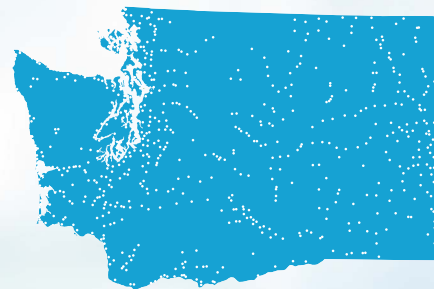


# Revenue Guide



for Washington Cities and Towns



*2019 re-write created in partnership with*

**The Center for Government Innovation, a service of the Washington State Auditor's Office**



## **REVENUE GUIDE FOR WASHINGTON CITIES AND TOWNS**

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### **DISCLAIMER**

The content of this publication is for informational purposes only and does not represent criteria for legal or audit purposes. It is intended to provide city staff and officials with an overview of their available revenue options, restrictions on the use of such revenues, and key questions to consider. It is not intended to replace existing prescriptive guidance in the BARS Manual, issued by the State Auditor's Office. You should contact your own legal counsel if you have a question regarding your legal rights or any other legal issue.

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# Revision History

MRSC does our best to update this publication every year to reflect any new legislation or other relevant information impacting city and town revenues. Below is a summary of significant recent changes over the last three legislative sessions. If you are aware of any other sections that you think need to be updated or clarified, please contact [mrsc@mrsc.org](mailto:mrsc@mrsc.org). To make sure you have the most recent version, please go to [mrsc.org/publications](https://mrsc.org/publications).

DATE	SUMMARY
November 2024	<p><b>A“State-Shared” Revenues</b></p> <ul style="list-style-type: none"> <li>• <a href="#">Liquor Distributions</a>. Corrected information regarding partially restricted uses of liquor profits and liquor excise revenues.</li> </ul>
August 2024	<p><b>A Brief History of Local Taxing Power in Washington</b></p> <ul style="list-style-type: none"> <li>• Cities and towns are prohibited from taxing any individual person on any form of personal income (<a href="#">Initiative 2111</a>).</li> </ul> <p><b>Retail Sales and Use Taxes</b></p> <ul style="list-style-type: none"> <li>• Clarified that there are certain exceptions to the destination-based sales tax, including motor vehicle and boat sales which are taxed based on the location of the dealership/seller.</li> <li>• <a href="#">“Basic” Sales Tax/First Half-Cent</a>. Cities and towns may enter into interlocal agreements to share a portion of this revenue (<a href="#">HB 2428</a>).</li> <li>• <a href="#">“Optional” Sales Tax/Second Half-Cent</a>. Cities and towns may enter into interlocal agreements to share a portion of this revenue (<a href="#">HB 2428</a>). All cities, towns, and counties now impose the full 0.5% “optional” sales tax.</li> <li>• <a href="#">Affordable Housing Sales Tax Credit (HB 1406)</a>. Revenues may now be spent on housing and services for people at or below 80% of local median income if the housing is intended for owner occupancy (<a href="#">SB 6173</a>).</li> </ul> <p><b>Property Taxes</b></p> <ul style="list-style-type: none"> <li>• <a href="#">Levy Lid Lifts</a>. Supplanting restrictions for multi-year levy lid lifts have been removed from jurisdictions in King County (<a href="#">HB 2044</a>).</li> </ul> <p><b>Real Estate Excise Taxes (REET)</b></p> <ul style="list-style-type: none"> <li>• <a href="#">REET in Lieu of “Second Half” Sales Tax</a>. Clarified that revenues are restricted in same manner as REET 1, but that no jurisdictions are eligible any more as all cities, towns, and counties have now imposed the optional “second half” sales tax.</li> </ul> <p><b>“State Shared” Revenues</b></p> <ul style="list-style-type: none"> <li>• <a href="#">Cannabis (Marijuana) Excise Tax</a>. Updated statutory reference; clarified that first-class cities and code cities might be able to impose local cannabis excise taxes.</li> </ul> <p><b>Other Revenue Sources</b></p> <ul style="list-style-type: none"> <li>• <a href="#">Tourism Promotion Area Fees</a>. Fees do not apply to any lodging business, lodging unit, or lodging guest designated as exempt by the legislative body (<a href="#">HB 2137</a>).</li> </ul>

DATE	SUMMARY
November 2023	<p><b>Retail Sales and Use Taxes</b></p> <ul style="list-style-type: none"> <li>• <a href="#">Affordable Housing Sales Tax Credit (HB 1406)</a>. New legislation allows all jurisdictions to use revenues for rental assistance and limited administrative costs, regardless of population (<a href="#">SB 5604</a>).</li> <li>• <a href="#">Annexation Services Sales Tax</a>. New legislation temporarily reinstates and expands this sales tax credit (<a href="#">HB 1425</a>).</li> <li>• <a href="#">Criminal Justice Sales Tax</a>. Removed reference to 2021 “fiscal flexibility” bill, which expires December 31, 2023.</li> <li>• <a href="#">Cultural Access Program (CAP) Sales Tax</a>. New legislation allows jurisdictions to impose sales tax councilmanically; through December 31, 2024 this sales tax may only be imposed by counties (<a href="#">HB 1575</a>).</li> <li>• <a href="#">Public Safety Sales Tax</a>. Removed reference to 2021 “fiscal flexibility” bill, which expires December 31, 2023.</li> </ul> <p><b>Lodging Tax (Hotel/Motel Tax)</b></p> <ul style="list-style-type: none"> <li>• <a href="#">Reporting Requirements</a>. Removed reference to exact date of JLARC reporting deadline. Deadline is established internally by JLARC and subject to change.</li> </ul> <p><b>Real Estate Excise Taxes</b></p> <ul style="list-style-type: none"> <li>• <a href="#">REET 1 – The “First Quarter Percent.”</a> Removed reference to 2021 “fiscal flexibility” bill, which expires December 31, 2023.</li> <li>• <a href="#">REET 2 – The “Second Quarter Percent.”</a> Removed reference to 2021 “fiscal flexibility” bill, which expires December 31, 2023.</li> </ul> <p><b>“State Shared” Revenues</b></p> <ul style="list-style-type: none"> <li>• <a href="#">Criminal Justice Distributions</a>. Removed reference to 2021 “fiscal flexibility” bill, which expires December 31, 2023.</li> <li>• <a href="#">Streamlined Sales Tax (SST) Mitigation Payments</a>. Deleted section; payments expired June 30, 2021.</li> </ul>
December 2022	<p><b>Retail Sales and Use Taxes:</b></p> <ul style="list-style-type: none"> <li>• <a href="#">Transportation Benefit District Sales Tax</a>. Maximum authority increased to 0.3%; up to 0.1% can potentially be imposed councilmanically; may be renewed in 10-year increments indefinitely (<a href="#">ESSB 5974 § 406-407</a>).</li> <li>• <a href="#">Timing of Sales Tax Rate Changes</a>. Updated Department of Revenue contact information.</li> </ul> <p><b>Other Excise Taxes:</b></p> <ul style="list-style-type: none"> <li>• <a href="#">Border Area Fuel Tax</a>. Maximum voter-approved tax rate increased to 2 cents per gallon plus inflation adjustment. (<a href="#">ESSB 5974 § 405</a>).</li> </ul> <p><b>“State Shared” Revenues:</b></p> <ul style="list-style-type: none"> <li>• <a href="#">Cannabis (Marijuana) Excise Tax</a>. Distribution formula changed (<a href="#">E2SSB 5796</a>). Updated terminology from “marijuana” to “cannabis” for consistency with new state law (<a href="#">2SHB 1210</a>).</li> </ul>

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# Introduction

The foundation of any city government is its fiscal health. The revenues it receives, both present and projected for the future, set the stage for discussing what services to provide as well as the level of those services – including the facilities, equipment, and infrastructure that will be needed.

MRSC's *Revenue Guide for Washington Cities and Towns* provides information on all the major revenue sources and most of the minor ones that are available to cities and towns in Washington State. This guide is intended to help city elected officials and staff members by providing a comprehensive explanation of the city's revenue sources and potential new revenue options to support those services your city has determined are essential to its taxpayers. This guide is not an administrative manual – for that level of detail, you should refer to resources such as the Department of Revenue's *Property Tax Levies Operations Manual* or the *Tax Reference Manual on State and Local Taxes*.

The *Revenue Guide for Washington Cities and Towns* has been one of MRSC's core publications for many years. It was first published in 1992 with an update released in 2009. The current edition was completely rewritten and re-organized in 2019 to help clarify the multitude of often confusing revenue options, as well as to include new and additional revenue sources that were not addressed previously.

This publication has been written and researched by MRSC consultants, and any conclusions within this document are MRSC's and MRSC's alone. The primary authors are Toni Nelson and Steve Hawley, with subsequent contributions by Eric Lowell. Graphics and document assembly have been provided by Angela Mack.

The Center for Government Innovation of the State Auditor's Office contributed funding for the 2019 re-write, as well as valuable review and feedback. We would particularly like to thank Kristen Harris and Sherrie Ard at SAO for their review and assistance throughout this process. We would also like to thank Alice Ostdiek at Stradling, Yocca, Carlson & Rauth, P.C. for her review of the property tax chapter, as well as all other individuals who provided feedback and assistance.

If you have any questions, comments, concerns, or suggestions regarding this document, please contact MRSC.

# How to Use this Document

MRSC's *Revenue Guide for Washington Cities and Towns* is intended to help city staff members and elected officials better understand their existing revenue sources and potential options for new revenues. The document is organized by type of revenue:

- Property taxes
- Sales and use taxes
- Business and utility taxes & fees
- Lodging taxes (hotel/motel tax)
- Real estate excise taxes (REET)
- Other excise taxes
- “State-shared” revenues
- Other revenue sources
- Special taxing districts

There is also an appendix that provides a “menu” of the major revenue sources by program area, such as transportation revenues, police and criminal justice revenues, or unrestricted revenues.

We also provide a basic history of local taxing powers in Washington, as well as a series of in-depth questions to help you evaluate potential new revenue sources, whether voted or non-voted.

This document is designed to be viewed electronically or printed as a hard copy. However, viewing this document electronically will provide you with maximum interactivity and functionality. (We recommend Adobe's free [Acrobat Reader](#) software program to ensure all features work correctly.)

If you are viewing this document electronically, the table of contents is interactive, which allows you to click on any topic and go directly to that page. At any time, you can return to the table of contents using the navigation button at the bottom of each page. Throughout this guide, you will also find many hyperlinks that will take you to other sections of the document or online resources such as RCWs or helpful resources.

You can also use Ctrl-F (Windows) or Command-F (Mac) to search for specific keywords within this document.

MRSC will update this publication each year as needed to reflect new legislation, changes in interpretation made by court decisions or Attorney General opinions, and other changes as appropriate. To make sure you are using the most up-to-date version of this publication, please visit [mrsc.org/publications](https://mrsc.org/publications). There is a revision history near the beginning of this document that summarizes the recent changes.

If you have any questions, comments, concerns, or suggestions regarding this document, please contact MRSC.

# A Brief History of Local Taxing Power in Washington<sup>1</sup>

Local governments in Washington State do not possess inherent taxing authority and must obtain the authority to impose taxes and fees from the state constitution and/or statutes adopted by the state legislature.

At the most basic level, there are two categories of taxes in Washington: property taxes and excise taxes. Property taxes are the oldest form of taxation in Washington and are the largest single revenue source for many local governments. Excise taxes are the broadest category of taxes and represent all other forms of taxes except for property tax, with sales taxes being the most significant excise tax for local governments.

The history of local government taxing power in Washington dates back to territorial days, and up until the early 1930s property taxes were the predominate form of revenue. The first state legislative session in 1890 also authorized first, second, third, and fourth class cities to impose business license taxes, and by 1932 Seattle was levying an occupation tax which is believed to be the first instance of a city imposing a business & occupation (B&O) tax.

During the Great Depression of the 1930s, significant changes were made to the array of taxes that were imposed by Washington State, some of which significantly impacted local government. The first change was placing a limit on the cumulative rate of property taxes that could be imposed upon the taxpayer in any given year – people’s Initiative 64, which reduced property taxes by almost 50%. This resulted in the second most significant change in state taxing power – the imposition of a variety of excise taxes. The Revenue Act of 1935 reduced the state’s dependency upon property tax by authorizing a wide array of excise taxes, including a retail sales tax and new business and occupation taxes.

However, this additional excise authority was only granted to the state. It was not until 1970 that the state finally provided legislative authority to cities and counties allowing them to impose a sales and use tax of 0.5% for general local government purposes. In 1982, the legislature authorized cities and counties to impose a second 0.5% on retail sales for general government purposes, resulting in a combined total of 1% that is still in place today. During this same legislative session, there were new restrictions placed on cities’ authority to impose B&O and utility taxes. These significant changes in taxing authority provided many local governments with opportunities to diversify their revenue streams.

Over the course of the past several decades, the state legislature has authorized cities and towns to impose other sales taxes and excise taxes for specific purposes, all of which will be discussed in the following pages of this *Revenue Guide*.

Property taxes and excise taxes are imposed differently – property taxes are based upon changing property values and must be re-calculated and re-imposed every year, while excise taxes, once adopted, remain in effect on all taxable events that occur now and in the future.

Property taxes have also seen a number of additional restrictions over the past century, beyond the cap on the cumulative property tax rate adopted in the 1930s. In 1971, a “106% levy lid” on property tax increases from

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<sup>1</sup> This information comes primarily from [The Closest Governments to the People: A Complete Reference Guide to Local Government in Washington State](#), by Steve Lundin and edited by the Division of Governmental Studies and Services at Washington State University. A copy of the full document is posted on the MRSC website.

one year to the next was enacted, which limited the total amount of property tax revenue local governments could generate each year. In 2001, voters approved Initiative 747, ultimately resulting in legislation that reduced the limit on annual increases for property tax levies to 1% – also known as the “101% levy lid,” which is still in effect today.

In addition to property taxes and excise taxes, many analysts recognize a third category of taxes: income taxes, which have been imposed by the vast majority of states as well as a number of cities around the country. However, income taxes are not currently used at either the state or local levels in Washington. At the same time that voters placed the first restrictions on property taxes during the Great Depression, voters also approved a statewide graduated income tax (Initiative 69). However, a divided state Supreme Court soon struck the initiative down as unconstitutional, ruling that an income tax was a property tax and that, as such, a graduated income tax violated the uniformity clause of the state constitution.<sup>2</sup> Later attempts to establish an income tax were also unsuccessful. In 1984, the state legislature enacted [RCW 36.65.030](#), which prohibits any city or county from levying a tax on “net income,” and in response to a proposed voter initiative in 2024, the legislature enacted [RCW 1.90.100](#) which prohibits the state, counties, cities, or other local jurisdictions from taxing any individual person on any form of personal income.

Local government revenues have evolved significantly throughout Washington’s history and continue to do so today. This *Revenue Guide* provides the most current and up-to-date information, but each legislative session brings new thoughts, ideas, and concepts that result in changes and additional options. We will update this guide as needed to reflect those changes.

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2 This interpretation has been criticized by legal scholars.

# Key Considerations for Evaluating Revenue Sources

There are several factors to consider when analyzing if it's in the city's best interests (both fiscal and political) to impose new taxes and fees. Local governments cannot necessarily provide all of the services requested by the public, and of all the revenue options available, there are some that will meet your city's goals and objectives and others that will not.

To that end we have provided a list of key questions to consider when identifying and evaluating potential revenue sources. Answering these questions can help you more clearly articulate your city's revenue goals.

- **What do you need the revenue for?** Some revenue sources are unrestricted and may be used for any lawful governmental purpose. Others are restricted to specific purposes under state law. Some may be imposed permanently, while others are temporary. Are you looking to increase your general fund (current expense) budget or pay for basic governmental services, operations, or maintenance? Creating a new program or preparing for a major capital project? Bridging a temporary revenue shortfall or replacing lost funding? Are you planning to supplant (replace) existing funding and re-structure how a program is financed? If so, make sure you read the statutes carefully, as some revenue sources specifically restrict or prohibit supplanting.
- **How much revenue do you need to generate?** Your local revenue capacity depends on factors such as statutory limitations, your local economy, and your demographic profile. For instance, is your city largely residential, or does it have lots of businesses and retail sales? Do you have hotels and tourist attractions? How active is your real estate market?
- **Who will pay and who will benefit?** Will the taxes or fees be paid by local property owners? Businesses and utility companies? Shoppers? Tourists? Real estate buyers and sellers? Vehicle owners? Property developers? Will the revenue source result in an overall tax increase, or is it a credit against an existing state or county tax? Who will benefit from the additional spending?
- **Do you need voter approval?** If so, you must plan ahead and consider additional factors such as election timing, election costs, and voter turnout as described on the next page.
- **When do you need the revenue?** Some revenue sources have certain deadlines set by state statute. For instance, property taxes may only be levied once a year and must be certified to the county assessor by November 30 for the forthcoming year, while sales tax rates may only change on January 1, April 1, or July 1 and the state Department of Revenue must receive notice at least 75 days in advance. You may have to wait several months before you start receiving these additional revenues, or longer if you time it poorly. It pays to include this analysis in your planning process.
- **Is the revenue source subject to possible referendum?** You can't please everyone, but presumably you need a certain level of support from local residents or businesses. If your city has adopted powers of initiative and referendum, some revenue sources could be subject to referendum. Even if your city or town does *not* have powers of initiative and referendum, some revenue options are still subject to referendum as prescribed by statute.
- **What are the limitations?** For instance, property tax revenues are generally limited to a 1% annual increase, even if your assessed valuation is increasing faster than 1%, and certain property tax levies could potentially be reduced through prorationing. Sales taxes have no such limitations but can be significantly

impacted during economic downturns. And “state shared” revenues could be reduced or eliminated during any legislative session, particularly if state revenues are declining.

- **Are there any unique statutory requirements?** Some revenue sources may have other specific statutory requirements – for instance, requiring revenue sharing with the county, requiring the creation of an advisory committee, establishing a slightly different tax base than usual, etc.

## KEY CONSIDERATIONS FOR VOTED REVENUE SOURCES

If your revenue source requires voter approval, there are additional considerations, such as:

- **When is the filing deadline?** For voted revenue sources, you must consider not only the notification deadlines (such as certifying property taxes to your county assessor and notifying DOR of sales tax rate changes), but also the election dates and filing deadlines discussed below.

To ensure timely receipt of funds, you must work backwards. For instance, if you want to increase next year’s property tax revenues through a levy lid lift: property taxes must be certified to the county assessor no later than November 30, which means the levy lid lift must appear before voters no later than the general election in early November, which means you must file notice with the county auditor no later than the date of the primary election in early August. If you wait for “budget season” in August or September to start considering the levy lid lift, it will be too late – you will have missed the deadline, and any potential receipts from the levy lid lift will be delayed for an entire year.

For a summary of the various deadlines, see [Key Deadlines for Voted Property Taxes and Sales Taxes](#).

- **What are the approval requirements?** Does the ballot measure require a simple majority (50% plus one), such as a sales tax or levy lid lift? Or does it require a 60% supermajority, like bond measures, excess O&M levies, and certain EMS levies? Are there minimum validation (voter turnout) requirements?
- **When should the measure appear on the ballot?** There are four possible election dates for local governments in Washington – special elections in February and April, the primary election in August, and the general election in November ([RCW 29A.04.330](#)). Most measures may appear on the ballot at any one of those elections, but there are a couple exceptions (such as public safety sales taxes, which by statute may only appear at a primary or general election).

Voter turnout will almost certainly be highest in November and lowest in February and April, and the composition of the electorate may differ for some jurisdictions. Election timing may also affect election costs and the timing of receipts.

- **What other measures or candidates are appearing on the ballot?** Ask around to find out what other ballot measures may be appearing before your city’s voters. It’s possible you might not want to go head-to-head with certain ballot measures, as voters may not like voting on too many taxes at the same time. Alternatively, you might want to “ride the coattails” of a popular measure or candidate by appearing on the same ballot.
- **How have other ballot measures fared recently?** You can research local ballot measures across the state at MRSC’s [Local Ballot Measure Database](#), which we update after every election once counties certify the results. For revenue measures, you can filter by statutory authority (sales taxes, property taxes, levy lid lifts, etc.), government type (such as city or county), subject (fire protection, libraries, affordable housing, etc.), or even by county. You may want to contact jurisdictions that have attempted similar measures to gain their insight.

- **What will you do if the ballot measure fails?** Will you abandon your attempt or go back to the drawing board? Will you be forced to cut services or lay off employees? Will you submit a scaled-back version to voters in the hopes they will pass it next time?

Or will you submit the exact same measure to voters a second time, in the hopes that the result will be different due to changes in turnout, the composition of the electorate, enhanced public outreach by support groups, or news media coverage? For instance, some jurisdictions that place an item on the primary election ballot will file an identical (or very similar) resolution for the November general election. If the measure succeeds in August it is simply removed from the November ballot, but if it fails it will appear before voters again in November. It is not uncommon for a ballot measure that failed by several percentage points in a special or primary election to pass in the next general election, although passage is certainly not guaranteed.

- **How much will the election cost?** It costs money for counties to administer elections, and counties pass those costs along to the jurisdictions holding the elections (see [RCW 29A.04.410](#)). These costs include postage and printing for the ballots and voters' pamphlets, temporary election workers and staffing, supplies, transportation, required elections notices, and administrative overhead costs.

If your city already has other city measures or candidates on the same ballot – such as city council/mayoral elections, which typically occur at primary and general elections in odd-numbered years<sup>3</sup> – the additional costs for a ballot measure will be minimal. But if the city does not have other measures or candidates on the ballot and would not otherwise be conducting an election, the election costs will be significantly higher.

Election costs may also vary depending on whether you are submitting the measure at a special, primary, or general election. For example, special election costs may be higher than primary or general election costs because there are typically fewer local governments participating in special elections and sharing the costs. Contact your county auditor to get estimates.

- **What are the ballot title requirements?** The ballot title is the actual text of the measure that will appear on voters' ballots. The ballot title must be written by the city attorney and must comply with [RCW 29A.36.071](#) regarding ballot title composition and length. However, some revenue sources have additional ballot title requirements set by statute.
- **Will your city prepare informational materials?** [RCW 42.17A.555](#) prohibits city elected officials and employees from using "public facilities" to promote or oppose any ballot proposition. Broadly speaking, this means city staff and officials cannot support or oppose a ballot proposition during work hours, within their official capacities, or using city supplies, equipment, funds, or facilities. However, cities may prepare and distribute fact sheets or other informational materials for voters if such information is fair and objective and the city shares the information via normal, customary means of providing information. For more information, see our webpage on [Use of Public Facilities to Support or Oppose Ballot Propositions](#).

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3 City officials are elected in odd-numbered years pursuant to [RCW 29A.04.330](#).

# KEY DEADLINES FOR VOTED PROPERTY TAXES AND SALES TAXES

As mentioned previously, if you are considering a voted revenue increase you must plan ahead and keep the various statutory requirements and deadlines in mind. Here are key dates to remember.

- **Property tax levies** are set on an annual basis. All city property taxes for the upcoming year must be certified to the county assessor no later than November 30 ([RCW 84.52.070](#)).
- **Sales tax rate changes** may only take place on January 1, April 1, or July 1, and may not take effect until 75 days after the state Department of Revenue receives notice of the change ([RCW 82.14.055](#)).

The election dates and filing deadlines are established by [RCW 29A.04.330](#). To place an item on the ballot for the February or April special elections, your jurisdiction must file the resolution at least 60 days before the election date. For the primary election, you must file the resolution no later than the Friday immediately before the first day of regular candidate filing in May. And for the general election, you must file the resolution no later than the date of the August primary election.

Below is a quick summary, assuming the county promptly notifies DOR of any sales tax changes and certifies its levy to the county assessor by November 30.

Election ( <a href="#">RCW 29A.04.330</a> )	Filing deadline ( <a href="#">RCW 29A.04.330</a> )	Approved sales tax increases take effect ( <a href="#">RCW 82.14.055</a> )	Approved property tax increases take effect ( <a href="#">RCW 84.52.070</a> )
February special	Early-to-mid December	July 1 of election year	Next year
April special	Late February	January 1 of next year	Next year
August primary	Early-to-mid May	January 1 of next year	Next year
November general	Date of August primary	April 1 of next year	Next year



# Property Taxes

Property taxes are, for many cities, the primary source of revenue. Most of a city's property tax revenue comes from its general fund levy, which may be used for any lawful governmental purpose, but cities also have a few additional property tax options that may only be used for certain restricted purposes. This chapter will discuss the property tax authority provided to cities and towns.

Washington's "budget-based" property tax structure is very complicated. We plan to limit our discussion of property taxes to what city officials and staff members really need to know in order to develop property tax levy projections and to consider potential options, and even that is pretty complicated.

For a more detailed look at property taxes, refer to the state Department of Revenue's [Property Tax Publications](#), and particularly the [Property Tax Levy Manual](#).

## WHAT IS A BUDGET-BASED PROPERTY TAX?

Perhaps the most important concept to understand regarding Washington's property tax system is that it is a "budget-based" property tax.

This means that cities and other taxing districts, as part of their annual budget process, must first establish the total dollar amount of property tax revenue they wish to generate for the upcoming year, subject to several restrictions. Once the total dollar amount is established, the county assessor calculates the levy rate – the rate that each property owner must pay – based on the total assessed valuation of all properties.

This "budget-based" process is the reverse of most other states in the country. Almost every other state uses a "rate-based" property tax system, in which governments establish the levy rate that each property owner must pay, which is then multiplied by the assessed value to determine the total dollar amount of revenues generated.

There are three main components to the property tax calculation: the levy amount, the assessed value, and the levy rate.

### Levy Amounts vs. Levy Rates

To understand this budget-based system, and in particular the various limitations on how much property tax revenue local governments can generate, it is extremely important to understand the difference between *levy amounts* and *levy rates*. Some limitations are based on levy rates, while others are based on levy amounts, and the two are often confused.

The **levy amount** – sometimes referred to as simply the "levy" – is the total dollar amount of property taxes to be collected in one year. In the example on the next page, the levy amount is *\$1 million*.

The **levy rate** is how much any individual property owner owes, expressed as a dollar amount per \$1,000 assessed value. In the example, the levy rate is *\$2.50 per \$1,000 assessed valuation*.

Under the budget-based system, the city establishes its desired levy amount first, and then the county assessor uses the assessed valuation (discussed in more detail below) to calculate the subsequent levy rate. This formula is expressed as:

$$\text{Levy Amount} \div (\text{Assessed Value} \div 1,000) = \text{Levy Rate per \$1,000 AV}$$

For example:

Levy amount requested by city for general fund	÷	(Citywide assessed value ÷ 1,000	=	Levy rate
\$1 million	÷	(\$400 million ÷ 1,000 = \$400,000)	=	\$2.50 per \$1,000 AV

However, there are multiple restrictions placed on how fast the levy *amount* can increase, as well as maximum levy *rates* for individual levies (such as general fund levies or EMS levies) and maximum *aggregate (combined) levy rates*. These restrictions are all intended to protect citizens from excessive taxation, but they also limit the amount of property tax revenue that local governments can generate. The property tax process can be complicated and confusing, but we will do our best to explain it in more detail throughout this chapter.

Assessed Value

The other primary factor in determining the levy rate each year is the assessed value. Property taxes are assessed and collected at the county level. The amount that each property owner pays, and the total property tax revenue a city can generate, depends in large part on the value of the properties within the city, known as the **assessed value** or **assessed valuation** and commonly abbreviated as **AV** or **AV**.

The assessed valuation is the true and fair value as provided in Article VII, §2 of the WA State Constitution and further defined in [Chapter 458-07 WAC](#), which states that “true and fair value” means market value and is the amount of money a buyer of property would pay to a willing seller.

The county assessor’s office is responsible for assessing all property located wholly within the county, including both the incorporated areas (cities and towns) and the unincorporated areas of the county. In determining true and fair value, the assessor may use a sales (market data), cost, or income approach, or a combination of the three approaches ([WAC 458-07-030](#)). In addition, the state Department of Revenue is responsible for assessing intercounty, interstate, and foreign utility company property (known as **state-assessed utilities**).

Counties must update assessed valuations for all properties every year, with physical inspections of each property at least once every six years ([RCW 84.41.030](#) and [84.41.041](#)). Most counties conduct inspections on a six-year cycle, meaning that they inspect roughly one-sixth of the properties within the county each year and update their assessed values accordingly. A few counties use a four-year inspection cycle and inspect roughly one-quarter of the properties each year.<sup>4</sup> The annual revaluations in between each inspection are estimates based on statistical analysis and market data.

4 As of 2024, 37 counties inspected properties on a six-year cycle, while two counties (Chelan and Ferry) used a shorter four-year inspection cycle.

The levy rate for any taxing district must be uniform for each property within its boundaries (article VII, section 2 of the Washington State Constitution). That is to say, a city's general fund levy rate per \$1,000 AV must be the same for each property within the city.<sup>5</sup>

State law also establishes a separate valuation system for certain agricultural, timber, and open space land based on "current use" value, which is lower than the "true and fair value."<sup>6</sup> In addition, all properties owned by federal, state, tribal, and local governments (municipal corporations); public and private schools; and churches are exempt from property taxes.

The county assessor must notify each taxing district within the county, including every city and town, of its total assessed value before the levy certification deadline, so the taxing district can calculate its levy amounts for the upcoming year and certify them to the county assessor by (see [Annual Levy Certification Process](#)).

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5 However, there may be some exceptions for senior, disabled, or low-income residents. There are also certain tax abatement programs that reduce a property's taxable value to provide financial incentives for economic development or historic preservation.

6 Current use values are permitted under article VII, section 11 of the Washington State Constitution. See also [chapter 84.34 RCW](#) and [chapter 458-30 WAC](#).

## MAXIMUM AGGREGATE LEVY RATES

There are several different limitations on the maximum levy rate (per \$1,000 AV) that cities and other local governments may impose on property located within their jurisdiction. Some of the limits are aggregate and limit the total property tax burden on property owners, while others establish maximum levy rates for specific types of levies such as the city general fund levy or EMS levies.

This section will discuss the aggregate (total combined) levy limitations. The rest of the property tax chapter contains information on the various types of levies and their maximum levy rates.

### Tax Code Areas

To understand maximum aggregate levy rates, it is important to understand the relationship and difference between “taxing districts” and “Tax Code Areas.”

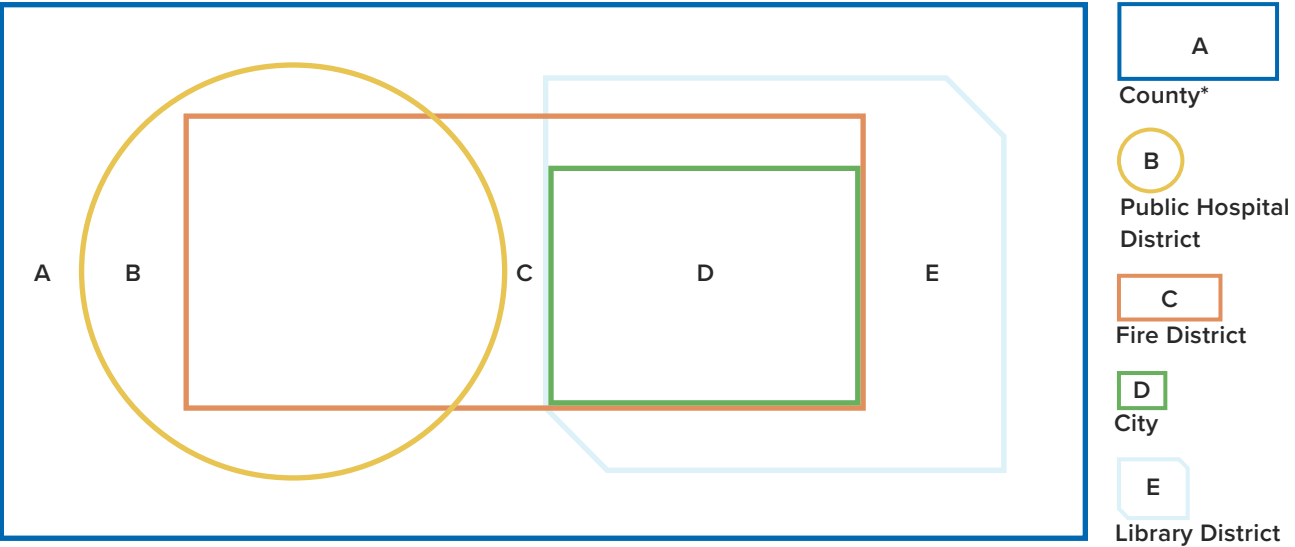
- **Taxing districts** are individual governmental units with property tax authority, such as a county, city, fire protection district, or library district. Governmental units *without* property tax authority (such as public transportation benefit areas) are not considered taxing districts for these purposes.
- **Tax Code Areas**, or **TCAs**, are unique combinations of overlapping taxing districts.

To demonstrate how multiple taxing districts overlap to form unique Tax Code Areas, see the example on the next page. This example shows a hypothetical county with a city and several taxing districts (fire, library, and public hospital). The districts overlap to form seven different Tax Code Areas, no two of which are the same. (Note that the county itself is actually two separate taxing districts – one for the current expense levy, which is imposed countywide, and one for the road levy, which is only imposed within unincorporated areas.)

Of course, in reality the picture is often much more complicated, as there are many additional taxing districts that may be involved such as school districts, park districts, cemetery districts, port districts, public utility districts, EMS districts, and more. But the same general principles will still apply.

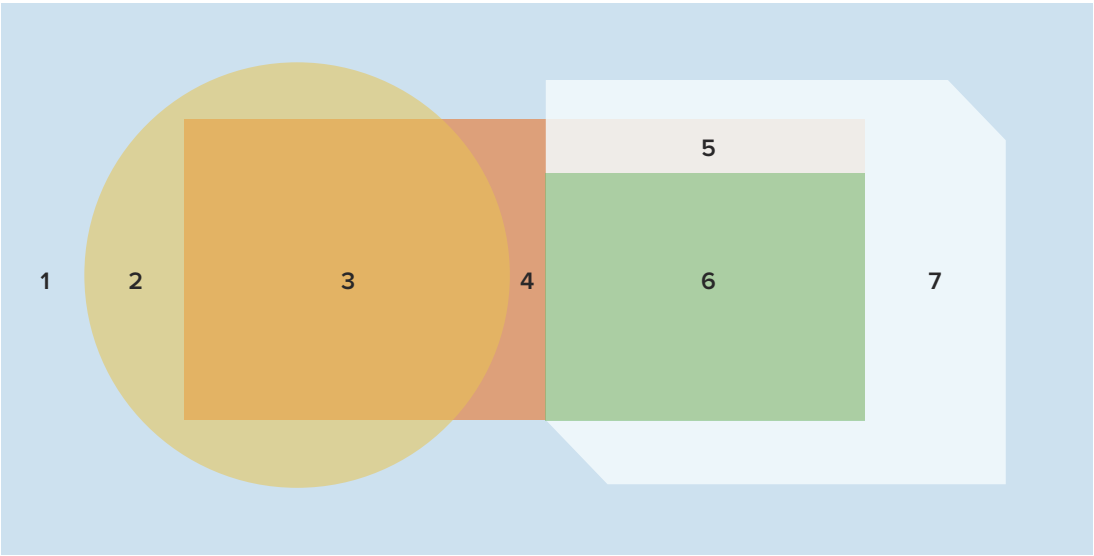
According to the state Department of Revenue, there are approximately 3,200 unique Tax Code Areas throughout the state as of 2021. The number of TCAs within each county depends on the number of taxing districts within that county, as well as how they overlap geographically, since each district may have different service boundaries.

**Taxing Districts Example**



\*County current expense levy is countywide, but county road levy is only in unincorporated areas

**Tax Code Areas**



	Belongs to Tax Code Area(s)						
Taxing District	1	2	3	4	5	6	7
County Current Expense	X	X	X	X	X	X	X
County Road	X	X	X	X	X		X
City						X	
Fire District			X	X	X	X	
Public Hospital District		X	X				
Library District					X	X	X

Since Washington uses a budget-based property tax system (see [What is a Budget-Based Property Tax?](#)), each taxing district establishes its desired levy amount for the upcoming year during the budget process. The levy rate for that taxing district is then calculated based on the assessed valuation within that taxing district.

Once the levy rate has been determined for each taxing district, the levy rates are added together within each TCA. This provides a total (aggregate) levy rate that each property owner within the TCA must pay.

As noted earlier, the levy rate per \$1,000 AV for any individual taxing district (city, county, etc.) must be uniform throughout the district, meaning each property owner pays the same rate. Similarly, the aggregate (total combined) levy rate within each Tax Code Area also must be uniform.<sup>7</sup>

However, different properties within a single city may belong to different Tax Code Areas, and the aggregate levy rate may vary considerably between TCAs. For instance, Bothell lies partially within King County and partially within Snohomish County. The city's levy rate must be the same for every property within the city, regardless of which county the property is located in. However, the counties will almost certainly have different property tax rates, which means the taxpayers within the King County portion of the city will pay a different aggregate levy rate than those taxpayers in the Snohomish County portion of the city.

State law and the state constitution have established two limitations on the maximum aggregate levy rate within any individual Tax Code Area: the \$10 constitutional limit (which includes both the state and local governments) and the \$5.90 local government limit (which applies to most, but not all, local government levies).

## **\$10 Constitutional Limit**

Article 7, section 2 of the Washington State Constitution (also codified at [RCW 84.52.050](#)) limits the total regular property tax rate on any individual property (i.e., within any individual Tax Code Area) – including state, county, city, and most local government property taxes – to 1% of the property's true and fair value. Since the levy rate is expressed as a dollar amount per \$1,000 assessed value, and since 1% of a property's value is equivalent to \$10.00 per \$1,000 assessed value, this is often referred to as the \$10 limit.

To limit the confusion between the aggregate levy rate limit and the 1% inflation increase allowed each year (see [The 1% Annual Levy Lid Limit \("101% Limit"\)](#)), we will refer to the constitutional levy rate limit as the \$10 limit.

