ten years.[22] During the same time period, state funding to counties for criminal justice increased by 56.7%, leaving a significant funding gap. While the legislature did increase county taxing authority during this time, by allowing them to impose a local option sales tax, this is local not state funding. Even if one were to include this money as state funding, the revenues it raises ($32 million statewide in 1999) would not be sufficient to cover the increasing criminal justice burden carried by counties.[23]

It is important to note the limitation of increasing county taxing authorities as a means of providing funding for counties. While increased authorities will help counties with rich tax bases (high valued property and strong retail sales), they will do little for counties lacking sufficient tax bases. As seen in the previous section, many of Washington's counties fall into the latter category, so increasing their local taxing authorities will not generate much revenue.

As the above examples make clear, county criminal justice costs are rising significantly. As the state continues to pass greater criminal justice legislation, without providing counties with sufficient funding to meet those mandates, counties' funds—and counties' abilities to provide other services—are eroded.

Infrastructure Gaps

Roads, bridges, water and sewers: no matter where we live or where we travel, we depend on these daily and often take them for granted. If we move from an urban area to a suburban area, we expect these services to be available. But they are expensive. In addition to the costs of putting these infrastructures in place, they require regular maintenance and upkeep. Adequately financing both new construction and the maintenance of infrastructure remains a serious challenge in Washington State.

It is natural that our infrastructure needs have grown as our population has expanded. More people produce greater needs for schools, transportation and utilities. But our pattern of growth also affects our infrastructure needs and the ways they are financed. In Washington State, our sprawling pattern of growth has placed greater demands on our public finance system and greater burdens on taxpayers in already developed urban areas. From 1970-1995 population in the Puget Sound area grew by 50% but the land areas taken up by houses and businesses grew by 100%. Studies have shown that sprawling growth, fueled by the desire for single-family homes on larger tracts of land, increases the costs of roads by 25% and utilities by 20%, over communities that plan and carry out higher density, more compact growth.[24] There is a substantial difference between the cost of providing services for a sprawling area vs. a more dense area. For example, the transportation costs for all of King County including its cities, is $255 per capita. In the unincorporated-only areas, the per capita cost of transportation in King County increases to $1049[25].

Financing both the maintenance and new construction of local infrastructure is complicated and requires piecing together funding from federal and state grants and local taxes and fees. In spite of multiple funding sources, competition for limited state and federal funds, sprawl-driven growth, restricted taxing authority, and constricted local general fund dollars have put infrastructure funding

[22] In 1989, the year before passage of the assistance act, counties spent $409,135,222 statewide on criminal justice. In 1999, the last year counties and cities received MVET funds for criminal justice assistance, they spent $930,848,948.
[23] Figures cited in this paragraph come from email correspondence with Bill Vogler, Washington State Association of Counties, September 6, 2000.
[24] Mazza, Patrick and Fodor, Eben. Taking Its Toll: The Hidden Costs of Sprawl in Washington State. Climate Solutions and Sierra Club Cascade Chapter, Olympia, 1999
[25] Op Cit State of Washington. State Auditor's Office. Local Government Finance Reporting System..

well behind current needs. For the period of 1998-2003, local infrastructures (in cities, counties, water/sewer districts and public utility districts) face a $3.05 billion funding shortfall, or 38% of reported funding needs for roadways and bridges, and water, sewer and storm water systems.[26] For this same period, counties face an infrastructure-funding gap of 22%.[27]

Transportation needs—the building and upkeep of roads and bridges—account for 50% of identified infrastructure needs and serve as a good example of local infrastructure funding problems. As a result of our sprawling growth and the increase in the number of two-worker households, vehicle miles traveled (VMT) have increased dramatically, filling our transportation system to near capacity. This increase, along with inflation, leaves a significant gap between transportation revenues and needs.[28] While revenues increase as population increases, our transportation demands have increased at a greater rate.

While several state and federal funding sources exist for transportation projects, many contain restrictions that often favor one level of infrastructure need at the expense of another. For example, many of the grants and loans available for transportation are targeted to projects that maintain concurrency between population and service levels, and increase capacity in growing communities. While these provide needed support for communities experiencing congestion due to growth, they leave out areas in need of road maintenance and preservation. In this scheme, it is easier for local governments to build new roads and bridges than to preserve and fortify those that already exist. As a result, deferred maintenance leads to even greater problems and pushes up overall infrastructure costs. In fact, studies show that the lifetime costs of poorly kept roads are four to five times greater than those that are routinely serviced.[29]

Our transportation revenues are not based on our use of the system. 43% of transportation revenues for the Puget Sound region are not linked to transportation and only 17% of our costs are impacted by how much we travel.[30] Funding from the state level has come primarily from the fuel tax and the motor vehicle excise tax (MVET). However, I-695 recently abolished the MVET, meaning losses of revenue for transportation. While transportation spending at the local level has increased, these funds must also compete with other general government functions for general fund dollars.

The one local source of transportation financing that is transportation related and varies with use of the system—the gas tax—is not a stable funding source because it is not tied to inflation, and revenues decline with increasing fuel efficiency. Accounting for 31% of the region's transportation revenues in 1995, gas tax revenues fell to 23% by 1999. Because it is a flat tax—23 cents per gallon—as inflation increases, actual revenues decrease. Further, as cars become more fuel efficient, revenues also decline. While the popularity of less fuel-efficient sports utility vehicles has temporarily slowed this trend, fuel economy is expected to continue improving over the long-term, further eroding this revenue source.[31]

Another factor affecting infrastructure investment is Initiative 601, the state-spending limit passed in 1993. It caps the growth of state spending, basing it on population growth plus inflation. For example, the growth in spending for the 1997-1999 biennium was limited to 8.1% by the I-601 growth factor. However, the cap fails to take into account needs that grow faster than general inflation, because of changing demographics or policy changes. For example, during the same biennium, increases in the numbers of people over the age of 85 increased long-term care needs by 13.8 %, and changes in sentencing laws translated into a 12.7% growth in corrections needs—well over the 8.1% growth

[26] State of Washington Local Government Infrastructure Study. June 1999, Page 2.
[27] Ibid. Page 3.
[28] Puget Sound Regional Council. The Effects of the Current Transportation Finance Structure, February 1999. Pages 39-40.
[29] Puget Sound Regional Council .The Effects of the Current Transportation Finance Structure – Draft version
[30] Op Cit. Puget Sound Regional Council. February 1999. Pages 26-33
[31] Ibid, Pages. 40-42.

factor.[32] The I-601 formula restricts state spending to meet growing needs. Additional state restrictions on spending translate into less money for cities and counties. Not only do our counties face revenue shortfalls in infrastructure maintenance and construction, but the current finance system under I-601further restricts spending the collected revenues.

