

**Review of
Distributions From
the City-County
Assistance
Account**

Report 08-10

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STATE OF WASHINGTON
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REPORT SUMMARY

Creation of the City-County Assistance Account

Prior to 2000, the state collected revenues from a Motor Vehicle Excise Tax (MVET). Part of MVET revenues provided funds to local governments for a variety of purposes, including sales and use tax equalization. A statutory formula was used to provide funds to jurisdictions taking into account whether local sales and use tax revenues were low relative to the state average. In 2000, the Legislature repealed the MVET and appropriated temporary funds to cities and counties to replace portions of lost revenues.

In 2005, the Legislature created the City-County Assistance Account. The account receives funds from a portion of the state Real Estate Excise Tax. Distributions from the account are divided equally between cities and counties. Similar to the former MVET equalization, the formula for distributing funds from the City-County Assistance Account takes into account jurisdictions' sales tax revenues relative to the state average along with other criteria.

Distributions Continue to Focus a Majority of Funds on Low Tax Base Jurisdictions

Using a 2006 timeframe, JLARC compared funding and distributions from what cities and counties would have received from the former MVET equalization formula with the City-County Assistance Account. As expected, funding provided through the City-County Assistance Account was less than what would have been provided for equalization through the MVET. However, the majority of funds are distributed to low tax base jurisdictions as they would have been under the former MVET. According to a survey conducted by JLARC, a majority of cities and counties did not think that the funds should be distributed for other purposes.

In General, Funds Distributed in Compliance with Statutory Requirements

Overall, the Department of Revenue has complied with statutory requirements for distributing funds from the City-County Assistance Account. The Department applies criteria set out in statute to annually determine eligibility and provides distributions quarterly. Although an initial error did occur, the Department addressed this by making a change to its procedures for determining eligibility.

Timing on Availability of Property Valuations

There is one statutory requirement that the Department of Revenue is unable to comply with due to the timing of assessed property valuations. Statute directs the Department to determine or certify distribution amounts by March of each year, using the prior year's data. Annual information on assessed property valuations, which is an element in the distribution formula, is not final by this date. Consequently, the Department uses assessed valuations that are two years old and not the prior year's data as required by statute.

Recommendation 1

The Legislature should change the date for certification of distributions from March to June, allowing the Department of Revenue to use the prior year's assessed property valuation data as specified in statute.

Interaction with Streamlined Sales Tax Mitigation Distributions is Uncertain

In 2007, the Legislature passed Substitute Senate Bill 5089, to conform Washington's tax structure to the multi-state streamlined sales and use tax agreement. The Legislation includes a change in the location based method of collecting sales and use tax revenues. Since this change is expected to redistribute tax collection across local governments, the Legislature also directed that mitigation funds be provided to jurisdictions that lose tax revenues. Distributions for this mitigation begin in December 2008. The statutory formula for the City-County Assistance Account does not recognize funding assistance a city or county may get for streamlined sales tax mitigation. Since the Department of Revenue has not yet determined mitigation funds by jurisdiction, it is uncertain how much of these funds cities or counties may receive in addition to any distributions from the City-County Assistance Account. Therefore, it is unclear how these two methods of local funding assistance interact.

Recommendation 2

The Department of Revenue should provide the Legislature with a report on the interaction between streamlined sales tax mitigation funding to cities and counties and distributions provided through the City-County Assistance Account.