Almost every property tax levy in the state is subject to the \$10 constitutional limit. However, the state constitution establishes three important exceptions:

- Port districts and public utility districts are exempt from the \$10 limit.
- Any taxing district may exceed the \$10 limit with a voter-approved "excess levy" for maintenance and operations purposes, which for cities and most other jurisdictions<sup>8</sup> may only be approved one year at a time (see [Excess Levies \(Operations & Maintenance\)](#)).
- Any taxing district may exceed the \$10 limit for the repayment of voter-approved general obligation debt, until the debt is repaid (see [G.O. Bond Excess Levies \(Capital Purposes\)](#)).

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<sup>7</sup> This does not mean the tax bill is the same for all property owners, however. The levy rate is multiplied by the assessed value for each individual property to determine the tax bill. Since different properties have different assessed values, each property owner within the same Tax Code Area must pay the same levy rate but will owe a different amount of tax.

<sup>8</sup> Fire districts and school district are the only local governments authorized to impose a multi-year excess levy. All other taxing districts, including counties, cities, and towns, may only impose one-year excess levies.

Everything under the \$10 limit is generally referred to as a “regular” levy. Any levies above the \$10 limit, which require voter approval, are generally referred to as “excess” levies. The term “special” may be used to describe any regular or excess levy that is levied for a specific purpose.

Of this \$10, no more than \$3.60 may be imposed by the state<sup>9</sup> ([RCW 84.52.065](#)) and no more than \$5.90 may be used by most local governments (see below). That adds up to a maximum of \$9.50, which leaves at least \$0.50 extra that may be used for certain local government levies outside the \$5.90 limit.<sup>10</sup>

## **\$5.90 Local Limit**

By statute, the aggregate (total) regular levy rate for most local governments combined – including “senior taxing districts” such as cities and counties, as well as “junior taxing districts” such as fire districts and park districts – may not exceed \$5.90 per \$1,000 assessed valuation within any individual Tax Code Area ([RCW 84.52.043](#)). This \$5.90 limitation is a subset of the \$10 constitutional limit – in other words, all levies that are subject to the \$5.90 statutory limit are also subject to the \$10 constitutional limit.

However, this statute also provides several exemptions. The following local levies *are* subject to the \$10 constitutional limit but are *not* subject to the \$5.90 local limit:

- Affordable housing levies
- County conservation futures levies
- County criminal justice levies
- County ferry district levies
- Emergency medical services (EMS) levies
- Up to \$0.25 of a fire district or regional fire authority levy, if protected from prorationing by the legislative body
- Regional transit authority levies (Sound Transit)

There are also a few other, narrower exemptions, including certain flood control zone levies, a portion of metropolitan park district levies for metropolitan park districts with a population of 150,000 or more (with voter approval), and King County’s transit levy.

There are four types of local government levies that are not subject to either the \$5.90 or \$10 limits:

- General obligation (G.O.) bond excess levies
- Excess maintenance & operation levies
- Port district levies
- Public utility district levies

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<sup>9</sup> In 2017 and 2018, the state Legislature temporarily adjusted the state levy rate to provide additional funding for the state’s share of K-12 education. The maximum levy rate in 2019 is \$2.40/\$1,000 AV and in 2020 and 2021 is \$2.70/\$1,000 AV. In 2022, the maximum rate returns to \$3.60/\$1,000 AV.

<sup>10</sup> In reality, there will be more than \$0.50 available if the state is levying less than its maximum \$3.60 and/or the local districts are levying less than the maximum \$5.90.

The chart below demonstrates both the \$10 constitutional and \$5.90 local government limits.



## Prorationing

Once each taxing district establishes its desired levy amount for the upcoming year, no later than November 30 for cities, the county assessor calculates the levy rate for each taxing jurisdiction based on the assessed valuation within that jurisdiction. The county assessor then adds up the levy rates for each Tax Code Area.

If either the \$10 constitutional limit or the \$5.90 statutory limit is exceeded within any individual Tax Code Area, the county assessor must reduce the local levies to \$10 or \$5.90 according to the statutory formula found in [RCW 84.52.010](#), a process known as “prorationing.” Prorationing essentially establishes a levy hierarchy, and levies on the lowest rungs of the ladder are reduced or eliminated until the \$10 or \$5.90 limit is no longer exceeded. The formulas for prorationing depend on which limit – \$10 or \$5.90 – was exceeded. (Remember that certain levies are exempt from the \$5.90 or \$10 limitations and are not counted for those purposes.)

First, the county assessor must check to make sure that the \$5.90 local limit has not been exceeded within any Tax Code Area. If the \$5.90 limit has been exceeded, the assessor must reduce the affected levies to a total combined rate of \$5.90.

After the assessor has checked the \$5.90 limit and, if necessary, conducted any prorationing, the assessor must then make sure the \$10 constitutional limit has not been exceeded. If the \$10 limit has been exceeded within any Tax Code Area, the assessor must reduce the affected levies to a total combined rate of \$10.

The prorationing order for both the \$5.90 and \$10 limits is shown on the next page. In general, the city general fund levy is protected from prorationing. However, some other city levies may be subject to prorationing.

Since the levy rate within each taxing district must be uniform, any taxing district affected by prorationing must reduce its levy throughout the entire district, and not just within the affected Tax Code Area.

For a more detailed discussion of prorationing, including examples, refer to the [DOR Levy Manual](#).



## Property Tax Prorationing Order ([RCW 84.52.010](#))

\$5.90 reductions take place first, followed by \$10 reductions

Levy Type	\$5.90 Reduction Order	\$10 Reduction Order
(a) County road levy shift*	1st	1st
(b) City fire pension levy* – only if city is annexed to fire/library district		
Flood control zone district – up to \$0.25 if protected under <a href="#">RCW 84.52.816</a>	—	2nd
King County transit levy	—	3rd
(a) Fire protection district – up to \$0.25 if protected under <a href="#">RCW 84.52.125</a>	—	4th
(b) Regional fire authority – up to \$0.25 if protected under <a href="#">RCW 84.52.125</a>		
County criminal justice	—	5th
County ferry district	—	6th
Metropolitan park district of 150,000+ population – up to \$0.25 if protected under <a href="#">RCW 84.52.120</a>	—	7th
(a) County land conservation futures	—	8th
(b) Affordable housing		
(c) EMS – first \$0.20		
EMS – remaining \$0.30	—	9th
Cultural access program	2nd	10th
(a) Park and recreation district		
(b) Park and recreation service area		
(c) Cultural arts, stadium, and convention district	3rd	11th
(d) City transportation authority (monorail)		
Flood control zone district – portion not protected under <a href="#">RCW 84.52.816</a>	4th	12th
(a) Public hospital district – first \$0.25		
(b) Metropolitan park district – first \$0.25, if not protected under <a href="#">RCW 84.52.120</a>	5th	13th
(c) Cemetery district		
(d) All other junior taxing districts not otherwise mentioned in this chart		
Metropolitan park districts created in 2002 or later – remaining \$0.50	6th	14th
(a) Fire protection district – \$1.00 under <a href="#">RCW 52.16.140/RCW 52.16.160</a> , if not protected under <a href="#">RCW 84.52.125</a>		
(b) Regional fire authority – \$1.00 under <a href="#">RCW 52.26.140</a> (1)(b) and (1)(c), if not protected under <a href="#">RCW 84.52.125</a>	7th	15th
(a) Fire protection district – \$0.50 under <a href="#">RCW 52.16.130</a>		
(b) Regional fire authority – \$0.50 under <a href="#">RCW 52.26.140</a> (1)(a)		
(c) Library district	8th	16th
(d) Public hospital district – remaining \$0.50		
(e) Metropolitan park districts created in 2001 or earlier – remaining \$0.50		
(a) County current expense levy		
(b) City regular (general fund) levy	9th	17th
(c) County road levy		
Regional transit authority	—	
State school levies	—	18th
(a) Port district		
(b) Public utility district		
(c) Excess levy	—	—
(d) G.O. bond levy		

\* Not officially considered “prorationing” under [RCW 84.52.010](#). However, neither a road levy shift (see [RCW 84.52.043](#)) nor a city firefighters’ pension fund levy (if the city is annexed to a library district, fire district, or regional fire authority – see [RCW 41.16.060](#)) may cause any other taxing district to have its levy reduced. These levies must be reduced, eliminated, or “bought down” before prorationing takes place.

## Buy-Down Agreements

If either the \$5.90 or \$10 limits are going to be exceeded, state law allows taxing districts to potentially reduce the impacts of prorationing through the use of levy “buy-down” agreements ([RCW 39.67.010](#) and [RCW 39.67.020](#)). A buy-down agreement allows a taxing district to avoid prorationing by paying another taxing district to reduce its levy so that the \$5.90 or \$10 levy limits are no longer exceeded.

If a city levy is in danger of being reduced or eliminated through prorationing, the city can potentially buy down the levy rate of a smaller taxing district (such as a park district or cemetery district) within the affected Tax Code Area. We suggest buying down the levy rate of the jurisdiction with the lowest assessed valuation, which will minimize the city’s buy-down costs.

A levy buy-down also may be politically prudent in case a city levy increase, such as a levy lid lift, might cause the levy of a junior taxing district to be reduced through prorationing.

If a buy-down agreement is signed, the city must notify the governing bodies of every taxing district whose property tax levy could be adversely impacted by the agreement.

For examples of buy-down agreements, visit MRSC’s [Sample Document Library](#).

## REGULAR LEVY (GENERAL FUND)

### Quick Summary

- Primary source of property tax revenues for cities – revenues are unrestricted and may generally be used for any lawful governmental purpose.
- Maximum levy rate varies between \$1.60 and \$3.825 depending on whether city is annexed to a fire district/library district, participates in a regional fire authority, and/or has a fire pension fund.

**RCW:** [84.52.043\(1\)](#); other statutes may apply

The general fund levy – often referred to as simply the “regular” property tax levy – is the primary source of property tax revenue for any city or town.<sup>11</sup> The maximum levy rate depends on whether the city is annexed to a fire protection district or library district, participates in a regional fire authority (RFA), or has a pre-LEOFF firefighter’s pension fund.<sup>12</sup>

- **If your city IS NOT annexed to a fire district or library district and does not participate in a regional fire authority:** Your maximum levy rate is \$3.375 per \$1,000 assessed value ([RCW 84.52.043\(1\)](#)).
- **If your city IS annexed to a fire district or library district or participates in a regional fire authority:** Your maximum levy rate is \$3.60 per \$1,000 assessed value, minus the actual regular levy rate(s) imposed that year by those districts that the city is annexed to.<sup>13</sup> Fire districts and regional fire authorities have a maximum regular levy rate of \$1.50,<sup>14</sup> while library districts have a maximum regular levy rate of \$0.50.<sup>15</sup> Depending on which districts your city is annexed to and what their levy capacity is, your city’s levy rate may be reduced as low as \$1.60.

**Note:** Your city levy rate is *not* impacted by any library/fire excess levies, voted general obligation bond levies, or fire district EMS levies.

- **If your city has a pre-LEOFF firefighters’ pension fund:** You may impose an additional levy of up to \$0.225 on top of the rates listed above ([RCW 41.16.060](#)). The use of these funds has been extended to include LEOFF 1 medical benefits, and the city’s fire pension levy authority will expire when there are no longer any pre-LEOFF or LEOFF 1 retiree medical obligations remaining.

See the table on the next page for a summary.

11 Technically speaking, most local government levies (except for voted excess levies) are considered to be “regular” levies. This includes some other levies that may be imposed by cities, such as EMS levies. See the definition in [RCW 84.04.140](#).

12 The firefighters’ pension fund levy under [RCW 84.52.763](#) and [RCW 41.16.060](#) is available to all cities and towns that had a regularly organized, full-time, paid fire department employing firefighters entitled to benefits under a pension system in existence before March 1, 1970 – the date that the statewide Law Enforcement Officers’ and Fire Fighters’ Retirement System (LEOFF) took effect.

13 See [RCW 84.52.769/RCW 52.04.081](#) for fire protection districts, [RCW 84.52.044](#) for regional fire authorities, and [RCW 27.12.390](#) for library districts.

14 The maximum fire protection district levies are provided in [RCW 52.16.130](#), [RCW 52.16.140](#), and [RCW 52.16.160](#). The maximum regional fire authority levies are provided in [RCW 52.26.140](#). However, the maximum levy rates will be reduced to \$1.00 if the fire district/RFA imposes fire benefit charges (see [RCW 52.18.065](#) and [RCW 52.26.240](#)).

15 The maximum library district levies are provided in [RCW 27.12.050](#), [RCW 27.12.150](#), and [RCW 27.12.420](#).

## Summary of Maximum Regular (General Fund) Levy Rates for Cities

City is:		Maximum levy rate per \$1,000 AV	
Annexed to library district?	Annexed to fire district/RFA?	Without fire pension fund	With fire pension fund
No	No	<b>\$3.375</b>	<b>\$3.60</b>
Yes	No	<b>\$3.10*</b> <i>(\$3.60 minus \$0.50 library levy)</i>	<b>\$3.325*</b> <i>(\$3.60 plus 0.225 fire pension levy minus \$0.50 library levy)</i>
No	Yes	<b>\$2.10*</b> <i>(\$3.60 minus \$1.50 fire levy)</i>	<b>\$2.325*</b> <i>(\$3.60 plus \$0.225 fire pension levy minus \$1.50 fire levy)</i>
Yes	Yes	<b>\$1.60*</b> <i>(\$3.60 minus \$1.50 fire levy minus \$0.50 library levy)</i>	<b>\$1.825*</b> <i>(\$3.60 plus \$0.225 fire pension levy minus \$1.50 fire levy minus \$0.50 library levy)</i>

\* Maximum “safe” levy rate, assuming fire/library districts levy their maximum rates.

Note that this table shows the maximum “safe” levy rates, assuming that the fire district, library district, and/or regional fire authority levies its maximum possible rate. For instance, if your city does not have a firefighters’ pension levy and is annexed to a fire district that only levies \$1.00, your maximum statutory levy rate will increase to \$2.60 per \$1,000 AV (\$3.60 minus \$1.00). Likewise, if your city has a firefighter’s pension fund and is annexed to a library district that only levies \$0.30, your maximum statutory levy rate will increase to \$3.525 per \$1,000 AV (\$3.60 minus \$0.30 plus \$0.225).

While this might provide your city with extra revenue potential, you should proceed cautiously. If your city levy rate is higher than the “safe” levy rate, you may be forced to reduce your levy in the future if the fire/library district or RFA increases its levy rate. This can cause significant fiscal distress if the city had not strategically anticipated the possibility.

### Use of Revenues

General fund levy revenues are generally unrestricted and may be used for any lawful governmental purpose, with two possible exceptions:

- **Levy lid lifts.** If voters approved a levy lid lift (see [Levy Lid Lifts](#)) for the general fund where the revenues were authorized for a specific purpose, the extra revenue resulting from the levy lid lift must be used for the purpose(s) stated in the ballot measure.
- **City fire pension levy.** While this is considered part of the general fund levy, the extra levy rate up to \$0.225 is restricted for the firefighters’ pension fund unless the city has a qualified actuary make a determination that all or part of the additional levy is unnecessary to meet the requirements of the pension fund, in which case the levy may be omitted, reduced, or used for any other municipal purpose.

If the city no longer has any pre-LEOFF firefighter beneficiaries receiving benefits, the levy may be used for LEOFF 1 medical benefits ([RCW 41.26.150\(1\)](#)), and any amount remaining after the LEOFF 1 medical benefits may be spent for any other municipal purpose. The city's fire pension levy authority will expire when there are no longer any LEOFF 1 retiree medical obligations remaining.

### **1% Annual Levy Limit**

The general fund levy is subject to the 1% annual "levy lid" (see [The 1% Annual Levy Lid Limit \("101% Limit"\)](#)). If your city's assessed value is increasing more than 1% per year, excluding new construction and state-assessed utilities, your levy rate will begin to decrease as a result. However, if you are levying less than your statutory maximum rate, your city can potentially increase its regular levy above the 1% annual levy lid using non-voted banked capacity (if available – see [Banked Capacity](#)) or a voted levy lid lift (see [Levy Lid Lifts](#)).

### **Prorationing**

The general fund levy is subject to both the \$5.90 local limit and \$10 constitutional limit (see [Maximum Aggregate Levy Rates](#)). However, it is among the very last levies that would be ever subject to prorationing. In the event that either the \$5.90 or \$10 constitutional limits are exceeded, there should be no impact on the city general fund levy.

However, the firefighters' pension levy (for those few cities that levy it) does not have the same protection. If the city is annexed to a library district or fire protection district, [RCW 41.16.060](#) states that the city may not levy the firefighters' pension tax if it causes the combined levies of all taxing districts to exceed the \$5.90 or \$10 limits. This provision does not apply to cities that are not annexed to a library district or fire protection district.<sup>16</sup> If the city is annexed and either the \$5.90 or \$10 limits are exceeded, the fire pension levy must be reduced, eliminated, or "bought down" before any prorationing can be calculated by the county assessor.

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<sup>16</sup> To understand why, consider that the general fund statutory maximum levy rate for a city that has a firefighters' pension fund and is not annexed is \$3.60 per \$1,000 AV (\$3.375 plus \$0.225). If the city is annexed, on the other hand, the maximum combined levy rate for the city, fire district, and library district combined increases to \$3.825 per \$1,000 AV (\$3.60 plus \$0.225).

## AFFORDABLE HOUSING LEVY

### Quick Summary

- Property tax – additional levy up to \$0.50 per \$1,000 assessed valuation.
- Revenues restricted to finance affordable housing for “low-income” and “very low-income” households.
- Requires simple majority voter approval.
- Subject to \$10 constitutional limit but not \$5.90 limit.

**RCW:** [84.52.105](#)

Any city or town may impose a property tax levy up to \$0.50 per \$1,000 of assessed valuation to finance affordable housing for “very low-income” households and affordable homeownership for “low-income” households ([RCW 84.52.105](#)). The levy may be imposed each year up to 10 consecutive years and requires voter approval.

Counties also have similar authority under the same statute, but the combined city/county levy rate may not exceed \$0.50 per \$1,000 AV.

### Use of Revenues

Originally, the revenues could only be used to finance affordable housing for very low-income households. The statute defines “very low-income household” as:

[A] single person, family, or unrelated persons living together whose income is at or below fifty percent of the median income, as determined by the United States department of housing and urban development, with adjustments for household size, for the county where the taxing district is located.

Effective October 1, 2020 the state legislature also authorized the revenues to be used for affordable homeownership, owner-occupied home repair, and foreclosure prevention programs for “low-income households.” The definition of “low-income household” is identical except that households are eligible if their income is at or below 80% of the county median income.

Before imposing the levy, the city must declare the existence of an emergency with respect to the availability of affordable housing for low-income or very low-income households within its jurisdiction and adopt an affordable housing finance plan for the expenditure of the levy funds to be raised. The adopted plan must be consistent with either the locally adopted or state-adopted comprehensive housing affordability strategy, required under the National Affordable Housing Act ([42 U.S.C. Sec. 12701](#)).

### Ballot Measure Requirements

An affordable housing levy must be approved by a simple majority vote, and there are no validation/minimum voter turnout requirements. The statute does not specifically address when this levy may be presented to the voters, which leads us to conclude that the ballot measure can be presented at any special, primary, or general election.

According to MRSC’s [Local Ballot Measure Database](#), Bellingham and Vancouver are the only two cities that have presented this levy to the voters in recent years, and both were successful (although other cities have used levy lid lifts, sales taxes, or other revenue sources for affordable housing purposes).

### **1% Annual Levy Lid Limit**

The affordable housing levy is subject to the 1% annual “levy lid” (see [The 1% Annual Levy Lid Limit \(“101% Limit”\)](#)). If your city’s assessed value is increasing more than 1% per year, excluding new construction and “add-ons,” your levy rate will begin to decrease as a result. However, since affordable housing levies are temporary and will expire after no more than 10 years, the 1% levy lid is probably not a big concern. Any adjustments to produce more revenue can be made in the reauthorization ballot measure.

### **Prorationing**

The affordable housing levy is not subject to the \$5.90 local limit, but it is subject to the \$10 constitutional limit and may be subject to prorationing if the \$10 limit is exceeded (see [Maximum Aggregate Levy Rates](#)). However, this levy is fairly high on the prorationing “ladder” and there are a number of other local government levies that would be reduced or eliminated prior to the affordable housing levy.

In the event that both a county, and a city or town within the county, pass affordable housing levies, the combined rates of these levies may not exceed \$0.50 per \$1,000 of assessed valuation in any area within the county. If the combined rates exceed \$0.50, the levy of the last jurisdiction to receive voter approval must be reduced or eliminated so that the combined rate does not exceed \$0.50.

## CULTURAL ACCESS PROGRAM (CAP) LEVY

### Quick Summary

- Property tax – additional levy with maximum rate based on retail sales.
- Revenues are restricted and may only be used for specified cultural purposes.
- Subject to \$5.90 limitation and \$10 constitutional limit.
- Requires voter approval.

**RCW:** [84.52.821](#); [chapter 36.160](#)

Any city may impose an additional property tax levy for up to seven consecutive years to benefit or expand access to nonprofit cultural organizations ([RCW 84.52.821](#); [chapter 36.160 RCW](#)). The measure requires voter approval.

Every county except King County<sup>17</sup> has similar authority under the same statute. While the statutory language is not entirely clear, it is our interpretation that a city and a county may *not* impose this levy concurrently. In other words, if the county has enacted this levy and created a cultural access program, no city within that county may impose this levy as long as the county's levy is in place. But if the county has not imposed such a levy, or if the county's levy expires and is not renewed, the city may submit this measure to voters.

While most of the provisions within [chapter 36.160 RCW](#) refer specifically to counties, not cities, [RCW 36.160.030](#) states that if a city creates a cultural access program, “all references in this chapter to a county must include a city that has exercised its authority under this subsection, unless the context clearly requires otherwise.”

### Use of Revenues

The revenues must be used in accordance with [RCW 36.160.110](#), which is very detailed. Originally King County had separate funding criteria than the rest of the state, but effective June 11, 2020 all cities and counties statewide are subject to the same criteria. The funds may be used for a number of purposes related to cultural access programs, including start-up funding, administrative and program costs, capital expenditures or acquisitions, technology, and public school programs to increase cultural program access for students who live in the city.

A “cultural organization,” as defined in [RCW 36.160.020](#), must be a 501(c)(3) nonprofit corporation with its principal location(s) in Washington State and conducting a majority of its activities within the state. The primary purpose of the organization must be the advancement and preservation of science or technology, the visual or performing arts, zoology (national accreditation required), botany, anthropology, heritage, or natural history.

State-related cultural organizations are eligible, but the funding may not be used for local or state government agencies, radio/TV broadcasters, cable communications systems, internet-based communications services, newspapers, magazines, or fundraising organizations that redistribute money to multiple cultural organizations.

The city may not use the funding to replace or supplant existing funding ([RCW 36.160.050](#)). The city must affirm that any funding it usually and customarily provides to cultural organizations will not be replaced or materially

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<sup>17</sup> King County may only impose a cultural access program sales tax and may not impose a cultural access program levy. See [RCW 36.160.080\(1\)\(b\)](#).



diminished. If the organization receiving funds is a state-related cultural organization, the funds received may not replace or materially diminish state funding.

### **Ballot Measure Requirements**

The city must adopt an ordinance to impose the levy and the ballot proposition must set the total levy amount and estimated levy rate to be collected in the first year of the levy. The levy amount for the first year may not exceed an amount equal to:

The total taxable retail sales and taxable uses in the county or the city levying the property tax for the most recent calendar year as reported by the department multiplied by one-tenth of one percent. Any county or city levying the property tax in this section must calculate the total dollar amount to be collected using the most recent calendar year publicly available data of taxable retail sales published on the department's web site. ([RCW 84.52.821\(1\)](#))

The property tax may be submitted at any special, primary,<sup>18</sup> or general election and must be approved by a simple majority of voters. There are no validation/minimum voter turnout requirements. According to MRSC's [Local Ballot Measure Database](#), as of 2022 no cities, towns, or counties have attempted to use this property tax option.

### **1% Annual Levy Limit**

The cultural access program levy is subject to the 1% annual "levy lid" (see [The 1% Annual Levy Lid Limit \("101% Limit"\)](#)). If your city's assessed value is increasing more than 1% per year, excluding new construction and "add-ons," your levy rate will begin to decrease as a result. However, since cultural access program levies are temporary and must be re-submitted to voters after no more than seven years anyways, the 1% levy lid is probably not a big concern. Any adjustments to produce more revenue can be made in the reauthorization ballot measure.

### **Prorationing**

The cultural access program levy is subject to both the \$5.90 local limit and \$10 constitutional limit and may be subject to prorationing if either limit is exceeded (see [Maximum Aggregate Levy Rates](#)). In particular, if the \$5.90 limitation is exceeded, the cultural access levy will be the very first levy to be reduced or eliminated (unless the county has a road levy shift in place, in which case the road levy shift must be reduced or eliminated first).

### **Sales Tax Alternative**

Any city, town, or county may also impose a retail sales tax under [RCW 82.14.525](#) for cultural access programs (see [Cultural Access Program \(CAP\) Sales Tax](#)). From a revenue standpoint, the property tax and sales tax options are roughly equivalent: the amount of revenue generated by the property tax may not exceed 0.1% of the retail sales in the city for the most recent calendar year and both are capped at seven-year increments. However, the property tax option requires voter approval, while voter approval is optional for the sales tax. In addition, the property tax levy could potentially be reduced or eliminated through prorationing if the \$5.90 or \$10 property tax caps are exceeded.

Counties (and, by extension, cities) may not implement the property tax and the sales tax options concurrently ([RCW 36.160.080](#)).

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<sup>18</sup> [RCW 84.52.821](#) states that the tax must be submitted at "a special or general election," which at first glance might seem to rule out the August primary election. However, [RCW 29A.04.321\(2\)](#), which establishes the election schedule for local governments, authorizes the county to call up to four "special elections" each year, including the primary election. So for these purposes, "special election" includes the primary election.

## EMERGENCY MEDICAL SERVICES (EMS) LEVY

### Quick Summary

- Property tax – additional levy up to \$0.50 per \$1,000 assessed valuation.
- Revenues are restricted to the provision of emergency medical care or services.
- May be imposed for 6 years, 10 years, or permanently.
- Requires voter approval.
- Subject to \$10 constitutional limit but not \$5.90 limit.

**RCW:** [84.52.069](#)

Any city or town – as well as any county, emergency medical service district, public hospital district, urban emergency medical service district, regional fire protection service authority, or fire protection district – may impose a property tax levy up to \$0.50 per \$1,000 of assessed valuation to provide for emergency medical care or emergency medical services (EMS, [RCW 84.52.069](#)). The levy may be imposed for 6 years, 10 years, or permanently, and it requires voter approval.

However, no city may impose an EMS levy if it is located within another taxing district that imposes an EMS levy. The only exception is for countywide EMS levies: If the county has imposed an EMS levy less than the \$0.50 statutory maximum, any taxing district within the county may impose a levy so long as the combined levies do not exceed \$0.50. For instance, if the county imposes a \$0.30 EMS levy, a city within the county may impose an EMS levy up to \$0.20 per \$1,000 AV.<sup>19</sup>

### Use of Revenues

EMS levies must be used for emergency medical care or emergency medical services, including related personnel costs, equipment, supplies, vehicles and structures associated with emergency medical care and services.

### Ballot Measure Requirements

An EMS levy may be presented to the voters at any special, primary,<sup>20</sup> or general election. The ballot measure must conform to [RCW 29A.36.210](#), including specifying whether the levy will be imposed for 6 years, 10 years, or permanently.

No city or other taxing district may place an EMS levy on the ballot at the same election as a countywide EMS levy. If the county imposes a temporary 6-year or 10-year EMS levy below the maximum \$0.50 rate, any subsequent temporary EMS levy approved by a taxing district within the county must expire at the same time as the countywide levy.

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<sup>19</sup> There are also two specific exceptions for Bothell (urban EMS district under [RCW 35.21.762](#)) and Milton ([RCW 84.52.069\(10\)](#)) to address the fact that they are both located partially within King County (which has a countywide EMS levy) and partially within another county that does not impose an EMS levy (Snohomish County and Pierce County, respectively).

<sup>20</sup> [RCW 84.52.069](#) states that the levy must be submitted at “a special or general election,” which at first glance might seem to rule out the August primary election. However, [RCW 29A.04.321\(2\)](#), which establishes the election schedule for local governments, authorizes the county to call up to four “special elections” each year, including the primary election. So for these purposes, “special election” includes the primary election.

The ballot language and approval requirements depend on several factors:

**For 6-year or 10-year EMS levies:** The initial imposition of a 6-year or 10-year EMS levy requires a 60% supermajority vote, subject to minimum voter turnout requirements (see [Validation/Voter Turnout Requirements](#)). For the “subsequent renewal” of a previously imposed EMS levy, at the same levy rate that voters already approved (or less), a simple majority vote is all that is required, with no validation.<sup>21</sup>

**For a permanent EMS levy:** A permanent EMS levy requires a 60% supermajority vote, subject to minimum voter turnout requirements (see [Validation/Voter Turnout Requirements](#)). In addition, if a city imposes a permanent EMS levy, it must account separately for the receipt and expenditure of the EMS levy monies ([RCW 84.59.069\(3\)](#)) and provide a statement of accounting that is updated at least every two years and made available to the public upon request at no charge.

For a permanent EMS levy, you must also provide for a referendum procedure to apply to the ordinance imposing the tax ([RCW 84.52.069\(4\)](#)), regardless of whether your city has otherwise adopted powers of initiative and referendum. The referendum procedure must specify that a referendum petition may be filed at “any time.” The procedures and requirements of this referendum provision are unique to the EMS levy and supersede the procedures provided under all other statutory or charter provisions for initiative or referendum. For examples of referendum language, see MRSC’s [EMS Levies webpage](#). However, EMS levies tend to be pretty popular, and we are not aware of any EMS levy referendums that have been attempted recently.

According to MRSC’s [Local Ballot Measure Database](#), voters have approved the vast majority (approximately 90%) of city EMS levies in recent years.



If your initial ballot proposition established an EMS levy rate less than \$0.50 per \$1,000 assessed value, any future increases above the initial levy rate approved by voters would be considered the initial imposition of a new levy, requiring 60% supermajority approval with validation. For instance, if a city imposes a permanent EMS levy with an initial rate of \$0.30 per \$1,000 AV and later decides to increase the levy to \$0.50, it would have to submit a new \$0.50 permanent EMS levy to voters. Likewise, if a city imposed a 10-year EMS levy at an initial rate of \$0.30 and then, upon its expiration 10 years later, submits another 10-year levy for \$0.50, the \$0.50 levy is considered the initial imposition of a new levy, rather than the continuation of a previously approved levy.

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<sup>21</sup> Previously, a simple majority vote was only allowed for an “uninterrupted continuation,” but that language changed with 2018 legislation.

## Comparison of 6-Year, 10-Year, and Permanent EMS Levies

	6-Year or 10-Year Levy	Permanent Levy
Requirements for initial imposition:	60% supermajority with validation	60% supermajority with validation
Requirements for subsequent renewal:	Simple majority; no validation	N/A
Separate accounting required?	No	Yes
Referendum procedure required?	No	Yes

### 1% Annual Levy Lid Limit

The EMS levy is subject to the 1% annual “levy lid” (see [The 1% Annual Levy Lid Limit \(“101% Limit”\)](#)). If your city’s assessed value is increasing more than 1% per year, excluding new construction and “add-ons,” your EMS levy rate will begin to decrease as a result. However, if you are levying less than the maximum \$0.50 rate, your city can potentially increase its EMS levy above the 1% annual levy lid through non-voted banked capacity (if available – see [Banked Capacity](#)) or a voted levy lid lift (see [Levy Lid Lifts](#)).

### Prorationing

EMS levies are not subject to the \$5.90 local limit but are subject to the \$10 constitutional limit (see [Maximum Aggregate Levy Rates](#)). If the \$10 constitutional limit is exceeded, the EMS levy could potentially be reduced through prorationing, although this is unlikely as there are many other local levies that would be reduced first.

## EXCESS LEVIES (OPERATIONS & MAINTENANCE)

### Quick Summary

- Property tax – additional levy with no specific levy rate cap.
- Revenues may be used for any lawful governmental purpose, but must be spent in accordance with the purpose(s) specified in the ballot measure.
- Requires voter approval.

**RCW:** [84.52.052](#), [84.52.054](#)

“Excess” or “special” levies, frequently referred to as “maintenance and operations” or “O&M” levies, are one-year levies<sup>22</sup> that impose property taxes over and above the \$5.90 and \$10 constitutional property tax limits. Excess levies are authorized by [RCW 84.52.052](#) and [RCW 84.52.054](#), as well as article VII, section 2(a) of the state constitution. Any city may impose a one-year excess levy with voter approval. There is no restriction on the levy rate or levy amount for an excess O&M levy.

### Use of Revenues

Excess O&M levies may be used for any lawful governmental purpose; however, the revenues must be spent in accordance with the purpose(s) specified in the ballot measure.

Because each levy is only for one year, excess O&M levies are often best suited for temporary purposes, such as a short-term project, a one-time expense or purchase, or bridging a temporary revenue shortfall or similar funding emergency. They have also been used effectively to fund gaps created when the timing of an annexation, formation of a special purpose district (such as a metropolitan park district or a regional fire authority), or other boundary change does not match with the assessors’ schedules for adjusting boundaries, leaving a one-year delay before the new property taxes can be levied and collected within the new annexation area or newly formed special purpose district.

Excess O&M levies are generally not ideal for recurring expenses or critical governmental services such as public safety due to the 60% supermajority requirement (see next page) and the fact that the city must go before the voters every single year. If you are relying on excess levies and more than 40% of your voters say “no” one year, your city could face significant fiscal challenges.

However, there are a number of smaller, primarily rural cities and towns with limited revenue options that use excess O&M levies to fund basic general fund services such as public safety and transportation.

If your city is levying its statutory maximum rates and your revenue sources are still not sufficient to fund your ongoing maintenance and operations costs, salaries, etc., it may be prudent to consider other, more permanent revenue sources instead of annual excess O&M levies. However, for some cities with supportive voters, excess levies may still be an option for recurring expenses.

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<sup>22</sup> For cities, counties, and almost all other taxing districts, excess levies may only be imposed for one year at a time. However, school districts and fire protection districts have separate statutes allowing for multi-year excess levies.

## **Ballot Measure Requirements**

An excess O&M levy may be submitted at any special, primary,<sup>23</sup> or general election and requires 60% supermajority approval, subject to minimum voter turnout requirements (see [Validation/Voter Turnout Requirements](#)).

According to MRSC's [Local Ballot Measure Database](#), about 80% of excess O&M levies submitted by cities have passed in recent years. However, these results are significantly skewed by the small number of cities that are responsible for the vast majority of these levies, as well as the historical custom of the voters in those cities and towns.

## **1% Annual Levy Limit**

Because excess levies may only be imposed for one year at a time, the 1% annual levy lid limit (see [The 1% Annual Levy Lid Limit \("101% Limit"\)](#)) does not apply. To impose an excess levy in subsequent years, the city would have to submit a new excess levy to voters every year.

## **Prorationing**

Excess O&M levies are not subject to the \$5.90 or \$10 limits (see [Maximum Aggregate Levy Rates](#)), so they are not subject to prorationing and will not be affected if either limit is exceeded.

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<sup>23</sup> [RCW 84.52.052](#) states that the levy must be submitted at "a special or general election," which at first glance might seem to rule out the August primary election. However, [RCW 29A.04.321\(2\)](#), which establishes the election schedule for local governments, authorizes the county to call up to four "special elections" each year, including the primary election. So for these purposes, "special election" includes the primary election.

## G.O. BOND EXCESS LEVIES (CAPITAL PURPOSES)

### Quick Summary

- Property tax – excess levy to repay unlimited tax general obligation (G.O.) bonds.
- Revenues are restricted to capital purposes.
- Requires voter approval.

**RCW:** [84.52.056](#)

Any city, with voter approval, may issue unlimited tax general obligation (G.O.) bonds – also known as U.T.G.O. bonds – for capital purposes (see [RCW 84.52.056](#) and article VII, section 2(b) of the state constitution). Once the bond has been approved and issued, it is repaid through annual excess levies for the duration of the bond.

G.O. bond excess levies provide a stable revenue stream to repay debt and are automatically sized to pay the principal and interest on the bonds due each year (unlike other revenue sources such as levy lid lifts or sales taxes). As soon as the debt has been repaid, the excess levies cease.

If you are considering issuing G.O. bonds for a capital project, it is extremely important to consult your city's bond counsel early in the planning process.

### ***Use of Revenues***

U.T.G.O. bonds may only be used for capital purposes, which does *not* include the replacement of equipment.

### ***Ballot Measure Requirements***

A U.T.G.O. bond may be submitted at any special, primary, or general election and requires 60% supermajority approval, subject to minimum voter turnout requirements (see [Validation/Voter Turnout Requirements](#)). Such an election may not be held more often than twice per calendar year.

The ballot measure should typically be drafted by your city's bond counsel, since it has peculiar requirements and must authorize both the issuance of the bonds *and* the excess property tax levies.

### ***1% Annual Levy Limit***

G.O. bond excess levies are not subject to the 1% annual levy lid limit. The levy amount for each year is calculated according to the length of the obligation and the associated amortization schedule prepared at the time of the bond sale. The annual levy amounts are “right-sized” so that they will repay the exact amount of the debt, including both the principal and the interest.

### ***Prorationing***

G.O. bond excess levies are not subject to the \$5.90 or \$10 limits (see [Maximum Aggregate Levy Rates](#)), so they are not subject to prorationing and will not be affected if either limit is exceeded.

## REFUNDS AND REFUND LEVIES

### Quick Summary

- Taxing districts may increase one or more of their levies to pay for any property tax administrative refunds or refunds due to judgments.
- Refund levies are not subject to the 1% annual levy lid, but may not exceed the district's normal statutory maximum levy rates.
- Does not require voter approval.