Equalization

As Section 3 demonstrated, the capacity of counties to raise revenues through taxation varies significantly. Since the primary sources of counties' tax revenue are property and sales taxes, those counties having greater taxable land and higher sales tax receipts collect more revenue. In turn, they have the greatest capacity to fund needed programs and services. The gap between revenue-raising capacities for Washington's counties is great: King, Pierce and Snohomish counties raise considerably more revenue through their property and sales taxes than the other 36 counties combined. In 1998, King, Pierce and Snohomish raised $466,791,857 from property taxes, while the other 36 counties raised $361,255,598. This disparity increases even more when looking at sales tax receipts: 1998 sales tax revenue in King, Pierce and Snohomish equaled $416,393,837, while sales taxes from the other 36 counties combined only amounted to $147,895,886.

The gap in counties' capacities to raise sales and use tax revenue significantly impacts their total revenues and thus, their ability to provide needed services and programs. The amount of revenue each jurisdiction is able to raise through sales and use taxes varies depending on population and level and location of retail activity. As unincorporated areas are incorporated into cities, counties lose sales tax revenue and have to depend more heavily on property taxes for their revenues. If sales occur in unincorporated areas, counties receive 100% of the local option 1% sales tax receipts, but if sales occur in cities or towns, the county only receives 15% of the local option 1% sales tax receipts. In addition, counties, such as Clark, that border states having lower or no sales tax (Oregon) receive lower sales tax revenues as residents cross the border to make purchases and escape the tax. All these factors contribute to an urban-rural gap in Washington, where counties with higher population urban areas and stronger retail bases generate much more sales tax revenue than rural counties with lower sales tax bases. For example, San Juan and King counties raised the highest sales tax revenue in 1998—$187 and $182 per capita respectively. In contrast, the rural counties of Asotin, Skamania and Garfield had the lowest sales tax revenue, raising $15, $19, and $22 per capita respectively.

To assist counties having poor sales tax revenues, the state has established an equalization program that transfers revenues to local jurisdictions whose per capita sales tax receipts are below average. The equalization program redistributed revenue collected from the motor vehicle excise tax (the car tab tax- MVET) to counties whose sales tax receipts are less than 70% of the statewide average ($33.42 per capita in 1999). Fifteen counties received equalization money in 1999, totaling $6,215,263. Combined, Asotin, Skamania, and Garfield counties accounted for 11% of 1999 distributions. Thurston County received the largest distribution—$1,027,190—because its per capita sales tax receipts were only $28.91, well under the statewide per capital county average of $47.74. Thurston County's sales tax receipts are low for a couple reasons: a significant portion of its growing population lives in Thurston County but works and shops in cities to the north. In addition, while most of its new residents are moving into unincorporated areas, almost all of the taxable sales in the county occur in cities and towns, especially Olympia. The county only receives 15% of these local option sales tax receipts. So, while population increases are greater in Thurston's unincorporated areas, this increased population is not generating increased per capita sales tax revenue for the county because its residents shop primarily in cities and towns.[33]

Due to the passage of I-695 in the fall of 1999, many counties currently dependent on the equalization program to make up for their low sales tax receipts may face increasing hardship in meeting the needs

[32] OFM chart, November 1996

[33] From correspondence with Don Taylor, Department of Revenue, April, 2000 and correspondence with Steve Lundin, Senior Counsel, Office of Program Research, State House of Representatives.

of their residents. I-695 abolished the Motor Vehicle Excise Tax and with it, the mechanism for distributing revenues to rural/distressed counties with low sales tax receipts. In addition, counties depended on the MVET to fund public safety, criminal justice and public health programs. While the 2000 legislature found a short term funding solution to replace these losses to counties, such replacement funds will not be available in subsequent years. Without these revenues and equalization tools, counties incapable of raising substantial sales tax revenues will face even greater challenges in funding needed services.

Section 5: Issues Raised

Does the System Work? What Does This Study Tell Us about County Finances?

The outcome of this study should be a greater understanding of the tax system and the ability to answer some questions. Is there a connection between the taxes that are paid and the services and benefits received? Some wonder about the impact of taxes on our ability to maintain good and safe communities. How is growth being paid for? What communities and which people are paying the most?

The tax system in Washington has evolved greatly over the lifetime of the state. The state started with a property tax and that property tax is still the foundation of local governments. In 1935, the legislature found that property taxes were inadequate and passed a whole package of new taxes including the sales and use tax, the business and occupation tax, and selective sales taxes. The state government is now dependent on the sales tax. There have been a multitude of changes and restrictions on taxes although the authority to impose taxes still rests with the state. Home rule counties do not have additional tax authority.

The finance system is complex and fragmented. It involves the state passing federal money on to local governments and local governments receiving money directly from the federal government. Both types must be spent on specific projects. It involves fees and permits that pay for services. It involves some discretionary spending on the part of counties. There are over 50 different state-authorized sources of revenue for counties, most of which produce very limited income and can be used only for specific purposes. The system has become a patchwork: governments must work to find which money can be used for which services.

Do the people of Washington know where the money goes? The complex system also has complex accountability requirements. There is a direct tie between fees, permits, and some specific taxes to services provided. The small county portions of the property tax collected (remember most goes to support schools) and sales tax collected form the basis of county general funds—money that can be spent based on local decisions, but also must make up for any shortfalls for state or federal mandates. This spending provides general support of the health, safety, and quality of life of the county and its residents.

Is the money used effectively? Our finance system does not promote effectiveness. The large number of local governments (counties, cities, and special districts) have sometimes conflicting interests and must compete for the same pot of money. Services overlap. The demand for services continues to increase. The pattern of growth in the state does not promote effective use of resources. The sprawl of population creates jurisdictions that are more difficult to serve than dense populations.

Who Pays, Who Doesn't?

The county finance system is greatly impacted by increased mandates and limited revenue raising capacity. County general funds have become increasingly burdened by increasing infrastructure needs and unfunded mandates imposed by state and federal governments for services such as environmental protection, criminal justice and mental health programs. At the same time, counties' authorities to raise revenues are restricted by state legislation. The primary taxes local governments depend on are not producing adequate revenues for county services.

