



**OCTOBER 19, 2007 AGENDA  
 COUNTY FISCAL HEALTH AND GOVERNANCE ALTERNATIVES  
 ADVISORY COMMITTEE**

**Location: Department of Transportation Conference Center, Bullfrog Road Maintenance Campus, Exit 80 on I-90 (see next page for driving directions)**

<b>Time</b>	<b>Agenda Item/Material</b>	<b>Presenter</b>	<b>Proposed Actions</b>
9 AM	1 <b>Open Meeting</b> List of Members – on Web site	Chair Rose Bowman	
9:05	2 <b>Approval of October 12 Meeting Notes</b> Draft Meeting Notes – agenda packet (AP) pg. 3	Chair	Approval of Meeting Notes
9:15	3 <b>Committee Organizational Issues</b>		
	a Logistics for October 26 Meeting AP pg 7	Marsha Fraser, Facilitator	
	b Written comments from any absent members		
	4 <b>Study Components for Committee Feedback</b>		
9:20	a Draft Fiscal Sections of the Legislative Report AP pg 8	Anne Pflug, Legislative Project Manager	Presentation and Feedback from the Advisory Committee
11:00	b Study Recommendations AP pg. 33	Anne Pflug, Legislative Project Manager	Final Feedback from the Advisory Committee
NOON	<b>LUNCH (during discussion)</b>		
12:30	c Feedback on October 12 Component Presentations AP pg 41	Anne Pflug, Legislative Project Manager	Final Feedback from the Advisory Committee
2 PM	5 <b>Adjourn</b>		

All documents are posted at <http://www.cted.wa.gov/site/1044/default.aspx>

**DIRECTIONS TO MEETING SITE**  
**Department of Transportation Conference Center, Bullfrog Road**  
**Maintenance Campus**

**Traveling east on I-90 from Issaquah/North Bend:** Go over Snoqualmie Pass on I-90, past Easton (Exit 70), continue east until you get to Exit 80 (Roslyn). Take the exit ramp and turn right at the stop sign on to Bullfrog Road. The DOT maintenance facility is on your immediate left. Turn into the entrance road. The Conference Center is in a converted house close to the entrance. The meeting is in the back building behind the “house”.

**Traveling west on I-90 from Ellensburg/Cle Elum:** Go past Cle Elum (Exit 85 and 84), continue west until you get to Exit 80 (Roslyn). Take the exit ramp and turn left at the stop sign on to Bullfrog Road and go over the top of the freeway. The DOT maintenance facility is on your immediate left after you go over the freeway bridge. Turn into the entrance road. The Conference Center is in a converted house close to the entrance. The meeting is in the back building behind the “house”.

## County Financial Health and Governance Alternatives Study Advisory Committee

<b>Agenda Topic:</b> Approval of October 12, 2007 Meeting Notes	
<b>Agenda Item: 2</b>	<b>Staff Contact:</b> CTED Project Manager -- Anne Pflug <a href="mailto:annep@cted.wa.gov">annep@cted.wa.gov</a> 509-925-2608
<b>Study Question(s) Being Addressed:</b> NA	<b>Attachments:</b> Meeting Notes

**Requested Action:**

Approval of Meeting Notes with any desired changes.

**Background:**

NA

**Discussion:**

NA

**Recommendations:**

Approval of meeting notes for October 12, 2007

County Financial Health and Governance Alternatives Study  
Advisory Committee Meeting Notes  
WSDOT Bullfrog Road Conference Facility, Cle Elum  
September 26, 2007

Committee members attending the meeting: Island County Auditor Suzanne Sinclair (Acting Chair), Snohomish County Sheriff Rick Bart, Cowlitz County Public Works Director Ken Stone, King County Office of Management and Budget Director Bob Cowan, Ferry County Commissioner Mike Blankenship, Chelan County Commissioner Buell Hawkins, Skamania County Prosecuting Attorney Peter Banks, Walla Walla County Treasurer Gordon Heimbigner, Mason County Commissioner Timothy Sheldon, Clark County Administrator Bill Baron, and Professor Terry Novak

Others attending: Carol Tobin, Brian Murphy, Pia Franzese, Kent Miller, Dana Moore, Debbie Wilke, Bill Vogler, Julie Murray, and Todd Mielke.

Facilitator: Marsha Fraser

CTED Staff: Anne Pflug, Marie Sullivan and Darleen Muhly

### **Approval of September 26 Meeting Notes**

The following corrections were made to the minutes:

- Debbie Wilke was present
- On page 6 in the discussion on disincentives to regionalization, add: Another example of a disincentive to regionalization is the state funding formula for Master Street Addressing Guide Coordinators under the state's 911 Ccommunications funding formula. This current formula funds one coordinator per PSAP.
- On page 6, the incomplete sentence in the second to last paragraph should be removed.

The minutes were approved as amended.

### **Committee Organizational Issues**

As Chair Rose Bowman was unable to attend, the committee agreed to have Auditor Suzanne Sinclair serve as acting chair for this meeting.

Written comments by absent members were passed out to the committee for review.

The committee discussed future meetings. They agreed to extend the October 19 meeting to 9:00am to 2:00pm and to hold the October 26 meeting. Both meetings will be held at the WSDOT Bullfrog Road Conference Facility. (This is a change from the earlier schedule.)

### **Background Component**

Carol Tobin with MSRC gave a presentation the update of the *History of Local Government in Washington State*. The update included two new chapters covering the last 27 years.

### **Case Study Component**

Pia Franzesne and Brian Murphy with Berk and Associates presented the results of the three cases studies. The study looked at counties with models in place, counties without models in place and impact to all counties.

Joint customer service and merging the assessor, auditor and treasurer positions would be just as likely to lose money as to achieve savings. For some small counties, some savings may be achieved by merging the clerk and Supreme Court administrator positions.

The committee discussed the case study findings. The committee asked about the cost savings presented. It was cost savings achieved after 15 years. Looking at savings per year, it's \$170,000. This would not solve counties' budget problems. When talking about cost savings, the report needs to quantify what percentage of the budget this is. We are also expected to provide a level of service. If merged, the financial piece should not go under the judge. This should be an option not a requirement. Counties need to have flexibility so maybe they can do some of these things. Joint systems would allow counties to have one-stop-shopping. Natural cross-training would occur. It is important to note that counties must have joint facilities and joint software in place before consolidating functions. Possible cost savings should be presented delicately. Does the Legislature grab this report and say if you don't do this first, no more money for you. \$170,000 won't bale Ferry County out. Some of the inefficiencies are dependent on two things: the legal issues between positions and the people who hold positions. This information will be a huge resource for counties and elected officials. The way we present this is that we are trying to enhance the relationship with the legislature. Enhancing the relationship is key.

### **Alternatives Evaluation**

Attachment A is mislabeled as Attachment B

There was some concern expressed about the recommendations being modified after the committee makes its recommendations. Anne responded that recommendations made by this committee will be included in the report no matter what, and then the Governor's Office and CTED management may modify or use recommendations of the committee for their recommendations.

It was asked who would line up sponsors. Marie Sullivan responded that, if there was Governor requested legislation, the Governor's Office would line up sponsors and, if there was agency-sponsored legislation, CTED would.

**Survey Component**

Kent Miller presented the results to the county official survey.

**Next meeting**

The next meeting is October 19, 2007, from 9am to 2pm at the Department of Transportation Bullfrog Road Conference Facility.

**Meeting adjourned at approximately 2:00pm.**

## County Financial Health and Governance Alternatives Study Advisory Committee

<b>Agenda Topic:</b> Meeting Logistics – October 26	
<b>Agenda Item:</b> 3(a)	<b>Staff Contact:</b> CTED Project Manager -- Anne Pflug <a href="mailto:annep@cted.wa.gov">annep@cted.wa.gov</a> 509-925-2608
<b>Study Question(s) Being Addressed:</b> All	

**Requested Action:**

Discuss expectations for October 26 meeting.

**Background:**

NA

**Discussion:**

At the Advisory Committee’s October 12 meeting the group decided to meet on October 26 for a final meeting. The purpose of this agenda item is to discuss the expectations of the group for the meeting on October 26. As noted in earlier discussion with the Advisory Committee the draft report will be in the final stages of completion in order to meet the November 1 deadline. Significant or multiple changes will not be able to be accommodated at that point. The next steps in the process of completing the report are:

- Review and decision by CTED management (two weeks)
- Review and decision by Governors Office (two weeks)
- Printing/Web Publication (December 1)
- Transmittal to the Legislature and Governor (December 1)
- Initial presentation to the House Local Government Committee, November 29, 1:30 PM

In addition, it has come to my attention that project funding is not available for any additional meetings beyond October 26 in order to remain within the legislative proviso budget.

**Recommendation:**

FYI

## County Financial Health and Governance Alternatives Study Advisory Committee

<b>Agenda Topic:</b> Fiscal Sections of the Draft Legislative Report	
<b>Agenda Item:</b> 4(a)	<b>Staff Contact:</b> CTED Project Manager -- Anne Pflug <a href="mailto:annep@cted.wa.gov">annep@cted.wa.gov</a> 509-925-2608
<b>Study Question(s) Being Addressed:</b> <ul style="list-style-type: none"> <li>▪ What factors contribute to county fiscal health?</li> <li>▪ Which Washington counties are the most fiscally distressed?</li> </ul>	<b>Reference Documents:</b> <ul style="list-style-type: none"> <li>• Attachment A: Draft Fiscal Sections of the Report</li> <li>• Attachment B: Table of Contents of Draft Legislative Report</li> </ul>

**Requested Action:**

The purpose of this agenda topic is to present the draft fiscal sections of the Legislative Report and to get any desired feedback from the Advisory Committee.

**Background:**

Major themes and findings have been incorporated into the draft from prior Advisory Committee meetings and consensus.