**RCW:** [84.69.020](#) and [chapter 84.68 RCW](#)

In some situations, the city may have to refund property taxes paid by individual property owners or cancel property taxes that were due but not yet paid. There are two types of refunds: administrative refunds ([RCW 84.69.020](#)) and refunds of taxes recoverable by judgment ([chapter 84.68 RCW](#)).

The city may impose additional “refund levies” to pay for these refunds. In effect, this allows the taxing district to collect extra revenue to offset the financial loss from the refunds so that it does not suffer any negative budgetary impacts.

### ***Administrative Refunds***

Administrative refunds are made on the order of the county treasurer when taxes were paid more than once or as the result of an error in description, a clerical error in extending the tax rolls, or other errors and mistakes as defined within [RCW 84.69.020](#).

A city may choose whether an administrative refund should be included in the following year's levy, thereby reducing the levy amount received by the amount of the administrative refund, or to levy for the refund. Should the city choose to include the refund in the following year's levy, it must contact the county treasurer to obtain the refund amounts and additionally notify the county assessor of the district's intent. It will be important for the city to work closely with the county on the options available for administrative refunds.

### ***Refunds Recoverable by Judgment***

All property taxes placed on the tax roll must be paid; however, the owner of the property being taxed may file a written protest laying out the grounds for either an unlawful or excessive levy amount ([RCW 84.68.020](#)) and bring the issue before the superior or federal court. If the court rules in favor of the property owner, the city must refund the taxes, plus interest, due to the judgment ([RCW 84.68.030](#)).

[RCW 84.68.030](#) and [RCW 84.68.040](#) provide for the creation and maintenance of a fund within the county treasury known as the “Refund Fund.” The fund is to be used to refund to taxpayers the amount of all taxes recoverable by judgments rendered against the taxing district within the preceding 12 months including interest and costs allowed by judgment.

Every year the county shall make a levy for judgment refunds ([RCW 84.68.040](#)) and these levies shall take precedence over all other tax levies for taxing districts that are part of the judgment.



### **1% Annual Levy Lid Limit**

Refund levies are basically a one-year levy and therefore are not subject to the annual 1% levy lid (see [The 1% Annual Levy Lid Limit \("101% Limit"\)](#)).

### **Prorationing**

Refund levies are subject to the \$5.90 and \$10 limitations (see [Maximum Aggregate Levy Rates](#)), as well as the statutory maximum rate for each respective levy. For instance, if a city's maximum general fund levy rate is \$3.10 per \$1,000 AV, the general fund levy rate *including* any refund levies cannot exceed \$3.10.

For examples and further details, refer to the DOR [Property Tax Levy Manual](#).

## THE 1% ANNUAL LEVY LID LIMIT (“101% LIMIT”)

The “levy lid” – also known as the “1% increase limit” or “101% limit” – restricts how much your city’s levy amount (the total property tax revenue received) can grow each year and was enacted due to concerns about property taxes levies rising faster than inflation.

The levy lid was originally established by the state legislature in 1971, and at that time it essentially stated that a taxing district could not increase its total levy amount more than 6% per year, plus an additional amount for any new construction or improvements. For jurisdictions over 10,000 population, that was further restricted by voters in 1997 with the approval of Referendum 47, which limited the increase to 6% or the rate of inflation, whichever was less, unless the legislative body made a finding of substantial need with a supermajority vote.

Then in 2001, voters passed Initiative 747, which lowered the 6% limit to 1%. In 2007, the initiative was ruled unconstitutional by the state Supreme Court, which stated that the voters had been misled. However, the governor quickly convened a special session of the legislature, which reinstated the 1% limit as approved by voters and established the limitation we know now ([RCW 84.55.010](#) and [WAC 458-19-020](#)).

The 1% annual levy lid applies to all city levies except one-year excess O&M levies, excess levies for the repayment of general obligation bonds, and refund levies.

Here’s how it works:

- **For cities with a population of less than 10,000:** You may not increase your levy amount – the total dollar value of property taxes you receive – more than 1% each year, plus an additional levy amount generated by new construction and “add-ons.”
- **For cities with a population of 10,000 or more:** You may not increase your levy amount – the total dollar value of property taxes you receive – more than 1% or the rate of inflation each year, whichever is lower, plus an additional levy amount generated by new construction and “add-ons.” The rate of inflation is measured by the implicit price deflator (IPD). However, if the IPD falls below 1% you may be able to increase your levy amount the full 1% through a finding of “substantial need” (see [The Implicit Price Deflator and “Substantial Need”](#)).

The city may only exceed these limits through the use of non-voted banked capacity (if available – see [Banked Capacity](#)) or, if the city does not have banked capacity available, a levy lid lift approved by voters (see [Levy Lid Lifts](#)).

The “add-ons,” established primarily in [RCW 84.55.010](#), refer to increases in assessed valuation from the previous year due to:

- New construction and property improvements,
- New annexations ([RCW 84.55.030](#) and [WAC 458-19-035](#))
- Changes in state-assessed utility valuations,
- Construction of certain renewable energy electricity-generating facilities, and
- Increases in assessed value within a tax increment financing area (for more information, see our webpage on [Tax Increment Financing](#)).

The change in assessed valuation due to these add-ons is multiplied by the prior year’s levy rate, and the resulting amount is then added to the 1% annual increase to generate the maximum allowable levy for the next year. In practice, this means that a city’s total levy amount will typically increase a bit more than 1% each year. See the example on the next page for a simplified example of how the 1% annual limit works, including add-ons.

**Example of Hypothetical 1% Levy Lid Limit for City Regular Levy (General Fund)**  
(assumes city takes maximum possible increase and does not exceed its statutory maximum levy rates)

Year	Levy amount x 1.01 = 1% increase + Increase due to add-ons = Next Year’s Maximum Allowable Levy			
1	1,000,000	x 1.01 =	1,010,000 +	10,000 = 1,020,000
2	1,020,000	x 1.01 =	1,030,200 +	7,500 = 1,037,700
3	1,037,700	x 1.01 =	1,048,077 +	12,500 = 1,060,577
4	1,060,577	x 1.01 =	1,071,183 +	15,000 = 1,086,183
etc...				

In this example, the city increased its prior year’s levy the full 1% every year as allowed by statute, but the total levy amount increased roughly 2-3% per year due to the additional amount gained from add-ons. (The example does not include refund levies, if any, which are added on to the city’s levy but are not part of the annual 1% levy limit calculations. See [Refunds and Refund Levies](#).)

Your city is not required to increase its levy the full 1% each year, however. If your city decides to levy less than the maximum 1% increase, you can preserve your future levying capacity through the concept of banked capacity (see [Banked Capacity](#)).

Under Washington’s budget-based property tax system (see [What is a Budget-Based Property Tax?](#)), the 1% levy limit can cause a city’s levy rate (per \$1,000 assessed value) to fluctuate over time. The levy amount each year is divided by the assessed value to calculate the levy rate that property owners must pay. If your assessed valuation is increasing rapidly enough, the 1% limit can result in steady decreases in your levy rate.

For instance, we have added some hypothetical assessed values to the levy amounts from the previous table:

**Example of 1% Levy Limit Effect on City Regular (General Fund) Levy Rates**

Year	Levy amount	÷	Assessed value	=	Levy rate per \$1,000 AV
1	1,000,000		400,000,000		2.50
2	1,020,000		415,000,000		2.46
3	1,037,700		435,000,000		2.39
4	1,060,577		440,000,000		2.41

In Years 2 and 3, the city’s total levy amount (including the increase due to add-ons) increased roughly 2-3% per year, but the city’s total assessed value increased 4-5% per year. Because the assessed value grew faster than the levy amount, the levy rate decreased each year. But in Year 4, the levy amount grew about 3% while the assessed value increased less than 2%. Since the levy amount increased faster than the assessed valuation, the levy rate increased.


The interaction of the assessed value (AV), levy amount (total dollar amount of property tax revenues collected), and levy rate (per \$1,000 AV) can be broadly summarized like this:

If assessed value % increase	>	levy amount % increase:	levy rate ↓
If assessed value % increase	=	levy amount % increase:	levy rate unchanged
If assessed value % increase	<	levy amount % increase:	levy rate ↑ (not to exceed max. levy rate)

It’s important to note that while assessed values can fluctuate, the city may never exceed its normal statutory maximum levy rates. For instance, if your city has a statutory maximum levy rate of \$3.10 for its general fund levy, and increasing your general fund levy the full 1% plus add-ons would cause you to exceed that maximum rate, you would not be able to levy the full 1% increase.


The 1% levy lid obviously restricts revenue growth, which creates challenges when expenses are increasing faster than 1% per year due to inflation, criminal justice costs, labor and benefit costs, and other factors.

While the 1% levy lid places a limitation on the city’s *total* levy amount that may be collected, it does not limit the property taxes due from individual property owners. Because the assessed valuations of different properties fluctuate at different rates depending upon market conditions, some property owners may see their property taxes go up much more than 1%, while other property owners may simultaneously see their property tax bills decrease.



**Practice Tip:** To determine your city’s maximum allowable levy: Talk to your county assessor and refer to DOR’s [Property Tax Forms](#) webpage, which contains a Highest Lawful Levy Calculation spreadsheet (64 0007).

**The Implicit Price Deflator and “Substantial Need”**



The implicit price deflator (IPD) only impacts cities with a population of 10,000 or more. If your city or town has a population of less than 10,000, this section does not apply to you.

As noted earlier, the 1% annual levy lid means that cities with a population of 10,000 or more may not increase their levy amounts – excluding the tax increase resulting from new construction and “add-ons” – more than 1% or the rate of inflation, whichever is lower.

The definition of “inflation” for setting a property tax levy ([RCW 84.55.005](#)) is:

“Inflation” means the percentage change in the implicit price deflator for personal consumption expenditures for the United States as published for the most recent twelve-month period by the bureau of economic analysis of the federal department of commerce by September 25th of the year before the taxes are payable.

The state Department of Revenue (DOR) calculates the IPD using the most recent quarterly numbers reported by the federal Bureau of Economic Analysis (BEA).

Every month BEA publishes an estimate of the quarterly IPD numbers. These quarterly numbers are seasonally adjusted each year in July, and these seasonal numbers form the basis for the prior year IPD number that is used by DOR to calculate inflation. The most recent publication available on September 25 is typically the August publication.

For the most recent IPD information, refer to our [Implicit Price Deflator](#) webpage. We will also inform you through our blog posts or e-newsletters each year when the IPD numbers are officially calculated in September.

**If the annual IPD rate is above 1% on September 25:** No action is needed. Because the inflation rate exceeded 1%, your city may increase its levy amount the full 1% for next year (plus new revenue generated by “add-ons”).

**If the annual IPD rate is below 1% on September 25:** Your city may not increase next year’s levy amount above the IPD rate without a finding of “substantial need” (see below). For instance, if the inflation rate is 0.5%, you may not increase next year’s levy amount more than 0.5% (plus new revenue generated by “add-ons”). If deflation occurs and the IPD is negative – which is rare but can happen in a recession – you will actually have to *decrease* your levy amount.<sup>24</sup>

If the IPD falls below 1%, cities of 10,000 or more may still increase their levy amounts the full 1% if they adopt a resolution or ordinance of “substantial need” ([RCW 84.55.0101](#)). The statute does not define “substantial need,” so each city council must interpret “substantial need” according to its needs and requirements. The city must document its evidence support those needs in written findings that are included within the city ordinance/ resolution. For instance, one example of a substantial need finding would be a documented increase in the costs of services in excess of current inflation factors.

For local governments with five or more members of the legislative body – which is to say, all cities and towns – the substantial need finding requires a “majority plus one” supermajority for passage. For instance, if your city council has seven members, approval requires a vote of at least 5-2 in favor.

For examples of resolutions and ordinance of substantial need, see our [Implicit Price Deflator](#) webpage.

If the IPD is less than 1% and your city is not levying the maximum allowable amount – for instance, the IPD is 0.5% and your city is not increasing its levy at all – but you want to preserve your future levy capacity, you can adopt a resolution or ordinance of “future substantial need” using the same process described above and subject to the same supermajority requirements to “bank” the capacity (see [Banked Capacity](#)).

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<sup>24</sup> For information on negative inflation, see DOR’s 2009 special notice entitled [Determining the Limit Factor for Increases in Property Tax Levies](#).

## BANKED CAPACITY

### Quick Summary

- Allows cities to exceed 1% annual levy limit for any of their levies.
- May be restricted depending upon the type of levy being imposed.
- Only available to cities that are levying less than their maximum allowable levy amount and less than their maximum statutory levy rates.
- Does not require voter approval.

**RCW:** [84.55.092](#)

One way that some cities can exceed the 1% levy lid is through the use of “banked capacity.” This mechanism is available to cities that have levied less than the maximum amount allowed over the years.

Prior to 1986, local governments felt compelled to raise their property tax levies by the maximum amount each year (6% at that time), even if they did not need the revenue, because if they did not levy the maximum increase they would lose that extra levy capacity in the future. It created a “use it or lose it” approach to levy setting.

But now, any city may take less than the maximum allowed 1% levy increase in any given year and preserve (“bank”) the remaining dollar amount to use at some future date ([RCW 84.55.092](#)). With this mechanism, the city’s “maximum allowable levy” calculated under state statute increases the full 1% each year, plus add-ons, as long as it has adopted the required levy ordinance requesting some percentage less than the maximum allowed.

Essentially, a city’s banked capacity is the difference between its maximum allowable levy and its actual levy. If the city is levying its maximum allowable levy, it has no banked capacity available. If a city is levying less than its maximum allowable levy, it has banked capacity available.

In Example #1 on the next page (which is simplified and does not include add-ons), the city does not increase its levy in years 1-5. Each year, the city “banks” the difference between its maximum allowable levy and its actual levy amount. For Year 6, the city faces a revenue shortfall and needs to increase its levy amount, so it uses its banked capacity to increase the levy amount back to the maximum allowable levy, resulting in a one-time levy increase of more than 6%.

### Banked Capacity Example #1

Year	Maximum allowable levy <i>1% increase each year*</i>	Actual levy amount	Levy increase	Future banked capacity available: <i>maximum allowable levy minus actual levy</i>
0 (baseline)	1,000,000	1,000,000	N/A	0
1	1,010,000	1,000,000	0%	10,000
2	1,020,100	1,000,000	0%	20,100
3	1,030,301	1,000,000	0%	30,301
4	1,040,604	1,000,000	0%	40,604
5	1,051,010	1,000,000	0%	51,010
6	1,061,520	1,061,520	6.2%	0

*\* For simplicity, does not include “add-ons”*

The same principles apply if the city decides to lower its levy amount, or if it increases its levy but by less than the maximum allowable amount. In Example #2, the city has experienced a revenue windfall in Year 0 and has more money than it needs for the Year 1 budget. Rather than putting the excess funds in a contingency fund or a “rainy day” fund, the city decides to give the taxpayers a break by lowering the property tax.

In Year 1, it lowers the tax by \$50,000, resulting in \$60,000 of banked capacity. In Years 2-5, the city gradually increases the levy amount by \$5,000 per year, or roughly 0.5%. Since this is still less than the allowable 1% increase, the city’s banked capacity continues to grow. For Year 6, the city faces a revenue shortfall and decides to use most of its banked capacity, resulting in a one-time levy increase of over 7%. However, the city did not use all of its banked capacity, so it will still have some banked capacity available in future years.

### Banked Capacity Example #2

Year	Maximum allowable levy <i>1% increase each year*</i>	Actual levy amount	Levy increase	Future banked capacity available: <i>maximum allowable levy minus actual levy</i>
0 (baseline)	1,000,000	1,000,000	N/A	0
1	1,010,000	950,000	-5.0%	60,000
2	1,020,100	955,000	0.5%	65,100
3	1,030,301	960,000	0.5%	70,301
4	1,040,604	965,000	0.5%	75,604
5	1,051,010	970,000	0.5%	81,010
6	1,061,520	1,040,000	7.2%	21,520

*\* For simplicity, does not include “add-ons”*

There are no special procedures a city must follow or resolutions it must adopt to bank capacity – you can simply bank capacity by following the normal levy-setting process (see [Annual Levy Certification Process](#)). When you certify the property tax levy to the county assessor (for cities, no later than November 30 under [RCW 84.52.070](#)), you simply state how much you are increasing your levy, both in dollars and in percent. If you are not increasing your levy at all, you would state that you are increasing your levy by \$0, which is a 0% increase. If the percent increase is less than 1%, you automatically bank the excess capacity.

However, if you miss the November 30 deadline or fail to adopt an annual levy ordinance, you cannot increase your levy above the current level, and you cannot bank the capacity for the next year.

To find out whether your city has banked capacity available – and how much – contact your county assessor. If you have banked capacity available, you can use it by simply including some or all of your banked capacity in your annual levy certification ordinance due to the assessor by November 30.



**Practice Tip:** As noted earlier, cities with a population of 10,000 or more may only increase the maximum allowable levy by 1% or the rate of inflation as measured by the implicit price deflator, whichever is less. This applies to banked capacity, too, since your banked capacity is the difference between your maximum allowable levy and your actual levy.

For instance, if the IPD increases only 0.5% and your city does not increase its levy at all for next year, you may only bank the extra 0.5% capacity next year. However, you can still bank the full 1% capacity if you adopt a resolution or ordinance of “future substantial need,” just as you would a normal resolution or ordinance of “substantial need” (see [The Implicit Price Deflator and “Substantial Need”](#)).



## LEVY LID LIFTS

### Quick Summary

- Allows cities to exceed the 1% annual levy lid for any of their levies.
- Two basic options:
  - “Single-year” lid lifts allow you to exceed the 1% annual lid for one year only.
  - “Multi-year” lid lifts allow you to exceed the 1% annual lid for up to six years.
- Cannot use a levy lid lift if city is levying its statutory maximum rate.
- Revenues are either unrestricted or restricted depending upon the levy lid being increased.
- Requires voter approval.

**RCW:** [84.55.050](#)

If your city is levying less than its statutory maximum levy rate per \$1,000 AV, you can exceed the 101% levy lid limit through a voter-approved “levy lid lift.” (See [RCW 84.55.050](#) and [WAC 458-19-045](#), which provides a better understanding of the process than the statute.)

A levy lid lift is not a separate property tax, but rather a way of increasing an existing property tax, such as your general fund levy or EMS levy, above the 1% increase limit. Any city levying a tax rate below its statutory maximum rate may ask the voters to “lift” the levy lid by increasing the tax rate to some amount less than or equal to its statutory maximum rate. If your city is already levying its maximum rate, you cannot use a levy lid lift.

Your city would need to do a separate levy lid lift for each of its respective levies. For instance, you could submit one ballot measure for your general fund levy, but you would have to submit a separate ballot measure for your EMS levy.

Beginning in 2018, cities can exempt senior citizens, disabled veterans, and other people with disabilities (as defined in [RCW 84.36.381](#)) from the tax increase resulting from a levy lid lift if desired. This exemption is optional, and if your jurisdiction is planning a levy lid lift and you want to exempt these individuals, you must state the exemption in the ballot measure placed before the voters. If you choose this option, this will result in two separate assessed valuations for your levy – one that applies to the levy amount below the lid lift, and a somewhat smaller assessed valuation that applies to the levy lid lift portion only.

Levy lid lifts can be quite confusing. Cities have two main options: “single-year” and “multi-year” lid lifts. However, these names can be confusing too, since “single-year” lid lifts typically last for multiple years and can be made permanent.

A good way to think of the difference between “single-year” and “multi-year” lid lifts is: How many years can your total levy increase by more than 1 percent? With a single-year lid lift, you can exceed the 1% annual limit for one year only, and then future increases are limited to 1% (or inflation) for the remainder of the levy. With a multi-year lid lift, you can exceed the 1% annual limit for up to 6 consecutive years.

### Which Option is Better?

The answer, of course, is “it depends.” There are a number of key differences between single-year and multi-year lid lifts. A brief summary is below, with more details on the following pages.

### Comparison of Levy Lid Lift Options

	“Single-Year” Option	“Multi-Year” Option
Number of years you can exceed the 1% annual levy limit	1	Up to 6
Temporary option	After Year 1, levy amount increases up to 1% annually for specified number of years. After measure expires, levy reverts as if lid lift never occurred.	Lid lift lasts up to 6 years, with annual limit factor specified by city. After measure expires, levy reverts as if lid lift never occurred.
Permanent option	Year 1 levy is used to calculate all future 1% levy increases	Levy amount in final year is used to calculate all future 1% levy increases
May be used for	Any lawful governmental purpose	Any limited purpose stated in the ballot measure
Supplanting restrictions?	None	None
Election date	Any special, primary, or general election	Primary or general election only
Voter approval required	Simple majority	Simple majority

Setting a specific time period (a temporary lid lift) may make the ballot measure more attractive to the voters. But, making it permanent means you can use the funds for ongoing operating expenditures without having to be concerned that you will have to go back to the voters for another lid lift.

When selecting the right levy lid lift option for your city, here are a few key factors to consider:

- How much money you need to raise;
- What you need the revenue for, and for how long (for instance, continued operating costs versus a capital project that will only last a few years);
- How quickly your costs, and property values, are increasing;
- Your desired election date (special, primary, or general); and
- How you think voters will respond to the different alternatives (for instance, a permanent versus temporary tax).

## Using Levy Lid Lifts to Repay Debt

Both single-year and multi-year levy lid lifts can be used to repay debt. However, if the levy lid lift is used to repay debt, it may not exceed nine years.



**Practice Tip:** Many cities consider whether they can use a levy lid lift to circumvent the supermajority voter approval and minimum turnout requirements of a voted general obligation (G.O.) bond. However, if you can get the required 60% approval from voters, a voted G.O. bond repaid by an excess levy (see [G.O. Bond Excess Levies \(Capital Purposes\)](#)), provides several advantages over a levy lid lift:

- Because the excess levy is automatically sized to be sufficient to pay the principal and interest on the bonds due in each year, it is a more stable revenue stream. The amount of revenue generated by a levy lid lift, by comparison, is subject to fluctuation based on the interplay of assessed valuation and levy rate limits or the 1% levy lid (see [The 1% Annual Levy Lid Limit \("101% Limit"\)](#)).
- Because an excess levy is a dedicated revenue stream that cannot be used for other purposes, it will likely be seen as more secure by the bond market and may result in a better rating, and thus lower interest rates for your city to pay.
- The excess levy will be collected as long as necessary to repay the bonds, which is often 20 years or more. If you plan to use a levy lid lift to repay bonds, the levy lid lift cannot last for more than nine years.

## Single-Year Levy Lid Lifts

### Quick Summary

- Allows cities to exceed the 1% annual levy lid for any of their levies for one year only.
  - If lid lift is temporary, all subsequent levies are limited to a 1% annual increase until the measure expires, at which point the maximum allowable levy reverts to what it would have been without the lid lift.
  - If lid lift is permanent, all subsequent levies are limited to a 1% annual increase and the levy increase never expires or reverts.
- Cannot use a levy lid lift if city is levying its statutory maximum rate.
- Revenues are unrestricted and may be used for any lawful governmental purpose, but must be spent in accordance with the purpose(s) specified in the ballot measure (if any).
- Requires voter approval.

**RCW:** [84.55.050\(1\)](#)

The single-year levy lid lift is the original version, created in 2001 by Initiative 747 (which lowered the annual levy limit from 6% to 1%). Some people refer to it with a variety of other names, such as “one-bump,” “one-year,” “basic,” “original flavor,” or “plain vanilla.”

The single-year lid lift allows your city to increase its maximum levy by more than 1% for one year only. The resulting amount is then used as a base to calculate all subsequent 1% levy limitations for the duration of the levy.

Single-year levy lid lifts can be temporary or permanent. With a temporary single-year lid lift, the city sets an expiration date for the levy. The temporary lid lift can last for any number of years, but if used to repay debt service it may not exceed nine years.<sup>25</sup> The levy lid bumps up more than 1% in the first year, and then that amount is used to calculate all subsequent 1% levy limitations until the measure expires. When the lid lift expires, the levy lid reverts to what it *would have been* if the levy lid lift never existed and the city had increased its levy by the maximum allowable amount each year in the meantime.

With a permanent single-year levy lid lift, the levy lid bumps up more than 1% in the first year, and then that amount is used to calculate all future 1% levy limitations. The measure never expires and the levy lid never reverts. However, future annual increases may not exceed 1% without going to the voters for another lid lift.

See the examples on the next page.

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<sup>25</sup> Except Thurston County, which may use a levy lid lift up to 25 years for debt service. This exception only applies to the county itself and not to any cities within Thurston County. See [RCW 84.55.050\(4\)\(c\)\(i\)](#).

## **Use of Revenues**

Single-year lid lifts may be used for any of the city's levies, including the general fund levy, and there are no restrictions on supplanting funds. For instance, you could say a general fund levy lid lift would be for public health programs or for additional money for general government purposes, or you could say nothing at all. In the latter case, by default, it would be for general government purposes. Stating a particular purpose, however, may improve your chances of getting the voters to approve it. If you do state a purpose, the revenues must be spent in accordance with that purpose.

If the single-year levy lid lift is used for debt service, it may not exceed 9 years. However, note that the amount of revenue generated by a levy lid lift is not guaranteed to provide the precise amount of revenue needed to repay the debt, since the revenues generated by the levy lid lift depend upon assessed valuation, levy rate limitations, and the 1% annual levy lid.

## **Ballot Measure Requirements**

Single-year lid lifts may be submitted at any special, primary, or general election and require a simple majority approval. There are no validation (minimum voter turnout) requirements.

A single-year lid lift ballot measure must:

- State the *maximum tax rate* to be imposed in the first year (for instance, \$1.50 per \$1,000 AV).
- If temporary, state the total duration of the levy (number of years).
- If permanent, state that it is permanent or that the dollar amount of the levy will be used for the purpose of computing the limitations for subsequent levies.
- State the exemption for senior citizens and persons with disabilities under [RCW 84.36.381](#), if the city wishes to exempt these individuals

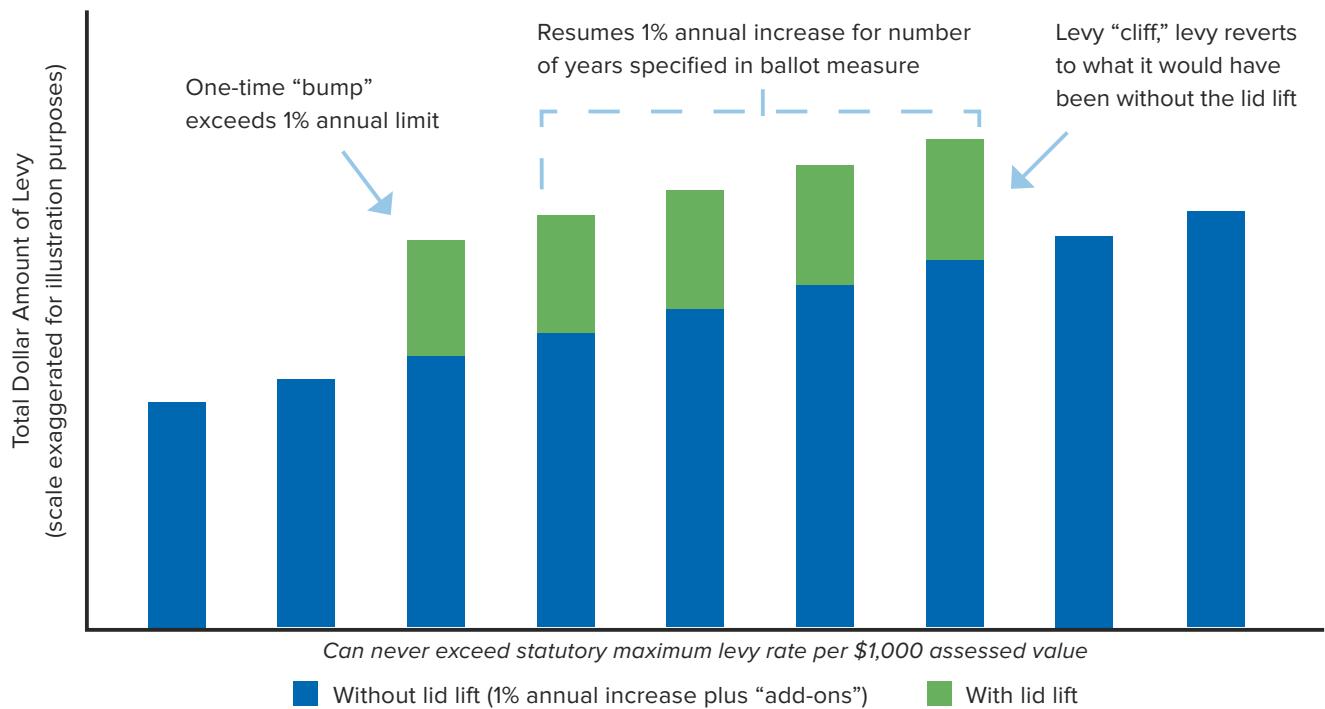
The ballot measure also must comply with [RCW 29A.36.071](#) regarding ballot title composition and length.

The ballot measure does not have to state:

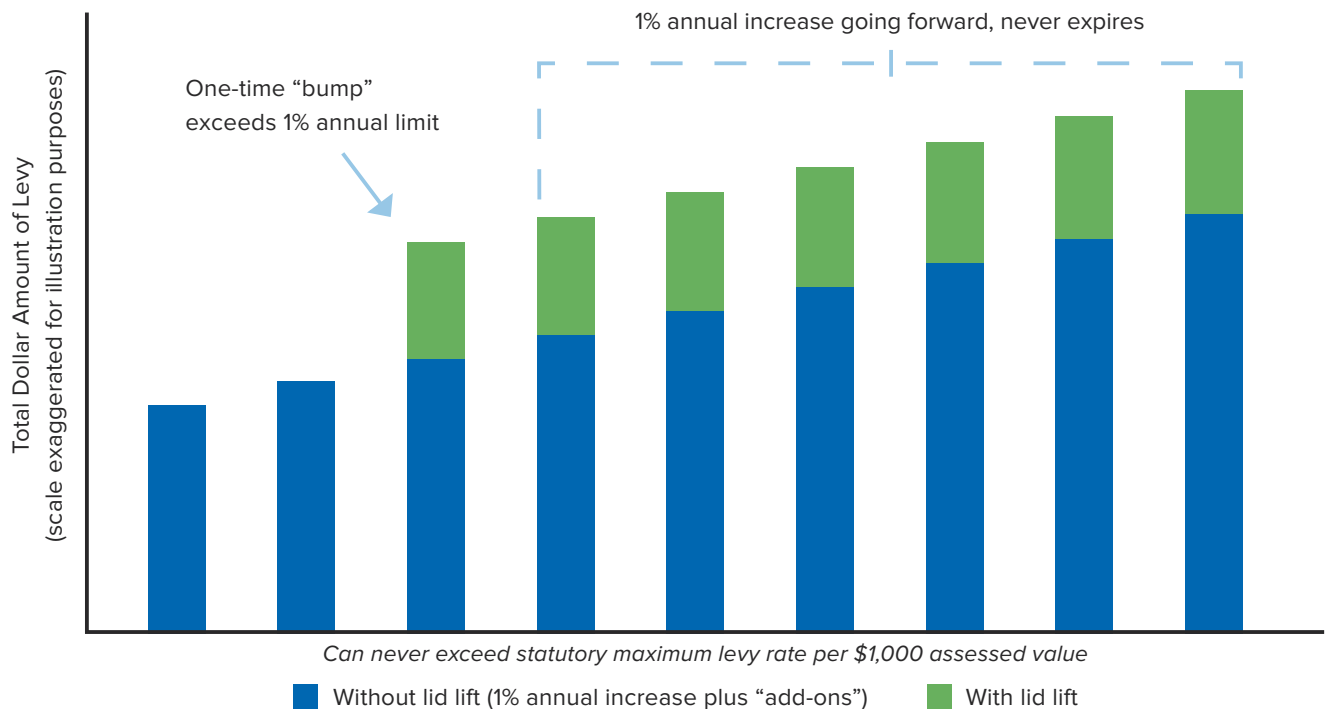
- The purpose, although doing so is a good idea.
- The *increase* in the levy rate (for instance, an increase of \$0.20 per \$1,000 AV), although some jurisdictions do so.
- The maximum total levy *amount* (for instance, a total levy amount of \$300,000). In fact, including the total dollar amount can lead to confusion and even legal challenges if the levy lid lift passes. For instance, if there are significant increases to assessed valuation in Year 1 of the levy lid lift, multiplying the *levy rate* stated in the ballot measure by the new assessed valuation might result in a *levy amount* that is higher than the dollar amount approved by voters.

For examples of levy lid lift resolutions and supporting materials, see our [Levy Lid Lifts webpage](#). To see how levy lid lifts have performed in recent years, refer to MRSC's [Local Ballot Measure Database](#).

## SINGLE-YEAR TEMPORARY LEVY LID LIFT



## SINGLE-YEAR PERMANENT LEVY LID LIFT



## Multi-Year Levy Lid Lifts

### Quick Summary

- Allows cities to exceed the 1% annual levy lid for any of their levies for up to 6 years.
  - If lid lift is temporary, all subsequent levies are limited to a 1% annual increase until the measure expires, at which point the maximum allowable levy reverts to what it would have been without the lid lift.
  - If lid lift is permanent, all subsequent levies are limited to a 1% annual increase and the levy increase never expires or reverts.
- Cannot use a levy lid lift if city is levying its statutory maximum rate.
- Revenues are must be used for any limited purpose.
- Requires voter approval.

**RCW:** [84.55.050\(2\)](#)

The state legislature added the “multi-year” levy lid lift option in 2003. Unlike the single-year (“one-bump”) levy lid lift, which bumps up once and is then used to calculate the 1% limitation for the remainder of the levy, a multi-year levy lid lift authorizes a jurisdiction to bump up or exceed the 1% limitation *each year* for up to six consecutive years.

Multi-year lid lifts may be temporary or permanent. With a temporary multi-year lid lift, the levy lid bumps up more than 1% each year (up to the limit factor specified in the ballot measure) for up to six years. When the lid lift expires, the levy lid reverts to what it *would have been* if the levy lid lift never existed and the city had increased its levy by the maximum allowable amount each year in the meantime ([RCW 84.55.050\(5\)](#)).

With a permanent multi-year lid lift, the levy lid bumps up more than 1% each year (up to the limit factor specified in the ballot measure) for up to six years. However, the lid lift does not revert and the maximum levy in the final year of the lid lift is then used as the base to calculate all future 1% levy limitations.

See the examples on the next page. Occasionally, a jurisdiction may adopt a “hybrid” approach, in which the levy amount increases more than 1% for up to six years, followed by several years of 1% increases, and then the levy lid lift expires and reverts to what it would have been without the lid lift.

## ***Use of Revenues***

A multi-year levy lid lift may be used for any *limited* purpose, and the ballot must state the limited purposes for which the increased levy will be used. Both requirements are more restrictive than a single-year lid lift, which can be used for any lawful governmental purpose with no requirement to state the purpose. The statute does not define how limited a “limited purpose” must be, but some attempt should be made to identify a purpose that is narrower than “any general fund purpose” or “general governmental purposes.”

Multi-year lid lifts may also be used for debt service for up to nine years, in which case they may fall somewhere in between “temporary” and “permanent.” If a multi-year lid lift is used to pay debt service, the increased levy may not last for more than 9 years total. The multi-year lid lift would exceed the 1% limit for up to 6 years, and then the lid would increase up to 1% annually for the remaining years. After no more than nine years, the levy would expire and the levy lid would revert to what it would have been without the lid lift.

However, note that the amount of revenue generated by a levy lid lift is not guaranteed to provide the precise amount of revenue needed to repay the debt, since the revenues generated by the levy lid lift depend upon assessed valuation, levy rate limitations, and the 1% annual levy lid.

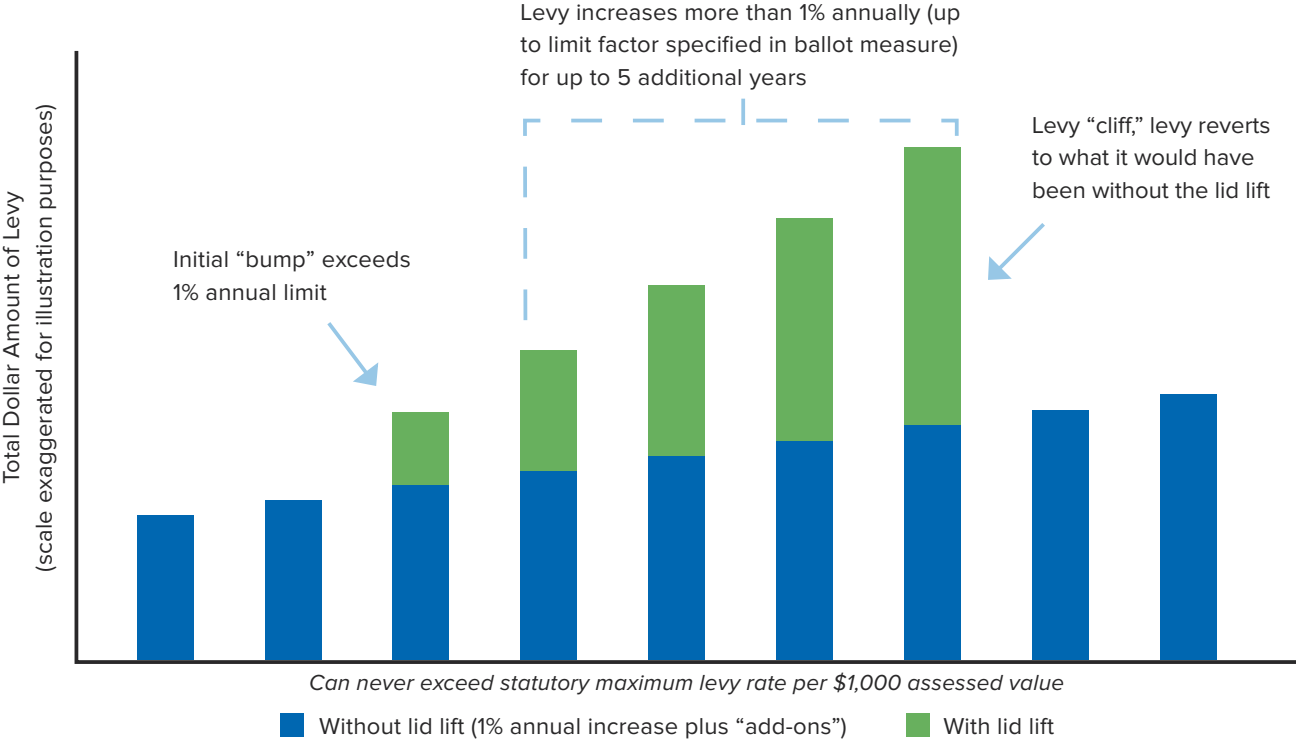
## ***Choosing a Limit Factor***

The lift must state the total tax rate *for the first year only* – it *cannot* state the maximum rate in future years. For all subsequent years, the measure must identify a maximum “limit factor” which the total levy amount cannot exceed, which temporarily overrides the normal 1% annual levy lid. If the amount of the increase for a particular year would require a levy rate that is above the city’s maximum levy rate, the assessor will levy only the maximum amount allowed by law.