The counties have a tax structure that is limited to property and sales taxes. The cities have authority to impose property, sales, business and occupation, and utility taxes. Property taxes present several problems. Unless voted on, increases in property taxes are restricted regardless of need. Property taxes apply only to real property and some personal property but do not apply to intangibles and most personal property. As there is no income tax in Washington, those residents whose wealth is based in stocks and bonds do not share the same tax burden that they would in states with an income tax. The state legislature has also exempted many business activities from taxes such as no sales taxes on legal and accounting services.

There is a multitude of exemptions from the property tax, and all public property and tribal lands are exempt from property taxes. The people of Washington also choose to support agriculture and open space by taxing that land at a lower level. The result is Washington's current property tax situation, in which more property in this state is **not** taxed than **is** taxed[34].

The local government system is also littered with special districts. The number of special districts in a given county can mean that neighbors can pay different tax rates and receive services from different districts.

When a state's revenues are based on property and sales, the people who pay the greatest portion of their incomes in taxes are those with the least ability to pay. They may also receive fewer services.

Rich Counties, Poor Counties

The diverse characteristics of the counties in Washington dictate differing levels of responsibilities, needs, and abilities to raise revenue. Some of the major differences are population, geographic size, location, amount of taxable property, retail facilities that collect sales taxes, proximity to other states and other countries, and economic base. Equalization attempted to redress this situation.

The current finance system favors counties that have taxable property and high sales receipts. The three contiguous metropolitan counties in the Puget Sound area, King, Pierce, and Snohomish County, are the richest in the state. Spokane County and Clark County are next in line. The remaining 33 counties are largely suburban or rural, and **combined** do not raise the same amount of property taxes as the other six. King, Pierce, and Snohomish Counties combined raise about three times as much in sales taxes as do the remaining counties combined. The counties with the smallest populations cannot raise enough money to support basic services. The disparity between the west side and the east side of the state continues to grow with the increasing influence of the technical and information-based industries. As seen through the county data compiled in this study, rural counties remain disadvantaged in this structure. In addition the strong sales tax revenues generated in King, Pierce and Snohomish counties are highly dependent upon a thriving economy. If the Puget Sound high-tech boom sours even a bit, those revenues will drop. These issues call into question the adequacy, flexibility and equitability of our public finance system.

[34] State of Washington. Department of Revenue. Research Division. The estimate from the Research Division (per phone conversation 10/2000) is that the value of all property exempted from taxes accounts for 62.8% of the total value of all property in the state.

The Bottom Line

How does the current county tax system in Washington measure up to the League of Women Voter standards?

Is it fair?	▪ The burden falls on property owners, on consumers, and on low-income families. ▪ The system doesn't tap into the wealth of stockholders.
Is it adequate?	▪ Both property taxes and sales taxes tend to rely on a good economy. ▪ Many counties are not able to capture the benefits of the state's economy.
Is it balanced?	▪ Many sources are tapped but produce little revenue. ▪ Most revenue sources are not tax-based.
Is it flexible?	▪ The number of restrictions from the legislature and from initiatives is increasing. ▪ There is little local government authority over taxes.
Is it manageable?	▪ The tax system is complex and supports a complex system of funds. ▪ Many different jurisdictions create a fragmented and overlapping, competitive system.
Is it economically sound?	▪ Businesses in counties (outside city limits) have the advantage of no additional business & occupation tax. ▪ Businesses pay more than their fair share when gross receipts are taxed rather than net profits.
Is it safeguarded?	▪ Taxpayers have many opportunities for voting on taxes, directly and indirectly.
Is it non-burdensome?	▪ Our reliance on property and sales taxes is regressive and affects the lower and middle-income residents adversely.

Are there solutions?

Other states and their counties must deal with most of the same issues raised by this study. Finding the right mix that works means a sincere investigation of alternatives including income tax, a more flexible structure with fewer restrictions, tax-base sharing, and development of a more diverse economy. Another choice of what to do about the gap between program costs and funding is the option of deciding to live with fewer governmental services and less government-built infrastructure. In that situation, who lives with less? Washington is a prosperous state. We have the resources to put together an adequate and equitable tax system, and to ensure Washington is a livable state for **all** its residents.

Appendix A: Outline of Major Taxes in Washington State

Summarized from the Tax Reference Manual of the
Washington State Department of Revenue
December 1999

GENERAL SALES TAXES							
Tax Source RCW Citation	Tax Base	Tax Rate	Yield FY '99 ($M)	Administration	Collection Procedure	Recipient	Used For
Retail Sales Tax (82, 82.08)	Selling price of tangible personal property & certain services purchased by consumers	6.5%	$4,948	Dept. of Revenue	Paid by purchaser to retailer who forwards to Revenue	Cities, Towns and Counties	General Fund except for dedicated portions
Local Retail Sales & Use Taxes (82.14, 81.104.170)	Same as state sales/use tax	City/county: 0.5-1.0% Transit: 0.1-0.6% Criminal Justice: 0.1% Public Facilities: 0.1% Juvenile Detention: 0.1% High Cap. Transit: 0.4% Rural Counties: 0.08%	$820 $352 $73 $5 $20 $187 $4	Dept. of Revenue	Retailers report sales by local code	Cities, Towns and Counties	Dedicated per levy purpose
King Co. Stadium Tax Food & Beverage Baseball Sales/Use Football Sales/Use	Prepared Foods Sales in King County Sales in King County	0.5% 0.017% ** 0.016% **	$13 $6 $6	Dept. of Revenue	Retailers collect & forward to DOR Calculated by DOR Calculated by DOR	Cities, Towns and Counties	Dedicated per levy purpose
Use Tax (82.12)	Privilege of using tangible personal property on which sales tax was not paid, measured by market value	6.5%	36	Dept. of Revenue	Paid by user to Revenue (to County Auditor for vehicles)	Cities, Towns and Counties	General Fund, Small portion to water quality account

GENERAL BUSINESS TAXES							
Tax Source RCW Citation	Tax Base	Tax Rate	Yield FY '99 ($M)	Administration	Collection Procedure	Recipient	Used For

Business & Occupation Tax (82.04)	Gross income or proceeds of sales, or value of products for privilege of doing business	Major rates; retailing, 0.471%; manufacturing / wholesaling, 0.484%; services, 1.5%	$1,827	Dept. of Revenue	Business reporting monthly, quarterly, or annually	State	General Fund, Portion to health services account
Municipal Business Taxes (35 & 35A)	Gross revenue or flat fees based on class of business, number of employees, etc.	Business: generally 0.05-0.2%; Utilities: generally 2-6%	$175 $298	City Clerk	Paid by local firms within taxing jurisdiction	Municipalities	General Fund
Local B&O Tax-Transit (35.90.040)	Gross income or proceeds of sales, or value of products for privilege of doing business	Not specified in statute	None Known	-	-	Cities and Counties	Transportation Systems