**Discussion:**

This component of the Legislative Study is intended to provide background for the Legislature on County Government, its structure and funding as well as provide a discussion of fiscal health. Attachment B provides an outline of the full report for context.

**Recommendations:**

Provide desired feedback with emphasis on findings and examples.

**ATTACHMENT A  
DRAFT FISCAL SECTIONS  
COUNTY LEGISLATIVE REPORT**

**Understanding County Government in Washington State**

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**Counties as “Agents” of the State**

Counties were developed to transact public business and provide equal access to key public services at the time of statehood. In the late 1800’s county seats were often selected because they were within one or more “days horse ride” from the farthest point in the county. At statehood, state government did not have state agencies as we know them today to conduct state business, so counties fulfilled that function as “agents” of the state. Counties collected taxes, served as the location to file official documents, vote and resolve disputes through the courts. Law enforcement was conducted locally, primarily by county sheriffs. Roads, the only form of ‘highway’ at the time, were constructed and maintained by counties. Government business was primarily conducted in-person at the county courthouse and documented, when necessary, with hand written paper records.

Modern technology and modes of communication, record keeping and transportation have created many other potential methods for transacting public business and providing public services however the primary function of counties as “agents of the state” has not changed. Counties are now not the only “agents” of the state. State agencies and other local governments may also perform state functions. Counties employed 34,176 full time employees in 2006 making counties the largest state “agency” followed by the University of Washington (20,000 FTE) and the Department of Social and Health Services (18,000 FTE).

**Cite a Citizens Guide to State Government, 2007 Senate Ways and Means Committee publication**

Counties have evolved since statehood playing two additional roles assigned by the Legislature. Counties provide a limited number of “local” public services to primarily rural residents and businesses. Most “urban” services are provided by cities. In addition, counties have been asked to coordinate and sometimes provide “regional” services that serve all residents within a county.

**How are counties organized?**

The structure of county government with its uniform system of elected legislative and judicial officials and elected department heads was created by the Washington constitution at statehood in 1887 and has not been substantially changed since 1948 when the constitution was amended to allow counties the option of greater “home rule” by becoming Charter counties following a constitutionally prescribed process requiring voter approval.

Today six of Washington’s 39 counties operate under a home rule charter and 33 counties operate under the governance structure prescribed by the Constitution. The non-charter counties have only the powers given to them by the state legislature. “Home Rule” in Washington generally allows counties to determine their own governance system and determine what services the county provides with Charter authorization versus legislative authorization. **In general**

“home rule” in Washington does not allow counties to determine their own taxing authority as it does in some other states.

All counties in Washington have a legislative and judicial branch. Five charter counties have an executive, either appointed or elected as determined by the charter. In non-charter counties the County Commission has a dual role as the legislative body and executive. The executive function is shared, in part, with the elected department heads which are established by the constitution (Sheriff, Prosecuting Attorney, Coroner, Treasurer and Clerk) or by state statute (Assessor and Auditor). The county legislative body or judiciary may also appoint other department heads that are responsible for service delivery in the areas of county roads, land use planning and permitting, public health, human services, parks and recreations, county fair, information technology, court administration, facilities and agricultural extension.

### **Charter Counties**

It was not until 1969 (21 years after receiving this authority) that the first county home rule charter was adopted by King County. Since that time five other counties have adopted home rule charters: Whatcom (1978), Clallam (1979), Snohomish (1980), Pierce (1981) and San Juan (2005). Several counties, including Kitsap, Island, Thurston, Cowlitz, Ferry, Skamania, Grant, Skagit, Spokane and Clark counties, have tried and failed to adopt home rule charters. **Seven counties have held elections that have failed in the last decade.**

When charter counties were formed, as specified in the constitution, a board of freeholders was elected, and the result of their work was adopted by vote of the citizens. Charter counties vary in the number of elected department heads from three to six. All non-charter counties have six or seven elected department heads depending on whether the county is small enough to have a joint Prosecutor-Coroner authorized by state statute.

In the five council-executive charter counties, the size of the council ranges from five members in Snohomish County to nine in King County. The council's primary duty is to adopt a budget and establish county policy. The county executive or administrator is responsible for general administration and operation of the county. The executive or administrator is also responsible for proposing the budget and, in the case of an elected county executive, has veto power over most council actions. Clallam County has retained the three-member commission form of government with responsibilities similar to boards of commissioners in non-charter counties; it also has an appointed county administrator.

A county charter can make any elected county official, except the prosecuting attorney and superior court judges, an appointive rather than an elective position. The six charter counties vary greatly in their treatment of the offices of the assessor, auditor, superior court clerk, sheriff, and treasurer. The assessor is an elected position in every county, although some make the position non-partisan. The auditor is an elected officer in all but one county (King), where the auditor is appointed by the council. The clerk is an appointive position in all but two counties (Snohomish and San Juan), with the appointing authority varying among the commissioners, the superior court judges, and the executive (with council confirmation). The sheriff is now an elected position in all but one county (Pierce), although most counties have made the position

non-partisan. The treasurer continues to be an elected position in all but one county (King). Pierce County has combined the assessor and treasurer into a single elected position. The coroner or medical examiner has been made an appointive position in every charter county, although in Clallam County, the prosecuting attorney serves as the ex officio coroner.

### **Non-charter Counties**

The form of government provided in state law for the remaining 33 non-charter counties is the commission form. All non-charter counties are required to operate under this form of government. There are some population-based differences in the state laws governing counties, but the basic elements of the commission form of government are otherwise the same for all of the non-charter counties.

Under the commission form, the county governing body consists of a three-member board of commissioners, elected on a partisan basis, who serve as the legislative body and also perform executive functions. No single administrator or executive oversees a county's operations under the commission form of government. While the county commissioners establish the budget and act as the county legislative body, they share administrative functions with several other independently-elected county officials, including a prosecuting attorney, clerk, treasurer, sheriff, assessor, coroner, and auditor. Other independently-elected county officials and court officers include the county prosecuting attorney and the judges of the county superior and district courts.

The independent role of the county elected department heads makes county government quite different from city government, where the number of elected officials is far fewer, being limited usually to a mayor and city council members. In county government, multiple elected department heads are intended to provide a system of checks and balances. For example, the checks and balances that exist among the assessor's office, the treasurer's office, and the auditor's office are intended to divide the responsibility of handling multi-million dollar tax funds. The county collects taxes for the cities, the school districts, the road district, the many other special purpose districts and other functions involved in county government. The county collects taxes according to an assessment made by the assessor and certified by the county treasurer. The auditor attaches a tax levy that is propounded by the commissioners and that money is then certified back to the county treasurer to be collected and disbursed to all the taxing districts.

Although there is no constitutional or statutory requirement for county commissioners to delegate any of their executive authority to a separately appointed administrator, it appears that some of them have, to a limited degree, chosen to do so. There is no apparent uniformity to the job titles given to such positions, nor with respect to their duties and responsibilities. Nevertheless, there appears to have been a conscious action taken by the board of commissioners in many non-charter counties to delegate some degree of their administrative authority to a separately appointed administrative-type position.

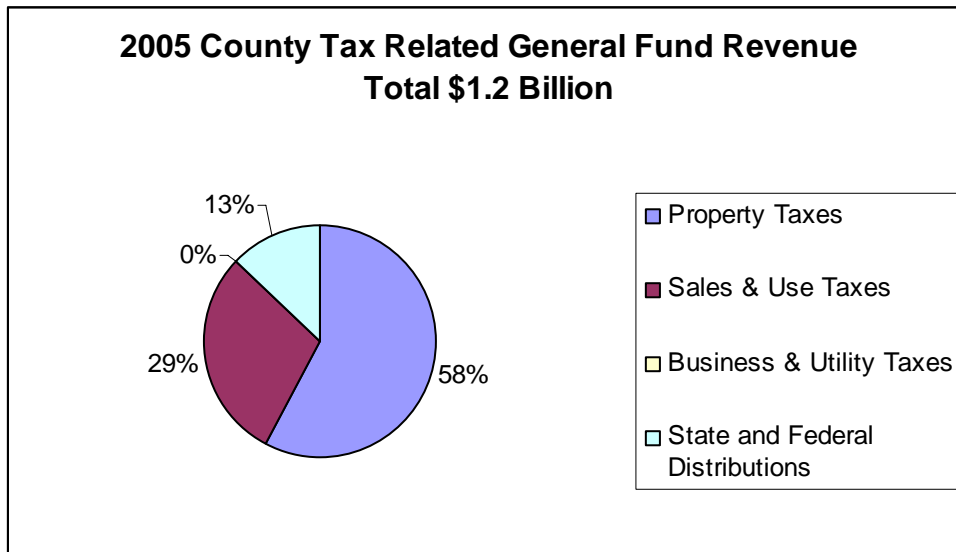
### **Cite MRSC Report**

#### **How is county government financed?**

State law authorizes and limits taxes and fees that may be imposed by counties. The major tax revenue sources available to local governments are property and sales taxes for both cities and counties, and business and occupation (B&O) and utility taxes, which are authorized exclusively for cities.