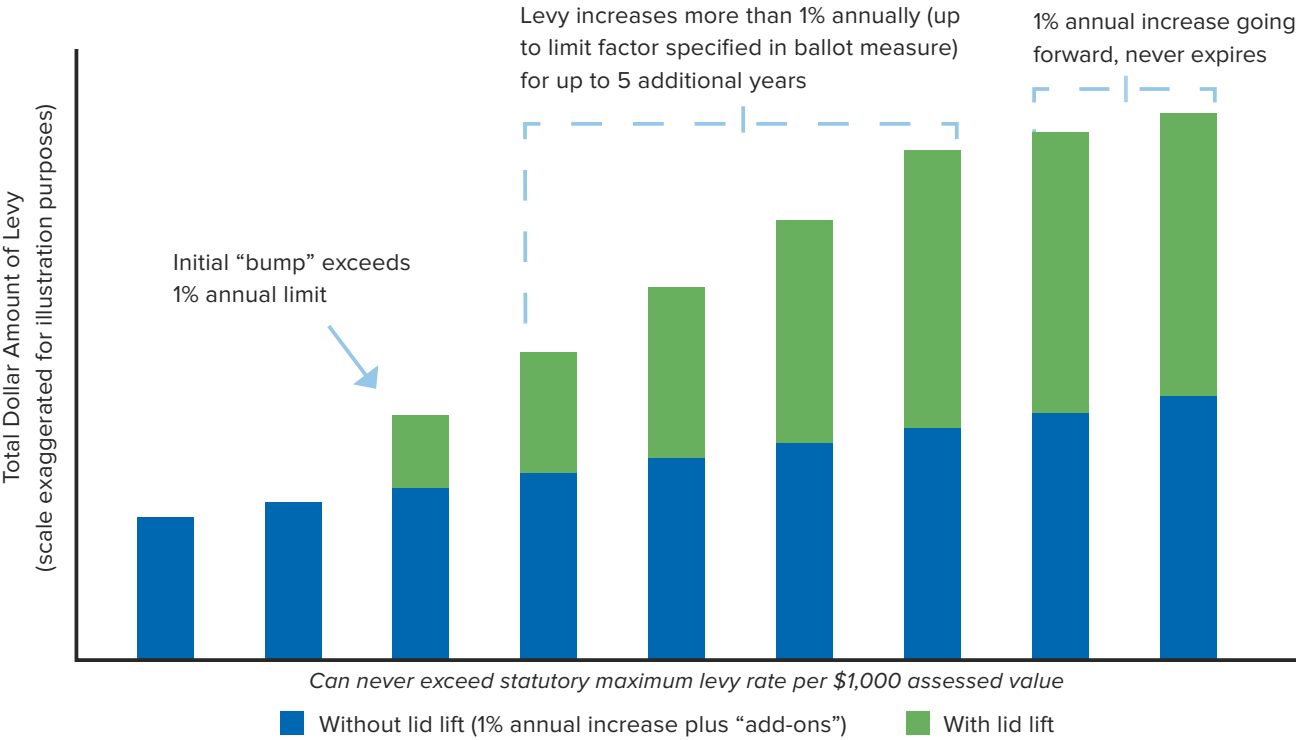
The limit factor can be stated as an annual percent increase or the rate of change in a specific inflation index, and it does not have to be the same each year. For instance, the limit factor might be 3% annually, or 6% annually for the first two years and 4% annually after that, or the annual inflation increase as measured by an index such as the Consumer Price Index (CPI). However, the ballot title may only have 75 words, so you do not have much space to get too creative or provide too much detail.



MULTI-YEAR TEMPORARY LEVY LID LIFT



MULTI-YEAR PERMANENT LEVY LID LIFT





**Practice Tip:** If you are using an inflation index such as the CPI for your limit factor, make sure to specify exactly which inflation index (Seattle CPI-U, U.S. City Average CPI-W, etc.) you are using. The federal Bureau of Labor Statistics recommends using a national CPI index for measuring inflation, rather than a regional CPI index such as Seattle-Tacoma-Bellevue. Not only is the Seattle-Tacoma-Bellevue index published less frequently (every two months instead of every month), but it is based on a smaller sample and is therefore more volatile and subject to more measurement error. However, some local jurisdictions within Washington do use the Seattle CPI index for inflation.

In addition, you may want to consider including a provision to the effect of, “the percentage change in the [CPI-U, CPI-W, etc.] or 1%, whichever is greater,” which would allow you to take the normal 1% increase even if inflation falls below 1%. Otherwise, you could be limiting your jurisdiction’s ability to increase its levy if inflation drops below 1% during the multi-year lid lift timeframe. For instance, if the CPI only increases by 0.5% in the second year of your lid lift, you may be limited to a 0.5% increase in your levy amount, which would also reduce your maximum allowable levies in future years.

### ***Ballot Measure Requirements***

Multi-year lid lifts may be submitted at any primary or general election, but they may not be submitted at a February or April special election. Multi-year lid lifts require a simple majority vote, and there are no validation (minimum voter turnout) requirements.

A multi-year lid lift ballot measure must:

- State the total levy duration (number of years).
- If permanent, state that it is permanent or that the dollar amount of the levy will be used for the purpose of computing the limitations for subsequent levies.
- State the maximum tax *rate* to be collected in the first year (for instance, \$1.50 per \$1,000 AV)
- State the *limit factor* to be used for all subsequent years (stated as an annual percent increase or inflation index). The amounts do not need to be the same for each year.
- State the exemption for senior citizens and persons with disabilities under [RCW 84.36.381](#), if the city wishes to exempt these individuals

The ballot measure also must comply with [RCW 29A.36.071](#) regarding ballot title composition and length. For examples of levy lid lift resolutions and supporting materials, see our [Levy Lid Lifts webpage](#).

The ballot measure *cannot* state the maximum levy *rate* for subsequent years after the first year, since future rates cannot be calculated without first knowing the levy amount and the assessed valuation for each year. For instance, the ballot measure can state that it will increase the first year levy to \$3.10 per \$1,000 AV, but it *cannot* state that it will maintain the \$3.10 rate for the next five years.<sup>26</sup>

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<sup>26</sup> If the intention were to maintain the same levy rate over the lid lift period, the closest you could come would be to choose a “limit factor” in the ballot measure that would be equal to the year-over-year rate of increase in assessed value for your jurisdiction, excluding new construction and other “add-ons.” However, in jurisdictions with rapidly increasing assessed values, the rate could be so high that it might be politically unpalatable to voters.

Below are examples of correct and incorrect ballot measure language for multi-year levy lid lifts. These are examples only, based on real-life instances we have seen. Cities have some flexibility in how they phrase a levy lid lift ballot measure and do not have to follow this exact wording.

### **CORRECT**

This proposition would restore the city's regular property tax levy rate to \$3.00 per \$1,000 of assessed valuation for collection in 2020 and authorizes annual increases up to 6% for each of the succeeding five years...

This proposition would authorize a maximum regular property tax levy rate of \$2.10 per \$1,000 of assessed valuation for collection in 2020 and sets the limit factor for the five succeeding years at 100% plus the annual percentage change in the CPI-W or 1%, whichever is greater...

*Both of these ballot measures correctly establish a levy rate for the first year, with a limit factor (percentage increase) for the next 5 years.*

### **INCORRECT**

This proposition would increase the city's regular property tax levy rate to \$2.25 per \$1,000 of assessed valuation for collection in 2020, 2021, and 2022...

*This measure incorrectly establishes a levy rate for three years.*

This proposition would authorize a regular property tax levy rate of \$2.00 per \$1,000 assessed value for collection in 2020, increase the 2021-2023 maximum levies by \$0.30 per \$1,000 assessed value, and increase the 2024-2025 maximum levies by \$0.20 per \$1,000 assessed value...

*This measure correctly establishes a levy rate for the first year but then incorrectly increases the levy rate for the next 5 years, instead of establishing a limit factor (percentage increase).*

To see how levy lid lifts have performed in recent years, refer to MRSC's [Local Ballot Measure Database](#).

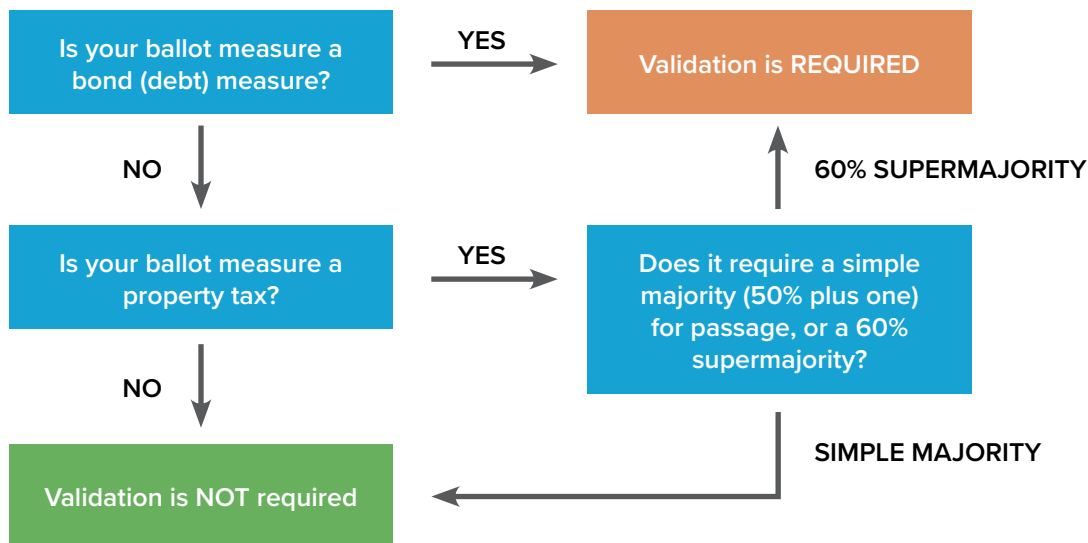
## VALIDATION/VOTER TURNOUT REQUIREMENTS

Voted bond measures, and certain voted property taxes, require a 60% supermajority *and* a minimum level of voter turnout, known as “validation.” If voter turnout is too low and a ballot measure does not meet its validation requirements, it will fail.

The only city revenue options requiring validation are bond measures, excess O&M levies, permanent EMS levies, or the initial imposition of a 6-year or 10-year EMS levy. (There are also some other county and special purpose district levies that require validation.) Levy lid lifts, sales taxes, and other voted revenue sources have no minimum turnout requirements and do not require validation.

Below is a fairly simple test to help you figure out which ballot measures require validation. While there is no one single statute addressing validation, it appears the various ballot measure statutes all follow these rules:

### Does Your Ballot Measure Require Validation (Minimum Voter Turnout)?



Validation is calculated by comparing the voter turnout in the current election to the most recent general election, which means the validation requirements change from year to year depending on voter turnout the preceding November. Following each general election, the county auditor must determine the number of voters participating in the election for each taxing district (including each city or town) and provide that number to each taxing district (see [WAC 434-262-017](#)).

However, it is up to each taxing district to determine the validation requirements for any of its upcoming ballot measures and to determine whether the measure passed. The county auditor’s office counts the number of “yes” and “no” votes for each ballot measure but is *not* responsible for determining the minimum validation requirements or determining whether the measure passed. Consult your legal counsel and make sure you know whether your ballot measure requires validation and, if it does, what the minimum approval thresholds are.



**Practice Tip:** Validation is not a problem for most jurisdictions in most years, but it can occasionally create difficulties, particularly in low-turnout elections in years immediately following high-turnout general elections. The highest turnout general elections, invariably, are those corresponding to the United States presidential election and Washington gubernatorial election, which occur on the same cycle every four years. So, pay particular attention to validation if your city is planning to run a bond measure or 60% voted property tax in the year following a presidential election!

### **Validation Requirements for 60% Voted Property Taxes (Except Bonds)**

The validation requirements for EMS levies ([RCW 82.52.069\(2\)](#)) and excess O&M levies ([Washington State Constitution](#), Article VII, Section 2(a)) are spelled out separately, but the requirements are the same. Note that validation is required for permanent EMS levies or the initial imposition of a 6-year or 10-year EMS levy, but not for an EMS levy lid lift or the “subsequent renewal” of an EMS levy at a rate previously approved by voters.

For excess O&M levies and EMS levies requiring validation, the measure must meet one of the following requirements:

- **40% minimum turnout:** The number of voters voting on the proposition must be at least 40% of the number of voters who cast ballots in the taxing district in the most recent state general election, AND the measure must receive at least a 60% “yes” vote.
- **“Backdoor” provision if turnout is under 40%:** If the number of voters voting on the proposition is less than 40% of the number of voters who cast ballots in the taxing district in the most recent state general election, the number of “yes” votes must be at least 60% of 40% (or, in plain English, 24%) of the number of votes cast in the most recent state general election. This means that the measure can still pass with less than 40% turnout, but the required “yes” percentage starts climbing above 60%. Theoretically, a property tax measure could pass with as little as 24% turnout using the “backdoor” method, but that would require the support of 100% of the voters. (This backdoor provision does *not* apply to bond measures.)

For an illustration of how validation works for 60% voted property taxes, see the examples below. In these examples, the number of voters who cast ballots in the city in the most recent general election is 1,000. If the number of voters voting on the proposition is at least 400 (40% of 1,000), the measure requires a 60% supermajority to pass. If the number of voters voting on the proposition is *less* than 400, the “backdoor” provision kicks in and the measure requires at least 240 “yes” votes (24% of 1,000) for passage.

## Examples of Validation for 60% Voted Property Taxes (Except Bonds)

Number of voters casting ballots in most recent general election = 10,000

Number of voters voting on proposition	"Yes" votes	"No" votes	Election result	
800	480 (60%)	320 (40%)	<b>PASSED</b> received 60% yes vote	
600	354 (59%)	246 (41%)	<b>FAILED</b> did not receive 60% yes vote	
400	260 (65%)	140 (35%)	<b>PASSED</b> received 60% yes vote	Turnout ≥ 40% of last general election
350	210 (60%)	140 (40%)	<b>FAILED</b> did not receive 240 yes votes	Turnout < 40% of last general election
350	245 (70%)	105 (30%)	<b>PASSED</b> received 240 yes votes	"Backdoor" method

## Validation Requirements for Bond Measures

The validation requirements for bond measures are stricter. Every voted bond measure requires a 60% supermajority in favor *and* minimum turnout of 40% compared to the most recent general election. There is no "backdoor" provision for bond measures. If turnout is below the 40% threshold, the bond measure will fail no matter how many "yes" votes it receives.

However, there is a slight discrepancy between the statutory and constitutional requirements for bonds, which creates some uncertainty as to exactly how to calculate bond measure turnout. The [Washington State Constitution](#), Article VII, Section 2(b) states that "the total number of voters *voting on the proposition* shall constitute not less than forty percent of the total number of voters voting in such taxing district at the last preceding general election" [emphasis added].

But [RCW 84.52.056](#)(1) states that "the total number of persons *voting at the election* must constitute not less than forty percent of the voters in the municipal corporation who voted at the last preceding general state election" [emphasis added].

The statutory requirement is slightly less stringent than the constitutional requirement, as the number of people *voting at the election* may be slightly greater than the number of people *voting on the proposition*. This is because ballot propositions sometimes have a small number of "undervotes" (voters who cast a ballot in the election but left that particular measure blank) or "overvotes" (voters selecting more than one choice, in which case the vote is not counted). The difference between the two standards is slight, but to be prudent we recommend using the more restrictive constitutional standard and counting the number of voters *voting on the proposition*.

For an illustration of how bond measure validation works, see the examples below, using the exact same numbers as in the property tax example on the previous page. Again, the number of voters who cast ballots

within the city in the most recent general election is 1,000. If the number of voters voting on the proposition is at least 400 (40% of 1,000), the measure requires a 60% supermajority to pass. But this time there is no “backdoor” provision. If the number of voters voting on the proposition is less than 400, the bond measure fails no matter how many “yes” votes it receives.

Examples of Validation for Voted Bond Measures

Number of voters casting ballots in most recent general election = 10,000

Number of voters voting on proposition	“Yes” votes	“No” votes	Election result	
800	480 (60%)	320 (40%)	<b>PASSED</b> received 60% yes vote	
600	354 (59%)	246 (41%)	<b>FAILED</b> did not receive 60% yes vote	
400	260 (65%)	140 (35%)	<b>PASSED</b> received 60% yes vote	Turnout ≥ 40% of last general election
350	210 (60%)	140 (40%)	<b>FAILED</b> did not receive 40% turnout	Turnout < 40% of last general election
350	245 (70%)	105 (30%)	<b>FAILED</b> did not receive 40% turnout	Measure fails

## ANNUAL LEVY CERTIFICATION PROCESS

As noted earlier, Washington uses a budget-based property tax system (see [What is a Budget-Based Property Tax?](#)). This means that cities and other taxing districts, as part of their annual budget process, must first establish the total dollar amount of property tax revenue they wish to generate for the upcoming year, subject to several restrictions. Once the total dollar amount is established, the levy rate is calculated based on the assessed valuation and other factors.

All cities must follow certain statutory procedures when setting their budgets, but one of the first steps in the budget process is the forecasting of revenues which includes the amount to be raised by property taxes. For details, see our [Budget Preparation Procedures for Cities and Towns](#) webpage.

When forecasting the amount to be raised by property taxes, all taxing jurisdictions including cities must consider whether they want to increase their levy amounts over last year's and by how much. Upon making this determination and holding the required public hearing ([RCW 84.55.120](#)), you must adopt an ordinance stating both the dollar increase for each levy and the percentage change from the prior year ([RCW 84.55.120](#)).<sup>27</sup> This levy increase requirement is *separate* from the levy certification requirement that states the total property tax levy being adopted within the budget. We know many attorneys want to combine these two requirements into one document, but it is a good idea to follow the statutory language and keep them separate.

According to the statutory language, the ordinance for the levy increase may cover a period of up to two years, but it must state the dollar increase and the percent change for each year individually.<sup>28</sup> The state Department of Revenue (DOR) [Property Tax Forms](#) webpage, under "Levy Forms," includes sample property tax ordinances (64 0101).

In addition, the city council must certify its desired levy amount for each of its levies to the county assessor no later than November 30 each year ([RCW 84.52.070](#))(2)). If the city fails to follow these requirements or misses the November 30 deadline, it may not increase next year's levy above the current levels.<sup>29</sup>

DOR encourages cities to use its Levy Certification Form (64 0100) on its [Property Tax Forms](#) webpage.<sup>30</sup> DOR likes cities and other taxing districts to use this form because it cuts down on errors. The county assessors can easily see how much property tax each taxing district is asking for, rather than having to plow through an ordinance trying to find the relevant numbers. So, if you submit your DOR levy certification form and property tax levy ordinance together, you will make DOR and your county assessor happy. Be sure the amounts match

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27 [RCW 84.55.120](#) states that the taxing district must adopt an "ordinance or resolution." However, the language in this statute was written with all taxing districts in mind. For special purpose districts and some counties, a resolution is the highest level of authority. For cities and towns, an ordinance is the highest level of authority. It is our conclusion that any taxing district must use its highest level of authority to pass this document, which means cities must specifically adopt an ordinance rather than a resolution.

28 Note that the percent change from the prior year's levy expressed in this separate ordinance may be much greater than 1%, even if the taxing district is only taking the maximum allowable 1% increase. That is because the percent expressed in this ordinance is a percentage above the absolute dollar amount levied in the previous year, while the maximum allowable 1% increase is calculated on top of adjustments for new construction, annexations and changes in value of certain state-assessed property. If a taxing jurisdiction is utilizing "banked capacity," the percent expressed in this ordinance will also be greater than 1%. Neither of these situations is cause for alarm and neither violates the 101% levy lid.

29 Counties and certain special purpose districts have December levy certification deadlines, but for cities the deadline is November 30.

30 Note that this form was written on the assumption that the taxing districts adopt their budgets before the levy certification deadline. However, cities are not required to adopt their budgets until December 31, and many cities have not yet adopted their final budgets by November 30, so you might need to edit the last sentence. Rather than saying "which was adopted following a public hearing held on \_\_\_\_\_," you might say "which will be adopted following a public hearing scheduled to be held on \_\_\_\_\_."



those in your levy ordinance. These documents may be submitted electronically or via postal service, but either way we recommend you get confirmation that they were received.

If your city has more than one levy – such as an EMS levy or affordable housing levy in addition to your general fund levy – you must adopt a separate ordinance for each levy and fill out a separate levy certification form for each.

Cities with a population of 10,000 or more may also need to adopt a separate ordinance of “substantial need” if the annual inflation rate falls below 1% on September 25 (see [The Implicit Price Deflator and “Substantial Need”](#)).

The levy that your city imposes will be collected during the upcoming calendar year. The year that the levy ordinance is adopted is sometimes referred to as the “levy year,” with the following year when revenues are received referred to as the “collection year.”



**Practice Tip:** Even if your city is not increasing its levy at all, you should still adopt an ordinance stating that you are increasing your levy by \$0 (a 0% increase) plus the increase due to new construction and add-ons. Doing so will automatically preserve, or “bank,” your future levying capacity, should you decide you need those funds at a later date (see [Banked Capacity](#)).

## RECEIPT OF PROPERTY TAX REVENUES

Property taxes are due on April 30 and October 31, with penalties incurred if the payment is more than one month late ([RCW 84.56.020](#)). In some counties, the treasurer transfers the city’s share of the revenue received on a daily basis. In other counties, the treasurer makes the transfer on the 10th day of the month, paying interest on the balances it has held until that time.<sup>31</sup> This means that cities receive the bulk of their property tax revenue in May and June (for the April deadline) and in November and December (for the October deadline).

Because these revenues are primarily received during two times of the year, cities that are heavily dependent on property taxes should budget in a strategic way to ensure sufficient ending fund balance (cash carryover) and maintain a healthy cash flow from the end of the year to the next property tax receipting cycle. For guidance, see MRSC’s [Fund Balance and Reserve Policies](#) webpage.

<sup>31</sup> See [RCW 84.56.230](#); [RCW 36.29.110](#); *Seattle v. King County*, 52 Wn. App. 628 (1988), rev. denied, 112 Wn.2d 1002 (1989) (Cities entitled to interest accumulated on tax collection prior to distribution).

# Retail Sales and Use Taxes

The State of Washington imposes a 6.5% sales tax on most retail sales within the state, and cities and towns (as well as counties, transit districts, and public facilities districts) can impose local sales taxes on top of the state rate. (For the purposes of this section, “sales tax” means a “sales and use tax” unless otherwise noted.)

Sales tax rates vary from city to city depending on exactly which taxes have been imposed – and at what rates – by the city, county, and other taxing districts.

Most of a city’s sales tax revenue is generated from the “basic” (or “first half”) and “optional” (or “second half”) sales taxes, which are unrestricted and may be used for any lawful governmental purpose. In addition, cities and towns also have a number of other sales tax options available. However, these tax options are less flexible and must be used for certain designated purposes.

Generally speaking, most sales taxes beyond the “first half” and “second half” require voter approval with a simple majority approval. Most sales taxes may be imposed permanently with no maximum duration, but there are some exceptions. The Department of Revenue collects and distributes these local sales taxes, retaining 1% as an administrative fee in most cases ([RCW 82.14.050](#)).<sup>32</sup>

Cities and towns were first granted the authority to impose a local sales and use tax in 1970, and at the time it was considered the most significant change in taxing authority in Washington State. Sales taxes are classified as excise taxes by the Washington State Supreme Court. Excise taxes are the broadest category of taxes and include all taxes other than property tax, and the sales and use tax is the largest sector of excise tax.

For the majority of cities and towns in Washington, sales taxes represent the second-largest revenue source in the general fund, preceded only by property taxes. However, there are a significant number of cities where sales taxes represent the largest general fund revenue source. As retail shopping continues to evolve and shift to an Internet-based market, some cities may see shifts in the amount of sales tax income and its importance to the city budget.

In 2008 the State of Washington adopted a destination-based sales tax system known as the “streamlined sales tax.” Under this agreement, the point of sale (the location where sales tax is calculated) is considered to be the point of delivery (i.e. the destination). For example, if you buy office furniture online that is shipped from a warehouse in Auburn and have it delivered to Port Angeles, you will pay the local sales tax rate applicable for the City of Port Angeles. But if you take possession of the merchandise at a retail business location in Auburn, you will pay the local sales tax rate applicable in the City of Auburn.

However, there are certain exceptions, of which the most notable is that motor vehicle and boat sales are taxed based on the location of the dealership/seller, regardless of whether delivery is made to another location. See [RCW 82.32.730\(7\)](#).

Sales taxes can be especially advantageous for cities with significant shopping or commercial centers due to the large sales volumes and significant tax revenues that can be generated. They can also be helpful for cities with tourist attractions, since sales taxes can generate extra tax revenue from out-of-town visitors.

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<sup>32</sup> By statute, the DOR administrative fee is capped at a maximum rate of 2%. However, by contract DOR has established an administrative fee of 1%.

Sales taxes also have some drawbacks. In particular, sales tax revenues are particularly sensitive to economic conditions, which means that if the economy slows down or a major retailer closes, city budgets may be hard hit. In addition, Washington’s tax structure – and particularly its heavy reliance on sales taxes and lack of a state income tax – has been criticized as one of the most regressive in the country, meaning the tax burden (as a percent of income) falls hardest upon low-income households, who have to spend a large portion of their income on retail goods and basic needs.

But regardless, under current state law sales taxes are one of the largest and most important revenue sources available to cities and towns in Washington State.

## WHAT ITEMS ARE TAXED?

Sales taxes apply to most retail sales of “tangible personal property” within Washington, as defined in [RCW 82.04.050](#). In addition, beginning in 2018 the Marketplace Fairness Act requires all “remote sellers” without a physical presence in the state (such as Internet or mail-order retailers) to either collect and remit sales taxes on all purchases or to prominently post and track information on use taxes.

Services to individuals and businesses – things like haircuts, medical bills, consultant fees, etc. – are not “personal property,” and most services are not subject to sales tax. However, some services are subject to sales tax, as listed in [RCW 82.04.050](#). For example, lodging and all other services provided by a hotel, motel, etc. are subject to the retail sales tax, as are landscape maintenance and physical fitness activities. See the DOR webpage [Services Subject to Sales Tax](#).

Local governments must pay and collect sales tax on all taxable purchases, just like any business or consumer, unless there is a specific exemption written into state law. See [RCW 82.08.010](#)(3), which defines “buyer,” “purchaser,” and “consumer” to include local government entities, and [WAC 458-20-189](#) which discusses sales tax applicability to local governments and exemptions.

## SALES TAX EXEMPTIONS

There are a large number of specific sales tax exemptions listed in [chapter 82.08 RCW](#). These exemptions change with some frequency as new exemptions are written and older ones expire or are repealed. Perhaps the most visible exemptions for consumers are prescription drugs ([RCW 82.08.0281](#)) and groceries ([RCW 82.08.0293](#)), although alcohol, restaurant meals, and prepared foods sold in grocery stores are taxable.

Sales tax exemptions that may be of particular interest to cities include:

- Copies made in response to public records requests ([RCW 82.08.02525](#));
- Sales from one political subdivision to another (or use of another jurisdiction’s personal property) directly or indirectly due to annexations, mergers, incorporations, or contractual consolidations (see [RCW 82.08.0278](#) and [RCW 82.12.0274](#)); and
- Labor and services on transportation projects ([RCW 82.04.050](#)(10) and [WAC 458-20-171](#)).

In addition, there is a qualifying sales tax exemption for residents of other states or Canadian provinces for goods they purchase that are to be used out-of-state if those states or provinces either have no sales tax or if the sales tax is less than 3% ([RCW 82.08.0273](#)). The most notable examples are Alaska, Montana, and Oregon residents, who are eligible for this exemption because they do not have a state sales tax.

However, this nonresident exemption was significantly changed effective July 1, 2019. All sales to out-of-state customers must now be taxed at the time of purchase, and the customer must apply for a refund from the state Department of Revenue at a later date. The refund only applies to the 6.5% state portion of the sales tax; there is no refund provided for any local sales taxes the customer pays (which are described in more detail in the rest of this chapter).

To claim the exemption, the nonresident buyer must keep records of all their taxable purchases in Washington over the course of the calendar year. Once per year, the buyer may request a refund for sales taxes paid on all purchases made in Washington during the previous calendar year. The request must include appropriate documentation of all purchases along with proof of nonresidency.

The minimum refund that may be claimed is \$25 – in other words, nonresidents must spend approximately \$385 or more in Washington, before tax, during a single calendar year to be eligible for this refund. (Since only the 6.5% state portion of the sales tax is refunded, and 6.5% of \$385 is just over \$25.)

## WHAT IS A USE TAX?

If purchases are made out-of-state by a Washington resident, business, or governmental entity for use in Washington, and the sales tax paid is less than the rate being levied within their local jurisdiction, state law requires that a “use tax” be calculated and paid to make up the difference (see [chapter 82.12 RCW](#) and [WAC 458-20-178](#)).

For example, if you buy office furniture or equipment in Oregon (where there is no sales tax) and bring it back to Washington, and the sales tax rate in your city is 8.2%, you owe a use tax of 8.2% on the purchase price. Likewise, if you buy similar furniture or equipment in Idaho, where the sales tax rate is 6%, and your local sales tax rate is 8.2%, you owe a 2.2% use tax.

Practically speaking, few individual consumers pay a use tax, unless the purchase is a car or truck where the use tax must be paid before the vehicle can be licensed. Otherwise, use taxes paid by individuals depend on voluntary compliance and remote sellers’ compliance with the Marketplace Fairness Act (see below).

However, Washington businesses typically do pay use taxes on out-of-state purchases because they are subject to regular auditing by the Department of Revenue (DOR). Similarly, cities should be aware that DOR audits local governments on a regular basis to ensure compliance with state tax filing requirements. Failure to pay the appropriate use tax can result in fines and interest due.

Prior to 2018, “remote sellers” without a physical presence in Washington State and those “marketplace facilitators” who facilitated the sale of products provided by remote sellers were not required to charge any sales tax for Internet or mail-order sales, although some opted to do so voluntarily. In situations where neither the remote sellers nor the facilitators charged sales tax, use tax was due but seldom collected.

Beginning in January 2018, the Marketplace Fairness Act in Washington State required almost all remote sellers to either collect sales taxes on purchases delivered to Washington, or to inform consumers that use taxes were due and to provide annual reports on this activity to both the consumer and the state Department of Revenue (DOR). Most remote sellers opted to collect and remit sales taxes directly to DOR, rather than track and report use taxes.

The collection of sales and use tax from remote sellers and marketplace facilitators was reinforced with the 2018 U.S. Supreme Court decision in [\*South Dakota v. Wayfair, Inc., No. 17-494\*](#), wherein the Court determined that state and local governments could require remote and Internet sellers to collect sales taxes. As a result of this decision, DOR released notice that remote sellers and marketplace facilitators with \$100,000 or more of gross retail sales or 200 or more retail transactions during a calendar year are required to collect and remit sales tax on all taxable sales and no longer have the option to report use taxes.

The Marketplace Fairness Act, coupled with the *Wayfair* decision, has resulted in a significant increase in sales tax revenues and should eliminate the vast majority of use tax noncompliance issues for Internet and catalog orders.

# "BASIC" SALES TAX/FIRST HALF-CENT

**Quick Summary**

- Sales tax of 0.5% – revenues are unrestricted and may be used for any lawful governmental purpose.
- Currently imposed by all counties.
- Revenue shared with county.

**RCW:** [82.14.030\(1\)](#)

Any city or town may impose a non-voted sales and use tax at the rate of 0.5% on any taxable event ([RCW 82.14.030\(1\)](#)). The Department of Revenue calls this tax the “basic” or “regular” 0.5% in its reports, but it is also commonly referred to as the “first half-cent” or “first half” to differentiate it from the “second half-cent” described on the next page.

Counties have the same authority, and every city, town, and county in Washington has imposed the first half-cent. However, the combined city/county rate may not exceed 0.5 percent, so cities and counties must share the revenues as described below.

## Use of Revenues

The revenues are unrestricted and may be used for any lawful governmental purpose. Cities and towns may enter into interlocal agreements to share a portion of this revenue under [RCW 39.34.250](#) and [RCW 82.14.412](#).

## Revenue Sharing with Counties

When both the city and county are levying the first half, the county must credit back the full amount of the city’s first half sales tax under [RCW 82.14.040\(1\)](#) so that the combined rate does not exceed 0.5%. However, 15% of the first half-cent collected within the city must then be distributed to the county. In effect, this drops the city’s first half-cent authority to 0.425% (85% of 0.5%), with the remaining 0.075% (15% of 0.5%) going to the county.

See the table below. In addition, the Department of Revenue retains 1% as an administrative fee.

## Revenue-sharing for “first half” sales taxes

If city imposes	and county imposes	City taxpayers pay	City’s effective sales tax rate is
0.5%	0.5%	0.5%	0.425% (85% of 0.5%)

## “OPTIONAL” SALES TAX/SECOND HALF-CENT

### Quick Summary

- Sales tax up to 0.5% – revenues are unrestricted and may be used for any lawful governmental purpose.
- Currently imposed at the maximum rate by all cities and towns.
- Revenue shared with county.

**RCW:** [82.14.030\(2\)](#)

Any city or town may impose an additional non-voted sales tax in increments of 0.1% up to 0.5% ([RCW 82.14.030\(2\)](#)). DOR refers to this as the “optional” sales tax – often referred to as the “second half-cent” or “second half.”

Counties have the same authority to adopt this optional second half sales tax, and every city, town, and county in Washington has imposed the second half-cent. However, the combined city/county rate may not exceed 0.5 percent, so cities and counties must share the revenues as described below.

As of 2022, every city or town has imposed the full 0.5% second half-cent except for Asotin and Clarkston (which have both imposed 0.3%), while every county has imposed the full 0.5% second half-cent except for Asotin County (which imposes 0.3%).

Implementation requires a majority vote of the legislative body and does not require voter approval. However, changes to the tax rate are subject to possible referendum even if your city has not otherwise adopted powers of initiative and referendum ([RCW 82.14.036](#)).

### Use of Revenues

The revenues are unrestricted and may be used for any lawful governmental purpose. Cities and towns may enter into interlocal agreements to share a portion of this revenue under [RCW 39.34.250](#) and [RCW 82.14.412](#).

### Revenue Sharing With Counties

The revenue-sharing provision is similar to the first half/basic 0.5% sales tax. When the county imposes the second half at a rate equal to the city – which all counties have – the county must credit back the full amount of the city’s second half sales tax under [RCW 82.14.040\(2\)](#). The city will then receive 85% of its second half revenues, with the remaining 15% distributed to the county.

All cities, towns, and counties have imposed the full 0.5% second half, so each city’s rate effectively drops to 0.425% (85% of 0.5%), with the remaining 0.075% (15% of 0.5%) going to the county.<sup>33</sup>

See the table on the next page. In addition, the Department of Revenue retains 1% as an administrative fee.

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<sup>33</sup> Also see [AGO 2006 No. 18](#) for a comprehensive explanation of how the county and city rates interrelate under different scenarios.

Revenue-sharing for “second half” sales taxes

If city imposes	and county imposes	City taxpayers pay	City’s effective sales tax rate is
0.5%	0.5%	0.5%	0.425% (85% of 0.5%)



## AFFORDABLE HOUSING SALES TAX CREDIT (HB 1406)

### Quick Summary

- Credit against 6.5% state sales tax. Credit is either 0.0073% or 0.0146% depending on whether city had a “qualifying local tax” in place by July 28, 2020.
- Had to be adopted no later than July 27, 2020; expires after 20 years.
- Revenues are restricted and must be used for affordable and supportive housing, including rental assistance. Cities and counties may pool resources.

**RCW:** [82.14.540](#)

Effective 2019, SHB 1406 established a new affordable housing sales tax credit available to all cities, towns, and counties that chose to participate and adopted an ordinance no later than July 27, 2020. This is a credit against the 6.5% state sales tax rate, so it does not increase the tax rate for consumers but instead shares a portion of the state sales tax with cities, towns and counties. This sales tax distribution will expire 20 years after the jurisdiction first imposed the tax (in either 2039 or 2040).

Participating jurisdictions must submit a report to the state Department of Commerce each year on the collection and use of the revenues by October 1, as prescribed in detail by [WAC 365-240-030](#).

### Tax Rate

**For participating cities that had a “qualifying local tax” in place by July 27, 2020:** the tax rate is 0.0146% of taxable retail sales. A “qualifying local tax” (QLT) is a local property or sales tax that the city has imposed prior to July 27, 2020, with the revenues dedicated solely to affordable housing or related uses. The four QLT options are:

- An affordable housing levy (see [Affordable Housing Levy](#));
- A housing & related services sales tax (see [Housing & Related Services Sales Tax](#));
- A levy lid lift (see [Levy Lid Lifts](#)) that is restricted solely to affordable housing; or
- A mental health and chemical dependency sales tax (see [Mental Health & Chemical Dependency Sales Tax](#)), which only applies to Tacoma.