SELECTIVE SALES TAXES							
Tax Source RCW Citation	Tax Base	Tax Rate	Yield FY '99 ($M)	Administration	Collection Procedure	Recipient	Used For
Cigarette Tax (82.24)	Sale, use, handling, consumption, or distribution of cigarettes	82.5 cents/package of 20 cigarettes	$255	Dept. of Revenue	Distributors purchase tax stamps	State	General Fund; Water Quality Account; Drug & Alcohol; Health Services
Tobacco Products Tax (82.26)	Sale, use, etc., of other tobacco products	74.9% of wholesale price	$23	Dept. of Revenue	Paid by distributors	State	General Fund; Water Quality Account; Drug & Alcohol; Health Services
Liquor Sales Tax (82.08.150)	Sales of liquor and strong beer	Consumers, 20.5%; Class H, 13.7%	$49 *	Liquor Control Board & Revenue	Included in purchase price	State, Cities, Counties	General Fund; Health Care
Liquor Liter Tax (82.08.150)	Sales of hard liquor (spirits)	$2.44 per liter	$59 *	Liquor Control Board & Revenue	Included in purchase price	State	General Fund; Drug & Alcohol; Health Services
Wine Tax (66.24.210)	Wholesale sales of wine	22.92 cents per liter (45.36 cents for fortified wines)	$15 *	Liquor Control Board	Paid by wine wholesalers	State, Cities, Counties	General Fund; Violence, Drug & Alcohol; Health Services; WSU Research
Beer Tax (66.24.290)	Brewing or wholesaling of beer	$8.08 per 31 gallon barrel (sales > 60,000 barrels)	$28 *	Liquor Control Board	Paid by brewers or wholesalers	State, Cities, Counties	General Fund; Violence, Drug & Alcohol; Health Services
Motor Vehicle Fuel Tax (82.36)	Fuel delivered from a terminal rack from refinery	23 cents per gallon	$600	Dept. of Licensing	Collected by seller at rack	Cities. counties	Roads; Ferries
Special Fuel Tax(82.38, 70.149)	Motor Vehicle Fuel (except gas) Stove Oil	23cents per gallon .6 cents/gal	$118	Dept of Licensing	Collected by seller at rack	Cities. counties	Roads; Ferries
Aircraft Fuel Tax (84.42)	Aircraft fuel except commercial	6 cents per gallon	$1.8	Dept of Licensing	By fuel distributors	Aero Div of State Dept of Trans	General Use
State Convention Center (67.40.090)	Accommodations in King County hotels with 60+ units	Bellevue, 5.8%; Seattle, 7%; the rest of King Co., 2.8%	$31	Dept. of Revenue	Paid to retailer who forwards tax to Revenue	State	State Convention Center in Seattle
Local Hotel/Motel Tax (State Shared) (67.28.180)	Transient rental income	2.0%, deducted from sales tax (6.5%)	$24	Dept. of Revenue	Reported by retailers; state reimburses cities and counties	Cities, Towns and Counties	Construction or operation of stadiums, arts facilities, for tourism promotion
Special Local Hotel-Motel Tax (67.28, 67.40, 36.100)	Transient rental income	2%, Many cities and counties levy several taxes, totaling no more than 12%	$14	Dept. of Revenue	Paid to retailers who forward tax to Revenue	Cities, Towns and Counties; 100% back to originator	Used only for the purposes of visitor and convention promotion and development.
Solid Waste Collection Tax (82.18.020)	Services provided by refuse collection businesses	3.6%	$23	Dept. of Revenue	Paid by refuse collection users	Local governments	Repair and maintenance of public works projects

Wood Stove Fee (70.94.483)	Solid Fuel Burning Devices	$30 per stove	$0.27	Dept of Revenue	Stove retailers	Dept of Energy	Stove use education & enforcement of restricted burning
Brokered Natural Gas Tax (82.12.022, 82.14.230)	Natural or manufactured gas consumed w/in the state not subject to public utility tax	State 3.852% Cities max of 6%	$13	Dept. of Revenue	Paid by users on special brokered natural gas tax return	State & Cities	General Fund
Rental Car Taxes (82.08.020(2))	Retail car rentals	5.9%	$20	Dept. of Revenue	Paid by rental car firms	State, County	State same as MVET. Local, Rapid transit, Stadiums, youth or amateur sports
Telephone Taxes (82.14B)	Each Telephone Access Line	State-20 cents, Counties 50 cents, 25 cents radio	$8.5	Dept. of Revenue	Collected on phone bill	State and County Treasurer	911

SELECTIVE BUSINESS TAXES							
Tax Source RCW Citation	Tax Base	Tax Rate	Yield FY '99 ($M)	Administration	Collection Procedure	Recipient	Used For
Public Utility Tax (82.16)	Gross operating revenue of public & privately owned public service firms (utilities)	Gas/sewer, 3.852%; water, 5.029%; urban trans., 0642%; motor & railroad trans., 1.926%; power, 3.873% all others, 1.926%	$221	Dept. of Revenue	Business reporting monthly, quarterly, or annually	State General Fund	4.1% to local government for public works
Insurance Premiums Tax (48.14.020)	Gross premiums received by licensed insurers	Ocean marine/trade,0.95%; other insurers, 2.0%	$227 *	Insurance Commissioner	Paid by insurance companies	State and Cities	40% to fireman's relief and pension fund; 45% to cities with full time fire departments 15% general fund
Food Fish/Shellfish Tax (82.27)	Price paid by first commercial processor of food fish or shellfish	Chinook salmon, 5.62%; sockeye salmon, 3.37%; oysters, 0.086%; other, 2.25%	$1	Dept. of Revenue	Paid by commercial fishermen & processors	State	General fund, anadromous game fish proceeds to wildlife fund
Hazardous Substances Tax (82.21)	Value of certain chemicals and other products at time of first possession in state	0.7%	$32 (incl. local)	Dept. of Revenue	Paid to Revenue by party first possessing substance in state	State, Local	Hazardous waste cleanup and programs
Soft Drinks Syrup Tax (82.64)	Wholesale or retail sales of syrup used to make carbonated beverages	$1 per gallon of syrup	$10	Dept. of Revenue	Paid to Revenue by in-state sellers of carbonated beverages	State	Violence reduction and drug enforcement account
Petroleum Products Tax (82.23A)	Wholesale value of petroleum products derived from crude oil at time of first possession in this state	0.5% (tax is currently in hiatus) (Conditional)	$5 (1993)	Dept. of Revenue	Paid to Revenue by first possessor of petroleum products	State	Assist owners of underground storage tanks in obtaining insurance, so that tanks can be upgraded or replaced in order to prevent leaks.
Oil Spill Tax (82.23B)	Crude oil & petroleum products delivered at marine terminals within the state	$.05 per 42 gallon barrel	$3	Dept. of Revenue	Collected by marine terminal operators & paid to Revenue	State	Oil spill cleanup
Litter Assessment (82.19)	Sales of Litter Generating products	.015%	$4.76	Dept. of Revenue	Paid to retailer who forwards tax to Revenue	State	Litter Control and education
Pari-mutuel Tax (67.16)	Gross receipts of pari-mutuel machines	0.52-1.3% depending upon total receipts	$4 *	Horse Racing Commission	Sponsors of horse races	State	Horse Racing Commission, small portion to fairs