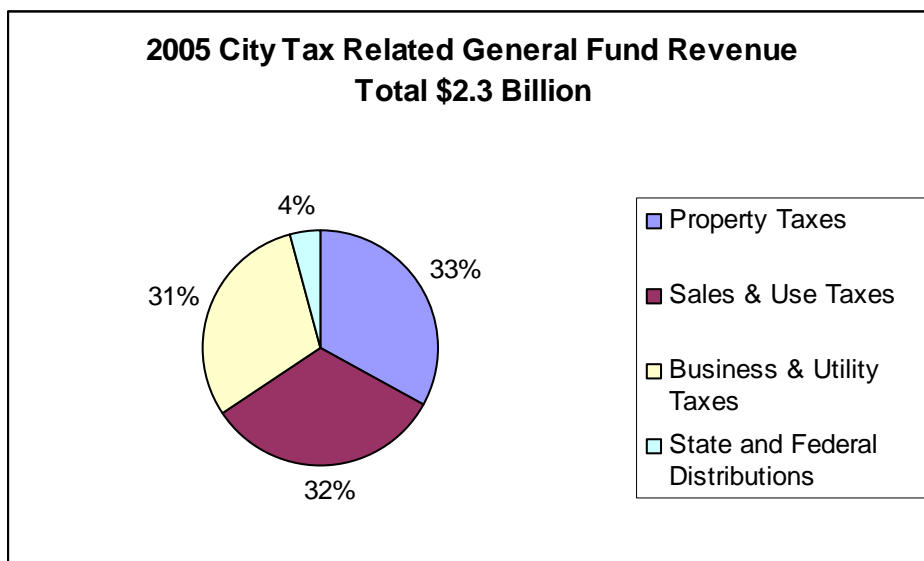
As shown in **Chart A** over half (58%) of county general fund revenues are generated from local property taxes with another 29% coming from sales tax. Similarly, **Chart B** shows that about one third of city general fund revenue is from each of these same sources. City B&O and utility taxes provide the final 31 percent of all city general fund revenue. The remainder of county and city revenue consists of distributions from the state and federal governments and other taxes, fees, fines, interest earnings, and other contributions. State and federal grants comprise a larger proportion of county revenues. A large proportion of state and federal funding to counties is restricted to specific purposes.

**Chart A**



Source: Legislative Evaluation and Accountability Program

**Chart B**



Source: Legislative Evaluation and Accountability Program

Chart C and D shows comparable State revenue. The major sources of state general fund revenue are sales tax (41%), federal distributions (34%), business and utility taxes (16%) and property tax (9%). State and city revenue changes more with economic conditions because they are more dependent on sales and business taxation while county revenue is more dependent on property taxes that are influenced far less by economic change and more by levy growth limits. Comparative overall revenue stability is frequently described in terms “legs on a stool” (see Chart D)

Cite page 21- 23 of citizens guide to local government finance in Washington State, Senate Ways and Means Committee, 2001 and LEAP  
<http://www.leg.wa.gov/documents/senate/SCS/WM/SwmWebsite/BudgetGuides/2001/cglgf1.pdf>

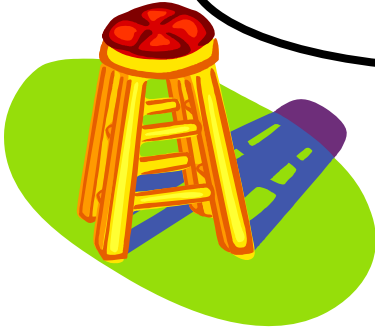
**Chart C**



Source: Legislative Evaluation and Accountability Program

**COMPARISON OF GENERAL FUND TAX REVENUE**

**STATE**



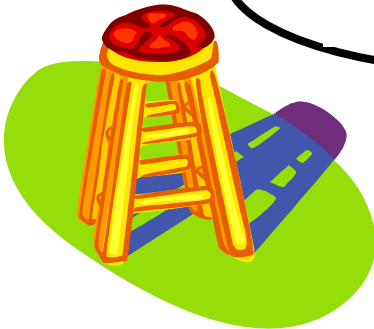
**FOUR "LEGS"**  
41% Sales and Use Taxes  
34% Federal Distributions  
16% Business and Utility Taxes  
9% Property Taxes

**COUNTY**



**THREE "LEGS"**  
58% Property Tax  
29% Sales and Use Tax  
13% Federal & State Distributions

**CITY**



**FOUR "LEGS"**  
33% Property Tax  
32% Sales and Use Tax  
31% Business/Utility Taxes  
4% Federal & State Distributions

State agencies may have separate authority to charge fees or receive revenue restricted to their operations but most are supported with significant state tax revenue from one or more of the major state sources. Counties, as agents of the state, for example are not always authorized to collect similar fees. For example state agencies are authorized to collect up to 2% of receipts for collection of sales taxes for local governments that goes to the state general fund. Since 1997 the

fee charged has been one percent of collections. Counties, the primary collection agent for property taxes, are not currently authorized to collect a fee to cover collection expenses to the approximately 1700 taxing units that levy property taxes. Based on estimates of collection costs for King County and Lewis County the approximate cost to collect property taxes is a little less than 1% of receipts (less county tax receipts). The state has a limited role in property tax collections that would also need to be factored into the total costs. One percent of total property tax collections for 2006 less county government tax receipts would total \$60 million dollars.

[Cite Department of Revenue 2007 Tax Reference Manual, page 41](#)

Counties receive some federal distributions that are passed through the state and some direct state tax allocations primarily in the areas of human services and transportation. Total state allocations to county general funds in 2005 were \$102 million dollars of which \$59 million was not competitive grant funding or 3% of total revenue. County criminal justice and general government services including most services the counties provide as an “agent of the state” are currently supported for the most part by local taxes and fees authorized and limited by the state. Unlike other state agencies, counties receive a relatively limited proportion of state tax revenue.

[Cite LEAP](#)

#### *Major County Revenue Sources*

Local property taxes and sales taxes are the two primary tax sources available to counties. In addition the state allocates to counties:

- A portion of the state motor vehicle fuel tax for transportation,
- A portion of the real estate excise tax (REET) for assistance to jurisdictions with a limited tax base (SB6050) and
- A portion of a number of state established fees, fines or forfeitures including court fines and forfeitures. Most of the fees, fines and forfeitures are collected by the counties on behalf of the state.
- The state also contracts for some services, especially human services, with the counties and provides a fee-for-service reimbursement or a client based allocation.

#### *County Revenue Capacity Changes Over Time*

Since each county revenue source has been authorized by the Legislature a number of changes have occurred which impact the amount of revenue the counties currently derive from each source.

#### 1. Property Taxes – 58% of county general revenue statewide

Property taxes are the primary source of general fund tax revenue for counties. Thirty nine counties and a little over 1,700 other taxing districts share the property taxes collected each year from property owners. The large number of special purpose districts with property tax authority can create significant tax payer confusion and competition for voter attention since most property tax changes must be approved by the voters.

The counties have been authorized to collect the following local property taxes to fund county services:

**AUTHORIZED REGULAR AND SPECIAL LEVY RATES  
AND NUMBER OF DISTRICTS CURRENTLY LEVYING PROPERTY TAXES**

<b>Taxing District/Purpose</b>	<b>Maximum Rate</b>	<b>Levying Counties</b>	<b>RCW Cite</b>
County – General Purpose	\$1.80	39	84.52.043
County Road	\$2.25	39	36.82.040
County – criminal justice	\$0.50	0	84.52.135
County - veterans assistance	\$0.27	34	73.08.080
County - mental health/dev. disability	\$0.025	39	71.20.110
County - lands assessment fund	\$0.125	0	36.33.140

Source: Department of Revenue Tax Manual

All counties levy the county general purpose and county road property tax. While not all tax rates are at the maximum for various reasons, the amount of revenue that can be collected by a county per year is limited by Initiative 747 to 101% of the prior years tax levy in dollars plus tax revenue from new construction. This means that if the property tax levy for County A was \$1 million dollars in 2005 then up to \$1,010,000 can be levied in 2006 plus revenue from applying the county tax rate to the value of new construction, if any. Prior to 2001 a county could levy up to 106% of the prior years levy. This change has forced counties to cut services, rely more heavily on sales taxes, defer replacing capital assets and costly technology or institute efficiencies so that the counties can keep up with cost increases, many pegged to inflation rates that are above 1%.

A number of property tax exemptions or deferrals have been adopted by the legislature that effect county tax bases by shifting the tax burden among classes of tax payers. County tax revenue can no longer be increased in size except by the method described above so that counties with very small tax bases due to high percentages of public land, current use taxation, a large senior citizen population or limited development are restricted to their current tax revenue base with very limited growth potential.

Counties have generally not levied the \$0.50 criminal justice property tax authorized in **XXXX** because;

- Voters have not approved the tax which requires a super majority (60%) yes vote. **Insert number of counties that have tried.**
- The revenue generated in limited tax base counties is extremely small, exceeding in some cases the cost of the election and administration. **Give Ferry Co example.**
- The tax is only available to counties of 90,000 population or less and has a limited term of six years which restricts its use for on-going service requirements.

- The super majority requirement in some counties makes the tax politically impractical.

Counties have generally not levied the lands assessment property tax because it is for unique and restricted purposes – payment of property assessment installment payments for diking or drainage improvements on county owned land.

County government has the authority under existing 2001 statute (RCW 84.55.005) to override the 1% limit by majority voter approval for up to six consecutive years. Elections for this purpose must be held at a primary or general election. The title of each ballot measure must state the specific purposes for which the proposed levy increase shall be used, and funds raised under this levy shall not supplant existing funds used for these purposes. King County is the only county to implement property tax levy lifts in the last three years. Levy lifts were approved for a finger print identification system (AFIS), Parks, and Veterans/Family services.