**For participating cities that do not have a qualifying local tax:** the tax rate is 0.0073% of taxable retail sales within their jurisdiction, but only if your county also elected to participate. If your county does not participate, the city will receive the full 0.0146% through July 27, 2020, but after that the city will not receive any further sales tax credit revenues. According to AWC, this was due to a drafting error in the legislation; a bill to fix the drafting error and extend the deadline to adopt a qualifying local tax passed the legislature during the 2020 session but was vetoed by the governor due to the unexpected fiscal impacts of the coronavirus pandemic on the state budget.

**For participating counties:** the tax rate is 0.0146% of taxable retail sales within the unincorporated areas. (Counties do not need a qualifying local tax to receive the maximum distribution.) Within the incorporated areas, participating counties receive 0.0146% minus the city’s tax rate. For instance, if a city has a QLT and receives the full 0.0146%, the county will not receive any revenues from that city’s taxable sales. If a city does not have a QLT,

the participating city will receive the 0.0073% “half share” and the county will also receive a 0.0073% half share within that city.

### ***Maximum Distribution Cap***

The legislation sets a cap on the maximum revenues any jurisdiction may receive per state fiscal year (July 1 to June 30). The cap is either 0.0073% or 0.0146% of the taxable retail sales within the jurisdiction during the 2019 state fiscal year (July 1, 2018 – June 30, 2019) depending upon whether the city has a qualifying local tax or not.

If the county adopts the imposing legislation prior to the city(s) within its boundaries, the county’s maximum revenue cap will be calculated based on the total countywide taxable retail sales in FY 2019, including both the unincorporated and incorporated areas of the county. However, if any city adopts their enabling ordinance before the county, that city’s taxable retail sales will be subtracted from the county’s taxable retail sales, resulting in the county’s annual maximum distribution cap being reduced for the entire 20-year state tax sharing period.

Just like state shared revenues, distributions begin in the month of July each year, and if any jurisdiction reaches the maximum cap before the end of the fiscal year (the following June 30), the state will cease distributions to that jurisdiction until the beginning of next state fiscal year.

### ***Use of Revenues***

The funds may only be used for:

- Acquiring, rehabilitating, or constructing affordable housing, which may include new units within an existing structure or facilities providing supportive housing services under [RCW 71.24.385](#);
- Operations and maintenance costs of new units of affordable or supportive housing;
- Rental assistance to tenants; and
- Administrative costs, not to exceed 10% of the annual tax distribution.

The housing and services may only be provided to people at or below 60% of the jurisdiction’s median income, or up to 80% of the median income if the housing is intended for owner occupancy.

Participating cities and counties may finance loans or grants to nonprofit organization or public housing authorities to carry out the purposes of the bill and may pledge the tax proceeds for repayment of bonds in accordance with debt limitations imposed by the state constitution or statute.

Any participating city or county may enter into an interlocal agreement with other cities, counties, and/or housing authorities to pool and allocate the tax revenues received under SHB 1406 to fulfill the intent of the legislation.

## ANNEXATION SERVICES SALES TAX

### Quick Summary

- Credit against state sales tax; temporarily reinstated and expanded in 2023 but may not begin to be imposed after July 1, 2028.
- Maximum credit is 0.1 - 0.2% and may not exceed 10 years.
- Revenues must be used for providing municipal services to the annexed area.

**RCW:** [82.14.415](#)

Any city that annexes an area may impose an “annexation services tax” ([RCW 82.14.415](#)) under the following situations:

- The annexation was consistent with its comprehensive plan required by the Growth Management Act ([chapter 36.70A RCW](#)),
- City council determined by resolution or ordinance that the projected cost of providing municipal services to the annexed area exceeded the projected general revenue that the city would otherwise receive from the area on an annual basis, and
- The city has entered into an interlocal agreement with the county regarding the proposed annexation area.

The annexation services tax is a credit against the 6.5% state sales tax rate, which means the total sales tax rate within the annexed area will not change. The maximum sales tax credit is 0.1% for eligible annexed areas with a population of greater than 2,000 and less than 10,000 and 0.2% for eligible annexed areas with a population greater than 10,000.

The tax must be imposed at the beginning of the next state fiscal year (July 1) following the effective date of the annexation and may be imposed for a maximum of 10 state fiscal years.

However, the total tax revenues received may not exceed the “threshold amount” – the difference between the projected cost of providing services to the area and the projected general revenues generated in the area. If the tax revenues exceed the threshold amount in any year, the city must notify the Department of Revenue (DOR) and DOR will suspend the tax distribution for the remainder of the state fiscal year.

No later than March 1 each year, the city must provide DOR with a certification of the city’s true and actual costs of providing municipal services to the annexed area, projections for the next state fiscal year, and notice of any applicable rate changes.



2023 legislation ([SB 1425](#)) temporarily reinstated and expanded the annexation services sales tax credit. The tax under this legislation can only begin to be imposed between July 1, 2023 and July 1, 2028.

### Use of Revenue

All revenues must be used solely to provide, maintain, and operate municipal services for the annexed area.

## CRIMINAL JUSTICE SALES TAX

### Quick Summary

- Sales tax of 0.1% – revenues are restricted and must be used for criminal justice.
- May only be imposed by county, but revenue shared with cities.
- Does not require voter approval.

**RCW:** [82.14.340](#)

Any county may impose a non-voted 0.1% sales tax for criminal justice purposes ([RCW 82.14.340](#)), and most counties currently do so. This sales tax may only be imposed by the county, but the county must share its revenues with all cities and towns in the county.

The sales tax is subject to possible referendum under [RCW 82.14.340](#) and [RCW 82.14.036](#), regardless of whether or not the county otherwise has powers of initiative and referendum.

### Use of Revenues

The statute defines “criminal justice purposes” as:

[A]ctivities that substantially assist the criminal justice system, which may include circumstances where ancillary benefit to the civil justice system occurs, and which includes domestic violence services such as those provided by domestic violence programs, community advocates, and legal advocates, as defined in [RCW 70.123.020](#).

### Revenue Sharing

10% of the revenues are distributed to the county, while the remaining 90% is split between the county and its cities on a per capita (population) basis. The county’s per capita share is based on unincorporated population.

See the example on the next page. In addition, the Department of Revenue retains 1% as an administrative fee.

Example of Revenue-Sharing for County Criminal Justice Sales Tax

Total sales tax revenues	\$1,000,000
County receives 10%	\$100,000
Remainder for distribution	\$900,000

Jurisdiction	Population	Percent of Countywide Population	Remaining Revenues Distributed (% population x \$900,000)
City A	3,500	5%	\$45,000
City B	21,000	30%	\$270,000
City C	7,000	10%	\$90,000
Unincorporated county	38,500	55%	\$495,000
TOTAL	70,000	100%	\$900,000

## CULTURAL ACCESS PROGRAM (CAP) SALES TAX

### Quick Summary

- Sales tax up to 0.1% – revenues are restricted and must be used to benefit or expand access to nonprofit cultural organizations.
- Maximum duration of 7 years; may be renewed for additional 7-year periods.
- May be imposed by any city or town.
- May be approved by voters or legislative body.

**RCW:** [82.14.525](#); [chapter 36.160](#)

Any city or town may impose a sales tax up to 0.1% for up to seven years to benefit or expand access to nonprofit cultural organizations ([RCW 82.14.525](#); [chapter 36.160 RCW](#)). This sales tax originally required voter approval, but effective July 23, 2023 it may (optionally) be imposed by the legislative body without voter approval.

Counties also have similar authority, but a county and a city within that county may not impose this sales tax at the same time.

While most of the provisions within [chapter 36.160 RCW](#) refer specifically to counties, not cities, [RCW 36.160.030](#) states that if a city creates a cultural access program, “all references in this chapter to a county must include a city that has exercised its authority under this subsection, unless the context clearly requires otherwise.” changes.



Between July 23, 2023 and December 31, 2024, cities and towns are temporarily prohibited from imposing a CAP sales tax. During that timeframe, only counties may impose this sales tax. After December 31, 2024, cities and towns may impose a CAP sales tax, but only if the county has not done so first. This legislation does not apply to any CAP sales taxes adopted before July 23, 2023.

### Use of Revenues

The revenues must be used in accordance with [RCW 36.160.110](#), which is very detailed. The funds may be used for a number of purposes related to cultural access programs, including start-up funding, administrative and program costs, capital expenditures or acquisitions, technology, and public school programs to increase cultural program access for students who live in the city.

A “cultural organization,” as defined in [RCW 36.160.020](#), must be a 501(c)(3) nonprofit corporation with its principal location(s) in Washington State and conducting a majority of its activities within the state. The primary purpose of the organization must be the advancement and preservation of science or technology, the visual or performing arts, zoology (national accreditation required), botany, anthropology, heritage, or natural history.

State-related cultural organizations are eligible, but the funding may not be used for local or state government agencies, radio/TV broadcasters, cable communications systems, internet-based communications services, newspapers, magazines, or fundraising organizations that redistribute money to multiple cultural organizations.

## ***Ballot Measure Requirements***

If a city or town chooses to seek voter approval, the sales tax must be approved by a simple majority of voters and may be submitted at any special, primary,<sup>34</sup> or general election. It may be re-imposed for one or more additional 7-year periods. According to MRSC's [Local Ballot Measure Database](#) as of 2022, Olympia and Tacoma are the only cities to attempt a voted CAP sales tax, and both ballot measures passed. King County also attempted a countywide sales tax, which narrowly failed.

## ***Revenue Sharing***

There are no revenue-sharing provisions. The city retains 100% of the revenue, and unlike most local sales taxes that have a 1% administrative fee withheld by the Department of Revenue, this sales tax must be collected and distributed to the city or town at no cost.

## ***Property Tax Alternative***

As an alternative, any city or town may also levy a property tax under [RCW 84.52.821](#) for cultural access programs (see [Cultural Access Program \(CAP\) Levy](#)). From a revenue standpoint, the property tax and sales tax options are roughly equivalent: the amount of revenue generated by the property tax may not exceed 0.1% of the retail sales in the city for the most recent calendar year and both are capped at seven-year increments. However, the property tax option requires voter approval, while voter approval is optional for the sales tax. In addition, the property tax levy could potentially be reduced or eliminated through prorationing if the \$5.90 or \$10 property tax caps are exceeded.

The sales tax and property tax options are mutually exclusive. If a city imposes the sales tax option it may *not* impose the property tax option for as long as the sales tax is in effect, and vice versa ([RCW 36.160.080](#)).

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<sup>34</sup> [RCW 82.14.525](#) states that the tax must be submitted at “a special or general election,” which at first glance might seem to rule out the August primary election. However, [RCW 29A.04.321\(2\)](#), which establishes the election schedule for local governments, authorizes the county to call up to four “special elections” each year, including the primary election. So for these purposes, “special election” includes the primary election.

## HOUSING & RELATED SERVICES SALES TAX

### Quick Summary

- Sales tax up to 0.1% – revenues are restricted and must be used for affordable housing, behavioral health, and related services.
- May be imposed by any city or town as long as county has not imposed it first.
- May be approved by voters or legislative body.

**RCW:** [82.14.530](#)

Any city or town may levy a sales tax up to 0.1% for affordable housing and related services ([RCW 82.14.530](#)), as long as the county has not done so first. This option may be approved by voters or by the legislative body with a simple majority vote.

### Use of Revenues

At least 60% of the revenue must be used for constructing or acquiring affordable housing, constructing or acquiring behavioral health-related facilities, acquiring land for those purposes, or funding the operation and maintenance costs of new affordable housing units and facilities within which housing-related programs are provided. The affordable housing and facilities may only be provided to people within specified population groups whose income is 60% or less of the county median income. For specific eligibility language, see [RCW 82.14.530\(2\)\(b\)](#).

The remaining funds must be used for the operation, delivery, or evaluation of behavioral health treatment programs and services or housing-related services. No more than 10% of the revenue may be used to supplant existing local funds.

### Ballot Measure Requirements

If a city chooses to (optionally) submit this sales tax to voters, the ballot measure must be approved by a simple majority of voters and may be submitted at any special, primary,<sup>35</sup> or general election. According to MRSC's [Local Ballot Measure Database](#), voters have approved this sales tax in four cities as of August 2024 (Anacortes, Ellensburg, Olympia, and Port Angeles). A fifth measure in Stevenson was narrowly rejected by voters. At least 16 other cities have enacted this tax councilmanically.

### Revenue Sharing

The city retains 100% of the revenue, minus a 1% administrative fee for the Department of Revenue. If King County imposes this tax it is required to spend a certain percentage of the revenues within the boundaries of cities over 60,000 population.

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<sup>35</sup> [RCW 82.14.530](#) states that the tax must be submitted at "a special or general election," which at first glance might seem to rule out the August primary election. However, [RCW 29A.04.321\(2\)](#), which establishes the election schedule for local governments, authorizes the county to call up to four "special elections" each year, including the primary election. So for these purposes, "special election" includes the primary election.



## MENTAL HEALTH & CHEMICAL DEPENDENCY SALES TAX

### Quick Summary

- Sales tax of 0.1% – revenues are restricted to and must be used for mental health and drug treatment purposes.
- Primarily a county revenue source; also adopted by Tacoma but may no longer be adopted by any other cities.

**RCW:** [82.14.460](#)

Mental health and chemical dependency sales taxes ([RCW 82.14.460](#)) are almost entirely imposed by and distributed to counties. The statute also authorizes any city with a population over 30,000, located within a county with a population over 800,000 (King, Pierce, and Snohomish counties), to impose a sales tax up to 0.1% for mental health and drug treatment purposes if the county has not already done so. However, all three of those counties have now imposed a county-level mental health sales tax. Only one city (Tacoma) previously imposed this sales tax, and no other cities are eligible anymore.

Some jurisdictions may refer to this sales tax with other names, such as the “mental illness and drug dependency” (MIDD) sales tax or the “treatment sales tax.” This sales tax is imposed by the city council and does not require voter approval.

### ***Use of Revenues***

The revenues must be used for expenses related to the operation or delivery of chemical dependency or mental health treatment programs and services as defined in statute, including but not limited to therapeutic court programs, treatment services, case management, transportation, and housing that are components of a treatment program or service. Revenues may also be used for modifications to existing facilities.

### ***Revenue Sharing***

There are no revenue-sharing provisions. The city retains 100% of the revenues, minus a 1% administrative fee for the Department of Revenue.

## PUBLIC SAFETY SALES TAX

### Quick Summary

- Sales tax up to 0.1% – revenues are partially restricted; 1/3 must be used for criminal justice and/or fire protection.
- May be imposed by any city or town, but only if county has not previously imposed a 0.3% public safety sales tax.
- Revenue shared with county.
- Motor vehicle sales and first 36 months of motor vehicle leases are exempt.
- Requires voter approval.

**RCW:** [82.14.450](#)

Any city or town may impose a sales tax of up to 0.1% for public safety with voter approval ([RCW 82.14.450](#)). Motor vehicle sales and the first 36 months of motor vehicle leases are exempt. For instance, if the local sales tax rate is 8.7%, including a 0.1% public safety sales tax, the sales tax rate for motor vehicle sales and leases would be 8.6%.

Counties may also impose a public safety sales tax under the same statute, with a higher maximum rate of 0.3 percent. However, the combined city/county rate may not exceed 0.3 percent. For instance, if the county imposes a rate of 0.2% and the city imposes a rate of 0.1%, the total combined rate will be 0.3%. However, if the city imposed a 0.1% sales tax first and then the county imposes a 0.3% sales tax at a later date, the county must credit the 0.1% back to the city (effectively lowering the county's rate to 0.2% within the city) so it does not exceed the combined 0.3% rate. If the county already levies the full 0.3%, no city within the county may impose a new public safety sales tax because doing so would exceed the maximum 0.3% rate.

### Use of Revenues

At least one-third of the revenue must be used solely for criminal justice purposes (as defined in [RCW 82.14.340](#)), fire protection purposes, or both. The statute does not provide a specific definition of “fire protection purposes,” but it defines “criminal justice purposes” as:

[A]ctivities that substantially assist the criminal justice system, which may include circumstances where ancillary benefit to the civil justice system occurs, and which includes domestic violence services such as those provided by domestic violence programs, community advocates, and legal advocates, as defined in [RCW 70.123.020](#)

The remaining two-thirds are unrestricted and may be used for any lawful governmental purpose, but must be spent in accordance with the purpose(s) specified in the ballot measure.

### Ballot Measure Requirements

The sales tax may only be submitted at a primary or general election; it may *not* appear in any February or April special election. The ballot measure must clearly state the purposes for which the tax is to be used and must be approved by a simple majority of the voters. According to MRSC's [Local Ballot Measure Database](#), voters have approved the majority of these measures.

Revenue Sharing

The revenues must be shared between the city and the county, but the exact formula depends on which jurisdiction (city, county, or both) placed the issue on the ballot. The county retains 60% of any countywide public safety sales tax revenues, while the remaining 40% is distributed to the cities within the county on a per capita (population) basis. If a city imposes a public safety sales tax, the city retains 85% of the revenues and must share 15% of the revenue with the county.

In addition, the Department of Revenue retains 1% as an administrative fee. Below you will find examples of a few different scenarios to help demonstrate the revenue-sharing provisions.

**Example #1.** City imposes public safety sales tax. City receives 85% of the revenue, with the remaining 15% distributed to the county.

Total CITY sales tax revenues	\$100,000
City receives 85%	\$85,000
County receives 15%	\$15,000

**Example #2.** County imposes public safety sales tax. County receives 60% of the revenue, with the remaining 40% distributed on a per capita basis to the cities within the county.

Total COUNTYWIDE sales tax revenues	\$1,000,000
County receives 60%	\$600,000
Remainder for distribution	\$400,000

Jurisdiction	Population	Percent of Incorporated Population	Remaining Revenues Distributed (% population x \$400,000)
City A	10,000	25%	\$100,000
City B	22,000	55%	\$220,000
City C	8,000	20%	\$80,000
TOTAL	40,000	100%	\$400,000

**Example #3.** Both city and county have imposed a public safety sales tax. The same principles apply as above. The city keeps 85% of the city sales tax revenue, shares 15% with the county, and also receives a proportional share of the county’s sales tax revenue based on population size. This example reflects a city imposing a 0.1% sales tax first and then the county imposing the maximum 0.3% sales tax later. The county must credit 0.1% back to the city so that the maximum rate is no greater than 0.3% within the city.

Total COUNTYWIDE sales tax revenues at 0.3%	\$1,000,000
Total "CITY A" sales tax revenues at 0.1% <i>Imposed prior to county sales tax; county must credit back to City A</i>	\$100,000
Revised COUNTYWIDE sales tax revenues	\$900,000
County receives 60%	\$540,000
Remaining COUNTYWIDE revenues for distributio	\$360,000

Jurisdiction	Population	Percent of Incorporated Population	Remaining COUNTYWIDE Revenues Distributed (% population x \$360,000)
City A	10,000	25%	\$90,000
City B	22,000	55%	\$198,000
City C	8,000	20%	\$72,000
TOTAL	40,000	100%	\$360,000

Total "CITY A" sales tax revenues	\$100,000
City A receives 85%	\$85,000
County receives 15%	\$15,000

<b>"CITY A" GRAND TOTAL</b>	City A receives \$175,000 (\$85,000 from city sales tax and \$90,000 from county sales tax)
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## TRANSIT SALES TAX

### Quick Summary

- Sales taxes up to 0.9% for transit and 1.0% for high-capacity transit – revenues are restricted and must be used for transit.
- Requires voter approval.

**RCW:** [82.14.045](#)

A city or town may levy a sales tax between 0.1 and 0.9% (in increments of 0.1%) for public transportation purposes ([RCW 82.14.045](#)). The measure requires voter approval.

Few cities provide transit service directly, so more commonly this sales tax authority is used by public transportation benefit areas (PTBAs) or other transit providers. A city may not impose this sales tax if it is located within a PTBA, county transportation authority, or metropolitan municipal corporation (King County Metro) that already imposes a sales tax under this statute.

As of 2022, MRSC's [Tax and Population Data](#) shows that the only cities to impose this sales tax are Everett, Selah, Union Gap, and Yakima.

### Use of Revenues

The revenues must be used for the sole purpose of providing funds for the operation, maintenance, or capital needs of public transportation systems or public transportation limited to persons with special needs under [RCW 36.57.130](#) and [RCW 36.57A.180](#).

### Ballot Measure Requirements

The sales tax must be approved by a simple majority of voters. The statute does not specifically address when the sales tax may be presented to voters, which leads us to conclude that the ballot measure can be submitted at any special, primary, or general election. According to MRSC's [Local Ballot Measure Database](#), no cities or towns have submitted transit sales tax measures to voters in recent years.

### Revenue Sharing

There are no revenue-sharing provisions. The city retains 100% of the revenues, minus a 1% administrative fee for the Department of Revenue.

### High-Capacity Transit Sales Tax

Cities that provide transit service may also impose an additional sales tax up to 1.0% with voter approval for the purpose of providing high-capacity transit service operating principally on exclusive rights-of-way ([RCW 81.104.170](#)). However, this option is unlikely to apply to most cities, and as of 2022 the only transit agency in the state that has implemented a high-capacity transit sales tax is Sound Transit.

## TRANSPORTATION BENEFIT DISTRICT SALES TAX

### Quick Summary

- Sales tax up to 0.3% – revenues are restricted and must be used for transportation.
- May be imposed by any city or town that has established a transportation benefit district.
- Maximum duration of 10 years unless used for repayment of debt; may be renewed.
- Up to 0.1% may generally be approved by legislative body; beyond that requires voter approval.

**RCW:** [82.14.0455](#), [36.73.040\(3\)\(a\)](#), [36.73.065\(1\)](#)

Any city that has formed a transportation benefit district (TBD) may impose a sales tax up to 0.3% to fund TBD projects ([RCW 82.14.0455](#), [RCW 36.73.040\(3\)\(a\)](#), and [RCW 36.73.065\(1\)](#)). This sales tax generally requires voter approval. However, for any TBD that encompasses all of the territory within the boundaries of the jurisdiction(s) that established it, the governing body may impose 0.1% of the sales tax without voter approval.

A TBD sales tax may only be imposed for a maximum of 10 years, although it may be renewed for subsequent 10-year periods. However, a TBD sales tax may exceed 10 years if it is used for the repayment of debt.

### Use of Revenues

The revenues may be used for eligible “transportation improvements” listed in a local, regional, or state transportation plan in accordance with [chapter 36.73 RCW](#). Improvements can range from roads and transit service to sidewalks and transportation demand management. Construction, maintenance, and operation costs are eligible.

### Ballot Measure Requirements

The voted portion of this sales tax must be approved by a simple majority of voters and may be placed on the ballot at any special, primary,<sup>36</sup> or general election ([RCW 36.73.065](#)). The proposition must include a specific description of the transportation improvement(s) proposed by the district and the proposed tax to be imposed. If the sales tax will be used for the repayment of debt in excess of 10 years, the ballot measure should state so and provide the length of the tax obligation.

According to MRSC’s [Local Ballot Measure Database](#), cities have submitted dozens of these measures in recent years, and voters have approved the vast majority of them.

### Revenue Sharing

There are no revenue-sharing provisions. The TBD (or city, if the city has “assumed” the TBD under [chapter 36.74 RCW](#)) retains 100% of the revenues, minus a 1% administrative fee for the Department of Revenue.

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<sup>36</sup> [RCW 36.73.065\(1\)](#) states that the tax must be submitted at “a general or special election,” which at first glance might seem to rule out the August primary election. However, [RCW 29A.04.321\(2\)](#), which establishes the election schedule for local governments, authorizes the county to call up to four “special elections” each year, including the primary election. So for these purposes, “special election” includes the primary election.

TIMING OF SALES TAX RECEIPTS

Most retailers remit their sales taxes to the Department of Revenue (DOR) on a monthly basis, with remittance due by the 25th of the following month.<sup>37</sup> The DOR distributes those collections, plus interest, to local governments on the last business day of the following month after subtracting a small administrative fee.<sup>38</sup>

This means that for most purchases, there is somewhere between a 60-day to 90-day time lag between collection (the actual retail sale) and the city’s receipt of the sales tax revenue from that sale. For instance, if a sale is made in January – regardless of whether the sale took place on January 1 or January 31 – the sales tax is typically remitted to DOR by February 25, and DOR would then distribute the money (minus the administrative fee) to the city around March 31.

Local sales tax revenues are in DOR’s possession for approximately one month prior to distribution and accrue interest during that time. Interest earned on the funds collected is paid to the city under the provisions of [RCW 82.14.050](#).

TIMING OF SALES TAX RATE CHANGES

Increases in sales tax rates require some timing considerations. [RCW 82.14.055](#) provides that a local sales tax change may take effect no sooner than 75 calendar days after DOR receives notice of the change, and sales tax rate changes may only take effect on January 1, April 1, or July 1. (Note that sales tax rates no longer change on October 1.

Summary of Sales Tax Rate Change Deadlines

Sales tax takes effect	DOR must be notified no later than:	(For voted measures) Voters must approve no later than:
January 1	October 18	August primary election
April 1	January 16 (January 17 during leap years)	November general election
July 1	April 17	February special election

However, if a sales tax is a credit against the 6.5% state sales tax (such as the “basic” lodging tax discussed later in the *Revenue Guide*), it may take effect no sooner than 30 days after DOR receives notice, and only on the first day of a month.

Notifying DOR is a key step to ensure your city receives its sales tax revenues on time. Cities should submit copies of the sales tax ordinance (or ballot measure resolution) to Jason Hartwell, manager of the Local Sales Tax team, at [jasonh@dor.wa.gov](mailto:jasonh@dor.wa.gov). For non-voted sales taxes, the sales tax ordinance should be submitted to DOR as soon as city council adopts it. For voted sales taxes, the ballot measure resolution should be submitted to DOR as soon as possible following certification of the election results.

For additional guidance, see [Key Considerations for Voted Revenue Sources](#).

37 [RCW 82.32.045](#) and [WAC 458-20-22801](#). The Department of Revenue can waive tax remittance for persons with gross sales less than \$28,000 per year or make the administrative decision to put smaller taxpayers on an annual or quarterly payment schedule.

38 [RCW 82.14.050](#) - [.060](#)

## MAXIMUM TAX RATE FOR SALES OF LODGING

In addition to the authorized sales taxes, state law also authorizes most cities, towns, and counties to impose an “additional” lodging tax of up to 2% on the sales of lodging (see [Lodging Tax \(Hotel/Motel Tax\)](#)). This lodging tax is treated as a sales tax, and under state law the maximum combined rate of all state and local sales and lodging taxes upon sales of lodging may not exceed the greater of 12% or the total sales tax rate that would have applied to the sale of lodging if the sale were made on December 1, 2000 ([RCW 82.14.410](#)). However, housing & related services sales taxes (see [RCW 67.28.181\(4\)](#)) and the first 0.4% of the Sound Transit high-capacity sales tax (adopted prior to December 1, 2000 – see [RCW 82.14.410\(2\)\(c\)](#)) are not included within this 12% cap.

Most jurisdictions are not that close to the 12% cap. However, any sales tax increase adopted after December 1, 2000 that would cause the total sales tax rate upon sales of lodging to exceed the 12% cap must provide an exemption for sales of lodging ([RCW 82.14.410](#)).



# Business and Utility Taxes & Fees

Any city or town may impose a variety of taxes and fees upon local businesses and utility companies. The general authority for cities to impose business and occupation (B&O) taxes, utility taxes, and business license charges can be found in:

- [RCW 35.22.195](#) and [RCW 35.22.280](#)(32) – **First class cities** “shall have all of the powers which are conferred upon incorporated cities and towns by Title 35 RCW, or other laws of the state, and all such powers as are usually exercised by municipal corporations of like character and degree” and may “grant licenses for any lawful purpose, to fix by ordinance the amount to be paid therefor, and to provide for revoking the same...”<sup>39</sup>
- [RCW 35.23.440](#)(8) – **Second class cities** may “fix and collect a license tax for the purposes of revenue and regulation, upon all occupations and trades, and all and every kind of business authorized by law...”
- [RCW 35.27.370](#)(9) – **Towns** may “license, for the purposes of regulation and revenue, all and every kind of business, authorized by law and transacted and carried on in such town...”
- [RCW 35A.82.020](#) – **Code cities** may “exercise the authority authorized by general law for any class of city to license and revoke the same for cause, to regulate, make inspections and to impose excises for regulation or revenue in regard to all places and kinds of business, production, commerce, entertainment, exhibition, and upon all occupations, trades and professions and any other lawful activity...”

Other statutes provide additional authority or restrictions as described in the rest of this chapter.

B&O taxes and utility taxes in particular are major revenue sources for a number of cities, and they comprise two of the four main revenue sources provided to cities by the state legislature (the other two being property taxes and sales taxes).

Business licenses are a separate but closely related topic. There are three general categories of business licenses: general licenses, regulatory licenses, and revenue-generating licenses. General business licenses and regulatory business licenses are typically designed to regulate business activity and recoup administrative costs. However, some cities have established revenue-generating business licenses (such as so-called “head taxes”) that are based on a variety of criteria such as number of employees, employee hours worked, or business square footage.

The remainder of this chapter will discuss the various options for B&O taxes, utility taxes, and business licenses.

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<sup>39</sup> The statute for first class cities, unlike the other city classifications, does not specifically mention “revenue” purposes. However, the language for first class cities has been construed by the Washington Supreme Court as authorizing licenses for revenue purposes as well as regulation. The Court has in at least three decisions upheld a business and occupation tax under the above language: *Fleetwood v. Read*, 21 Wash. 547, 552-553 (1899); *Seattle v. King*, 74 Wash. 277, 279 (1913); and *Pacific Telephone and Telegraph v. Seattle*, 172 Wash. 649, 653 (1933).

## BUSINESS AND OCCUPATION (B&O) TAXES

### Quick Summary

- Cities may impose a B&O tax for revenue purposes upon those conducting business within their jurisdiction, in addition to any state business and occupation tax.
- Revenues are unrestricted and may be used for any lawful governmental purpose.
- Rates must be the same within a single business class (manufacturing, retail, etc.) but may vary between classes.
- Imposition of tax generally does not require voter approval, but may be subject to referendum.

**RCW:** [35.21.710](#) and other statutes

Any city or town may impose general business and occupation (B&O) taxes on local businesses, which are typically levied as a percentage of the businesses' gross receipts, less some deductions.<sup>40</sup> According to the Association of Washington Cities (AWC), 49 of Washington's 281 cities levy this tax as of 2022.

Utility businesses have separate provisions (see [Utility Taxes](#)) and are exempt from the general B&O tax provisions ([RCW 35.102.020](#)).

B&O taxes are generally imposed by the legislative body, although voter approval may be required if the tax upon retail businesses exceeds 0.2% as discussed below.

All ordinances that impose a B&O tax for the first time or raise rates should provide for a referendum procedure ([RCW 35.21.706](#)), regardless of whether or not the city has otherwise adopted powers of initiative and referendum. While this RCW section is followed by sections specifically discussing retail sales measured by gross receipts, MRSC believes that a conservative analysis of the statute would have the referendum apply to anything that might be defined as a B&O tax regardless of the taxable event or the measure of the tax.

Cities thinking of levying a local B&O tax should consider whether they have the staff time and expertise necessary to administer this tax. Establishing a B&O tax system requires routine audits by city staff to ensure compliance with the regulations and proper collection of B&O tax income.

Business and occupation taxes tend to be unpopular with businesses, whether because the B&O tax is based upon their gross receipts rather than net profits or because it is another tax imposed upon local businesses. Local businesses must decide whether to pass along this tax to the consumer in the form of higher prices, which can raise concerns over competitive pricing for smaller businesses. On the opposite side of this discussion is the fact that the B&O tax helps fund general governmental services that benefit local businesses, such as police and fire.

### Maximum Tax Rates

[RCW 35.21.710](#) establishes a maximum B&O tax rate upon "business activities consisting of the making of retail sales of tangible personal property which are measured by gross receipts or gross income from such sales." Note that this statute only applies to retail businesses, and only if the tax is calculated based on gross receipts/

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<sup>40</sup> The statutory authority for B&O taxes is found in the same places as that for general business licenses.

income. It does not apply to other business classes, nor does it apply to B&O taxes upon retail businesses that are based on activities other than retail sales, or that are measured by something other than gross receipts.

For retail businesses where the B&O tax is based on gross receipts/income, the maximum tax rate may not exceed 0.2% of gross receipts or gross income unless approved by a simple majority of voters ([RCW 35.21.711](#)).

Seattle is currently the only city with a voter-approved B&O tax higher than 0.2%. However, the law allows cities that had a retail B&O tax rate greater than 0.2% on January 1, 1982 to continue to impose those rates and to increase their rate without voter approval. The increase is limited to a total of 10% of the January 1982 rate, with an annual incremental increase limited to 2% of the current rate.

### ***Model Ordinance Provisions***

In 2003, the legislature passed a bill that required the Association of Washington Cities (AWC) to convene a committee to develop a model ordinance that must be adopted by all cities imposing a B&O tax upon the value of products, the gross income of the business, or the gross proceeds of sales. The legislature was concerned about the lack of uniformity of city B&O tax ordinances and about the possibility that some business income was subject to multiple taxation.

The model ordinance, which had to be adopted by all cities with an existing B&O tax no later than December 31, 2004, exempted gross receipts under \$20,000 per year and provided certain mandatory definitions, penalty and interest provisions, and payment periods. The model ordinance cannot be updated more often than every four years and was last updated in 2019.

Cities that levy the B&O tax must allow for allocation and apportionment – meaning that they must allow businesses that operate within multiple jurisdictions to apportion, or divide, their taxable income among the jurisdictions in which they do business. (See [RCW 35.102.130](#).) In 2019, the model ordinance was updated to simplify the current two-factor method of allocation and apportionment.

Some of the model ordinance provisions are mandatory, while others are non-mandatory ([RCW 35.102.040](#)). Any city that adopts an ordinance that deviates from the non-mandatory provisions of the model ordinance must make a description of such differences available to the public, in written and electronic form ([RCW 35.102.040\(4\)](#)).

For the latest information on the model B&O tax ordinance and apportionment provisions, refer to the AWC website and MRSC's [City Business and Occupation Tax](#) webpage.

### ***Use of Revenues***

B&O tax revenues are unrestricted and may be used for any lawful governmental purpose.

## UTILITY TAXES

### Quick Summary

- Any city may impose a tax on the income of utility companies.
- Revenues are unrestricted and may be used for any lawful governmental purpose.
- Maximum tax rate may not exceed 6% for electric, gas, steam, and telephone services unless approved by voters.
- No limitation on the tax rate for water, sewer, solid waste, or stormwater utilities.
- Internet and satellite TV may not be taxed; cable TV has special provisions.

**RCW:** [35.21.870](#) and other statutes

Any city or town may impose a business and occupation tax upon the income (as defined by local ordinance) of public and private utilities providing services within the boundaries of a city, and/or upon the city's own municipal utilities (referred to as a "utility tax"). The statutory authority for the utility tax is found in the same places as that for general business licenses and B&O taxes (see [Business and Utility Taxes & Fees](#)).

Cities and towns are also authorized by statute to impose utility taxes upon public utility districts (PUDs) that operate works, plants, or facilities within the city or town for the sale of electricity ([RCW 54.28.070](#)). The state supreme court has also affirmed that code cities may impose taxes on other municipalities providing utility services within their boundaries, on revenues derived from the utilities' proprietary activities. This reasoning should apply equally to other classes of cities. See *Lakehaven Water & Sewer District et al. v. City of Federal Way* (2020).

A city may also levy taxes on revenues generated by the city's own utility services provided both inside and outside the city limits.<sup>41</sup> The utilities that may be taxed include electricity, water, sewer, solid waste, stormwater, gas, telephone, cable TV, and steam. Any city or town that imposes a utility tax on the gross revenues of its own municipal water, sewer/wastewater, or stormwater utility must disclose the tax rate to its utility customers as provided in [RCW 35.92.460](#).

A city that imposes a utility tax for the first time or that increases a tax rate may be required to include a referendum clause in the ordinance, regardless of whether the city has otherwise adopted powers of initiative and referendum. The basic authority for the utility tax is located within the general B&O tax authority ([RCW 35.21.706](#)), which requires an ordinance imposing or increasing the city's B&O tax to provide for a referendum procedure. Although it is unclear whether [RCW 35.21.706](#) applies to utility tax ordinances, MRSC has a long history of providing conservative guidance, so until a court decision or legislative amendment clarifies this issue, we recommend including referendum language in the ordinance. However, several cities have not included a referendum clause.

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<sup>41</sup> See *Burba v. Vancouver*, 113 Wn.2d 800 (1989). Court upheld utility tax imposed by the city on its water and sewer utility where the measure of the tax was gross revenues derived by the utility from providing service to both resident and nonresident customers. Also see *Burns v. City of Seattle*, 161 Wn.2d 129 (2007) ("the Cities could have generated revenue for their general funds through the imposition of a utility tax on their own municipal utilities").



**Practice Tip:** Utility taxes, like other business and occupation taxes, are imposed upon the utility business itself, and *not* upon the individual utility customers. City-owned/operated utilities will often break out the amount of the utility tax on a customer's bill, which frequently creates confusion about who is being taxed and can cause miscalculation of the utility tax. Cities must be mindful of this subtle but important difference.

### ***Allowable Utility Tax Rates***

There are no restrictions on the tax rates for water, sewer, solid waste, and stormwater utilities. The tax rate for electric, gas, steam, and telephone utilities may not exceed 6% without voter approval ([RCW 35.21.870](#)). The city may ask voters to approve a rate higher than 6% for these utilities, as described later in this section. As of 2022, we are aware of nine cities that have passed a voted utility tax greater than 6% on these statutorily regulated utilities.<sup>42</sup> For brokered natural gas, there is an equivalent “use tax” provision (see [Brokered Natural Gas Use Tax](#)).