Boxing & Wrestling Tax (67.08)	Ticket sales of boxing & wrestling matches	5% of gross receipts	$0.01 *	Dept. of Licensing	Sponsors of matches	State	General Fund
Intermediate Care facilities (82.65A)	Gross receipts of intermediate care facilities for mentally retarded persons	6%	$8.6	Dept. of Licensing	Unique tax form sent by DOR	State	State general Fund
Local Gambling Taxes (9.46.110)	Gross receipts derived by operators of gambling activities	1 to 10%	$25.6 (1997)	Local Treasurer	Collected by locals	Cities, Towns and Counties	Gambling enforcement & police

PROPERTY TAXES							
Tax Source RCW Citation	Tax Base	Tax Rate	Yield FY '99 ($M)	Administration	Collection Procedure	Recipient	Used For
Property Taxes (84)	Assessed value of taxable real & personal property, adjusted to 100% true & fair value	Taxes due in calendar 1999: $3.40 per $1,000 of assessed value	$1,278	County Assessor & Treasurer, Revenue	Paid by levy for owners: 50% due April 30 and balance due Oct. 31	General Fund	Basic Education
Local Property Taxes (84.52 and others)	Assessed value of taxable real and personal property (average about 90.3% of true & fair value for 1999 taxes)	Due in calendar year 1999: average local regular & special levy rate = $10.16	$3,804 (Due in CY 1999)	Dept of Revenue County Treasurer	Sellers pay when sales affidavit is filed	Cities, Towns, Counties and State	Others: As stated in levy

EXCISES IN LIEU OF PROPERTY TAXES							
Tax Source RCW Citation	Tax Base	Tax Rate	Yield FY '99 ($M)	Administration	Collection Procedure	Recipient	Used For
Motor Vehicle Excise Taxes (82.44, 82.48, 82.49 and 82.50)	Privilege of using vehicles, measured by statutory depreciation schedules (except for aircraft)	Motor vehicles, 2.2%; campers/trailers, 1.1%; aircraft, $20-125; boats, 0.5% (See note)	$791 *	Dept. of Licensing, County Auditors	Paid annually by owners with license fees	State, Cities, Counties	DOL Expenses; New Ferries; Ferry Operation; Police & Fire; Transportation; Criminal Justice; Public Health; Air Pollution; HCT
Aircraft Excise Tax	All aircraft except interstate	$20 to $125 per aircraft	$0.228	Dept Of Trans	Paid by aircraft owner	State	General Fund
Watercraft Excise Tax	Non-commercial Boats	.5% of fair market value	$9.5	Dept of Licensing	Paid when registering	State	General Fund
Travel Trailer Camper Excise Tax	Travel Trailers and Camper Units	1.1% plus $2	$6.2			State, Cities, Counties	General Fund; Basic Education; Transport.; Air Pollution
Timber Excise Tax (84.33.041)	Stumpage value of timber at the time of harvest	public lands 5.0%; private lands 1.0%	$19	Dept. of Revenue	Paid quarterly by harvesters	Counties, State	General Fund; Schools; Capital Funds
PUD Privilege Tax (54.28)	Privilege of producing energy by public utility districts	2.14% of gross revenues plus 5.35% of 1st 4 mills per KWH	$27	Dept. of Revenue	Paid annually by PUDs	State, Cities, Towns and Counties	General Fund; Schools
Leasehold Excise Tax (82.29A)	Rental value of leased publicly owned property	State tax rate of 12.84% less local taxes up to 6%	$16	Dept. of Revenue	Paid to lessors and sent to Revenue	State, Cities, Counties	General Fund

PAYROLL TAXES							
Tax Source RCW Citation	Tax Base	Tax Rate	Yield FY '99 ($M)	Administration	Collection Procedure	Recipient	Used For
Unemployment Compensation Tax (50.24 and 50.29)	Wages paid by employers	5.4% Maximum	$771	Employment Security Department	Paid Quarterly	State	Unemployment Compensation Fund
Industrial Insurance (51.16.060)	Number of hours worked by employees	4.64 cents to $9.27 per hour worked per employee	$1070	Dept of Labor and Industries	Paid Quarterly	State	Accident Benefits

OTHER TAXES							
Tax Source RCW Citation	Tax Base	Tax Rate	Yield FY '99 ($M)	Administration	Collection Procedure	Recipient	Used For
Real Estate Excise Tax (82.45, 82.46)	Sales of real property	Usually 1.28% of selling price 3.28% is possible	$428	Revenue and County Treasurer	Sellers pay tax when affidavit is recorded	Cities, Towns and Counties	Public Works; Education
Estate and Transfer Tax (83.100)	Amount of credit allowed under federal estate tax	No additional state tax	$70	Dept. of Revenue	Estates file within 9 months	State	General Fund
Local Admissions Taxes (35.21.280, 36.38.010)	Price paid for admission to any place	Cities & counties, 5%; King Co., 10% for baseball stadium & 10% for football stadium	$16.5 (1997)	City Clerks and County Auditors	Ticket sellers report tax	Cities and Counties	Cities and Counties for General Fund; King Co for baseball and football
Local Household Tax (35.95.040)	Persons residing within cities or counties, measured by household units	Up to $1 per household	? (Kent, Moses Lake & Prosser)	City Clerks and County Auditors	?	Cities and Counties	Municipal transportation system
Local Taxes for Streets and Roads (82.80)	1. Parking of vehicles in commercial parking facilities 2. Street Tax	1. not specified in statute 2. $2 per employee or residence	$6 (1997)	City Clerks and County Auditors	1. reported periodically 2. Can be contracted	Cities, towns and counties	Street & road improvement, public transport., and high capacity transport
Local Employee Tax (81.100.030, 81.104.150)	Full-time equivalent employees of all employers, incl. private firms & governmental agencies, working within city or county	Up to $2 per FTE per month	(Not yet levied)	-	-	King, Pierce and Snohomish	HOV Lanes and High Capacity Transportation
King County Parking Tax (36.38.040)	Charges for vehicle parking at a facility at a public stadium / exhibition center (to be constructed in Seattle for professional football)	10%	(Not yet levied)	Public Stadium Authority	(Not yet levied)	Seattle for stadium and exhibition center	Bond Retirement, then repair and capital improvements
* 1998 Fiscal Year Information, latest year available							