**Cite Department of Revenue, Research Division.**

Counties have generally not requested nor had successful levy lift property tax elections because;

- The tax levy lift authority is relatively new.
- The maximum six year limitation restricts the use of the funds since funding is temporary.
- A number of special districts have levy lift authority propositions which appear on the ballot frequently (primarily school districts and fire districts) that overlap and compete with county ballot propositions.
- In counties where assessed value is growing rapidly, there can be confusion about the impact of property tax levies on property owner tax bills. This fact influences the political feasibility of ballot measures related to property taxes.
- The revenue generated in limited tax base counties is extremely small, exceeding in some cases the cost of the election and administration. **Give Ferry Co example.**

2. Sales and Use Taxes – 29% of county revenue statewide

Counties have been authorized to collect the following local sales and use taxes to fund county services. Sales tax rate levels are a concern for the sixteen border counties where competition for retail sales with other states or Canada may be an issue. In response to specific needs, a number of new county special purpose sales taxes have been authorized over the last decade:

**CURRENT IMPLEMENTATION OF LOCAL SALES TAXES**

<b>Taxing District/Purpose</b>	<b>Maximum Rate</b>	<b>Levying Counties</b>	<b>Shared Revenue</b>	<b>Voter Approval Required</b>
County Basic Rate	0.5%	39	County only	No
County Optional Rate	0.5%	36	County only	Subject to Referendum
Transit Tax	0.1 to 0.9%	10	District	Yes

Criminal Justice	0.1%	32	Shared with cities – 10% goes to county plus a proportion based on unincorporated population	Subject to Referendum
Juvenile Corrections Facilities	0.1%	14	County only	Yes
Rural Counties (credit against state sales tax)	0.08%	32	County only	No
Emergency Communications	0.1%	9	Permitted	Yes
Public Safety	0.3%	4	Shared with cities – 60% County	Yes, Majority
Public Facilities	0.2%	1	District	No
Transportation Benefit	0.2%	0	District	Yes
Mental Health	0.1%	4	County only	No

Source: Department of Revenue Tax Manual

Most counties have adopted local sales taxes that do not require voter approval. Some border counties do not levy sales taxes beyond the basic rate due of their location adjacent to states with no or limited sales tax rates. **All counties that are classified as “rural counties” levy the rural county tax which is limited in purpose to economic development.**

**A county’s** sales tax revenue base is limited to taxes from unincorporated area sales and 15% of incorporated area sales. Incorporations and annexations into cities reduces the counties sales tax revenue base and discourages or conflicts, some believe, with growth management policies that allocate urban land uses to cities.

Counties have seen significant shifts in the last ten years in sales tax revenue bases due to incorporation of **Q** cities and annexation of significant land area. In fact, statewide unincorporated population represents only XX% of the state total, a considerable shift from XX% only a decade. This statewide shift has been even more significant in individual counties such as King, Clarke, Spokane, Yakima, XXXXX. In fact there are now **three counties where the incorporated population represents over 90% of the total county population – King, Franklin and Whitman.**

**The passage of the Streamlined Sales Tax program by the 2007 legislature will shift some sales tax revenue from cities to counties and mitigate the impact of the change in “sourcing” laws for three counties increasing overall sales tax revenues to counties of an estimated \$ million dollars per year when fully effective or Y%. The largest shifts in revenue are occurring in the counties with the largest tax bases.**

A number of sales tax exemptions or deferrals have been adopted by the legislature that effect county revenue by reducing tax receipts. **Some of the larger exemptions that effect counties are for industrial plant and equipment, new construction in certain industries or for specific types of projects and sales taxes on motor vehicles.** The 2006 legislature embarked on a multi-year sunset review of sales tax exemptions which, if implemented, may increase county sales tax revenue bases marginally over time. Most major sales tax exemptions are not subject to review.

There are three sales taxes authorized by the legislature in recent years that only a few counties have enacted.

1. The emergency communications 0.1% sales tax (RCW 82.14.420) was authorized in 2002 and is restricted to use for emergency communications systems and facilities (not operations). **XX counties have failed** to receive voter approval of the tax after going to the ballot and nine have received voter approval. Not all counties have needed major updates to their systems and facilities since 2002. To date nine counties have levied the tax: Clallam, Grant, Grays Harbor, Jefferson, Kitsap, Lincoln, Skagit, Thurston and Whitman.
2. The public safety 0.3% sales tax (RCW 82.14.450) was adopted in 2003. **YY** counties have placed this tax on the ballot with four counties approving: Walla Walla, Spokane, Whatcom and Yakima. This tax has not been widely approved by other counties to date because:
  - The revenue generated in limited tax base counties is extremely small, exceeding in some cases the cost of the election and administration. **Give Ferry Co example.**
  - The uses of the tax are limited to “new” service and can not be used to replace existing program funds.
  - Some border counties do not levy sales taxes beyond the basic rate due of their location adjacent to states with no or limited sales tax rates. Higher tax rates are seen as effecting sales volumes and reducing overall tax collections.
3. The mental health 0.1% sales tax (RCW 82.14.460) was adopted in 2005. The tax has been imposed in four counties: Jefferson, Skagit, and Spokane and Clallam. The tax has not been widely approved by other counties to date because:
  - The tax is new.
  - The revenue generated in limited tax base counties is extremely small, exceeding in some cases the cost of the election and administration. **Give Ferry Co example.**
  - The uses of the tax are limited to “new” service and can not be used to replace existing program funds.
  - Some border counties do not levy sales taxes beyond the basic rate due of their location adjacent to states with no or limited sales tax rates. Higher tax rates are seen as effecting sales volumes and reducing overall tax collections.

The transportation benefit, transit and public facilities sales taxes are levied for narrow purposes on behalf of special districts that may be created countywide. While the transportation benefit district, for example, may fund part or all of a county road project the creation of the benefit district requires actions of multiple jurisdictions. None of these taxes may be enacted to support general county government operations.

*Findings:*

- The environment that counties operate in today has changed since the existing tax system for counties was adopted. It used to be that if a county needed a better revenue base it could use its land use decision authority but much of this flexibility has been pre-empted or limited. Through an incremental series of changes, today's county funding system does not match the circumstance now facing counties.
- Over the last decade significant changes have occurred which make the counties "three legged stool" less stable through over reliance on property taxes – a boundary has been crossed for many counties which results in external forces controlling *both* the majority of revenue and service demand drivers. These forces are working in opposition, decreasing revenue base growth while increasing demand at the same time. This conflict needs to be addressed by reducing county responsibilities or increasing revenue at the same time that assistance is provided to increase efficiencies and effectiveness.
- The counties revenue base has become increasing inelastic over the last decade significantly contributing to fiscal distress and jeopardizing equal access across the state to basic services provided by counties as "agents of the state". Increasing county revenue flexibility could include adding more elastic revenue to the counties revenue structure, changing non-supplanting language within existing revenue authority and changing restrictions on the use of special revenue fund interest earnings. Revenue elasticity is an important tool for counties to keep pace with service requirements and labor costs.
- State support to counties general fund, where many state agent services are funded, is limited to 3% a number much smaller than other state "agencies". In addition, the state has not authorized counties to collect some of the same fees that other state agencies collect to offset the cost of service delivery.

**County Financial Health and Governance Alternatives:  
A Study Requested by the Washington Legislature**

**ANALYSES & FINDINGS**

**Financial Health of Counties in Washington State**

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In April 2006 the Office of Financial Management (OFM) requested that the Department of Community, Trade and Economic Development's Local Government Division assist them with an analysis, using contemporary methods, of local government financial condition in Washington's 320 cities and counties (see Appendix E).

*Approach*

A nationally recognized method of assessing local government financial condition was used to evaluate the financial distress of Washington's counties and cities. The financial indicator method has been in use for over 30 years in individual local governments and in some states and has been refined with time. Ten key indicators of financial condition were selected for Washington cities and counties. These indicators were used to determine which jurisdictions in the state are experiencing the most financial stress based on data collected between 1994 and 2004. Data was collected from generally available state sources for all 39 counties and 281 cities. The group of selected indicators was balanced to reflect the health of each local government's revenue base, demand factors effecting local government service delivery, and financial results of operations.

The OFM study was reviewed by the CTED Advisory Committee. The Advisory Committee found that there were additional significant non-quantifiable factors that influence county fiscal health. The input of the Advisory Committee was combined with material from the OFM report on fiscal distress to reach the following conclusions.

*Conclusions*

1. The financial condition of Washington's local governments generally declined during the 1994-2004 decade based on the selected stress indicators. Of the ten indicators of financial health: two improved over the decade, five showed decline, and three had mixed results or could not be comparatively measured. Continued monitoring of local government financial condition over time would increase the number of measures that could be comparatively measured. The ten indicators were:
  - Indicator 1: General Fund Revenue Per Capita
  - Indicator 2: Revenue Elasticity
  - Indicator 3: Cash Balance
  - Indicator 4: Proportion of Expenditures Used for Capital or Debt
  - Indicator 5: Proportion of Revenue Restricted for Specific Uses
  - Indicator 6: Property Tax Burden
  - Indicator 7: General Fund Operating Gaps

- Indicator 8: Economic Condition
  - Indicator 9: Tax Base Condition
  - Indicator 10: Service Demand
2. The Advisory Committee concluded that:
    - Every county in Washington is fiscally distressed, the level of distress and reasons differ and so may the solutions.
    - As an “agent of the state”, Counties have an inadequate tax base to meet basic service requirements and provide equal access to services across the state.
    - The indicators should be considered for use in light or in context of what counties have already done to make service and staff cuts to get to their indicator scores. Not all counties have made the same level of effort to cut costs.
    - The **best indicators** of county financial distress are:
      - Restricted revenue (Indicator 5)
      - Revenue elasticity (Indicator 2)
      - Service demand with a change in how demand is measured to measures such as criminal case filings (Indicator 10)
      - Tax base condition (Indicator 9)
  3. Counties that had the largest number of stress indicators are generally smaller in population and are grouped in three areas of the state (northeast, southeast and south central/west).
  4. There is a high degree of overlap between the groupings of local governments with high levels of financial stress and local governments with low employment and personal income growth. Any programs that affect the economic health of these regions of the state over the long term may also improve the financial health of the associated local governments.
  5. The state of Washington has provided individual (Ferry County in 2005) and programmatic aid including SB 6050 Local Government Assistance to financially stressed local governments over time. Washington does not monitor or report on the financial condition of local governments based on consistently reported measures unlike some other states. State statutes provide for local governments to declare insolvency (RCW 39.64 Taxing District Relief and RCW 35.21.750 Public Corporations – Insolvency), but to date no county has used these statutes.
  6. During the last forty years nationally there has been operating insolvency or debt default by local governments in other states. These local governments have been temporarily re-organized, come under state or judicially ordered independent control, or found themselves subject to budget supervision by the state. Washington does have well defined protections in place for some high financial risk areas in local government operations that have caused significant financial issues for local governments nationally. Two examples are government funds investment restrictions and funded retirement programs. There are other areas of high financial risk however for Washington local governments.
  7. The state has an interest in the financial viability and effective management of local governments because they are a key partner in the delivery of state programs. Counties and

cities are important strategic partners in the delivery of \$20.7 billion in non-education related governmental services in Washington (**Legislative Evaluation and Accountability Program, 2004**). **The largest joint expenditures were for Criminal Justice - \$3 billion (33% state; 37% county; 30% city); Transportation - \$3.6 billion (46% state; 34% county; 20% city), and Health and Human Services - \$9.1 billion (94% state; 6% county; 1% city). States across the nation have a stake in local governments' fiscal health** and condition since local fiscal crises can affect the state's bond ratings, the economic development potential of the state, and the quality and quantity of public services.