Cell phone and pager services may be taxed at the same rate as other telephone services.<sup>43</sup> However, with cell phone services a city must take care within its ordinance not to tax Internet services. The federal Internet Tax Freedom Act prohibits local and state governments from taxing Internet services, under a moratorium that was made permanent in 2016 ([47 U.S.C. §151](#) – see permanent moratorium under “Notes” tab).

The rate on cable TV is governed by the Cable Communications Policy Act of 1984 ([47 U.S.C. §542\(g\)\(2\)\(A\)](#)), which simply requires that the rate not be “unduly discriminatory against cable operators and subscribers.” If a city has set all its tax rates at 6%, the rate on cable TV should probably be no higher than that. However, if rates on utilities other than electric, gas, or telephone are higher than 6%, an argument can be made that the tax on cable TV can be higher than six percent without being “unduly discriminatory,” because all the rates over which the jurisdiction’s legislative body has control are higher than six percent. However, the Telecommunications Act of 1996 preempts local government taxation of direct broadcast satellite television services, except for sales of equipment such as satellite reception dishes (see [47 U.S.C. §152](#) under “Notes” tab).

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<sup>42</sup> The cities we are aware of are: Cheney, Federal Way, Grandview, Kennewick, Pasco, Pullman, Richland, Tacoma, and Toppenish.

<sup>43</sup> In *Western Telepage, Inc. v. City of Tacoma*, 140 Wn.2d 599 (2000), the Washington State Supreme Court found that one-way paging services fall within the statutory definition of “telephone business.”

The table below provides a summary of allowable utility tax rates:

Type of Utility	Maximum Utility Tax Rate
Electricity; Natural gas; Steam	6% unless voters approve higher rate ( <a href="#">RCW 35.21.870</a> )
Telephone (including cell phone/pager)	6% unless voters approve higher rate ( <a href="#">RCW 35.21.870</a> ), but when taxing cell phone services cities may not tax Internet services (see below)
Broadcast satellite TV	May not be taxed (see <a href="#">47 U.S.C. §152</a> under “Notes” tab)
Cable TV	Tax rate may not be “unduly discriminatory” (see <a href="#">47 U.S.C. §542(g)(2)(A)</a> ); we suggest it should not exceed your other utility tax rates
Internet	May not be taxed (Internet Tax Freedom Act moratorium made permanent in 2016 – see <a href="#">47 U.S.C. §151</a> under “Notes” tab)
Sewer; Solid waste; Stormwater; Water	No limit prescribed by state or federal law

### ***Use of Revenues***

Utility tax revenues are unrestricted and may be used for any lawful governmental purpose. However, if the city is submitting a utility tax increase ballot measure to voters on one of the specific utilities in [RCW 35.21.870](#), specifying a purpose might make voters more likely to approve it. If the city does specify a purpose in the ballot measure, the extra revenues resulting from the increase would be considered restricted and must be spent in accordance with the purpose stated in the ballot measure.

### ***Ballot Measure Requirements to Increase Utility Tax Above 6%***

To increase the utility tax above 6% for electric, gas, steam, or telephone utilities, the city must submit a ballot measure which must be approved by a simple majority of voters. The statute does not specifically address when the utility tax must be presented to voters, which leads us to conclude that the ballot measure can be presented to the voters at any special, primary, or general election.

As noted earlier, a number of cities have successfully approved utility tax increases above 6%. However, according to MRSC’s [Local Ballot Measure Database](#), most attempts have been unsuccessful in recent years.

### ***Timing of Rate Changes***

Any tax changes for electric, telephone, and gas utilities cannot take effect until the end of 60 days after enactment of the ordinance ([RCW 35.21.865](#)). If the utilities are private utilities, they need this time to apply to the Washington Utilities and Transportation Commission for a rate adjustment to reflect the tax change.

## BROKERED NATURAL GAS USE TAX

### Quick Summary

- Any city that has a natural gas utility tax may impose an equivalent “use tax” upon brokered natural gas sales that are otherwise not subject to the utility tax.
- Use tax rate must be equal to the natural gas utility tax rate.
- Revenues are unrestricted and may be used for any lawful governmental purpose.

**RCW:** [82.14.230](#)

In 1986, the federal government deregulated the natural gas industry, allowing large customers to bypass gas utilities and bargain directly with independent brokers. Some of these sales were no longer taxable under existing state statute, which resulted in some cities losing a considerable amount of revenue.

In response, the state legislature enacted [RCW 82.14.230](#), which allows cities that tax natural gas to (optionally) impose an equivalent “use tax” on brokered natural gas sales that are not otherwise subject to the utility tax. The use tax is imposed by the legislative body and does not require voter approval.

The use tax rate must be equal to the city’s utility tax rate on natural gas. For instance, if the city imposes a 5% utility tax on natural gas, it must impose a 5% use tax on brokered natural gas. If a city has imposed an 8% utility tax on natural gas with voter approval, it must impose an 8% use tax on brokered natural gas.

This tax only applies to brokered natural gas sales that are not otherwise subject to the utility tax, and the use tax must be paid by the consumer. However, the use tax does not apply to the use of natural gas, compressed natural gas, or liquefied natural gas if the consumer uses the gas for transportation fuel as defined in [RCW 82.16.310](#).

The brokered natural gas use tax statute was amended in 2010 to define “use” as “the first act within this state by which the taxpayer consumes the gas by burning the gas or storing the gas in the taxpayer’s own facilities for later consumption by the taxpayer” (see [RCW 82.12.010\(6\)\(h\)](#)). In other words, the use or taxable event occurs wherever the customer consumes the gas or stores it for later consumption.

### ***Use of Revenues***

As with utility taxes, all revenues from the brokered natural gas use tax are unrestricted and may be used for any lawful governmental purpose.

### ***Timing of Receipts***

Cities must contract with the state Department of Revenue to collect brokered natural gas use taxes. The state distributes the revenue to participating cities at the end of every month.

## GENERAL BUSINESS LICENSE FEES

### Quick Summary

- Cities may require individuals or businesses conducting business within their jurisdiction to obtain a local business license.
- Revenues are used to recoup administrative costs.

**RCW:** [35.22.280\(32\)](#) – First class cities  
[35.23.440\(8\)](#) – Second class cities  
[35A.82.020](#) – Code cities  
[35.27.370\(9\)](#) – Towns

Most individuals or companies that conduct business in Washington State must obtain a state business license from the Business Licensing Service (BLS), a division of the State Department of Revenue.

In addition to a state business license, most cities require an additional city business license to legally conduct business within their jurisdiction. These city business licenses can serve several different functions, including monitoring business operations within the city's jurisdiction, regulating certain types of business activities to ensure public safety, and generating revenue.

A general business license, as defined in [RCW 35.90.010\(4\)](#), is “a license, not including a regulatory license or a temporary license, that a city requires all or most businesses to obtain to conduct business within that city.” Most cities charge a fee for such licenses, as described below.

Any city may require a general business license for any person or company “engaging in business” within its boundaries. This includes businesses that are physically located within the city, as well as businesses that are physically located elsewhere but engage in business within the city. However, cities may *not* require licenses for entities that are not engaging in business within the jurisdiction ([RCW 35.90.060](#)).

### Model Ordinance Provisions

Businesses that operate in multiple cities need to obtain separate licenses from each city that requires a business license. In response to business complaints that this process is too burdensome, in 2017 the state legislature adopted legislation to simplify the administration of city general business licenses.

The legislation, codified at [chapter 35.90 RCW](#), requires all cities and towns with general business license requirements to adopt a uniform “model ordinance” identifying what types of commercial activity are and are not subject to business licensing requirements. However, it should be noted that this is not a comprehensive model ordinance – rather, it consists of just two provisions that must be incorporated into the rest of the city's business licensing regulations:

1. The model ordinance includes a uniform definition of “engaging in business within the city,” including examples of activities that are considered “engaging in business” as well as business activities that do not require licensing. This definition is based on the model ordinance for B&O taxes.
2. For businesses that “engage in business” within the city but are not physically located within the city, the city must establish a minimum dollar threshold below which the businesses must be partially or fully exempted



from licensing requirements. The minimum threshold of business activity in the model ordinance is \$2,000 per year, but some cities have adopted a higher threshold. Below this threshold, cities may either require a business license at no cost to the business (a \$0 fee), or alternatively they may exempt those businesses from the general business license requirements entirely.

Aside from the model ordinance provisions, cities and towns may adopt any other business license provisions that they see fit, including, but not limited to:

- Fees and thresholds (provided that they comply with the model ordinance)
- Approval process and conditions
- License terms and expiration dates
- Penalties
- Suspension, revocation, and appeals
- Exemptions (again, provided that they comply with the model ordinance)

While many cities currently issue their business licenses directly, [chapter 35.90 RCW](#) requires all cities to partner with either the state BLS by December 31, 2022 or FileLocal (a business license and B&O tax service created by interlocal agreement between several larger cities in the Puget Sound region) by July 1, 2020.

By the end of 2022, all cities will be enrolled in BLS or FileLocal and businesses will be able to obtain local business licenses for any city in the state through these two registration portals. Cities will still retain the ability to set their own general business license fees, business exceptions, and/or exemptions with either BLS or FileLocal, and they will also be able to set thresholds higher than the model ordinance provisions if desired.

For more information, including examples of local business license ordinances and fee schedules and the complete text of the model business license, see our [City Business Licenses and Fees webpage](#).

## ***Use of Revenues***

General business license fees are generally designed to recover the administrative costs of registering the businesses, such as issuing the licenses and maintaining the files. Cities may charge a flat or tiered fee for general business licenses, but the fees charged should be fair and bear a reasonable relation to the costs.<sup>44</sup> However, some cities charge variable fees designed to generate revenues (see [Revenue-Generating Business License Fees \(“Head Taxes”\)](#)).

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<sup>44</sup> See McQuillin, Municipal Corporations §26.46 (July 2018); see, generally, *Patton v. Bellingham*, 179 Wash. 566 (1934), and *Homes Unlimited v. Seattle*, 90 Wn.2d 154 (1978).

## REGULATORY BUSINESS LICENSE FEES

### Quick Summary

- Cities may require certain classes of business that need additional regulation and oversight to obtain an additional regulatory business license, in addition to the general business license.
- Revenues are intended to recoup administrative costs.

**RCW:** [35.22.280\(32\)](#) – First class cities  
[35.23.440\(8\)](#) – Second class cities  
[35A.82.020](#) – Code cities  
[35.27.370\(9\)](#) – Towns

Some cities also impose additional regulatory licenses and fees upon certain classes of business that, in their analysis, require additional regulation and oversight for code enforcement or public safety purposes.

[RCW 35.90.010\(6\)](#) defines a “regulatory business license” as “a license, other than a general business license, required for certain types of businesses that a city has determined warrants additional regulation...”

Examples include, but are not limited to: adult entertainment, fireworks stands, home-based businesses, cannabis-based businesses, massage parlors, mobile food vendors, and short-term rentals. For examples and more information, see our [City Business Licenses and Fees webpage](#).

### Use of Revenues

As with general business licenses, regulatory business license fees are generally designed to recover administrative costs and should be fair and bear a reasonable relation to the costs. However, the fees may be higher than the fees for general business licenses due to added regulatory costs such as inspections and code compliance.

## REVENUE-GENERATING BUSINESS LICENSE FEES (“HEAD TAXES”)

### Quick Summary

- Some cities impose business license charges on a sliding scale to generate revenue.
- Revenues are unrestricted and may be used for any lawful governmental purpose.
- Charges may be based on number of employees, type of business, square footage, and other criteria.

**RCW:** [35.22.280\(32\)](#) – First class cities

[35.23.440\(8\)](#) – Second class cities

[35A.82.020](#) – Code cities

[35.27.370\(9\)](#) – Towns

Instead of recouping administrative costs, some cities generate revenue by imposing business license charges on a variable scale. The charges are based on one or more criteria such as the number of employees or number of employee hours worked (sometimes referred to as a “head tax”), the type of business, or the square footage of a business. Sometimes the charges are based on a true sliding scale, while other times the charges are broken into multiple tiers.

The law allows for a good deal of creativity in designing these charges. However, classes of businesses must be clearly defined, and each business within each class must pay the same charge.<sup>45</sup> For examples and more information, see our [City Business Licenses and Fees webpage](#).

The charge may be imposed by the legislative body and does not require voter approval. However, if the city has adopted powers of initiative and referendum, it may be subject to a voter referendum.

### Use of Revenues

The revenues from a revenue-generating business license charge are unrestricted and may be used for any lawful governmental purpose.

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<sup>45</sup> See McQuillin, *Municipal Corporations* §26.76 (July 2018).

# Lodging Tax (Hotel/Motel Tax)

## Quick Summary

- Most cities or towns may impose a lodging tax up to 4%, of which:
  - 2% is a credit against the state sales tax.
  - 2% is in addition to the sales tax rate.
- A few jurisdictions have been grandfathered in with varying rates.
- Revenues are restricted and must generally be used for tourism activities or tourism-related facilities.
- May also be used to repay debt for affordable workforce housing within ½ mile of a transit station.
- Cities of 5,000 or more must establish a lodging tax advisory committee (LTAC) to review funding applications and recommend awards.
- Does not require voter approval.

RCW: [67.28.180](#) and [67.28.181\(1\)](#)

Any city or town has the authority to levy lodging taxes, also known as “hotel/motel taxes,” on all charges for furnishing lodging at hotels, motels, and short-term rentals (STR), including such activities as Airbnb, bed and breakfasts (B&Bs), RV parks, and other housing and lodging accommodations for periods of time less than 30 days. The tax is collected as a sales tax and paid by the customer at the time of the transaction. These taxes may be imposed by the legislative body and do not require voter approval.

In addition, counties and certain public facilities districts also have lodging tax authority.

There are two lodging tax options:

- A **“basic”** or **“state-shared”** lodging tax up to 2% that is taken as a credit against the 6.5% state sales tax rate, so that the lodging patron does not see any tax increase.
- An **“additional”** or **“special”** lodging tax up to 2% on top of the state sales tax rate that results in a higher tax bill for the patron.

If a city imposes both options at the maximum rate, that would bring the total local lodging tax rate to 4%. Both the “basic” and the “additional” lodging taxes will be discussed further in the following pages, along with the use and distribution of funds, lodging tax advisory committees (LTACs), and reporting requirements.

Lodging taxes are different than tourism promotion area fees (see [Tourism Promotion Area Fees](#)), and lodging taxes may be imposed in addition to tourism promotion area fees.

## “BASIC” OR “STATE-SHARED” LODGING TAX

Most cities and towns have the authority to levy a “basic” or “state-shared” lodging tax up to 2% ([RCW 67.28.180](#)), which is taken as a credit against the 6.5% state sales tax ([RCW 67.28.1801](#)) so that there is no tax increase and the total tax paid by the patron is equal to the retail sales tax in the jurisdiction in which the lodging is located. The state’s portion of the sales tax rate on lodging effectively drops from 6.5% to 4.5% within those jurisdictions.

Counties have similar “basic” lodging tax authority. The city’s basic rate is credited against the county’s basic rate ([RCW 67.28.180\(2\)](#)). For instance, if both the city and the county impose the full 2% basic lodging tax, the total rate will be 2% countywide, but the county will not receive revenues from the incorporated area because it must credit those revenues back to the city.

The basic lodging tax has a few exceptions:

- No city located within King County may impose the basic lodging tax (see [RCW 67.28.180\(2\)\(c\)\(ii\)](#)), except for Bellevue which has legislation allowing it to collect a rate up to 2% until its related debt is retired (subsection (2)(c)(iii)).
- No city that is located within a county that is exempt under [RCW 67.28.180\(2\)\(b\)](#) may impose the basic lodging tax so long as the county remains exempt. As of 2018, Yakima County is the only county exempt under that subsection, so no city within Yakima County may impose this tax. However, there is also an exception that grandfathers in the City of Yakima and allows it to collect a basic lodging tax up to 2% until its related debt is retired (subsection (2)(c)(iii)).
- For Bellevue/King County and City of Yakima/Yakima County, the statutory exemptions allow the jurisdictions to “double-dip,” meaning that the city lodging tax is not taken as a credit against the county rate. Instead, the city and county rates are added together, resulting in a credit of up to 4% against the state sales tax rate within Bellevue and the City of Yakima. This means the state only receives a 2.5% sales tax on lodging in those two cities.

## “ADDITIONAL” OR “SPECIAL” LODGING TAX

In addition to the “basic” 2% lodging tax, most cities may impose an “additional” or “special” lodging tax up to 2% in increments no smaller than 0.1% ([RCW 67.28.181\(1\)](#)). Unlike the “basic” lodging tax, which is taken as a credit against the 6.5% state sales tax, the “additional” lodging tax is *not* a credit and results in a tax increase for the lodging patron. If the basic and additional lodging tax are each levied at a rate of 2%, the combined lodging tax rate would be 4%, and the total tax paid by the patron would be equal to the retail sales tax in the jurisdiction plus the additional/special lodging tax of 2%.

Counties also have similar authority, and if the county has imposed the “additional” lodging tax, the city’s additional lodging tax must be taken as a credit against the county’s additional rate ([RCW 67.28.181\(3\)](#)). For example, if both the city and the county impose the full 2% “additional” lodging tax, the total additional rate will be 2% countywide, but the county will not receive revenues from the incorporated area because it must credit those revenues back to the city.

The additional lodging tax option has a few exceptions:

- Counties and cities that imposed a combined lodging tax greater than 4% before July 27, 1997 were grandfathered in under [RCW 67.28.181\(2\)\(a\)](#). This includes Grays Harbor and Pierce counties (and the cities within them), plus the cities of Airway Heights, Bellevue, Chelan, Leavenworth, Long Beach, Winthrop, and Yakima.
- Any city located within a county that had the authority to levy a countywide 4% lodging tax before January 1, 1997 may not impose the additional 2% ([RCW 67.28.181\(2\)\(b\)](#)). This applies to all cities in Cowlitz and Snohomish counties.
- Cities that imposed a combined lodging tax rate of 6% before January 1, 1998 are grandfathered in under [RCW 67.28.181\(2\)\(d\)](#). This occurred due to a unique set of circumstances and only applies to the cities of Wenatchee and East Wenatchee.

The maximum combined sales and lodging tax rate upon sales of lodging may not exceed 12% ([RCW 67.28.181\(1\)](#)).<sup>46</sup> The statutes included within the 12% cap are [chapter 36.100 RCW](#) (public facilities districts), [chapter 82.08 RCW](#) (state sales tax), [chapter 82.14 RCW](#) (local sales taxes), [chapter 67.28 RCW](#) (lodging taxes), and [chapter 67.40 RCW](#) (convention and trade center tax – repealed in 2010). However, housing & related services sales taxes (see [RCW 67.28.181\(4\)](#)) and the first 0.4% of the Sound Transit high-capacity sales tax (adopted prior to December 1, 2000 – see [RCW 82.14.410\(2\)\(c\)](#)) are not included within the 12% cap.

Most cities are not that close to the 12% cap, and the cap does not affect the ability of any cities to impose the maximum “basic” lodging tax allowed by law since it is taken as a credit against the state sales tax and does not increase the sales tax rate. However, the 12% cap may limit the “additional” lodging tax rate that some cities, particularly within King County, may impose. [RCW 82.14.410](#) provides that any local sales and use tax increase adopted after December 1, 2000 must exempt lodging sales if the increase would cause the total combined lodging/sales tax rate to exceed the greater of the 12% cap or the actual combined lodging/sales tax rate in effect on December 1, 2000.

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<sup>46</sup> There is an exception for Seattle, where the convention center lodging tax is higher. The city may impose an “additional” lodging tax up to 4%, and the combined lodging and sales tax rate may not exceed 15.2% under [RCW 67.28.181\(2\)\(c\)](#).

## LODGING TAX ADVISORY COMMITTEES AND USE OF FUNDS

Lodging tax revenues are unlike most other local revenue sources in that many cities do not have complete control over how the revenues are spent. The money can be awarded to nonprofits, tourism organizations, and to the city or county for those activities associated with tourism facilities and tourism promotion. All prospective lodging tax recipients must apply for funding.

Any city with a population of 5,000 or more that has imposed lodging taxes – either the basic/state-shared or the additional/special taxes – must establish a lodging tax advisory committee (LTAC) comprised primarily of representatives of the local lodging and tourism industries. All prospective funding recipients must apply to the LTAC for consideration. The LTAC will review the applications and make funding recommendations to the city legislative body for consideration.

Cities with a population of less than 5,000 are not required to establish an LTAC, although they may do so if desired. If the city does not have an LTAC, prospective applicants must apply directly to the city legislative body for consideration and funding. This section will discuss the use of revenues and the LTAC award process.

### ***Use of Revenues***

All lodging tax revenues – including both the “basic” and “additional” lodging taxes – must be used for tourism promotion, acquisition of tourism-related facilities, or operation of tourism-related facilities ([RCW 67.28.1815](#) and [RCW 67.28.1816](#)), including:

- Tourism marketing;
- Marketing and operations of special events and festivals designed to attract tourists;
- Operations *and* capital expenditures of tourism-related facilities owned or operated by a municipality or a public facilities district; or
- Operations of tourism-related facilities owned or operated by nonprofit organizations (but *not* capital expenditures).

Cities and towns may use the funds either directly, or indirectly through a convention and visitor’s bureau or destination marketing organization. [Chapter 67.28 RCW](#) demonstrates that it was the state legislative intent to provide local control over the use of lodging tax revenues and to provide for the distribution of this tax back to those organizations and agencies that promote tourism within the city.

Definitions are provided in [RCW 67.28.080](#). Of particular note are the following definitions:

“Tourism promotion” means activities, operations, and expenditures designed to increase tourism, including but not limited to advertising, publicizing, or otherwise distributing information for the purpose of attracting and welcoming tourists; developing strategies to expand tourism; operating tourism promotion agencies; and funding the marketing of or the operation of special events and festivals designed to attract tourists.

“Tourism-related facility” means real or tangible personal property with a usable life of three or more years, or constructed with volunteer labor that is: (a)(i) Owned by a public entity; (ii) owned by a nonprofit organization described under section 501(c)(3) of the federal internal revenue code of 1986, as amended; or (iii) owned by a nonprofit organization described under section 501(c)(6) of the federal internal revenue code of 1986, as amended, a business organization, destination marketing organization, main street

organization, lodging association, or chamber of commerce and (b) used to support tourism, performing arts, or to accommodate tourist activities.



**Practice Tip:** The guiding principle is that these facilities should be used by tourists. So, for example, a municipal golf course would likely be a permitted lodging tax expenditure in Chelan, while it probably would not be if it were in a residential neighborhood in Spokane. Each situation is unique and requires careful assessment.

After conferring with the State Auditor’s Office, we have also concluded that lodging tax revenues may be used to pay for staff support of the lodging tax advisory committee (LTAC), provided that proper application and reporting requirements are followed. Our conclusion comes from [RCW 67.28.1815](#), which states that the revenues must be used “solely for the purpose of paying all or any part of the cost of tourism promotion...” It is our opinion that the primary function of an LTAC is to promote and market tourism.

To avoid any concerns with Article 8, Section 7 of the state constitution, which prohibits gifts of public funds, a city should enter into a contract with any organization receiving lodging tax funds. The contract should spell out the tourism-related services to be provided in exchange for city funding as well as the required reports that must be filed by the recipient with the city that quantifies the services in terms of the number of tourists generated as a result of the funding.

Cities and counties may use lodging tax funds to repay debt associated with tourism related facilities owned by the municipality, and the 2015 legislation session provided cities with an additional option to use lodging tax revenues to repay general obligation bonds ([RCW 67.28.150](#)) or revenue bonds ([RCW 67.28.160](#)) issued for affordable workforce housing within a half mile of a transit station ([RCW 67.28.180](#)).

King County has a separate mandatory provision that requires at least 75% of the revenues to be used for affordable housing and the arts beginning in 2021. However, these provisions only apply to the county itself and do not apply to any cities within King County.

### ***Application and Award Process***

The entities that may apply for lodging tax funding are:

- Convention and visitors’ bureaus;
- Destination marketing organizations;
- Nonprofits, including main street organizations, lodging associations, or chambers of commerce; and
- Municipalities (defined as any city, town, or county).

In cities with a population of 5,000 or more, applications for lodging tax funding must be submitted to a lodging tax advisory committee (LTAC). The LTAC must be appointed by the city council and must contain at least five members, including one elected city official who serves as chair, at least two representatives of businesses that are required to collect the lodging tax, and at least two people who are involved in activities that are authorized to be funded by the lodging tax ([RCW 67.28.1817](#)). The city may optionally appoint one county elected official as



a nonvoting member. The city council must review the committee's membership annually and makes changes as appropriate.

In cities of less than 5,000, applications are submitted to the city legislative body, unless the city voluntarily chooses to establish an LTAC.



**Practice Tip:** Cities with a population less than 5,000 that voluntarily establish an LTAC are not required to follow the LTAC provisions in state law and may adopt their own LTAC processes and requirements by policy.

All applications must include estimates of how funding the activity will result in increases to the number of people staying overnight, traveling 50 miles or more, or coming from another state or country. To ensure that the applicants are compliant with this statutory requirement, this information should be included in the lodging tax application form that will be filed with the city or the LTAC.

There is no requirement that priority for funding be given to applicants expected to generate the largest number of tourists, and lodging tax revenue may still be awarded to recipients who provide services that indirectly increase tourism such as destination marketing organizations.



**Practice Tip:** The State Auditor's Office interprets the law to mean that all users of lodging tax funds, including municipalities, are considered applicants and must follow the relevant application procedures. So, cities should submit applications for their own projects to the LTAC.

For those cities required to establish an LTAC, the LTAC receives all applications for lodging tax revenue and recommends a list of candidates and funding levels to city council for final determination. The statute says that city council "may choose *only recipients* from the list of candidates and recommended amounts provided by the local lodging tax advisory committee" ([RCW 67.28.1816](#)(2)(b)(ii), emphasis added). The city council may not award funds to any recipient that was not recommended by LTAC.

However, an [informal opinion from the Attorney General's Office](#) in 2016 states that the legislative body may award amounts different from the LTAC's recommended amounts, but only after satisfying the procedural requirements of [RCW 67.28.1817](#)(2). This requires the municipality to submit its proposed change(s) to the LTAC for review and comment at least forty-five days before final action is taken.

The city is not required to fund the full list of recommended recipients and may choose to make awards to only some or even none of the recommended recipients.

The law is silent on the frequency of the awards. Some jurisdictions choose to make the award process a part of their annual budget cycle while others may incorporate a mid-year awards procedure to account for unexpected increases or decreases in lodging tax revenues.

## ***Rate Changes and Exemptions***

For those cities required to establish an LTAC, any proposal to impose a new lodging tax, raise the rate of an existing tax, repeal an exemption from the lodging tax, or change the use of the tax proceeds, must be submitted to the lodging tax advisory committee for review and comment ([RCW 67.28.1817\(2\)](#)).

This submission must occur at least 45 days before final action will be taken on the city council's proposal. Even if the committee finishes its work before the 45 days are up, the city council still must wait 45 days.

The committee's comments must include an analysis of the extent to which the proposal will accommodate activities for tourists or increase tourism, and of the extent to which it will affect the long-run stability of the fund to which the hotel-motel taxes are credited. If the advisory committee does not submit comments within the 45-day deadline, city council may proceed with final action.

## **REPORTING REQUIREMENTS**

All cities and towns *receiving* lodging tax revenues must report annually to the Joint Legislative Audit & Review Committee (JLARC) ([RCW 67.28.1816](#)). JLARC has established an [online reporting system](#), and the reporting requirements include:

- All lodging tax revenues received;
- All lodging tax revenues distributed and/or expended;
- All recipients of lodging tax monies, including the city itself, that may have directly used lodging tax funds for qualifying facilities, tourist events, or tourism administration; and
- For all recipients, the actual number of people traveling for business or pleasure on an overnight trip in paid accommodations, traveling 50 or more miles away from their business or place of residence for the day or overnight, or traveling from another country or state.



**Practice Tip:** The JLARC online filing system can record and store lodging tax activity throughout the calendar year. As part of your contract with recipients, we recommend that you require the recipient to file the actual number of attendees, overnight stays, and/or other associated tourism data as soon as the event or activity has been completed. This will make it easier to file the annual report.

In the event that your city received lodging tax revenues but did not have any distributions or expenses during the calendar year, the JLARC report must still be completed and filed by the deadline indicating no activity.

# Real Estate Excise Taxes (REET)

The State of Washington levies a real estate excise tax (REET) upon all sales of real estate under [chapter 82.45 RCW](#). The tax rate used to be a flat 1.28%, but effective January 1, 2020 the state implemented a graduated tax scale based on the selling price of the property, with the sale price thresholds adjusted on a four-year schedule (see [RCW 82.45.060](#)). However, the sale of real property classified as timberland or agricultural land remains taxed at a flat 1.28% regardless of the sale price.

A portion of the proceeds are deposited into the public works assistance account ([RCW 43.155.050](#)) for loans and grants to local government for public works projects; the city-county assistance account (see [City-County Assistance \(ESSB 6050\) Distributions](#)) for distribution to qualifying cities and counties; and the education legacy trust account for the support of the common schools, expanding higher education, and other educational improvement efforts.

In addition, [chapter 82.46 RCW](#) authorizes cities and towns to impose local real estate taxes on top of the state rate. The tax is calculated based on the full selling price, including the amount of any liens, mortgages, and other debts given to secure the purchase ([RCW 82.46.010\(5\)](#) and [RCW 82.45.030](#)). However, the rate that the city can levy and the way it can use the revenues depends on the city's population and whether or not it is planning under the Growth Management Act (GMA).

The tax is due at the time of sale and is collected by the county when the documents of sale are presented for recording ([WAC 458-61A-301](#)). Real estate excise taxes are typically the responsibility of the seller of the property, not the buyer, although the buyer is liable if the tax is not paid. However, sometimes the buyer pays some or all of the tax as part of the negotiated sale agreement.

Some real estate property transfers are exempt from REET under [chapter 458-61A WAC](#). For instance, gifts of real property are generally exempt from REET ([WAC 458-61A-201](#)), as are transfers of property through wills or inheritance ([WAC 458-61A-202](#)) and transfers due to divorce settlement agreements ([WAC 458-61A-203](#)).

Any property sold by a government agency is exempt from REET, but generally any real property purchased by a government agency is subject to REET unless otherwise exempted ([WAC 458-61A-205](#)).

REET revenues can be somewhat volatile, since they depend on both the volume of real estate sales and the sale value of the properties sold. If the local real estate market is strong, tax revenues will be strong too. But if the local real estate market is weak, tax revenues will decline in direct proportion to the activity in the market.

The two main REET options for cities and towns are:

- **REET 1 (“first quarter percent”)** – Any city or town may levy a 0.25% real estate excise tax primarily for capital projects and limited maintenance.
- **REET 2 (“second quarter percent”)** – Additional 0.25% real estate excise tax primarily for capital projects and limited maintenance, but may only be imposed by cities that are fully planning under GMA.

Because these revenue sources are restricted to specific purposes, they must be accounted for separately in a capital projects fund for REET 1 proceeds ([RCW 82.46.030\(2\)](#)) and/or a special revenue fund for REET 2 income. Those cities and counties that are planning under GMA and levying both REET 1 and REET 2 need to keep track of each of these revenues separately because the uses to which they may be applied are different.

State statute also provides a few additional but narrowly focused REET options, as described later in this chapter.

## REET 1 – THE “FIRST QUARTER PERCENT”

### Quick Summary

- Any city or town may impose a 0.25% excise tax upon all real estate sales.
- Revenues are restricted and may only be used for certain capital purposes and housing relocation assistance, depending on the city’s population and whether it fully plans under GMA.
- May also be used for limited capital facility maintenance, with additional reporting requirements.
- Does not require voter approval.

**RCW:** [82.46.010\(2\)](#)

Any city or town may impose an excise tax of 0.25% – known as “REET 1” or the “first quarter percent” – upon all real estate sales ([RCW 82.46.010\(2\)](#)). REET 1 may be imposed by the legislative body and does not require voter approval. Almost all cities in the state have imposed REET 1, except for a few very small cities and towns.

### Use of Revenues

REET 1 revenues are restricted and may only be used for certain purposes. However, the exact purposes depend on the city’s population and whether or not it is fully planning under the Growth Management Act (GMA).

**Cities with a population of more than 5,000 that are fully planning under GMA:** According to [RCW 82.46.010\(2\)\(b\)](#), these jurisdictions must spend the REET 1 revenues on “capital projects” that are listed in the capital facilities plan (CFP) element of their comprehensive plan. [RCW 82.46.010\(6\)](#) defines “capital projects” as:

[T]hose public works projects of a local government for planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of streets; roads; highways; sidewalks; street and road lighting systems; traffic signals; bridges; domestic water systems; storm and sanitary sewer systems; parks; recreational facilities; law enforcement facilities; fire protection facilities; trails; libraries; administrative facilities, judicial facilities, river flood control projects [...] and technology infrastructure that is integral to the capital project.

Sub-section (2)(b) also states that REET 1 funds may be spent on housing relocation assistance as defined within [RCW 59.18.440](#) and [59.18.450](#), which in summary provides assistance to low-income tenants under specific circumstances defined by statute and local ordinance.

In addition, a portion of the REET 1 proceeds may be used for the maintenance of capital facilities as described on the next page, with additional reporting requirements.

Note that REET 1 funds may not be used for developing or updating a capital facilities plan (CFP) or capital improvement plan (CIP), but they can be used for design, engineering, surveys, etc. associated with a specific qualifying project listed in a CFP or CIP.

**Cities that are not required to fully plan under GMA, or that are fully planning under GMA and have a population of 5,000 or less:** According to [RCW 82.46.010\(2\)\(a\)](#), these jurisdictions must use REET 1 funds “for any capital purpose identified in a capital improvements plan and local capital improvements, including those listed in [RCW 35.43.040](#).” [RCW 35.43.040](#) lists local improvements that can be funded through a local improvement district (LID), which includes projects such as streets, parks, sewers, water mains, swimming pools,

and gymnasiums. Local capital improvements include the acquisition of real and personal property associated with such improvements – so for instance, land acquisition for parks is a permitted expenditure.

Capital projects not listed in the local improvement statute (for example, a fire station, city hall, courthouse, or library) are also permitted uses as long as they are included in the city’s capital improvement plan. Expenditures that are not allowed are such things as the purchase of police cars or backhoes. Accountants may consider these to be “capital” for accounting purposes, but they are not considered “capital purposes” or “local capital improvements” as defined in the REET statute.

A 1984 letter between the Attorney General’s office and a county prosecutor,<sup>47</sup> and confirmed in an Attorney General’s Memorandum in 1991, defines “local capital improvements” as “various kinds of things which may be done to a tract or parcel of tangible real property as an improvement thereto.”<sup>48</sup>

In addition, a portion of the REET 1 proceeds may be used for the maintenance of capital facilities as described below, with additional reporting requirements.

Note that REET 1 funds may not be used for developing or updating a capital improvement plan (CIP), but they can be used for design, engineering, surveys, etc. associated with a specific qualifying project listed in a CIP.

**Use of REET 1 for maintenance:** Any city or town, regardless of its population or whether it fully plans under GMA, may use up to \$100,000 or 25% of its available REET 1 funds – whichever is greater, but not to exceed \$1 million per year – for the maintenance of capital projects ([RCW 82.46.015](#)). The definition of capital projects is the same as in [RCW 82.46.010\(6\)\(b\)](#). The definition of maintenance is provided in [RCW 82.46.015\(6\)](#):

For purposes of this section, “maintenance” means the use of funds for labor and materials that will preserve, prevent the decline of, or extend the useful life of a capital project. “Maintenance” *does not* include labor or material costs for routine operations of a capital project [*emphasis added*].

To use REET 1 funds for maintenance, the city must fulfill additional reporting requirements defined within [RCW 82.46.015](#), including preparing and adopting a written report that includes:

- Information necessary to demonstrate that the city has, or will have, adequate funding from all sources to pay for all capital projects identified in its capital facilities plan.
- How revenues collected under REET 1 have been used during the prior two-year period.
- How revenues collected under REET 1 will be used for the succeeding two-year period.
- What percentage of funds for capital projects is attributed to REET 1 revenues compared to all other sources of capital project funding.

This report must be adopted as part of the city’s public budget process. Additionally, the city must declare that it has not enacted any requirement on the listing or sale of real property; or any requirement on landlords, at the time of executing a lease, to perform or provide physical improvements or modifications to real property or fixtures, except if necessary to address an immediate threat to health or safety; unless the requirement is specifically authorized by other state and federal laws.

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47 [Informal opinion](#) dated March 6, 1984, from Philip H. Austin, Senior Deputy Attorney General, to Alan A. Hancock, Deputy Prosecuting Attorney for Island County.

48 Memorandum opinion dated July 16, 1991, from Maureen Hart, Senior Assistant Attorney General, Legal/Fiscal Division, to Steven Marcotte, Assistant Chief Examiner, State Auditor’s Office

## REET 2 – THE “SECOND QUARTER PERCENT”

### Quick Summary

- Any city or town that is fully planning under GMA may impose an additional 0.25% excise tax upon all real estate sales, in addition to the tax imposed under REET 1.
- Revenues are restricted and may only be used for certain transportation, water/storm/sewer, and park capital purposes.
- May also be used, with additional reporting requirements, for:
  - Limited capital facility maintenance.
  - REET 1 capital projects.
  - Affordable housing and homelessness (through January 1, 2026 only).
- Does not require voter approval for cities required to plan under GMA, but does require voter approval for cities voluntarily planning under GMA.

**RCW:** [82.46.035\(2\)](#)

In addition to REET 1, any city or town that is fully planning under the Growth Management Act (GMA) may impose an additional 0.25% – known as “REET 2” or the “second quarter percent” ([RCW 82.46.035](#)). For cities that are *required* to fully plan under GMA, REET 2 may be imposed by the legislative body and does not require voter approval. However, any city that is *voluntarily* choosing to plan under GMA must submit the REET 2 proposition to voters.