Appendix B: Washington State Tax History

Early Taxes	
1853	Property tax: required that all taxes be assessed equally Poll Tax: levied on all adult males
1889	State constitution required that all taxes be levied uniformly on all property in accordance with its monetary value. The legislature granted authority for exemptions.
1891	2% Insurance premium tax adopted
1901	Inheritance tax established
1921	Gasoline tax imposed at 1 cent per gallon
Tax Commissions	
1921	Recommended re-establishment of the Tax Commission and administrative changes to property and inheritance taxes
1929	Recommended graduated individual income tax and single rate corporate net income tax to reduce state's reliance on property tax
Early Income Tax Attempts	
1929	Legislature approved a net income tax of 5% on financial institutions. The court overturned it on grounds of equal protection: the tax did not apply to noncorporate banks, and interest paid by banks was deductible, but not savings and loans dividends.
1930	Voters approved 14^{th} amendment to the constitution, allowing classification of property. Intended to permit taxation of income at a rate different from real estate. The court ruled against the amendment.
1931	Recommended by the Tax Commission, the legislature adopted a personal income tax with rates from 1% to 5%, and corporate net income tax rate of 5%. The Governor vetoed.
1932	Personal and corporate net income tax, with rates of 1% to 7%, was adopted by initiative with a 70% voter margin. It was overturned by the court in a 5-4 decision in Culliton v. Chase, declaring that income was property and thus subject to the uniformity requirement in the constitution.
Excise Tax Era	
1932	Voters approved by initiative, a 40 mill limit on property levies, and a 5mill limit on a state levy. (This was reduced to 2 mills in 1934). This represented nearly a 50% reduction in total property taxes.
1932	Occupation tax levied on gross receipts of business activity, ranging from 0.2% to 3.0%. The court held that this tax was an Excise tax rather than a tax on income from doing business.
1935	Revenue Act of 1935, along with several taxes that were ruled unconstitutional or vetoed, established many of the state's tax revenue sources we have today. It established the retail sales tax, the B&O tax, public utility tax, cigarette tax, liquor tax, conveyance tax (included with real estate tax in 1987), and the admissions tax (given to local governments in 1943).
1937	Motor vehicle excise tax (MVET) was established in lieu of vehicles being assessed as personal property.
1944	Voters approved the 17^{th} amendment, requiring a 40mill property tax limit, the 60% approval of levies, and assessment at 50% of market value. The 18^{th} amendment, earmarking gas tax for highways, was also adopted.
1951	Legislature approved a tax upon the privilege of exercising corporate franchise, measured by net income. It was ruled unconstitutional by the court for non-uniformity, since noncorporate firms were not taxed. The real estate excise tax was established at the county level, with revenues dedicated to local schools. (Shifted to the state in 1981.)
1959	B&O taxes were extended to the rental of real property. Declared unconstitutional on grounds of double taxation.
More Income Tax Attempts	
1970	HJR 42, which included single-rate personal and corporate net income tax of 3.5%, with reductions in existing taxes, was defeated by a 2 to 1 margin by voters.

1973	HJR 37, which spoke to a graduated 2 to 6.5% personal and a 10% corporate net income tax, with limits and reductions in existing taxes, was defeated by voters by a 3 to 1 margin.
1975	Initiative 314, setting a corporate income tax rate of 12%, was defeated by a 2 to 1 margin by voters.
1982	Initiative 435, proposing a corporate new income tax on 105, was defeated by a 2 to 1 margin.

Property and Excise Tax Changes	
1966	Voters approved the 47th amendment to the constitution. It allowed property tax exemptions for retired and disabled homeowners, based on income.
1967	Hotel/motel tax established: allowed King County to receive 2.0% of the state and 4.5% sales tax on lodging facilities for its stadium construction.
1968	Voters approved the 53rd amendment, permitting property tax on open space, timber and farmland based on its current use rather than on highest and best use.
1970	Local sales tax of 0.5% authorized for cities and counties
1971	Local sales tax of 0.3% for transit districts authorized
1972	Voters approved constitutional amendment limiting regular property tax levies to 1.0% of fair market value. Timber excise tax was levied on stumpage value of the harvest. Economic assistance authority legislation established sales tax deferrals for manufacturing plant construction and equipment. (This program was terminated, due to the 1981-82 recession.)
1974	Limits on increasing regular levy revenues of local taxing districts was set at 6% per year, and extended the state levy in 1979. Credit against B&O taxes for personal property tax paid on business inventories was established, with a total exemption in 1984.
1975	Property tax levies shifted from millage to $/$1000. The statute set a maximum for regular levies of $9.15, including a new state levy of $3.60.
1977	Voters approved Initiative 345 exempting food for off-premise consumption from sales tax. The court decided that the state was to provide full funding of basic education; restriction on local maintenance and operations school levies.
1979	Voters approved Initiative 62 limiting increases in state expenditures to growth rate of personal income.
1981	Voters approved Initiative 402 repealing inheritance and gift taxes.
1982	Sales tax re-imposed on food for 14 months. Local option sales tax of 0.5% authorized for cities and counties. Tax on hotel/motel accommodations in King County approved, to fund convention center.
1984	Voters approved Initiative 464 that exempted the value of trade-ins from sales tax.
1985	Sales tax deferral program re-established for new/expanded manufacturing and Research & Development firms.
1987	US Supreme Court ruled B&O taxes on certain interstate transactions to be unconstitutional. Multiple activities exemption was repealed and credits provided for B&O taxes paid outside Washington for instate manufacturing against selling instate.
1983	The federal government remits to the state, a percentage of monies from the sales of timber and forest products from military installations. The revenue goes 50% to public schools, and 50% to public roads.
1984	Repealed the way state paid for upkeep of reforested land and replaced it with a surcharge on the reforested land. They are now subject to the Timber Excise Tax.
1993	Initiative 601 passed. This measure captured spending of revenue received by the state, also setting up a state emergency fund. This fund was restricted to a 2/3 positive vote by the legislature before it could be assessed. The spending portion was based on a projected population increase or decrease in the four years immediately preceding the spending of the revenue.
1994	Referendum 43 passed by voters, adding 7.5 cents to the cost of a package of cigarettes (a “sin” tax). The funds generated were to fight juvenile violence, and to create a match for federal funds.
1999	Voters overwhelmingly passed I-695, which removed the motor vehicle excise tax and lowered vehicle license fees to $30.00 per vehicle, with some exceptions. I-695 also provided that future taxes be approved by the voters.
2000	I-695 declared unconstitutional on grounds of multiple subjects included in initiative. Legislature passes law to keep the $30.00 per vehicle portion of the original initiative.