8. Re-aligning SB 6050 assistance to focus on the most distressed local governments in the short term may assist them to reduce their immediate level of distress. It may be appropriate to evaluate distributing all or a portion of SB 6050 assistance in a manner that provides a larger proportion of assistance to the most stressed jurisdictions. Short term assistance may also provide a window of opportunity for these local governments to focus on strategies to eliminate their financial distress over the longer term.
9. It is likely that SB 6050 assistance alone will not be sufficient to address the most distressed local governments' basic service delivery requirements because the amount of assistance in most cases is smaller than the local government's need.
10. The Advisory Committee identified some additional factors that they felt should be considered by the Legislature in assessing fiscal distress that are difficult to quantify:
  - The impact of significant change in state policies that drive county service delivery or enforcement systems or levels of service. Examples include the Growth Management Act, criminal sentencing guidelines, transportation capacity requirements and storm-water quality standards.
  - Implications of land use and public ownership patterns guided by the Growth Management Act and other state or federal policy decisions on county tax base capacity.
  - Regionally differentiated impacts of major changes in revenue such as property tax limitations, the repeal of MVET, large annexations or city incorporations or radical changes in community economic conditions.
  - Legacy financial obligations that reduce county resources. Some examples might be employee or retiree health or retirement benefits, environmental clean up requirements, law suit settlements and impacts of delayed technology or capital infrastructure replacement.
  - County policy and/or management decisions that over obligate resources. Some examples might be generous labor agreements, under-pricing of services, over extended level of service obligations, over extended discretionary service obligations, over budget capital projects, accumulated debt or poor budget and cash management practices.
  - Significant changes in demand for high cost mandated services like criminal justice, human services, transportation, land use/environmental regulation or waste disposal.
  - Inefficient or ineffective county imposed operating practices.
  - Regional differences in economic vitality and diversification.

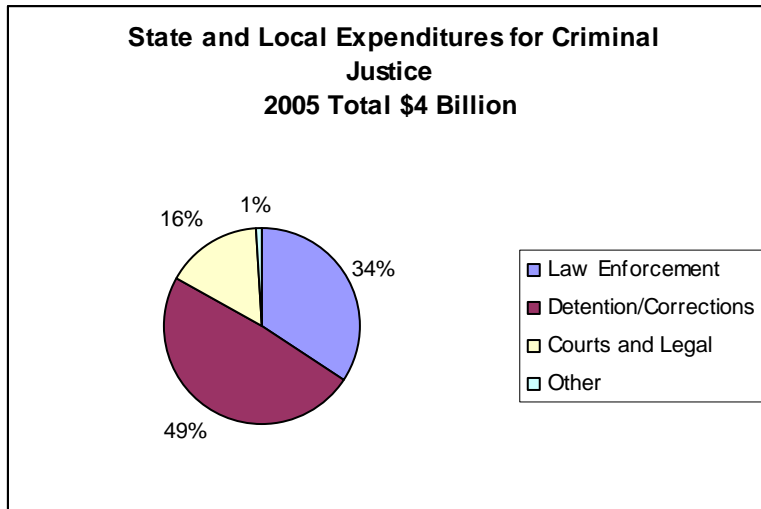
*An Example – The Criminal Justice System*

There are a number of state policies that drive service delivery costs at the county level including, as examples, criminal sentencing policy as expressed in state determinate sentencing guidelines (effects county law enforcement, court and jail costs) and state tax exemption policy (effects property tax collection administrative and technology costs). These demand drivers are in conflict with policy changes that reduce county revenue, effect tax bases or limit the use of revenue. As an example of this core issue, the criminal justice system was examined. Criminal Justice represented \$1.1 billion dollars or 71.4% of county general fund expenditures statewide in 2006, these costs are in contrast to Assessor, Auditor and Treasurer expenditures which represented \$148 million dollars statewide.

**Cite Local Government Financial Reporting System, State Auditor’s Office**

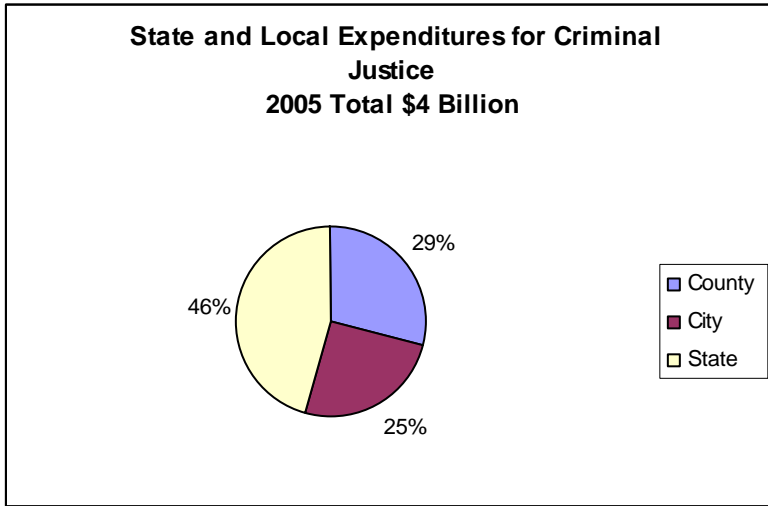
Looking at the funding of the criminal justice system at both the state and local levels one can see that it is a large system (\$4 billion dollars per year) with major responsibilities for different components distributed among the state, counties and cities (See Charts E and F).

Chart E



Source: Legislative Evaluation and Accountability Program

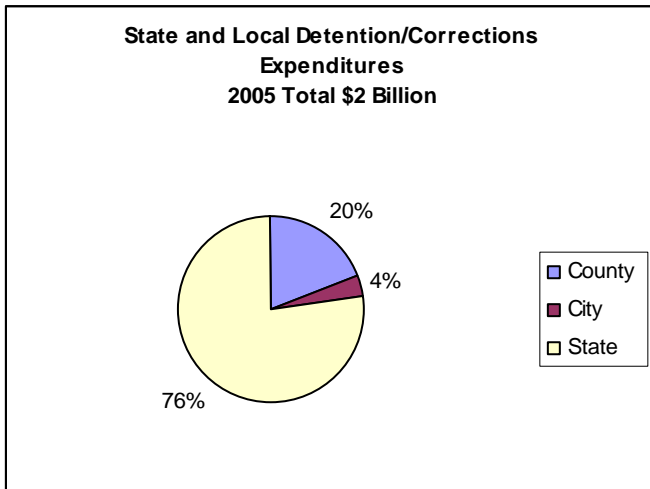
Chart F



Source: Legislative Evaluation and Accountability Program

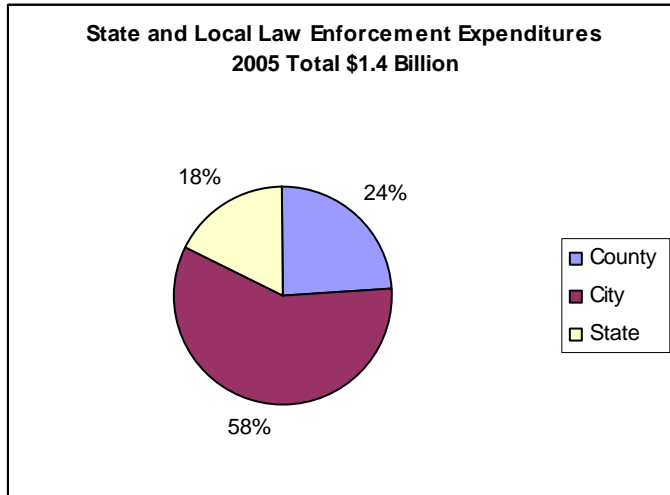
The criminal justice system in Washington is currently designed so that responsibility for funding law enforcement falls primarily to the cities (see Chart H), the responsibility for funding the courts and legal representation falls primarily to the counties (Chart J) and the responsibility for funding detention falls primarily to the state (Chart G). Each of the units of government however, have a funding and service delivery role, at least in part, within each of the components.