### Ballot Measure Requirements for Voluntary GMA Cities

Voter approval for REET 2 is only required for cities and towns that are *voluntarily* planning under GMA. The proposition may be submitted at any special, primary,<sup>49</sup> or general election and must be approved by a simple majority of voters. According to MRSC’s [Local Ballot Measure Database](#), no voluntary GMA cities have attempted a voted REET 2 ballot measure recently.

### Use of Revenues

REET 2 revenues are restricted and may only be used for financing “capital projects” specified in the capital facilities plan element of the city’s comprehensive land use plan. [RCW 82.46.035\(5\)](#) defines “capital project” as:

- (a) Planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of streets, roads, highways, sidewalks, street and road lighting systems, traffic signals, bridges, domestic water systems, storm and sanitary sewer systems;
- (b) Planning, construction, reconstruction, repair, rehabilitation, or improvement of parks; and
- (c) Until January 1, 2026, planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of facilities for those experiencing homelessness and affordable housing projects.

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49 [RCW 82.46.035\(2\)](#) states that the proposition must be submitted “at a general election held within the district or at a special election within the taxing district,” which at first glance might seem to rule out the August primary election. However, [RCW 29A.04.321\(2\)](#), which establishes the election schedule for local governments, authorizes the county to call up to four “special elections” each year, including the primary election. So for these purposes, “special election” includes the primary election.

The definition of “capital project” for REET 2 is more restrictive than it is in the REET 1 statute. REET 2 funds are more specifically directed to infrastructure and parks capital projects. (However, note that park lands “acquisition” is not an allowed use for REET 2.) REET 2 omits public facilities such as law enforcement, fire protection, libraries, administration, and courts that were listed within the REET 1 statute.

However, REET 1 projects may be funded with REET 2 revenues as described below if certain limitations and additional reporting requirements are met. REET 2 revenues may also be used for limited maintenance expenses as well as affordable housing and homelessness purposes as described below.

Note that REET 2 funds may not be used for developing or updating a capital facilities plan (CFP) or capital improvement plan (CIP), but they can be used for design, engineering, surveys, etc. associated with a specific qualifying project listed in a CFP or CIP.

**Use of REET 2 for maintenance and REET 1 projects:** Any city may use up to \$100,000 or 25% of its available REET 2 funds – whichever is greater, but not to exceed \$1 million per year – for the following purposes ([RCW 82.46.037\(1\)](#)):

- The maintenance of REET 2 capital projects, as defined in [RCW 82.46.035\(5\)](#). The statute defines “maintenance” as “the use of funds for labor and materials that will preserve, prevent the decline of, or extend the useful life of a capital project. ‘Maintenance’ does *not* include labor or material costs for routine operations of a capital project” [*emphasis added*].
- Planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, improvement, or maintenance of REET 1 capital projects (see [REET 1 – The “First Quarter Percent”](#)) that are not also included within the REET 2 definition of capital projects.

To use REET 2 funds for these limited purposes, the city must fulfill additional reporting requirements defined within [RCW 82.46.037](#), including preparing and adopting a written report that includes:

- Information necessary to demonstrate that the city has, or will have, adequate funding from all sources to pay for all capital projects identified in its capital facilities plan for a two-year period.
- How revenues collected under REET 2 have been used during the prior two-year period.
- How revenues collected under REET 2 will be used for the succeeding two-year period.
- What percentage of funds for capital projects is attributed to REET 2 revenues compared to all other sources of capital project funding.

The report must be adopted as part of the city’s public budget process. Additionally, the city must declare that it has not enacted any requirement on the listing or sale of real property; or any requirement on landlords, at the time of executing a lease, to perform or provide physical improvements or modifications to real property or fixtures, except if necessary to address an immediate threat to health or safety; unless the requirement is specifically authorized by other state and federal laws.

**Use of REET 2 for affordable housing and homelessness:** New legislation in 2019 expanded the use of revenues for homeless housing to also include affordable housing. Until January 1, 2026 any city may now use up to \$100,000 or 25% of its available REET 2 funds – whichever is greater, but not to exceed \$1 million – for affordable housing projects and the planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of facilities for those experiencing homelessness, as long as

such projects are listed in the capital facilities plan. (These dollar limits do not apply to any city that used REET 2 revenue for homeless housing prior to June 30, 2019.)

To use REET 2 for affordable housing and homelessness, the city must document in its capital facilities plan that it has funds during the next two years for capital projects in subsection (5)(a) of the section – which is to say, all REET 2-eligible capital projects *except* park projects (which are listed in subsection (5)(b)). Note that these documentation requirements are much less stringent than the reporting requirements necessary to use REET 2 for maintenance/REET 1 projects.



## REET IN LIEU OF “SECOND HALF” SALES TAX

Any city or town that has not imposed the 0.5% “second half” sales tax may impose an additional 0.5% excise tax upon all real estate sales under [RCW 82.46.010](#)(3). The revenues are restricted in the same manner as REET 1. However, all cities and counties have levied the “second half” sales tax and are ineligible to use this revenue source.

## OTHER REET OPTIONS

There are also two additional REET options that are only available to counties, but which cities should be aware of. These measures require voter approval and are applied to all properties countywide (including within incorporated cities). The county must consult city elected officials while developing a plan for the expenditure of the proceeds.

- **1.0% REET for conservation areas:** Any county may impose an additional real estate excise tax of up to 1.0% for the acquisition and maintenance of conservation areas ([RCW 82.46.070](#)).
- **0.5% REET for affordable housing:** Any county that imposed the full 1.0% REET for conservation areas no later than January 1, 2003, may also impose a real estate excise tax up to 0.5% for affordable housing ([RCW 82.46.075](#)). San Juan County is the only county that is eligible.

# Other Excise Taxes

## ADMISSION TAX

### Quick Summary

- Any city may impose an admission tax up to 5% of the admission charge for various events and facilities.
- Revenues may generally be used for any lawful governmental purpose.
- Does not require voter approval.

**RCW:** [35.21.280](#)

Any city may levy an admission tax in an amount no greater than 5% of the admission charge for various facilities and events ([RCW 35.21.280](#)). The tax may be imposed by the legislative body and does not require voter approval.

This tax can be levied on admission charges (including season tickets or subscriptions) to venues such as theaters, dance halls, circuses, clubs that have cover charges, observation towers, stadiums, and any other activity where an admission charge is made to enter the facility or where a charge is made for food and drinks in a place where free entertainment, recreation, or amusement is provided. An admission charge may also be made on rental or use of equipment or facilities for the purposes of recreation or amusement, if the rental is a necessary component of the enjoyment.<sup>50</sup>

The statute exempts cities from placing an admission tax on any elementary or secondary school activity and on any public facility district (PFD) of a city for which the PFD has levied an admission tax under [RCW 35.57.100](#). However, a city may impose its own tax on admissions to activities at a PFD, in addition to the district's, if the revenue is used for the construction, operation, maintenance, repair, replacement, or enhancement of that public facility or to develop, support, operate, or enhance programs in that public facility ([RCW 35.21.280\(1\)](#)).

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<sup>50</sup> Counties have similar authority under [RCW 36.38.010](#). In *Ski Acres v. Kittitas County*, 118 Wn.2d 852 (1992), the Washington State Supreme Court ruled that the county could not levy its admission tax on ski lift tickets and/or rental equipment under [RCW 36.38.010\(2\)](#), which states, in part that the term "admission charge" includes:

a charge made for rental or use of equipment or facilities for purpose of recreation or amusement, and where the rental of the equipment or facilities is necessary to the enjoyment of the privilege for which a general admission is charged, the combined charges shall be considered as the admission charge.

The court agreed with the plaintiff that, because one could enter the ski area without a charge, the county could not charge an admission tax on the ski lift price (or equipment rental). This same argument could apply to facilities such as bowling alleys and skating rinks.

Because the language in the city statute is similar, a court might possibly find that cities also cannot levy an admission tax in cases where people can enter a place without paying even though they have to pay to participate in the activity in that place. The statute authorizing the admission tax for cities and towns, however, is different from the statute authorizing the county tax, and the area of difference is found in the language used by the Supreme Court to invalidate Kittitas County's application of the tax to ski lifts. Without additional guidance by the courts, it is difficult to conclude whether cities possess greater taxing authority. An argument to that effect certainly could be made.

For cities located within King County (a county with a population of 1 million or more), the statute prohibits the levy of an admission tax on events in stadiums built after January 1, 1995 that have seating capacity greater than 40,000 and are owned by a PFD.

A city-imposed admission tax is administered at the local level, so collections and auditing are the city's responsibility and the city should include appropriate language within the enabling ordinance to require collection and remittance. Some cities have been known to exempt certain events such as those sponsored by nonprofits, but this is an option that is determined individually by each city that decides to impose the tax.

### ***Use of Revenues***

Admission tax revenues are unrestricted and may be used for any lawful governmental purpose. However, if the admission tax is levied upon activities at a PFD as described above, the revenue must be used for the construction, operation, maintenance, repair, replacement, or enhancement of that public facility or to develop, support, operate, or enhance programs in that public facility ([RCW 35.21.280\(1\)](#)).

## BORDER AREA FUEL TAX

### Quick Summary

- Any city within 10 miles of a Canadian border crossing, or any transportation benefit district encompassing a Canadian border crossing, may impose a gas tax up to 2 cents per gallon, adjusted for inflation.
- Revenues are restricted and must be used for street maintenance and construction.
- Requires voter approval.

**RCW:** [82.47.020](#)

Any city or town within 10 miles of a Canadian border crossing, or any transportation benefit district that includes a Canadian border crossing within its boundaries, may establish a special gas tax in addition to any other federal, state, or local gas taxes ([RCW 82.47.020](#)). This tax requires voter approval. The maximum tax rate may not exceed 2 cents per gallon for ballot propositions submitted in calendar year 2022; for ballot measures submitted in later years, the maximum tax rate may be adjusted to reflect the percentage change in the implicit price deflator for personal consumption expenditures since calendar year 2022.

As of 2022, this tax has been implemented by the cities of Blaine, Nooksack, and Sumas, as well as the Point Roberts Transportation Benefit District.

The intent of this tax is help offset street maintenance and construction costs due to high border-crossing traffic volumes, with a portion of the costs borne by Canadian residents (many of whom buy gas in Washington border jurisdictions because fuel prices are generally lower than in British Columbia).

### Use of Revenue

The entire proceeds of the tax, minus refunds authorized by the resolution imposing the tax and minus any amounts for administration and collection expenses, must be used solely for border area jurisdiction street maintenance and construction ([RCW 82.47.030](#)).

### Ballot Measure Requirements

The border area fuel tax must be approved by a simple majority of voters and may be submitted at any special, primary,<sup>51</sup> or general election. The election must be held no more than 12 months before the tax is to take effect, and the proposition must state the proposed tax rate. According to MRSC's [Local Ballot Measure Database](#), Ferndale is the only city to attempt this revenue source in recent years and the measure failed.

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<sup>51</sup> [RCW 82.47.020](#) states that the tax must be submitted at "a general or special election," which at first glance might seem to rule out the August primary election. However, [RCW 29A.04.321\(2\)](#), which establishes the election schedule for local governments, authorizes the county to call up to four "special elections" each year, including the primary election. So for these purposes, "special election" includes the primary election.

## COMMERCIAL PARKING TAX

### Quick Summary

- Any city may impose a tax on commercial parking businesses.
- Revenues are restricted and must be used for transportation purposes.
- Does not require voter approval but is subject to possible referendum.

**RCW:** [82.80.030](#)

Any city or town may impose a tax on commercial parking businesses located within its boundaries ([RCW 82.80.030](#)). This tax may be imposed by the legislative body and does not require voter approval. However, it is subject to possible referendum under [RCW 82.80.090](#).

There is no limit on the tax rate, and there are many ways that a city can assess the tax. The city may impose the tax directly on parking businesses ([RCW 82.80.030\(1\)](#)), or it may impose a tax on the driver of the vehicle using the commercial parking facility ([RCW 82.80.030\(2\)](#)).

If the tax is imposed on the parking business, the rate must be based upon either gross proceeds or the number of vehicle stalls available for commercial parking use. The rates charged must be uniform for the same class or type of commercial parking business ([RCW 82.80.030\(4\)](#)).

If the tax is imposed on the driver, the tax may be a flat fee or a percentage amount, and the operator of the parking facility collects and remits the tax revenues to the city ([RCW 82.80.030\(2\)](#)). The tax rates may vary by any “reasonable factor,” including zoning, the location of the facility, parking duration, time of entry or exit, and the type or use of the vehicle. Cities may also exempt carpool vehicles, vehicles with a disabled parking placard, or government vehicles.

As of 2022, we are aware of 11 cities imposing a commercial parking tax: Bainbridge Island, Bremerton, Burien, Milton, Mukilteo, Port Angeles, Ruston, SeaTac, Seattle, Sumner, and Tukwila.

The city is responsible for administering the tax and adopting rules by resolution or ordinance. The city may provide for payment on a monthly, quarterly, or annual basis.

### Use of Revenues

The revenue must be used for transportation purposes as defined in [RCW 82.80.070](#). This includes, but is not limited to:

- Operation and preservation of roads, streets, and other transportation improvements;
- New construction, reconstruction, and expansion of streets and highways and other transportation improvements;
- Development and implementation of public transportation and high capacity transit improvements and programs;
- Planning, design, and acquisition of right-of-way and sites for transportation purposes; and
- Transportation improvements in accordance with a transportation benefit district.

The statute prohibits the supplanting of funds. No city may use the commercial parking tax revenues to replace, divert, or loan any revenues currently being used for transportation purposes to non-transportation purposes ([RCW 82.80.070](#)(6)).

Any city with a population greater than 8,000 that levies a commercial parking tax must develop and adopt a specific transportation program identifying the geographic area where the tax revenues will be collected and expended, proposed transportation improvements and costs, how the plan is coordinated with other applicable local and regional transportation plans, and a six-year funding plan updated every year ([RCW 82.80.070](#)(3)-(5)).

# GAMBLING TAX

## Quick Summary

- Any city or town may tax gambling activities within its jurisdiction.
- Maximum tax rates depend upon type of gambling activity.
- Revenues are restricted and must be used for public safety purposes.
- Does not require voter approval.

**RCW:** [9.46.110](#)

Gambling activities are regulated by the state, with the Washington State Gambling Commission regulating and licensing most gambling activities under [chapter 9.46 RCW](#). Cities and towns are limited in their authority to regulate gambling, but they may prohibit any or all gambling activities for which licenses are required ([RCW 9.46.295](#)).

Cities that choose to allow gambling may tax the gambling proceeds ([RCW 9.46.110](#)). Such gambling taxes may be imposed by the legislative body and do not require voter approval.

The maximum rates are set by statute and are listed below. Note that some of the maximum tax rates are based on net receipts (gross receipts minus prizes), while others are based on gross receipts. For definitions of each activity, refer to [chapter 9.46 RCW](#).

Gambling Activity	Maximum Tax Rate
Amusement games	Actual costs of enforcement, not to exceed 2% of net receipts*
Bingo	5% of net receipts*
Punch boards and pull-tabs by <i>charitable or nonprofit organizations</i>	10% of net receipts
Punch boards and pull-tabs by <i>commercial stimulant operators</i>	5% of gross receipts or 10% of net receipts
Raffles	5% of net receipts**
Social card games	20% of gross receipts

\* For amusement and bingo games, charitable or nonprofit organizations with no paid operating or management personnel and combined net receipts of \$5,000 or less are exempt from taxation.

\*\* For raffles conducted by a bona fide charitable or nonprofit organization, the first \$10,000 of net receipts are exempt from taxation.

## Use of Revenues

Cities that implement this gambling tax “must use the revenue from such tax primarily for the purpose of public safety” ([RCW 9.46.113](#)).

## LEASEHOLD EXCISE TAX

### Quick Summary

- Any city or town may levy an excise tax up to 4% on most leases of tax-exempt properties.
- Tax is credited against state and county leasehold excise taxes.
- Revenues are unrestricted and may be used for any lawful governmental purpose.
- Does not require voter approval.

**RCW:** [82.29A.040](#)

Under state law, all publicly owned properties, as well as certain privately owned properties, are exempt from property tax under [Title 84 RCW](#). However, most leases of publicly-owned real and personal property in the state, as well as certain specified privately owned real or personal properties, are subject to a leasehold excise tax in lieu of property taxes, as long as the lessee (the tenant) would otherwise be subject to property tax if the lessee owned the property instead of leasing it ([chapter 82.29A RCW](#)).

The State of Washington imposes a 12.84% leasehold excise tax on the act or privilege of occupying or using publicly owned, or specified privately owned, real or personal property ([RCW 82.29A.030](#)).<sup>52</sup>

In addition, any city or town is authorized to levy and collect a leasehold excise tax of up to 4% of the taxable rent on the occupancy or use of the same publicly owned, or specified privately owned, real or personal property within its jurisdictional limits. Counties have similar leasehold excise tax authority up to a rate of 6%. These local leasehold excise taxes do not require voter approval.

“Taxable rent” means the contract rent (when the lease is established by competitive bidding) or, in certain circumstances, rent as determined by the Department of Revenue (DOR) when a leasehold interest has not been established through competitive bidding and the compensation to the lessor does not represent fair market value of the lease or when a lease has not been renegotiated for at least 10 years. (See definitions in [RCW 82.29A.020](#).)

Publicly owned real or personal property also includes real or personal property owned by federally recognized Indian tribes, nonprofit fair associations, and community centers, as long as they are exempt from property tax. [RCW 82.29A.130](#) provides for exemptions on certain specified properties, while [RCW 82.29A.120](#) allows certain lessees to receive credits that reduce their leasehold excise tax payments.

### ***Allocation of Leasehold Excise tax***

Leasehold excise taxes imposed by cities and counties are credited against the 12.84% state leasehold excise tax. This credit is applied in layers, which is to say the county rate (with a maximum rate of 6%) is credited against the state rate, and the city rate (with a maximum rate of 4%) is credited against the county. For example, if the county imposes its maximum of 6% and no city has imposed a leasehold excise tax, the county will receive 6% countywide and the state will receive the remaining 6.84%. However, if a city also imposes its 4% maximum rate, the city will receive 4% and the county will receive 2%. The state would still receive the remaining 6.84%.

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<sup>52</sup> [RCW 82.29A.030](#) establishes a tax rate of 12% plus an additional tax equal to the rate specified in [RCW 82.02.030](#) (which is 7%) multiplied by 12%. 12% times 7% is 0.84%, which brings the total tax rate to 12.84%.



### ***Use of Revenues***

Leasehold excise tax revenues are unrestricted and may be used for any lawful governmental purpose.

### ***Timing of Receipts***

For any city-owned properties, the city collects the 12.84% leasehold tax and remits the full amount to the Department of Revenue. For other eligible tax-exempt properties located within the city, the tax must be collected by the lessor and remitted to DOR on a quarterly basis, and federal property reports directly to the DOR on an annual basis. The DOR, after deducting an administrative fee ([RCW 82.29A.080](#)), distributes the taxes back to cities on a monthly basis ([RCW 82.29A.090](#)).

## LOCAL HOUSEHOLD TAX

### Quick Summary

- Excise tax of up to \$1.00 per month per household; may not be imposed concurrently with transit sales tax.
- Revenues must be used for public transportation improvements.
- Does not require voter approval but may be subject to referendum.

**RCW:** [35.95.040](#)

Any city or town that provides transit service may impose a local household tax of up to \$1.00 per month per household ([RCW 35.95.040](#)) to support its transit system. However, any jurisdiction imposing a transit sales tax under [RCW 82.14.045](#) (see [Transit Sales Tax](#)), or located within a transit district that imposes such a sales tax, may not impose a local household tax and vice versa. As of 2022, we are not aware of any cities or counties that impose this local household tax, and most transit agencies rely on sales taxes instead, which generate far more revenue.

Local household taxes may be imposed by city council ordinance. While a public vote is not explicitly required,<sup>53</sup> state statute says that any municipality adopting a local household tax “may” refer the ordinance to voters before making the ordinance effective ([RCW 35.95.090](#)). In addition, the measure may be subject to possible referendum ([RCW 35.95.080](#)).

The tax is administered by the city clerk or treasurer, and the tax is billed and collected at such times and in the manner determined by the city ([RCW 35.95.050](#)).

### Use of Revenues

The revenues must be used for the operation, maintenance, and capital needs of its municipally owned or leased and municipally operated public transportation system.

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<sup>53</sup> [RCW 35.95.040](#) requires a public vote for local household taxes imposed by public transportation benefit areas or county transportation authorities, but not for cities or towns.

# LOCAL OPTION GAS TAX

## Quick Summary

- Counties may impose a local option gas tax of 10% of the state gas tax rate.
- Revenues are shared with cities and must be used for transportation purposes.
- Requires voter approval.

**RCW:** [82.80.010](#)

Any county may impose a countywide local option motor vehicle fuel excise tax (gas tax) at a rate equal to 10% of the current state gas tax rate, with some of the revenue shared with the cities and towns within the county ([RCW 82.80.010](#)). As of 2024 the state gas tax is 49.4 cents per gallon, so the local option gas tax would be 4.94 cents per gallon. This tax is in addition to any other federal, state, or local gas taxes and requires voter approval.

A local option gas tax must be approved by a simple majority of voters, and the increased gas tax may only be implemented on January 1, April 1, July 1, or October 1. A county may not levy this tax if it is participating in a regional transportation investment district and the county or district has imposed the motor vehicle and special fuel tax under [RCW 82.80.110](#) or [RCW 82.80.120](#).

Cities and transportation benefit districts near the Canadian border have separate authority to impose an additional gas tax up to 1 cent per gallon (see [Border Area Fuel Tax](#)).

## Revenue Sharing

The revenues are shared between the county and the cities on a per capita (population) basis ([RCW 82.80.080](#)). The county's share is calculated based on 1.5 times the unincorporated population, as shown in the example below.

### Example of Revenue Sharing for Local Option Gas Tax

Total revenue: \$100,000

Jurisdiction	Population	Adjusted Population	Percent of Adjusted Population	Revenues Received
City A	5,000	5,000	5%	\$5,000
City B	25,000	25,000	25%	\$25,000
City C	10,000	10,000	10%	\$10,000
Unincorporated county	40,000	x1.5 = 60,000	60%	\$60,000
TOTAL	80,000	100,000	100%	\$100,000

Prior to the imposition of the local option gas tax, the county must contract with the Department of Revenue (DOR) for the administration and collection of the tax, with DOR withholding up to 1% as an administrative fee.

### ***Use of Revenues***

The revenues are restricted and must be used strictly for transportation purposes in accordance with [RCW 82.80.070](#). This includes, but is not limited to:

- Operation and preservation of roads, streets, and other transportation improvements;
- New construction, reconstruction, and expansion of streets and highways and other transportation improvements;
- Development and implementation of public transportation and high capacity transit improvements and programs;
- Planning, design, and acquisition of right-of-way and sites for transportation purposes; and
- Transportation improvements in accordance with a transportation benefit district.

However, the statute goes on to say that proceeds from the local option gas tax under [RCW 82.80.010](#) “shall be used exclusively for ‘highway purposes’ as that term is construed in Article II, section 40 of the state Constitution.” The constitutional definition is narrower than the “transportation purposes” identified in the beginning of the statute. Until this inconsistency is addressed or clarified, we would recommend using the narrower, more conservative constitutional definition.

### ***Timing of Receipts***

The distribution is made by the State Treasurer’s Office on a monthly basis to the county and its cities.

## TIMBER EXCISE TAX

### Quick Summary

- Credit against state timber excise tax.
- May only be imposed by counties, which share the revenue with other taxing districts (including some cities) based on timber sales, timber assessed value, and levy rates.

**RCW:** [84.33.041](#), [84.33.051](#), [84.33.081](#)

The State of Washington imposes a 5% excise tax upon all timber sales on public or private land. However, any county may take a credit of 4% against the state timber excise tax (see [RCW 84.33.041](#) and [RCW 84.33.051](#)). This means that the excise tax paid by the harvester remains 5%, but that the state excise tax rate is effectively reduced to 1% while the county receives the remaining 4%.

The county must share the revenue with all taxing districts within the county that have timber assessed value (TAV) – primarily school districts and special purpose districts. Most cities and towns will receive little to no revenue from the timber excise tax due to the lack of timberlands within incorporated areas.

The distribution amounts depend on each district's levy rate for the current year as well as the district's TAV and the actual amount of timber excise taxes collected. [RCW 84.33.081](#) establishes five distribution tiers:

- **Priority 1:** Taxing districts with general obligation (G.O.) bond levies, and school districts with excess levies for capital purposes.
- **Priority 2:** School districts.
- **Priority 3:** All taxing districts with a regular or excess levy not listed in Priority 1 or 2.
- **Priority 4 (if any):** County reserve for next year's timber excise tax distributions.
- **Priority 5 (if any):** All excess funds after Priority 4 will be distributed to Priority 3 jurisdictions.

Many cities have no timber assessed value and will not receive any distributions. However, if a city *does* have timber assessed value, it will be eligible for distributions. If an eligible city has an excess levy for the repayment of voted G.O. bonds, it will receive a Priority 1 distribution. In addition, an eligible city will receive Priority 3 distributions for all of its levies (for instance, the general fund levy and the EMS levy) based on the city's levy rate(s).

If there are enough timber revenues for a full distribution, each eligible city will receive (for each levy) an amount equal to its timber assessed value multiplied by its levy rate. If there are insufficient funds for the full distribution, each taxing district's distribution(s) will be reduced proportionately.

### Use of Revenues

The revenues must be used for the same purposes as the levy itself. For instance, a Priority 1 distribution for a city's G.O. bond excess levy must be used for repayment of bonds, a Priority 3 distribution for a city's EMS levy must be used for emergency medical services, and a Priority 3 distribution for the city's general fund levy is unrestricted and may be used for any lawful governmental purpose.

### ***Timing of Receipts***

The county distributes timber excise tax payments to eligible jurisdictions four times per year: in February and August (for Priority 1) and May and November (for Priority 3).

# “State Shared” Revenues

Intergovernmental revenues are revenues that come from another government entity outside of the umbrella of your local government entity. Federal and state governments are the two primary sources of intergovernmental revenues. In particular, the State of Washington has distributed a number of “state shared” revenues to cities and counties over the past several decades.

Depending upon who is discussing the topic of “state shared” revenues, the definition may vary to some degree. For our purposes, we will generally consider state shared revenues to be any revenues distributed and allocated to cities, towns, and counties by a formula set in state statute or appropriated by the legislature through the state budget process.

However, there are also other revenues that some consider to be “state shared.” For instance, there are certain credits against state taxes that some consider to be state shared revenues, such as the basic 2% lodging tax (see [Lodging Tax \(Hotel/Motel Tax\)](#)) or the timber excise tax (see [Timber Excise Tax](#)). We have placed those revenue sources elsewhere within the *Revenue Guide*, as these resources are provided for by statute and are not subject to legislative appropriation. In those examples, cities and counties have greater statutory authority and the local legislative body must take specific action (adopting a resolution or ordinance) to begin collecting these revenues.

While a few state shared revenues are influenced by local policies (such as cannabis excise taxes), most are distributed based on population or other factors that are beyond the city’s direct control.

Some distributions are established as a flat dollar amount, while others are automatically indexed to inflation or are distributed as a percentage of actual state tax receipts. Many state shared revenues are distributed to all cities in the state, while others are distributed only to those jurisdictions that meet certain criteria.

State shared revenues are valuable revenue sources for local governments and provide funding for many city programs. However, these revenue streams depend upon the state legislative process, the economy, and political factors. Remember that these resources are vulnerable during any legislative session, especially when the economic forecasts start decreasing.

## CANNABIS (MARIJUANA) EXCISE TAX

### Quick Summary

- A portion of the state's cannabis excise tax is distributed to cities and counties depending on their cannabis policies.
- Two separate components:
  - **Per capita share** distributed to all cities and counties that do not prohibit cannabis businesses.
  - **Retail share** distributed to cities and counties where cannabis retailers are located, in proportion to statewide cannabis revenues.
- No clear guidance on use of revenues, but stated intent of I-502 is that cannabis legalization will "[allow] law enforcement resources to be focused on violent and property crimes [and generate] new state and local tax revenue for education, health care, research, and substance abuse prevention."

**RCW:** [69.50.540\(3\)\(c\)](#)

The state imposes a 37% excise tax on the retail sale of cannabis, cannabis concentrates, and cannabis-infused products ([RCW 69.50.535](#) and [WAC 314-55-089](#)) and shares some of the excise tax revenues with cities and counties, as mandated by I-502.<sup>54</sup> Beginning in 2022, cities receive a percentage of the excise tax revenues (after various deductions), which means these revenues will fluctuate with cannabis sales activity. Previously, the excise tax distributions were fixed by legislative appropriation.

Cannabis excise tax distributions depend in significant part upon local cannabis policies and regulations. The regulatory approach that each city adopts, as well as the number of local cannabis retailers, will determine whether the city receives any cannabis excise tax revenue (and how much).

There is no specific authority that allows cities or towns to impose additional local excise taxes on the sale of cannabis. However, first-class cities and code cities *might* be able to do so under [Watson v. City of Seattle](#) (2017), [Lakehaven Water and Sewer v. City of Federal Way](#) (2020), and [Greater Seattle Chamber v. City of Seattle](#) (2022).

### Eligibility and Distribution Formula

There are two separate components to cannabis excise tax distributions:

- **Per capita share:** Distributed on a strictly per capita (population) basis to all cities, towns, and counties that allow the siting of cannabis producers, processors, AND retailers. Any jurisdiction that prohibits cannabis producers, processors, OR retailers is not eligible.
- **Retail share:** Distributed to all cities, towns, and counties where licensed cannabis retailers are physically located, and in proportional share to total statewide cannabis retail sales.

The different distribution formulas mean that some jurisdictions will receive both the per capita and retail distributions, while others may receive only one or the other, and some jurisdictions will receive neither. The chart below shows a few hypothetical scenarios to illustrate the differences.

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<sup>54</sup> The intent of I-502 states, among other things, that it will "[generate] new state *and local* tax revenue" [emphasis added], although it does not specify how the revenue will be shared with local governments or how much will be shared.



Hypothetical Cannabis Excise Tax Distribution Scenarios	Eligible for per capita share?	Eligible for retail share?
City allows cannabis production, processing, and retail and has at least one retailer located within the jurisdiction.	Yes	Yes
City prohibits cannabis entirely and has no retailers located within the jurisdiction.	No	No
Town took no action to prohibit cannabis, but is small enough that no cannabis businesses can locate there under state law due to the buffer requirements.	Yes	No
City prohibits cannabis producers and processors but allows retailers and has at least one retailer located within the jurisdiction.	No	Yes
City currently prohibits new cannabis businesses but has existing retailers that are grandfathered in.	No	Yes
City prohibits cannabis retail and has no retailers but allows cannabis production and processing.	No	No

Each year by September 15, the LCB must provide the state treasurer with the annual distribution amount for each county and city, but according to LCB these annual distribution amounts are estimates only and actual payments will fluctuate each quarter depending on retail sales. For the most recent legislative appropriations and distribution estimates, refer to our annual [Budget Suggestions publication](#), released every year at the end of July.

### ***Use of Revenues***

The restrictions on the use of cannabis excise tax revenues are somewhat murky, as there is no clear statute stating how the funds must be used. However, the notes in [RCW 69.50.540](#) reference [RCW 69.50.101](#) and the stated intent of I-502, which states that cannabis legalization will “[allow] law enforcement resources to be focused on violent and property crimes [and generate] new state and local tax revenue for education, health care, research, and substance abuse prevention.”

### ***Timing of Receipts***

Payments are distributed quarterly on the last business day of March, June, September, and December. The State Treasurer’s Office distributes both the “per capita” and “retail” shares together in one payment using the same BARS code.

## CAPRON REFUNDS

### Quick Summary

- Island counties and cities receive refunds of state gas taxes and motor vehicle license fees to compensate for their lack of state highways and state highway investment.
- Only distributed to San Juan and Island counties and their cities.

**RCW:** [46.68.080](#)

San Juan and Island counties (counties composed entirely of islands), and the cities located within those counties, receive a share of the state gas tax and vehicle license fees called Capron refunds<sup>55</sup> to compensate for their lack of state highways and state highway investments ([RCW 46.68.080](#)). This is a significant source of transportation funding for these jurisdictions, and revenues are shared between the cities and the county.

To calculate the gas taxes paid by island residents, the state uses the ratio of vehicle license fees paid by county residents compared to the total vehicle license fees collected statewide. It then multiplies that ratio by the total statewide gas tax collections to generate an estimate of gas taxes paid by island residents.

### ***San Juan County***

In San Juan County, which has no state highway or physical connection to the mainland, the state refunds all of the vehicle license fees ([RCW 46.17.350](#) and [RCW 46.17.355](#)) and the first 23 cents per gallon of motor vehicle fuel taxes ([RCW 82.38.030\(1\)](#)) directly or indirectly paid by its residents, minus the state's administrative costs of collecting the taxes and fees. The remaining revenue is then distributed to the county treasurer and split between the county and Friday Harbor based on their proportional assessed valuation.

### ***Island County***

In Island County, which has some state highways and a physical connection to the mainland, the state refunds half of the vehicle license fees ([RCW 46.17.350](#) and [RCW 46.17.355](#)) and the first 11.5 cents per gallon of motor vehicle fuel taxes (half of the tax in [RCW 82.38.030\(1\)](#)) directly or indirectly paid by its residents, minus the state's administrative costs of collecting the taxes and fees. The remaining revenue is then distributed to the county treasurer and split between the county and its cities based on their proportional assessed valuation.

### ***Use of Revenues***

Since Capron refunds are paid from the state motor vehicle fund, they must be placed in the city street fund and used for the same purposes as the motor vehicle fuel tax (see [Motor Vehicle Fuel Tax \(MVFT\)](#)).

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<sup>55</sup> These are called "Capron" refunds because the original legislation creating these refunds was sponsored by Rep. Victor J. Capron of San Juan County.

## CITY-COUNTY ASSISTANCE (ESSB 6050) DISTRIBUTIONS

### Quick Summary

- Portion of the state real estate excise tax (REET) is shared with certain cities that have relatively low per capita assessed values.
- Originally intended to mitigate the loss of motor vehicle excise tax (MVET) revenues following I-695 in 1999.
- Distribution formula is complicated and depends upon population, assessed value, sales tax receipts, and historical budget distributions.
- Revenues are unrestricted and may be used for any lawful governmental purpose.

**RCW:** [82.45.230](#), [43.08.290](#)

The State of Washington imposes a real estate excise tax (REET) on each sale of real property (see [Real Estate Excise Taxes \(REET\)](#)), of which the state shares 1.4% of the revenues with certain cities and counties with relatively low taxing capacity based on a complicated formula ([RCW 82.45.230](#) and [RCW 43.08.290](#)). These distributions are known as “city-county assistance,” or occasionally “distressed city assistance” or “ESSB 6050 distributions” after the original 2005 legislation.

These funds were originally intended to mitigate the loss of motor vehicle excise taxes (MVET), commonly known as “car tab fees,” that were distributed to local governments. The state used to impose a 2.2% MVET annually upon the value of each vehicle within the state, of which a significant portion was shared with cities and counties.

Initiative 695, approved by voters in 1999, repealed the statewide MVET vehicle licensing system and replaced it with a flat \$30 annual license tab fee. This initiative had a significant impact on local governments including cities, towns, and counties. A good portion of the MVET was used to equalize the disparity between smaller jurisdictions that did not meet statewide averages for assessed property values or retail sales tax income. At the beginning of 2000, some cities saw a reduction in general fund revenues as high as 60%. The initiative was later ruled unconstitutional, but the state legislature retained the intent of the initiative and maintained the reduced car tab fees.

To compensate for the loss of MVET, the state legislature appropriated a portion of the state REET revenues to support “local government assistance” for the affected entities, also known as “MVET backfill.” During the 2005 legislative session, the legislature adopted ESSB 6050 establishing the current city-county assistance program.

Because the city-county assistance program depends upon actual real estate sales, this revenue source can be somewhat volatile during economic downturns. When the statewide real estate market is strong, there are sufficient revenues to fund the entire distribution. But if the market is weaker, there is often not enough revenue to fund the entire distribution, and each city or county will see its distribution reduced proportionately.

### ***Eligibility and Distribution Formula***

The formula for distributing city assistance funds is rather complicated. A city’s eligibility depends upon its per capita assessed valuation, as shown in the table below.

## City Assistance Funding Eligibility

City/town population	Only eligible if city's per capita assessed value is:
5,000 or less	Less than 2x the statewide average for all cities
Greater than 5,000	Less than the statewide average for all cities

The exact distribution amount each eligible city receives depends upon its population, per capita assessed value, per capita “first half” sales tax receipts (see *“Basic” Sales Tax/First Half-Cent*) and streamlined sales tax mitigation payments (which cities and towns no longer receive), and historical “MVET backfill” distributions from the 2004-2005 state biennial budget.

The key terms to understand are:

- **2005 MVET backfill:** The local government assistance moneys (if any) received by each city in state fiscal year 2005 under section 721, Ch. 25, Laws of 2003 1st special session (amended state budget).
- **Property tax equalization:** For cities with an assessed value (AV) less than 55% of the per capita average for all cities, an amount determined by subtracting the city's per capita AV from 55% of the statewide AV, dividing that amount by 1,000, and multiplying the result by the city's population.
- **Sales tax equalization:** The amount of money required to increase a city's combined per capita sales tax receipts from the “first half” sales tax plus per capita streamlined sales tax mitigation payments to a designated percentage of the weighted “first half” per capita average for all cities statewide.

No city may receive more than \$100,000 (in 2005 dollars) plus inflation, and any city that incorporates after August 1, 2005 is not eligible. The exact formulas are summarized below. Note that the sales tax equalization thresholds are slightly different depending on the city's population, and that the MVET backfill only applies to cities with a population of 5,000 or less.