Appendix C: Countywide per Capita Revenues

County	Property Taxes	Sales & Use Taxes	Other Local Taxes	Licenses & Permits	Charges & Fees for Services	Interest & Investment Earnings	Fines & Forfeits	Contributions, Rents, Misc, Ins. Premiums	Inter-governmental Revenues	Debt Proceeds
Adams	201	36	18	4	86	29	44	15	443	1
Asotin	119	15	5	8	144	21	7	11	248	56
Benton	97	44	7	3	20	20	16	6	94	
Chelan	156	75	14	6	33	32	23	22	135	44
Clallam	151	54	32	10	48	33	22	81	125	
Clark	159	56	25	11	77	25	16	29	94	64
Columbia	173	27	27	6	122	38	6	65	1,318	
Cowlitz	193	34	32	12	112	29	20	23	113	26
Douglas	186	40	18	13	36	17	19	16	445	191
Ferry	103	50	13	3	52	26	20	18	974	
Franklin	137	56	8	5	44	13	22	38	127	
Garfield	187	22	12	2	40	80	37	37	1,216	
Grant	154	45	11	10	49	29	28	13	243	
Grays Harbor	119	34	73	11	71	26	24	60	242	68
Island	132	42	27	29	75	22	16	3	152	
Jefferson	227	69	39	17	108	29	23	71	219	
King	176	182	84	10	243	32	11	24	152	209
Kitsap	159	60	20	5	89	27	16	31	167	3
Kittitas	169	54	36	18	97	32	38	36	225	
Klickitat	151	25	38	20	35	51	25	348	419	
Lewis	157	68	54	9	109	30	24	96	217	0
Lincoln	233	42	29	9	103	36	45	30	940	
Mason	209	54	49	13	85	22	20	22	146	45
Okanogan	135	36	24	6	77	26	31	14	382	50
Pacific	195	49	117	13	54	36	37	41	273	347
Pend Oreille	216	32	44	7	66	28	26	20	424	5
Pierce	130	49	19	8	74	21	15	6	132	5
San Juan	325	187	250	60	164	56	35	12	418	206
Skagit	214	58	23	12	110	17	23	60	159	5
Skamania	189	19	12	15	46	122	32	325	664	
Snohomish	150	45	39	3	143	22	7	24	143	44
Spokane	117	82	18	12	57	23	14	21	140	53
Stevens	160	32	34	5	58	16	17	10	284	5
Thurston	174	52	21	14	85	40	18	11	164	26
Wahkiakum	169	33	144	8	103	181	30	362	809	
Walla Walla	159	37	5	7	46	15	8	17	180	
Whatcom	177	39	25	9	38	22	18	19	110	21
Whitman	99	22	6	3	67	20	13	8	223	2
Yakima	108	36	11	5	51	14	18	7	211	26

Appendix D: Countywide per Capita Expenditures

County	Law & Justice Services	Fire & Emergency Services	Health & Human Services	Trans-portation	Natural Resources	General Government	Utilities	All Other	Capital	Debt Service Interest	Debt Service Principal
Adams	195	18	54	275	25	87	36	4	109	4	3
Asotin	124	10	52	79	22	57	57		274	14	15
Benton	105	6	19	31	21	49	2		25	3	2
Chelan	180	13	17	95	38	81	7		95		
Clallam	159	6	23	109	62	78	3		99	0	0
Clark	139	11	33	54	48	33	10		142	19	23
Columbia	186	75	227	511	120	146	50		318	2	203
Cowlitz	174	6	42	98	28	62	55		169	1	2
Douglas	150	22	204	139	52	57	5		103	11	19
Ferry	204	46	48	312	83	116	35		216	5	19
Franklin	111	8	1	131	70	92			24	16	16
Garfield	182	83	169	690	67	224	17	7	212		
Grant	176	8	59	107	32	49	11		118	0	2
Grays Harbor	184	7	71	108	45	109	36		167	1	3
Island	105	14	38	82	49	67	42		54	8	7
Jefferson	165	16	84	174	67	138	53		63	9	6
King	140	21	128	255	96	22	130		98	86	47
Kitsap	121	7	125	64	37	61	30		78	17	51
Kittitas	177	26	56	112	35	88	72	2	52	5	11
Klickitat	189	35	78	188	59	141	20		267	0	
Lewis	197	34	53	133	65	69	67		76	6	4
Lincoln	214	4	102	498	64	177	33		346	9	11
Mason	158	11	32	76	44	84	58		188	2	3
Okanogan	146	19	87	154	37	91	22		144	7	17
Pacific	170	32	42	162	66	166	0		133	4	5
Pend Oreille	189	55	28	239	47	115	40		98	5	23
Pierce	135	14	66	44	39	31	34		51	6	9
San Juan	239	32	96	190	137	169	100		481	30	81
Skagit	142	32	51	90	59	69	57		107	7	7
Skamania	335	35	48	292	119	211	51		114	14	2
Snohomish	120	24	59	60	26	71	53		128	13	46
Spokane	134	15	35	45	25	52	39		79	12	14
Stevens	132	13	32	150	27	70	14		119	18	13
Thurston	127	23	96	71	34	60	40		131	7	11
Wahkiakum	394	9	253	416	119	233	36		530		9
Walla Walla	104	8	32	156	53	47			10	3	4
Whatcom	136	17	47	68	38	34	4		85	7	10
Whitman	77	12	39	119	18	39	35		85	1	1
Yakima	142	10	103	67	12	25	22		61	6	8

Appendix E: Historical Perspective—Past League Tax Studies and Positions

The League of Women Voters has addressed ongoing and evolving tax and fiscal policy issues at all levels of government for many years. At the 1984 national convention the LWVUS adopted a position establishing criteria for evaluating federal tax policies and commenced a two-year study of US fiscal policy. The current tax positions of the LWVUS are based on this study and, although they address federal tax policy, they also provide a framework to support state and local League positions.