Chart G



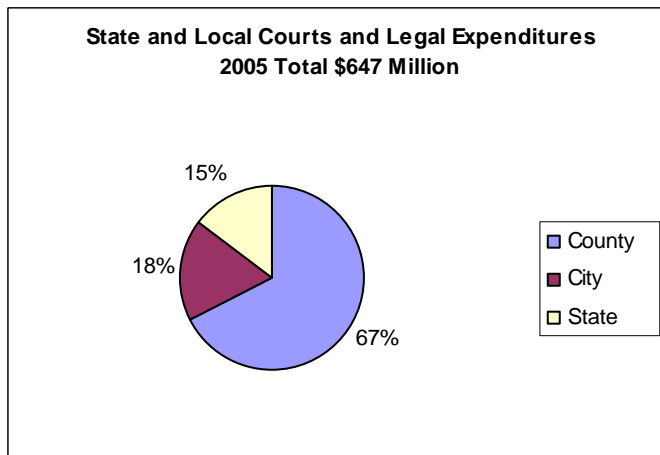
Source: Legislative Evaluation and Accountability Program

Chart H



Source: Legislative Evaluation and Accountability Program

Chart I

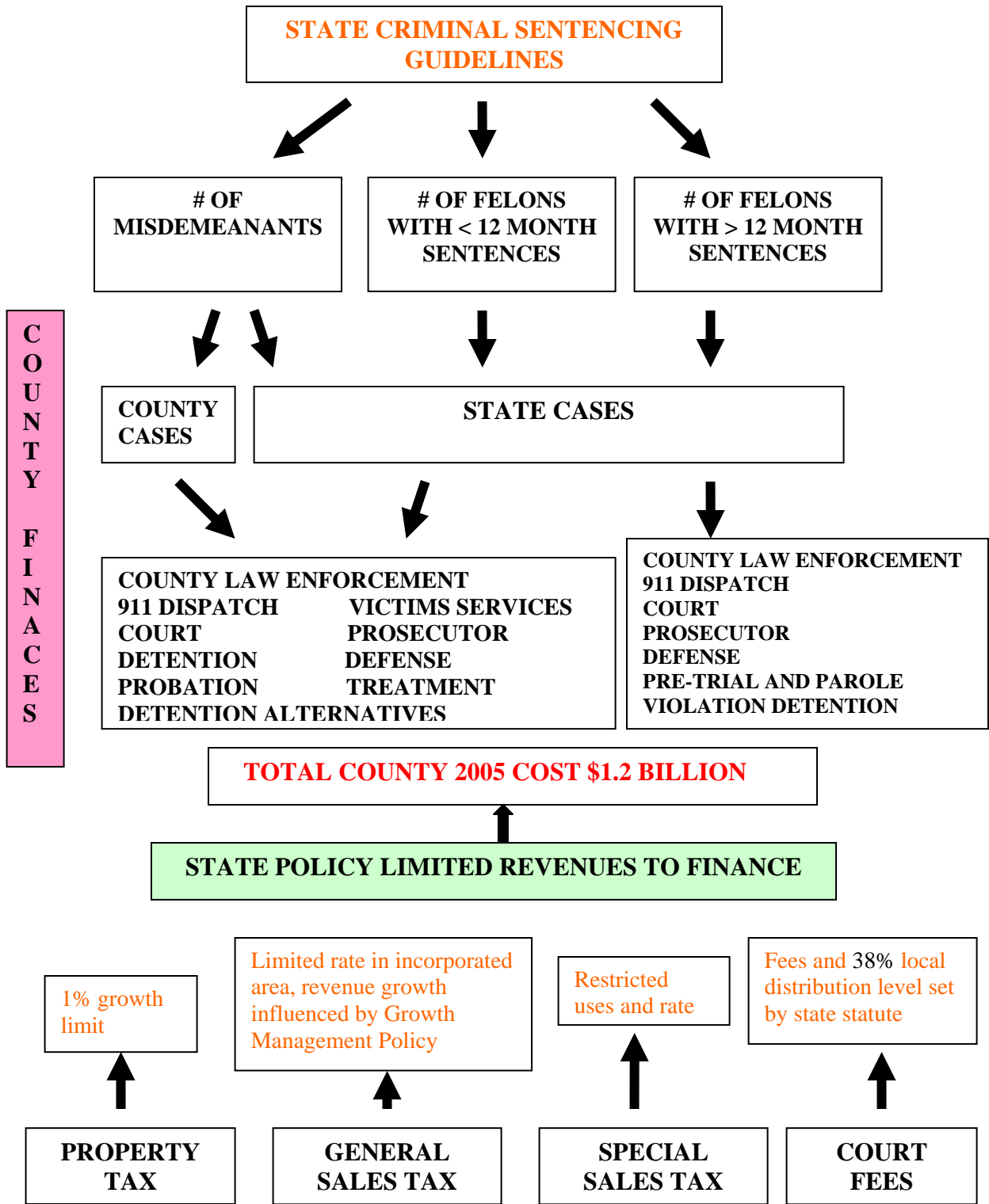


Source: Legislative Evaluation and Accountability Program

The counties, for example, fund and are responsible for parts of both the misdemeanor and felon justice systems for adults and juveniles with emphasis on courts, legal representation and detention (see Chart J). The volume of cases processed by the county courts is influenced by the number of arrests by law enforcement of the cities, the county itself and the state together with the criminal justice statutes and determinate sentencing guidelines adopted by the state. The number of jail beds operated by the county is likewise influenced by the length and number of sentences received by offenders under the state determinate sentencing guidelines (see Chart K and L).

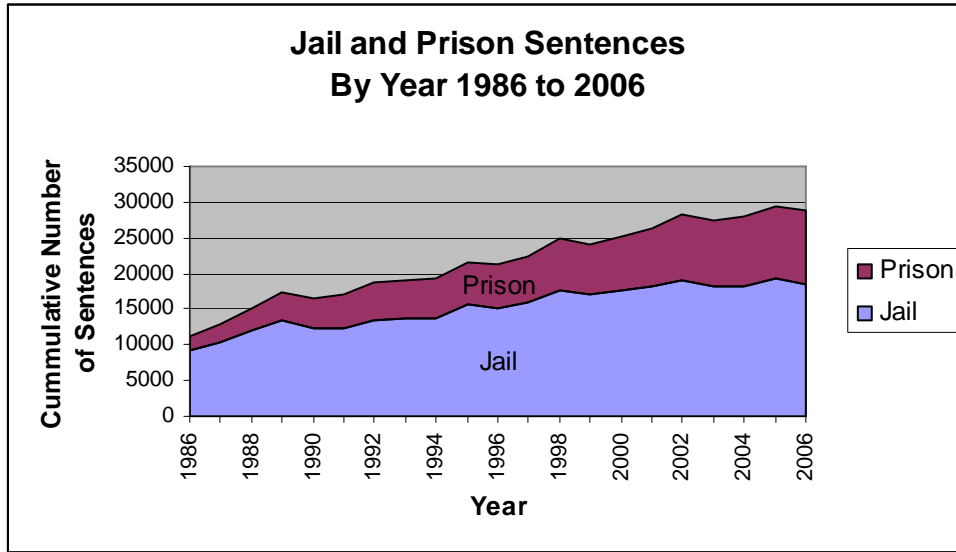
Chart J

**CRIMINAL JUSTICE SERVICE SYSTEM DRIVERS**



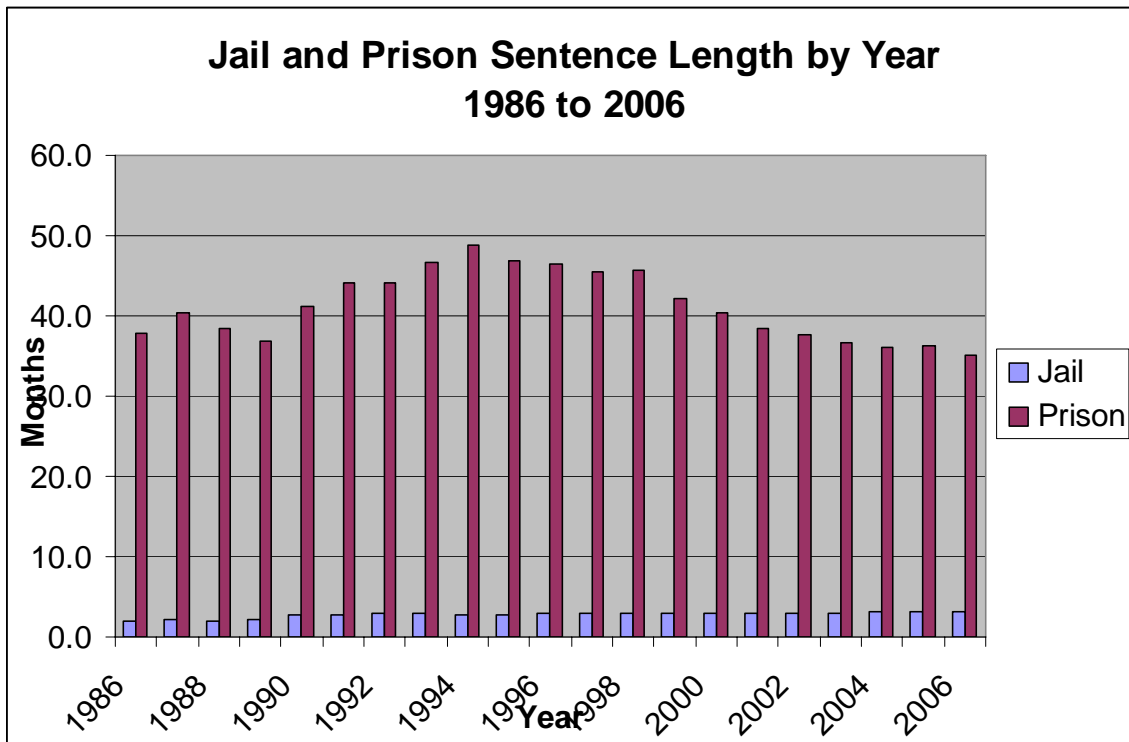
The number and length of sentences under the state Sentencing Reform Act of 1984 have grown substantially until 2000 when the legislature began making policy changes which reduced average prison sentence length (see Charts K and L). These changes in sentence length primarily impacted some of the demand for prison beds. The demand for jail beds, operated and funded by counties however was not, for the most part, affected.