The LWVUS believes that the federal tax system should:

Be fair and equitable; provide adequate resources for government programs while allowing flexibility for financing future program changes; be understandable to the taxpayer and encourage compliance; accomplish its objectives without creating undue administrative problems. The LWVUS believes that the federal tax system, taken as a whole, should be progressive, not proportional.

The League:

Supports income as the major tax base for federal revenues; believes that the federal income tax should be broad based with minimal tax preferences and a progressive rate structure; opposes a value added tax or national sales tax in the federal revenue system.

The League of Women Voters of Washington has a much longer history studying state tax issues. As early as 1953 the State League, responding to actions of the WA State legislature, began studying the tax issue and developing educational materials focusing on state taxes. *A Primer on Washington State Taxes* (published by the League in 1957) provided an easily understood overview of the terminology used in discussions of state tax policy and led to the development of the State League position supporting an income tax and repealing the sales tax on food.

The League of Women Voters of Washington believes that:

Inequities in the distribution of the tax burden should be removed; flexibility and recognition of changing times and needs is important in tax policy; only broad general principles of taxation should be included in the constitution; income should be part of the tax base preferably through a graduated net income tax; the sales tax should not be levied on food; business should be taxed on net income rather than gross sales. (1957)

This tax study convinced League members of the early sixties that the property tax, which at that time provided 85% of the total revenue received from local taxes, would need to be strengthened and equalized both within and between counties. The informational publication *Facts About Your Property Taxes* (May 1963) was developed to aid the taxpayer in understanding the terms *true and fair value, assessed value, mills or millage, equalization and levy;* as well as understand the process of determining the individual property tax and the inadequacy of the property tax as a source of revenue for local governments. The first League positions on property tax administration were developed in 1965 in response to the property tax study.

The League of Women Voters of Washington believes that:

Specific figures and details such as assessment levels, millage limit and classification should be left to legislation determination according to the needs of the time. Constitutional provisions should be enforced with effective regulation from the state level. Equity and uniformity both within and among counties in the administration of the property tax are of major importance. The state should have a primary role in regulation and enforcement to ensure uniform assessment levels and adherence to laws and standards of performance. Training and quality of personnel, adequate budgets and staff should be a concern at both state and local levels. The assessor should be a technical administrative officer and should not have tax policy-making powers. Qualifications should be set for the position of assessor. The decision as to whether or not the assessor's position is elected or appointed should be determined by the legislature and not specified in the constitution. The taxpayer should have a greater role in the taxing process; information should be understandable and readily available. More information should be included on or along with the tax statement. True and fair value (100% value) should be listed on the tax roles and tax statement. Each property owner should receive tax statements. The appeals procedure should be simple, convenient and responsive to the taxpayer. The taxpayer should be notified of reevaluation in ample time to appeal should s/he desire to do so. Appeals boards, courts or boards of equalization should be separate, qualified bodies at county and state levels.

In 1966, the LWVWA published *Tax Facts; Where the Money Comes From* and *Expenditure Facts; Where the Money Goes*. These publications further explained taxes and revenues of Washington State in an effort to inform citizens and encourage participation in the ongoing tax structure debate, taking place in the legislature at that time. Accompanying *Tax Facts* was a noteworthy chart of Major Taxes of Washington State. The chart, which could be purchased separately for $0.15, presented a comprehensive overview of state taxes, enabling legislation, basis of rates, fund deposition and allocation, unit of government responsible, exemptions, and percent of revenue represented by each tax.

In 1966, LWVWA concluded a short survey study, *The Problems of Local Government*. This study looked at the sources of revenue for local, city and county government. In response to this survey, in 1967 and 1968, LWVWA conducted a state study of property tax exemptions. This study reached consensus in the spring of 1969 and culminated in the League's positions on property tax exemptions.

The League of Women Voters of Washington believes that:

Exemption from property taxes should be limited but may be valid when used to further public policy such as encouraging education, cultural or humanitarian causes. Property tax exemptions should not be used to encourage location of industry or as a reward for public service. Property of private or nonprofit groups used for business activities should not be exempt. The state should assume the responsibility for revenue lost to local governments because of property tax exemptions granted by the state. Property otherwise exempt should pay for direct public services such as fire and police protection. When exemptions are used, the state must assume uniform application. Exemption provisions should be carefully and periodically examined. There should be a periodic inspection of exempt property to assure compliance with the law. Exempt property and its valuations should be listed. The list should be made available to the public. Property on which the tax is unduly difficult or expensive to administer should be taxed in some other way, for example: income tax on intangibles, excise tax on boats and cars. Ability to pay is an important criterion of the tax structure.

Backed by the tax studies and state tax policy positions, in 1969 the League lobbied for HJR 42 the constitutional amendment for a state income tax. Although HJR 42 failed, the League, through educating members and the public, had helped pave the way for future tax reform efforts. In 1973 another attempt was made at a constitutional amendment for tax reform—HJR37. HJR37 received League endorsement, although with some reservations because of the many constitutional restrictions it included. HJR 37 also failed, but added to the momentum of tax reform.

In the early 1980s, revenue collections fell short of expectations, prompting the re-imposition of a tax on food and increase of tax rates and fees. The League became part of a large statewide movement focused on tax system reform. In an effort to update League tax positions a series of informative tax policy articles were published in the LWVWA Voter in 1986. These articles stimulated tax discussion and study in Leagues across the state. With a greater understanding of tax issues the League actively participated in the 1989 Governor's task force to implement tax reform, but this effort never passed out of the State Senate.

The state and local Leagues continued efforts to educate members and the general public on tax issues. An extensive review of the state's tax structure and review of League positions—*The Basic Tax System in Washington*—was presented in the LWVWA Voter, Spring 1992. This review presented costs and benefits of the major state revenue sources and supportive arguments for each of the League tax policy positions. This review was presented with the understanding that Washington ranks with "the ten worst states in the union in the area of tax fairness because our tax system is so regressive."

The Basic Tax System in Washington stimulated the ongoing tax debate and identified for the League areas for further study and standard criteria to measure state taxes against. The question was asked: "Why do we have taxes?" And answered: "Governments access and collect taxes in order to fund activities that benefit the common good—activities that could not be funded as well, if at all, through private enterprise." This remains the basic premise of taxing at any level of government. The role of the League is to work for a "balanced tax that is fair, adequate, flexible and has sound economic effect."

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