Chart K



Source: Sentencing Guidelines Commission

Chart L



Source: Sentencing Guidelines Commission

Growth in the number and length of sentences since 1986 affects county jail costs in three ways:

- The number of misdemeanor sentences with a jail component has increased demand for misdemeanor beds especially post sentence.
- The number of felony sentences has increased over all regardless of whether the sentence is served in jail or prison increasing the demand for felony beds pre-sentence for all felony classes and post sentence for those felons with sentences of twelve months or less.
- After the passage of the Offender Accountability Act the use of jail beds by prison parole or community supervision violators substantially increased.

The combination of these three impacts was not mitigated by the policy changes that were made to reduce prison sentence length because pre-sentence and post prison release felon use of county jails occurs either before or after detention in prison. Counties therefore have not seen any relief from the effects of the increased number of sentences generated by the state Sentencing Reform Act.

Because of older county software systems, there is not a solid record of the number of prison bound felons that use county jails statewide. However it is possible to make some estimates based on available data. In 2006, an average of 57% of county jail daily population was felons. Felons that will eventually go to prison after sentencing or violated parole represent a large proportion of county jail capacity statewide. **In 2006 between 24% (low estimate) to 38% (high estimate) of average daily county jail capacity was occupied by felons that will eventually go to prison after sentencing or have violated parole. This means that 2,800 to 4,600 prison bound felons occupy county jail beds** on an average day at a cost of from \$75 million per year (low estimate) to \$120 million per year (high estimate). These costs are based on an average statewide jail bed cost of \$73 per day.

**Cite Local Government Fiscal Note Program Jail Cost Survey, 2006; WASPC jail data and King County Detention Department data**

Counties have adapted to increased criminal justice costs, including law enforcement, court, legal representation and detention (81% increase over the decade, compared to 21% for Assessors, Auditors and Treasurers) by reducing or eliminating the few discretionary services that counties provide. For example, expenditures per capita for parks and recreation and general fund investments in infrastructure including technology *decreased* over the decade for all counties in aggregate statewide.

**Cite Local Government Financial Reporting System, 2005, State Auditor's Office.**

It is widely felt, that county jails are populated by a disproportionate number of mentally ill and/or chemically dependent offenders (estimates fall between one half and two-thirds of all offenders) that may be handled more effectively and efficiently using other methods either in whole or in part resulting in significant short term and long term overall reductions in criminal justice costs. Washington's human service system is primarily funded by the state.

**Cite Local Government Fiscal Note Program fiscal note for 2005 SB 5763, Omnibus treatment of mental and substance abuse disorders act, Session Laws Chapter 503.**

Findings:

- Counties bear one third of the total cost of the state’s criminal justice system (\$1.2 billion in 2005). They have primary responsibility for the courts, legal representation and the intake of all felony offenders.
- State determinate sentencing policy and city law enforcement are determining factors in service demand heavily impacting county criminal justice costs. State policy also is a determining factor in the level of revenue available to pay for service delivery. These demand drivers are in conflict with policy changes that reduce county revenue, effect tax bases or limit the use of revenue.
- County efforts to be more efficient and effective in the criminal justice arena are heavily dependent on the cooperation of other stakeholders in the system.

**Attachment B**  
**County Financial Health and Governance Alternatives:  
A Study Requested by the Washington Legislature**

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# County Financial Health and Governance Alternatives Study Advisory Committee

<b>Agenda Topic:</b> Draft Study Recommendations	
<b>Agenda Item:</b> 4(b)	<b>Staff Contact:</b> CTED Project Manager -- Anne Pflug <a href="mailto:annep@cted.wa.gov">annep@cted.wa.gov</a> 509-925-2608
<b>Study Question(s) Being Addressed:</b> All	<b>Reference Documents:</b> Attachment A: Draft Recommendations Attachment B: Fact sheet on Washington County Finance

**Requested Action:**

The purpose of this agenda topic is to present the draft Legislative Report recommendations and to get any desired feedback from the Advisory Committee on October 19.

**Background:**

All of the study components are complete or near complete and the Advisory Committee asked at its last meeting that staff provide draft recommendations as a framework for discussion. As the committee is aware the recommendations that the Advisory Committee reaches consensus on will be reflected in full in the final report. Those recommendations will be reviewed by CTED management and the Governor's Office and CTED recommendations, if different, will be forwarded to the Legislature and Governor on December 1. The recommendations that have Advisory Committee consensus agreement will be noted in the report.

**Discussion:**

Study recommendations were prepared by staff considering all of the work developed for the study, Advisory Committee discussion to date and input from a variety of others inside and outside of local and state government in Washington.

As an aid to discussion, I developed a set of "principles" that guided the recommendations. Both the principles and recommendations, of course, are draft language subject to Committee discussion and modification. In making recommendations my experience is that they need to be short and few. I have included recommendations that are both short and long term. I did not include recommendations for further study at this point but Legislators are open to that idea since they recognize that the time frame for the study was short.

**Recommendations:**

Arrive at consensus on the Advisory Committee recommendations.

# Attachment A

## Recommendations

### Discussion Draft

#### *Principles*

These recommendations are guided by the following principles.

- Counties function as “agents” of the state. Significant additional improvement in efficiency and effectiveness can only be accomplished through **partnering with the state to change joint systems or state policy**.
- Counties **lack some key governance tools** that would facilitate the application of best public management practices to continue their work in improving efficiency and effectiveness.
- County government’s funding base over the last decade has become inelastic, restricted and dependent on too few sources to be responsive. Additional **flexibility** in County government’s revenue base is necessary to sustain **equal access to basic services** across the state.
- Changes in county governance or funding base should have a **neutral impact or facilitate** the further implementation of **growth management policy**.
- Many counties will be acquiring new software and/or technology over the next decade to replace existing outmoded automation. These changes represent a major **opportunity to increase short and long term efficiency, effectiveness and interoperability** among local governments and with the state.

#### *Recommendations related to efficiency and effectiveness*

1. The state should support provision of joint services by local governments through:
  - a. Assuring that funding formulas do not penalize governments that provide services jointly. At minimum, funding should be allocated to joint service providers at the same level as those providers would have received separately.
  - b. Amending state statutes by general law to assure that counties are authorized to enter into joint service agreements including multi-county service agreements and agreements between counties and the state in all service areas including services funded with special revenue funds and services that involve enforcement programs that may or may not require commissioned officers.
  - c. Providing model service agreements that can be adapted to the needs of individual counties.
2. The state should support the re-design of county service “business processes” to increase county and state efficiency and effectiveness through allocating State Auditor performance audit funds to joint projects that audit for performance and then as a direct follow-up re-design key county business processes. Funding should include scoping, design and implementation including technology infrastructure requirements.

### ***Recommendations related to county governance***

The Legislature has requested that specific “governance alternatives” be proposed. The study has resulted in identifying a number of alternatives. There are alternatives that would improve efficiency and effectiveness using the current governance model and there are alternatives that would move toward transforming county governance. Recommendations one and two below may be implemented within the current governance framework. Recommendation three moves toward transforming county governance.

1. The Legislature should consider enacting statutes that strength the existing Commission form of county government by:
  - a. Expanding the executive powers of the Board of County Commissioners to initiate and conduct processes, programs or studies that improve efficiency and effectiveness including the authority by general law to enter into joint service agreements among counties for services funded by special revenue funds or requiring commissioning of enforcement officers.
  - b. Providing the specific statutory authority for the Board of Commissioners to appoint a county administrator or manager.
2. The Legislature should consider enacting a statute that would fund a ten year effort to re-design key county/state business processes. Governance of this effort should involve both Legislators and county officials to oversee the selection, funding and implementation of business process re-design projects within public service systems operated jointly by the state and counties. The Legislature would authorize recommendations being made regarding changes to state statute necessary to improve efficiency and effectiveness as a part of each project.
3. The Legislature should consider a constitutional amendment that would create an alternative to the current charter county provisions. The amendment would allow a county to place the question of creating a “Model Charter County” on the ballot for voter approval or rejection. The measure would be placed on the ballot by the county legislative body or by voter petition. The legislature would enact the “Model Charter” by statute in two alternative forms – the County Council/Manager form or the County Council/Elected Executive form.

### ***Recommendations related to county financial health***

1. In order to support equal access to basic services across the state, county funding should include at least one source that grows more in proportion to the economy, a third leg to the existing two legged revenue stool. Fiscally distressed counties should be allocated a portion of the state business and occupation tax receipts to broaden their funding base and provide funding for basic services such as property tax collection; voter registration and elections; adult and juvenile criminal justice; property and vital records; and public health including mental health and chemical dependency services. Those counties with the most limited tax bases should receive a minimum amount from the state in order to pay for the fixed costs of providing basic services.

2. Flexibility in existing county funding sources should be increased by:
  - a. Consolidating some of the existing county special sales tax authorizations into a single sales tax source that can be authorized by the county legislative body subject to referendum. These taxes might include 0.3% public safety, 0.1% emergency communications and 0.1% mental health. The county would be authorized to restrict the use of the funds or seek voter approval as a local option.
  - b. Non-supplanting language should be removed from existing county revenue statutes. Due to tax limitations in most counties, county revenue no longer grows sufficiently from year to year to cover employee cost of living and benefit increases along with other service delivery costs. County officials are trying to live within their means and become more efficient and effective through service initiatives which often combine new and old ways of conducting service delivery. Non-supplanting requirements frustrate those efforts.
  
3. In-lieu of providing additional revenue to counties, the state should reimburse counties for state services provided by county government in order to support equal access across the state. These services could include:
  - a. A pre-determined amount per registered voter per year to support voter registration and election administration.
  - b. An amount equal to 1% of tax collections to cover the cost of the assessment and collection of property taxes for the state and other taxing districts, similar to the 1% charged to taxing entities for the collections of sales taxes by the state.
  - c. An amount equal to average jail day costs (\$72 dollars per jail day in 2006) plus medical expenses for felons with a sentence of 12 or more months that are held in county jails pre-sentence or post sentence due to community supervision violations or other reasons.
  - d. An amount equal to one half of the cost of Superior and District Court including public defense, civil defense, prosecutor costs and facilities.
  - e. Those counties with the most limited tax bases should receive a minimum amount from the state in order to pay for the fixed costs of providing basic services.

**Attachment B**  
**Fact Sheet - County Taxes**

**AUTHORIZED REGULAR AND SPECIAL LEVY RATES  
AND NUMBER OF DISTRICTS CURRENTLY LEVYING PROPERTY TAXES**

<b>Taxing District/Purpose</b>	<b>Maximum Rate</b>	<b>Levying Counties</b>	<b>RCW Cite</b>
County – General Purpose	\$1.80	39	84.52.043
County Road	\$2.25	39	36.82.040
County – criminal justice	\$0.50	0	84.52.135
County - veterans assistance	\$0.27	34	73.08.080
County - mental health/dev. disability	\$0.025	39	71.20.110
County - lands assessment fund	\$0.125	0	36.33.140

Source: Department of Revenue Tax Manual

**RCW 84.52.135**

**County levy for criminal justice purposes.**

- (1) A county with **a population of ninety thousand or less** may impose additional regular property tax levies in an amount equal to fifty cents or less per thousand dollars of the assessed value of property in the county in accordance with the terms of this section.
- (2) The tax proposition may be submitted at a general or special election.
- (3) The tax may be imposed each year for six consecutive years when specifically authorized by the registered voters voting on the proposition, subject to the following:
  - (a) If the number of registered voters voting on the proposition does not exceed forty percent of the total number of voters voting in the taxing district at the last general election, the number of persons voting "yes" on the proposition shall constitute at least three-fifths of a number equal to forty percent of the total number of voters voting in the taxing district at the last general election.
  - (b) If the number of registered voters voting on the proposition exceeds forty percent of the total number of voters voting in the taxing district at the last preceding general election, the **number of persons voting "yes" on the proposition shall be at least three-fifths of the registered voters voting on the proposition.**
- (4) Ballot propositions shall conform with RCW [29A.36.210](#).
- (5) Any tax imposed under this section shall be used exclusively for criminal justice purposes.

**RCW 36.33.130**

**County lands assessment fund created — Purpose of fund.**

The county lands assessment fund may be expended by the county commissioners to pay in full or in part, any **assessment or installment of assessments of drainage improvement districts, diking improvement districts, or districts formed for the foregoing purposes, or assessments for road improvements**, falling due against lands in the year when such lands are acquired by the county or while they are owned by the county, including lands acquired by the county for general purposes; also lands which have been acquired by the county by foreclosure of general taxes. Payment may be made of such assessments, or installments thereof, against such lands or classes of lands, and in such districts or classes of districts as the county commissioners deem advisable. No payment shall be made of any assessments or installments of assessments falling due prior to the year in which the lands were acquired by the county, nor shall any assessments be paid in advance of the time when they fall due. Assessments for maintenance and operation of dikes, drains, or other improvements of districts falling due upon such lands while owned by the county, may be paid without the payment of assessments or installments thereof for construction of the improvements, if the county commissioners elect so to do.

**RCW 36.33.140**

**County lands assessment fund created — Amount of levy.**

The amount of the levy in any year for the county lands assessment fund shall not exceed the estimated amount needed over and above all moneys on hand in the fund, to pay the aggregate amount of such assessments falling due against the lands in the ensuing year; and in no event shall the levy exceed twelve and one-half cents per thousand dollars of assessed value upon all taxable property in the county.

**CURRENT IMPLEMENTATION OF LOCAL SALES TAXES**

<b>Taxing District/Purpose</b>	<b>Maximum Rate</b>	<b>Levying Counties</b>	<b>Shared Revenue</b>	<b>Voter Approval Required</b>
County Basic Rate	0.5%	39	No	No
County Optional Rate	0.5%	36	No	Subject to Referendum
Transit Tax	0.1 to 0.9%	10	District	Yes
Criminal Justice	0.1%	32	Yes – 10% plus proportion to counties	Subject to Referendum
Juvenile Corrections Facilities	0.1%	14	No	Yes

Rural Counties (credit against state sales tax)	0.08%	32	No	No
Emergency Communications	0.1%	9	Permitted	Yes
Public Safety	0.3%	4	Yes – 60% County	Yes, Majority
Public Facilities	0.2%	1	District	No
Transportation Benefit	0.2%	0	District	Yes
Mental Health	0.1%	4	No	No

Source: Department of Revenue Tax Manual

**EMERGENCY COMMUNICATIONS:** RCW 82.14.420 permits counties to levy a local sales/use tax of 0.1 percent for the financing of **emergency communications systems and facilities**. Voters of the county must approve the tax. Levying counties may share the tax receipts with the cities in the county to finance these systems and facilities. The authorizing legislation was adopted in 2002, and the tax was first implemented in Thurston County in January 2003. To date nine counties have levied the tax: Clallam, Grant, Grays Harbor, Jefferson, Kitsap, Lincoln, Skagit, Thurston and Whitman.

**PUBLIC SAFETY:** This local sales/use tax was adopted in 2003. RCW 82.14.450 provides a tax of up to 0.3 percent for counties, subject to voter approval. A simple majority vote is required. At least **one-third of the tax receipts must be devoted to criminal justice programs, including funding of additional police officers and the relief of congested court systems and overcrowded correctional facilities**. The levying county is to retain 60 percent of the receipts and the remaining 40 percent will be distributed to cities within the county on a per capita basis. The statute requires that the use of the revenues be stated in the ballot proposition that goes before the voters; **further, the receipts may not be used to replace existing funds for such programs**. This local sales tax features another differential tax base which departs from the state sales tax base. Like the regional transportation tax, sales of motor vehicles are not subject to the local tax. However, unlike the transportation tax, there is no special use tax on vehicles purchased by owners who reside within the levying county. The tax has been implemented in four counties: Walla Walla, Spokane, Whatcom and Yakima.

**TRANSPORTATION BENEFIT DISTRICT:** RCW 82.14.0455 provides a local sales tax of up to 0.2 percent for a transportation benefit district (TBD) formed pursuant to Chapter 36.73 RCW. A TBD may include area within one or more counties, cities, port districts, county transportation authority, or public transportation benefit area. Because of the restrictions in RCW 36.73.020, a TBD may not be formed in central Puget Sound. By simple majority voter approval, **the tax may be levied for a ten-year period**, unless reauthorized for a second ten years by the voters. The tax was authorized in 2005 and has yet to be implemented.

**MENTAL HEALTH/CHEMICAL DEPENDENCY:** By action of the county legislative body a county tax of 0.1 percent may be imposed. Pursuant to RCW 82.14.460 adopted in 2005 the proceeds must be devoted to **new or expanded county programs devoted to mental health treatment, chemical dependency services, or therapeutic court programs**. The

tax has been imposed in four counties: Jefferson, Skagit, and Spokane began on April 1, 2006, and Clallam started on July 1, 2006.

## **Revenue Generated by Various Sources**

(Based on 2006 tax receipts unless noted)

1. **State** Business and Occupation Tax
  - a. Total Generated \$2.5 Billion
  - b. 1% equals \$25M
2. Sales Tax
  - a. Total Generated at state rate of 6.5 cents is \$6.9 Billion
  - b. 1/10 of one cent equals \$106M
3. Property Taxes
  - a. Total collections from all taxing districts *less* county taxes equals \$6 Billion
  - b. 1% equals \$60M
4. Rough Estimate of cost of “state agent” services
  - a. State Average \$233 per capita – County Examples
    - i. Ferry County \$287
    - ii. Benton County \$132
    - iii. King County \$266
  - b. Includes General Fund services for Judicial, Legal (excluding civil), Law Enforcement, Detention and Corrections, Juvenile Services, Financial and Records Services and Public Health (all funds).
  - c. Agent services *less* General Fund property tax, sales tax, licenses/permit and fines/forfeitures and special fund public health funding equals an average of:
    - i. \$43 per capita shortfall for counties less than 50,000 population (\$16M)
    - ii. \$28 per capita shortfall for counties between 50,000 and 150,000 (\$23M)
    - iii. \$42 per capita shortfall for counties over 150,000 (\$217M)

(Source State Auditors Office Local Government Financial Reporting System, 2005)

## County Financial Health and Governance Alternatives Study Advisory Committee

<b>Agenda Topic:</b> Final Feedback on Study Components	
<b>Agenda Item:</b> 4(c)	<b>Staff Contact:</b> CTED Project Manager -- Anne Pflug <a href="mailto:annep@cted.wa.gov">annep@cted.wa.gov</a> 509-925-2608
<b>Study Question(s) Being Addressed:</b> All	<b>Attachments:</b> None. All of the component report drafts are posted on the web page

**Requested Action:**

Provide final feedback on study component presentations made at Oct 12 and September 26 meetings.

**Background:**

The Advisory Committee has received presentations at your last two meetings on all of the study components. The most current version of each report is posted on the project web site. **The system mapping component has been substantially updated since last reviewed with the Advisory Committee by including data collected from other states.**

The following components report have come to the committee:

1. System Mapping (WSAC)
2. Background Component – Update of the History of Local Government in Washington (MRSC)
3. County Governance Alternatives (MRSC)
4. County Official Survey Results (WSU)
5. Case Studies (Berk and Associates)
6. Legal Memo (Hugh Spitzer and Special Assistant Attorney General)
7. OFM Fiscal Health Study (CTED)

**Discussion:**

NA

**Recommendations:**

The Advisory Committee may have feedback about the components that has not already been noted. Conclusions or findings that the Committee may reach consensus on are particularly welcome.