## City Assistance Distribution Formulas

City/town population	Amount received
5,000 or less  <i>Per capita AV less than 2x the statewide average</i>	Greater of: <ul style="list-style-type: none"> <li>• 55% sales tax equalization,</li> <li>• 55% property tax equalization, or</li> <li>• 2005 MVET backfill</li> </ul> <i>Not to exceed \$100,000 (2005 dollars) plus inflation</i>
Greater than 5,000  <i>Per capita AV less than the statewide average</i>	Greater of: <ul style="list-style-type: none"> <li>• 50% sales tax equalization, or</li> <li>• 55% property tax equalization</li> </ul> <i>Not to exceed \$100,000 (2005 dollars) plus inflation</i>

If there are not enough state REET revenues to fund the entire distribution, then each city's individual distribution will be reduced proportionately. If there are more than enough revenues to fund the entire distribution, the excess funds will be distributed on a per capita (population) basis to all eligible cities that have imposed the

full 0.5% “second half” sales tax (see [“Optional” Sales Tax/Second Half-Cent](#)). Any city or town that has not imposed the full 0.5% “second half” will still receive its regular city assistance distribution but is not eligible to receive any excess funds.

For the most recent distribution estimates, refer to our annual [Budget Suggestions publication](#), released each year at the end of July.

### ***Use of Revenues***

City-county assistance revenues are unrestricted and may be used for any lawful governmental purpose.

### ***Timing of Receipts***

Payments are distributed quarterly on the last business day of March, June, September, and December. The actual legislation requires the funds to be distributed on January 1, April 1, July 1, and October 1. However, the State Treasurer’s Office regularly distributes funds to local governments on the last business day of the month, so in order to meet these deadlines the funds are distributed on the last business day of the preceding month.

## CRIMINAL JUSTICE DISTRIBUTIONS

### Quick Summary

- Five separate programs:
  - **High Crime** for certain cities with crime rates above 125% of the state average.
  - **Population** for all cities and towns on a per capita basis, with each city receiving a minimum of \$1,000 no matter how small its population.
  - **Special Programs** for all cities and towns on a per capita basis, with revenues used for innovative law enforcement, at-risk children and child abuse victims, or domestic violence programs.
  - **Contracted Services** for any city or town that contracts for the majority of its law enforcement services.
  - **Violent Crime** for certain cities with violent crime rates above 150% of state average.
- Revenues are restricted to specified criminal justice purposes.

**RCW:** [82.14.320](#), [82.14.330](#)

There are two separate criminal justice distributions for cities, created by [RCW 82.14.320](#) and [82.14.330](#). Each program originally (in state fiscal year 2000) appropriated a total of \$4.6 million, to be increased each July by the “[fiscal growth factor](#)” set forth in [RCW 43.135.025](#). The fiscal growth factor is the average annual growth in state personal income for the prior ten fiscal years.

The two statutes together contain five separate distribution programs:

- **High Crime** ([RCW 82.14.320](#)) for certain cities with crime rates above 125% of the state average
- **Population** ([RCW 82.14.330](#)(1)(a)(ii)) for all cities and towns on a per capita (population) basis
- **Special Programs** ([RCW 82.14.330](#)(2)(a)(ii)) for all cities and towns on a per capita (population) basis, with revenues used for innovative law enforcement, at-risk children and child abuse victims, or domestic violence programs
- **Contracted Services** ([RCW 82.14.330](#)(2)(a)(i)) for any city or town that contracts for the majority of its law enforcement services
- **Violent Crime** ([RCW 82.14.330](#)(1)(a)(i)) for certain cities with violent crime rates above 150% of the state average

High crime is the largest single distribution program, since the total distribution for high crime (contained in [RCW 82.14.320](#)) is equal to the combined distributions of the other four programs (which are all contained in [RCW 82.14.330](#)).

### ***Eligibility and Distribution Formulas***

A brief summary of the distribution formulas and eligibility follows. For more details, as well as the most recent distribution estimates, refer to our annual [Budget Suggestions publication](#), released each year at the end of July.

**High Crime:** Distributed on the basis of crime rates and population to any city with a crime rate over 125% of the annual statewide average that also:

- Has levied the full 0.5% “second half” sales tax (see [“Optional” Sales Tax/Second Half-Cent](#)) or has imposed the additional 0.5% real estate excise tax in lieu of the second half (see [REET in Lieu of “Second Half” Sales Tax](#)), AND
- Has a per capita yield from the “first half” sales tax (see [“Basic” Sales Tax/First Half-Cent](#)) that is less than 150% of the average statewide per capita yield.

30% of the high crime funds are distributed on a per capita (population) basis to eligible cities with a crime rate greater than 175% of the statewide average, although no city may receive more than 50% of that amount. The remaining money is distributed on a per capita basis to all eligible cities with a crime rate greater than 125% of the statewide average.

**Population:** Distributed to all cities on a per capita (population) basis, with each city receiving a minimum of \$1,000 no matter how small its population.

**Special Programs:** Distributed to all cities on a strictly per capita (population) basis.

**Contracted Services:** Distributed on a strictly per capita (population) basis to all cities that contract with another governmental agency for the majority of their law enforcement services. Cities that qualify for this distribution must notify the Department of Commerce (DOC) by November 30 to receive distributions for the following year. Cities are responsible for notifying DOC for any changes regarding these contractual relationships. Any cities that are added to or removed from this list will only impact distributions for the next calendar year, and no adjustments will be made retroactively.

**Violent Crime:** Distributed on a strictly per capita (population) basis to all cities with a three-year violent crime rate (per 1,000 population) above 150% of the three-year statewide average. No city may receive more than \$1.00 per capita. Any moneys remaining undistributed at the end of each calendar year must be distributed to the criminal justice commission to reimburse participating city law enforcement agencies with 10 or fewer full-time commissioned patrol officers for the cost of temporarily replacing each officer who is enrolled in basic law enforcement training as provided in [RCW 43.101.200](#).

## ***Use of Revenues***

All criminal justice distributions are restricted and may only be used for the following purposes:

**High Crime:** All revenues must be used for criminal justice purposes as defined in [RCW 82.14.320](#) and may not supplant or replace existing funding. “Criminal justice purposes” are defined as:

[A]ctivities that substantially assist the criminal justice system, which may include circumstances where ancillary benefit to the civil justice system occurs, and which includes domestic violence services such as those provided by domestic violence programs, community advocates, and legal advocates, as defined in [RCW 70.123.020](#), and publications and public educational efforts designed to provide information and assistance to parents in dealing with runaway or at-risk youth.

**Special Programs:** All revenues must be used for innovative law enforcement strategies, programs to help at-risk children or child abuse victims, and programs to reduce the level of domestic violence or to provide counseling for domestic violence victims. While these funds must be spent in these specific areas, there is no

requirement for how much must be spent in each area. The city's entire distribution could be spent in only one of these areas if the city wishes.

**Population and Violent Crime:** All revenues must be used for criminal justice purposes as defined in [RCW 8.14.330\(1\)\(c\)](#) and may not supplant or replace existing funding. The definition is the exact same as for the High Crime program (see previous), except that revenues may *not* be used for publications and public educational efforts designed to provide information and assistance to parents in dealing with runaway or at-risk youth.

**Contracted Services:** While the statute does not specifically state that the revenues are restricted to the provision of law enforcement services, it is most certainly implied. The statute requires a contract between the city and another government agency for law enforcement in order to receive a per capita distribution of this restricted resource.

It is worth noting that the statutory restrictions on use of all of the monies distributed under RCW 82.14.330 are additionally subject to review by the state auditor and should it be determined that the use does not comply with the criteria outlined above the city will become ineligible to receive future distributions until the use of the moneys are either justified or repaid to the state general fund.

### ***Timing of Receipts***

All criminal justice payments are distributed quarterly, on the last business day of January, April, July, and October.



## FIRE INSURANCE PREMIUM TAX

### Quick Summary

- Distributed to all cities with a pre-LEOFF firefighters' pension fund, based on their proportionate number of paid firefighters.
- Revenues are restricted and must be used for the firefighters' pension fund.

**RCW:** [41.16.050](#)

[RCW 41.16.050](#) requires each municipality that had a regularly organized full-time fire department with paid firefighters prior to the establishment of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) on March 1, 1970 to establish a firefighters' pension fund. This fund is to consist of all bequests, gifts, or donations given or paid to the municipality for the firefighters' pension fund; a proportional share of the state tax on fire insurance premiums (described below); property taxes collected under the provisions of [RCW 41.16.060](#) (see [Regular Levy \(General Fund\)](#)); interest on the investments of the fund; and any contributions made by firefighters themselves.

The state collects a 2% tax on the premiums of all insurance policies written ([RCW 48.14.020](#)). Of the tax collected on fire policies and the fire component of homeowner's and commercial multi-peril policies, 25% is distributed to cities and fire districts that have firefighters' pension funds ([RCW 41.16.050](#)).

### ***Eligibility and Distribution Formula***

Fire insurance premium taxes are distributed to all cities with a pre-LEOFF firefighters' pension fund. The distribution to each city is based on its proportionate share of paid firefighters, a number known as the "ratio value." Each year on or before January 15, all cities, towns, and fire districts with a pre-LEOFF firefighters' pension fund must certify to the State Treasurer their number of paid firefighters.

### ***Use of Revenues***

Fire insurance premium tax revenues are restricted and must be used for the firefighters' pension fund as established by [chapter 41.16 RCW](#).

### ***Timing of Receipts***

The Office of Insurance Commissioner (OIC) certifies the fire insurance premiums collected by March 31, and distributions are made in one lump sum each year on the last business day of May.

## LIQUOR DISTRIBUTIONS

### Quick Summary

- Distributed to all cities and towns on a per capita basis.
- All cities and towns receive two separate distributions:
  - **Liquor excise:** Depends on actual liquor sales. Revenues are partially restricted – at least 2% must be used for a drug or alcohol treatment program and the remaining 98% is unrestricted and may be used for any lawful governmental purpose.
  - **Liquor profits:** Flat distribution from liquor licensing fees. Revenues are partially restricted – at least 2% must be used for a drug or alcohol treatment program and at least 20.23% must be used for public safety programs. The remaining 77.77% is unrestricted and may be used for any lawful governmental purpose.

**RCW:** [82.08.160](#), [82.08.170](#) – Liquor excise  
[66.24.065](#) – Liquor profits

All cities and towns receive a portion of state liquor revenues. There are two separate liquor distributions: “liquor profits” and “liquor excise.”

Liquor excise is a small share of the state’s excise tax on liquor sales and varies each year depending on actual liquor sales.

Liquor profits is an allocation from the liquor revolving account for liquor licensing fees charged to distributors and retailers, and it will remain the same each year unless changed by the legislature.<sup>56</sup> The total distribution is the same as what cities received during “comparable periods” prior to December 8, 2011 and the passage of Initiative 1183, which privatized liquor sales, plus an additional distribution for the purpose of enhancing public safety programs. The “comparable periods” were determined by the Office of Financial Management to be December 2010, March 2011, July 2011, and September 2011.

### ***Eligibility and Distribution Formulas***

Both liquor excise and liquor profits are distributed to all cities on a strictly per capita (population) basis.

In addition, “border areas” (any city, town, or unincorporated area within seven miles of the Canadian border) receive an additional liquor profits distribution based on per capita law enforcement spending, border-crossing traffic totals, and border-related crime statistics ([RCW 66.08.195](#) and [.196](#)).

For the most recent distribution estimates, refer to our annual [Budget Suggestions publication](#), released every year at the end of July.

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<sup>56</sup> Prior to 2012, all liquor stores in Washington were state-run, and the state received direct liquor profits in addition to excise tax revenues. However, Initiative 1183 in 2011 privatized liquor sales. The state still charges an excise tax on liquor sales, but it no longer receives liquor profits. Instead, the state now collects revenue in the form of license fees from distributors and retailers. However, the Liquor and Cannabis Board (LCB) continues to call these liquor licensing funds “liquor profits.”

## ***Use of Revenues***

- **Liquor excise:** At least 2% of liquor excise revenue must be used for an alcohol or drug addiction program under [RCW 71.24.555](#). The remaining 98% is unrestricted and may be used for any lawful governmental purpose.
- **Liquor profits:** At least 2% of liquor excise revenue must be used for an alcohol or drug addiction program under [RCW 71.24.555](#). In addition, at least 20.23% must be used for “enhancing public safety programs.”<sup>57</sup> The remaining 77.77% is unrestricted and may be used for any lawful governmental purpose.

## ***Timing of Receipts***

Payments are distributed quarterly, but liquor excise and liquor profits are distributed according to a different schedule:

- **Liquor excise:** Distributed on the last business day of January, April, July, and October.
- **Liquor profits:** Distributed on the last business day of March, June, September, and December.

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<sup>57</sup> This is because the total liquor profits distribution to cities, counties, and border areas for the “comparable periods prior to December 8, 2011” was \$39,438,000. To this amount, the legislature added an extra \$10 million for “enhancing public safety programs” ([RCW 66.24.065](#)). This results in a total liquor profits distribution of \$49,438,000, of which \$10 million (just under 20.23%) must be used for enhancing public safety programs. As a result, each city and town must spend at least 20.23% of its distribution for enhancing public safety programs.

## MOTOR VEHICLE FUEL TAX (MVFT)

### Quick Summary

- Distributed to all cities and towns on a per capita basis.
- Total distributions depend on amount of gas taxes collected statewide.
- Revenues are restricted and must be used for streets, roads and highways.
- Cities must use at least 0.42% for pedestrian, equestrian, or bicycle trails, unless such amount would be \$500 or less per year.

**RCW:** [46.68.090](#), [46.68.110](#)

The motor vehicle fuel tax (MVFT), or gas tax, is the single largest state shared revenue source for cities and towns, and it has been consistently distributed for decades. (See [RCW 46.68.090](#) and [RCW 46.68.110](#).) MVFT revenues are distributed to all cities, towns, and counties as a percentage of actual state fuel tax revenues received.

Gas taxes in Washington are assessed in cents per gallon, which means that MVFT distributions depend on the number of gallons sold, not the price per gallon. Like all state shared revenues, these distributions could be changed in future legislative sessions. However, MVFT has not had a history of legislative changes because all transportation revenues are recorded within the motor vehicle fund (rather than the state general fund) and are restricted to transportation purposes ([Art II, Section 40 State Constitution](#)).

### Eligibility and Distribution Formula

All cities and towns receive MVFT distributions on a strictly per capita (population) basis. For the most recent distribution estimates, refer to our annual [Budget Suggestions publication](#), released each year at the end of July.

### Use of Revenues

The revenues must be placed in a designated city street fund and used for the following highway or street purposes ([RCW 47.24.040](#)):

- Salaries and wages;
- Material, supplies, or equipment;
- Purchase or condemnation of right-of-way;
- Engineering;
- Any other proper highway or street purpose in connection with the construction, alteration, repair, improvement, or maintenance of any city street or bridge, or viaduct or underpassage along, upon, or across such streets; and/or
- Planning, accommodation, establishment, or maintenance of pedestrian, equestrian, or bicycle trails within an existing highway right-of-way or severed by the highway ([RCW 47.30.030](#) and [RCW 47.30.060](#)).

Any MVFT expenditures may be made independently or in conjunction with any federal, state, or county funds.



Each city is required to spend at least 0.42% of its MVFT funds during each state fiscal year (July 1 to June 30) on pedestrian, equestrian, or bicycle trails, unless 0.42% would amount to \$500 or less ([RCW 47.30.050](#)). In other words, this requirement applies to any city that receives more than approximately \$119,047 in MVFT revenue per year. Cities also have the option to place the funds in a capital reserve or special fund to accumulate these resources, so long as the funds are used for paths or trails and used within 10 years.

### ***Timing of Receipts***

MVFT revenues credited to cities and towns are subject to a deduction ([RCW 46.68.110](#) (1) – (3)) of 2.83% for state transportation administration and oversight of federal-aid programs, transportation studies and use in the small city pavement and sidewalk account. The remaining MVFT collections are distributed monthly, on the last business day of each month.

If the state does not spend all of the deducted funds, the remaining unexpended funds from the federal-aid program administration and transportation studies will be distributed to all cities and towns in the next biennium and any remaining small city pavement and sidewalk funds will be used for cities and towns with populations less than 5,000 in odd-numbered years for maintenance, repair and resurfacing of streets.

## MULTIMODAL FUNDS AND INCREASED MVFT

### Quick Summary

- Distributed to all cities and towns on a per capita basis.
- Direct appropriations from the state transportation fund; do not depend on actual fuel sales.
- Revenues are restricted:
  - Multimodal funds may be used for any transportation purpose.
  - Increased MVFT funds must be used for street or highway purposes (including eligible pedestrian, equestrian, or bicycle trails).

**RCW:** [46.68.126](#)

All cities and towns receive a share of the increases to the state multimodal funds and increased motor vehicle fuel tax (“increased MVFT”) passed by the legislature in 2015 ([RCW 46.68.126](#)). Unlike the regular MVFT distributions (see [Motor Vehicle Fuel Tax \(MVFT\)](#)), the multimodal distributions and increased MVFT funds are direct appropriations from the “connecting Washington” account established within the state motor vehicle fund.

These distribution amounts are not adjusted for inflation and will remain the same each year unless changed by the state legislature. Unlike regular MVFT distributions, these allocations are not impacted by actual fuel tax collections or transportation licensing fees.

### ***Eligibility and Distribution Formula***

Multimodal and “increased MVFT” funds are distributed to all cities and towns on a strictly per capita (population) basis. For the most recent distribution estimates, refer to our annual [Budget Suggestions publication](#), released each year at the end of July.

### ***Use of Revenues***

These transportation revenues are restricted as follows:

- **Multimodal funds:** May be spent on any transportation purposes ([RCW 47.66.070](#)).
- **Increased MVFT:** May only be spent on “proper road, street, and highway purposes” ([RCW 46.68.070](#)), including pedestrian, equestrian, or bicycle trails meeting the criteria of [RCW 47.30.030](#).

### ***Timing of Receipts***

Payments are distributed quarterly, on the last business day of March, June, September, and December.

## PUBLIC UTILITY DISTRICT (PUD) PRIVILEGE TAX

### Quick Summary

- The state imposes a 2% excise tax, plus 0.02% per kilowatt-hour of self-generated energy, on all public utility districts (PUDs) in lieu of property taxes.
- Revenues are shared with counties, cities, and towns.
- Revenues are unrestricted and may be used for any lawful government purpose.

**RCW:** [54.28.020\(1\)](#)

All property owned by public utility districts (PUDs), like all other government-owned property, is exempt from property taxes. However, since 1941 public utility districts (PUDs) have been subject to an excise tax in lieu of property taxes. This tax is levied for the privilege of operating facilities for generating and distributing electricity.

The state imposes an excise tax rate of 2% of the gross revenue derived from the sale of distribution of power, plus 0.02% per kilowatt-hour<sup>58</sup> of the wholesale value of self-generated energy for resale or distribution to consumers by a district ([RCW 54.28.020\(1\)](#)). These revenues are shared with counties and other local taxing districts as described below.

There is also an additional 0.14% excise tax on the PUD's gross revenue ([RCW 54.28.020\(2\)](#)), but those revenues are deposited to the state general fund and are not shared with local governments.

This tax is computed and collected by the Department of Revenue. Of the portion under [RCW 54.28.020\(1\)](#) that is shared with local governments, 41.6% of the revenues are deposited to the state general fund, primarily for the benefit of public schools ([RCW 54.28.040](#) and [RCW 54.28.050\(1\)](#)). The remainder of the 2% base excise tax is distributed to the county or counties in proportion to the gross revenue from sales made within each county, while the 0.02% kilowatt-hour tax is distributed to the county or counties in which the generating facilities are located.

The county treasurer, in turn, must further distribute those funds to the county general fund, county road district, and each city or town within the county<sup>59</sup> according to the manner the county legislative body deems "most equitable" ([RCW 54.28.090](#)). However, the statute specifies that each city and town within the county must receive an amount equal to at least 0.75% of the PUD's gross revenues received from the sale of electricity within that city or town.

There is a separate excise tax for certain thermal electric generating facilities located on a federal reservation under [RCW 54.28.025](#), which has a different population-based revenue-sharing formula under [RCW 54.28.055](#). The thermal generating facilities tax is distributed to counties, cities, library districts, and fire protection districts.

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<sup>58</sup> Rather than "0.02% per kilowatt-hour," the statute actually reads "five percent of the first four mills per kilowatt-hour." A "mill" is an older term referring to 1/1,000th of a currency unit. Four mills is equivalent to 4/1,000, or .004. Five percent (.05) of .004 equals 0.0002 or 0.02%.

<sup>59</sup> The statute says the county must distribute the money to "each taxing district in the county, other than school districts." [RCW 54.28.010](#) defines "taxing district" to mean counties, cities, towns, school districts, and road districts.

### ***Use of Revenues***

PUD privilege tax revenues are unrestricted and may be used for any lawful governmental purpose. [RCW 54.28.100](#) simply reads, “all moneys received by any taxing district shall be used for purposes for which state taxes may be used under the provisions of the state constitution.”

### ***Timing of Receipts***

The state treasurer distributes these revenues to the respective counties during the month of June each year ([RCW 54.28.040](#) and [RCW 52.28.050](#)), and the county distributes the city’s portion shortly thereafter.



# Other Revenue Sources

## FRANCHISE FEES

### Quick Summary

- Franchise agreements allow utility providers to install and maintain equipment within rights-of-way.
- Franchise fees are generally limited to the recovery of administrative costs.
- Exception is cable TV, which may be assessed an annual fee up to 5% of gross revenues, minus certain non-monetary in-kind contributions.

**RCW:** [35.21.860](#)

Franchise agreements are contracts between the city and public or private utility providers that allow the utility providers to use the city's rights-of-way to deliver their services. A franchise agreement allows the utility provider to install, maintain, and repair utility infrastructure within the right-of-way while minimizing interference with public use of the right-of-way. Typically, these agreements last for 10 to 20 years or longer.

Cities may impose franchise fees on utility providers to recoup the costs of administering the franchise. [RCW 35.21.860](#) limits electricity, natural gas, and telephone franchise fees to actual administrative expenses. These franchise fees are not revenue generators as they are in some states. In addition, cities and towns may impose franchise fees to recover administrative costs on sewer and water.<sup>60</sup> A reasonable franchise fee may be imposed on solid waste providers.

### Cable TV Franchise Fees

Cable television franchise agreements are governed by federal law rather than state law and are negotiated with the cable company. Cable TV franchise fees may be levied at a rate up to 5% of gross revenues from the franchise area every year, regardless of the administrative costs ([47 U.S.C. §542](#)(a) and (b)).

However, effective September 26, 2019, cities must count most non-monetary "in-kind" contributions toward the maximum 5% fee due to a new Federal Communications Commission order ([FCC 19-80](#)). There is an exception for in-kind contributions for public, educational, or governmental (PEG) channel capital costs, which are not counted toward the 5% cap. However, ongoing PEG operations and maintenance costs are not exempt and must be counted toward the 5% cap. Appeals and further litigation on this issue are expected.

### Use of Revenues

Cable TV franchise fees are unrestricted and may be used for any lawful governmental purpose. All other franchise fees are intended to recover administrative costs only.

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<sup>60</sup> *City of Lakewood v. Pierce Cty.*, 106 Wn. App. 63, 23 P.3d 1, (2001)

## IMPACT FEES – GROWTH MANAGEMENT ACT (GMA)

### Quick Summary

- Fee charged to developers to mitigate the impacts on infrastructure and capital facilities because of increased demand resulting from new development.
- Revenues are restricted and may only be used for streets, parks, schools, and/or fire protection.
- May only be imposed by counties planning under the Growth Management Act.
- Must generally be expended within 10 years of receipt.
- Does not require voter approval.

**RCW:** [82.02.050 – .110](#)

Impact fees are one-time charges assessed by a local government against real estate developers to help pay for new or expanded public facilities and infrastructure that will directly address the increased demand for services created by new development.

[RCW 82.02.050 – .110](#) authorize any city or town fully planning under the Growth Management Act (GMA) to impose impact fees for:

- Public streets and roads
- Publicly owned parks, open space, and recreation facilities
- School facilities
- Fire protection facilities

Impact fees may be approved by the legislative body and do not require voter approval. Any jurisdiction that is *not* fully planning under GMA is not authorized to impose impact fees under these statutes.

### Use of Revenues

Impact fees help mitigate the impacts of growth associated with a specific development area. Impact fees may only be imposed for “system improvements” – public capital facilities within the city’s capital facilities plan that meet all three of the following criteria (see [WAC 395-196-850](#)):

- Are designed to provide service to the community at large,
- Are reasonably related to the new development, and
- Will benefit the new development.

Impact fees *cannot* be used to fund operating and maintenance costs or private capital facilities. The impact fees cannot exceed a proportionate share of the system improvements, and cities cannot rely solely on impact fees to fund the improvements and must use additional funding sources ([RCW 82.02.050](#)).

[RCW 82.02.090](#) states that the revenues may only be used for:

- **Transportation:** Transportation impact fees must be used for “public streets and roads.” It is unclear whether these impact fees may be used to fund multimodal improvements, but such use is probably acceptable as long as the transportation improvement is located within the street right-of-way (such as bus lanes, sidewalks, or bike lanes). However, it is doubtful that impact fees could pay for transportation equipment (such as buses or vanpool vehicles) or projects outside the right-of-way. And since impact fees are restricted to capital facilities, they cannot be used to fund operations and maintenance costs or transportation studies.
- **Parks:** Park impact fees must be used for “publicly owned parks, open space, and recreation” facilities. Many cities in Washington only charge park impact fees to residential construction or the residential portion of a mixed-use building/development, but a few also charge commercial or industrial developments, since employees (and not just residents) can directly benefit from nearby parks and recreational facilities.
- **Schools:** School impact fees must be used for “school facilities.” Typically, school impact fees apply only to residential construction or the residential portion of a mixed-use building/development. School districts are responsible for expending the impact fees, but only cities, towns, and counties are authorized to collect them. As a result, school impact fees require cooperation between school districts and the cities, towns, or counties administering the impact fee program, typically through interlocal agreements that specifically identify each party’s role.
- **Fire Protection:** Fire impact fees must be used for “fire protection facilities.” Since state law provides no further statutory or administrative definitions, some jurisdictions have taken it upon themselves to define “fire protection facilities” in their own municipal codes.

Impact fees must be expended or encumbered within 10 years of receipt, unless there is an “extraordinary and compelling reason” for fees to be held longer, which must be documented in writing by the governing body ([RCW 82.02.070](#)).

Impact fees may not be used to correct existing deficiencies. For instance, a city may use fire impact fees to help build a new fire station serving the new development, but it may not use the impact fees to upgrade an outdated fire station elsewhere in the city that will not directly serve the development.

However, an impact fee ordinance “may provide for the imposition of an impact fee for system improvement costs previously incurred by a county, city, or town to the extent that new growth and development will be served by the previously constructed improvements provided such fee shall not be imposed to make up for any system improvement deficiencies” ([RCW 82.02.060\(8\)](#)). For example, if a public works maintenance facility was designed and constructed to address both existing deficiencies (say, 60%) and future growth needs (say, 40%), impact fees could be used to pay for up to 40% of the debt service on the bond issued for that facility.

### ***Determining Impact Fee Rates***

Local governments must establish a rate schedule for each type of development activity that is subject to impact fees, specifying the fee to be imposed for each type of system improvement ([RCW 82.02.060](#)). The schedule must be based on a formula or other calculation that incorporates, among other things:

- The cost of public facilities necessitated by new development;
- The cost of existing public facilities improvements;
- Adjustments to the cost of the public facilities for past or future payments made or reasonably anticipated to be made by new development;

- The availability of other public funding sources; and
- The method by which public facilities improvements were financed.

These rate studies should be updated periodically to reflect changes in the cost of facilities. While local governments are not required to hold a public hearing before adopting or increasing impact fees, it may be prudent to do so, especially if the decision might be controversial.



**Practice Tip:** Some jurisdictions automatically adjust their impact fees by indexing them to an inflation index, which protects future revenues and can potentially reduce or eliminate the need for the legislative body to go through a formal rate-setting process again. Examples of inflation indexes include, but are not limited to, the Consumer Price Index (CPI-U or CPI-W) and the WSDOT Transportation Construction Cost Index.

Local governments may provide exemptions for low-income housing and other development activities with “broad public purposes” ([RCW 82.02.060\(3\)](#)). Some jurisdictions reduce or waive certain types of impact fees for certain types of development, either to incentivize development or because the development places no significant burden on existing facilities. However, any exemption for school impact fees that would otherwise be distributed to a school district must first be approved by the school district.

### ***Timing of Receipts***

Developers must generally pay impact fees to the city before construction begins. The money must be earmarked and retained in a special interest-bearing account, with a separate account for every type of facility for which the fees are collected (transportation, fire, etc.). Each city that imposes impact fees must provide an annual report on each of the accounts showing the source and amount of revenues, as well as the improvements financed with the revenue ([RCW 82.02.070](#)).

However, effective 2016, cities, towns, and counties must adopt an impact fee deferral system for small single-family residential developments, allowing developers to pay the fees after construction instead of beforehand ([RCW 82.02.050\(3\)](#)).

[RCW 82.02.080](#) requires each jurisdiction to refund the impact fees, plus earned interest, to the developer if:

- The impact fee is not expended or encumbered within 10 years of collection;
- The jurisdiction ends its impact fee program and the funds have not yet been expended or encumbered; or
- The developer does not proceed with the proposed development activity and requests a refund.

## IMPACT FEES – LOCAL TRANSPORTATION ACT (LTA)

### Quick Summary

- Fee charged to developers to mitigate the impacts on infrastructure and capital facilities because of increased demand resulting from new development.
- Revenues are restricted and may only be used for transportation.
- May be imposed by any city, but typically impact fees are assessed under the Growth Management Act rather than LTA.
- Does not require voter approval.

**RCW:** [Chapter 39.92 RCW](#)

Impact fees are one-time charges assessed by a local government against real estate developers to help pay for new or expanded public facilities and infrastructure that will directly address the increased demand for services created by new development.

Any city, county, or transportation benefit district – regardless of whether or not it is planning under the Growth Management Act (GMA) – may impose transportation impact fees under the Local Transportation Act (LTA), [chapter 39.92 RCW](#). These impact fees may be approved by the legislative body and do not require voter approval.

LTA was enacted in 1988 but was followed just two years later by GMA, which provided much broader authority for “fully planning” GMA jurisdictions to impose impact fees for parks, schools, and fire protection in addition to transportation (see [Impact Fees – Growth Management Act \(GMA\)](#)).

### Use of Revenues

LTA impact fees may only be used to mitigate off-site transportation impacts that are a direct result of the proposed development, pursuant to a local transportation program that complies with [RCW 39.92.030](#) and [RCW 39.92.040](#).

## INVESTMENTS (INTEREST EARNINGS)

### Quick Summary

- Cities and towns may invest excess funds not immediately needed for operations.
- Interest earned on the investments may be used by the fund that invested, for purposes allowed within that fund.
- Earnings may or may not be restricted, depending on the revenue source.

**RCW:** [35.39.034](#) and [35A.40.050](#)

[RCW 35.39.034](#) and [RCW 35A.40.050](#) allow cities to invest excess monies to generate additional income. Funds may either be invested in individual investment portfolios, or multiple funds may be commingled into a common investment portfolio.

State law provides various restrictions on what types of investments can be made. If your city will be investing excess funds, you should consider developing and adopting an investment policy to spell out your city's goals and responsibilities. While the entire purpose of investing funds is to generate a return on the investment (yield), local governments should be careful to prioritize liquidity (the ability to access funds when needed without loss) and safety of the investment over yield. For guidance, see MRSC's [Investment Policies](#) webpage.

### Use of Revenues

All income derived from such investments must be apportioned and used for the benefit of the participating funds, or – unless otherwise restricted by law – the city may adopt an ordinance or resolution that authorizes the apportionment of the investment earnings to the general fund. If the interest has been transferred into the general fund, it may be used for any lawful governmental purpose.

However, [RCW 35.39.034](#) provides that “funds derived from the sale of general obligation bonds or revenue bonds or similar instruments of indebtedness shall be invested, or used in such manner as the initiating ordinances, resolutions, or bond covenants may lawfully prescribe.”

Although there is no such proviso in [RCW 35A.40.050](#), bond covenants and debt provisions still determine the allocation of interest from bonds. If you have questions, check with your bond counsel.

In addition, it has generally been interpreted by SAO that interest earnings on excess “restricted” resources are to be used for the benefit of the restricted fund. See the BARS manuals, section 3.2.3 on Sweeping Interest and Investment Returns into General Fund (see [Cash Basis manual](#) and [GAAP manual](#)).

## PARKING METERS

### Quick Summary

- Any city may impose parking meter fees.
- Revenues may be used for administrative costs, parking studies, and acquisition and maintenance of off-street parking facilities.

**WAC:** [308-330-650](#)

Any city may impose parking meter fees, which can promote parking turnover, ration space where demand exceeds supply, provide short-term parking spaces for shopping or personal errands, improve traffic circulation, and provide revenue for the city.

There is no specific statute authorizing parking meter charges, but in 1941 the state Supreme Court upheld a Spokane ordinance providing for the installation and maintenance of parking meters for regulating traffic on the city's streets as a valid exercise of the city's police power (*Kimmel v. City of Spokane*, 7 Wn.2d 372 (1941)).

### Use of Revenues

Parking meter revenues should be used to cover the administrative costs associated with meter maintenance and installation, fee collection, and enforcement by city officials. Revenue in excess of this amount may be used for parking studies and acquisition and operation of off-street parking facilities (see [WAC 308-330-650](#)).<sup>61</sup>

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<sup>61</sup> In *Kimmel v. City of Spokane*, 7 Wn.2d 372 (1941), the Court did not concern itself directly with the revenue-producing character of parking meters. The Court said that it would not look behind the regulatory purpose declared in the ordinance, in the absence of evidence tending to show that the declaration was false and that the ordinance was actually a revenue measure.

## SURPLUS TRANSFERS FROM UTILITIES AND LIDS

### Quick Summary

- In limited situations, cities may transfer surplus funds from municipal utilities or a local improvement district (LID) guaranty fund into the general fund.
- Surplus transfers require financial analysis of both current and future needs.

**RCW:** [35.37.020](#) and [35.27.510](#)

Cities and towns are frequently seeking revenue sources to mitigate declining income, which often leads to a discussion of whether the fund balances in city-owned utility funds or, for some, the local improvement district (LID) guarantee funds are considered surplus and therefore available for transfer to the general fund.

The first consideration is, what is the definition of “surplus”? The Merriam-Webster dictionary defines surplus as “the amount that remains when use or need is satisfied” or “an excess of receipts over disbursements.” The SAO BARS manuals (see [Cash Basis](#) and [GAAP](#)) define surplus in Item 3.9.3.10 as follows:

*The amount by which operating revenues exceeds operating expenses. When determining the available surplus in a proprietary fund, the following must first be deducted from the proprietary fund balance: capital asset replacement cost, future capital expansions and improvements and any legally restricted resources.*

### Surplus Transfers from Municipal Utilities

Municipal utilities should not generally have funds in excess of the amount they need to provide their services. Rates are supposed to be set at a level necessary to cover costs, which include operations, maintenance, debt service and capital asset replacement, expansion, and improvements. Municipal utilities are not intended to generate profits above their costs, but occasionally there may be a time when a utility finds itself with surplus funds. When that happens, a city may be able to transfer this surplus from the utility fund to the general fund. We say this cautiously because there are very few circumstances where a municipally owned utility would have a surplus.

[RCW 35.37.020](#) and [RCW 35A.37.010\(7\)](#) provide that every city and town having a population of less than 20,000 must transfer any utility fund surplus to the general fund, except for any funds the council finds necessary for extending or repairing the infrastructure, paying debt service, or establishing a sinking fund. Note that these statutes also require that any *deficit* in a utility fund must be covered by a transfer from the general fund.

Towns also have a second statute, [RCW 35.27.510](#), that authorizes transfer of a utility surplus under the following conditions: if the utility service is free of debt, if a depreciation fund satisfactory to the state auditor has been created, if rates are set at the lowest possible level, and if the fixing of rates is governed by contract with a utility service supplier, then the mayor and council may transfer surplus funds with a unanimous vote. Since most towns do not contract for their utility services, this additional statute is generally not applicable.

### Surplus Transfers from LID Guaranty Funds

Cities and towns frequently have local improvement districts (LID) that require that the city establish a local improvement guaranty fund for the purpose of guaranteeing the payment of bonds and other obligations of the LID.



A city may be able to transfer assets from an LID guaranty fund to the general fund if the city or town treasurer has certified that the LID guaranty fund has sufficient funds on hand to meet all outstanding obligations of the fund that are anticipated to be presented ([RCW 35.54.095](#)). Any transfer may not reduce the remaining cash in the guaranty fund to less than 10% of the outstanding obligations.

## TOURISM PROMOTION AREA FEES

### Quick Summary

- Any city or town may form a tourism promotion area and impose charges up to \$2 per room per night. Effective June 11, 2020 to July 1, 2027 the city/town may impose an additional fee up to \$3 per room per night.
- Does not apply to lodging businesses with less than 40 rooms, temporary medical housing, or any other lodging business, unit, or guest designated as exempt by the legislative body.
- May establish up to six different lodging classifications, with different rates in each.
- Revenues must be used for tourism promotion to increase the number of tourists to the area.
- Does not require voter approval, but requires support from local lodging businesses and may be repealed if a majority of lodging businesses submit a written petition.

**RCW:** [Chapter 35.101](#)

The legislative body of any city, town, or county may form a tourism promotion area (TPA) to generate revenue for tourism promotion ([chapter 35.101 RCW](#)).

Tourism promotion area fees are different than lodging taxes (see [Lodging Tax \(Hotel/Motel Tax\)](#)) and may be imposed in addition to lodging taxes. Forming a tourism promotion area requires support from the local lodging industry, and the petition to form the TPA must contain the signatures of people who operate lodging taxes within the proposed area and who would pay at least 60% of the proposed charges.

A TPA may include the entire city or only a portion, and multiple jurisdictions may establish a joint TPA through interlocal agreement. In a county with a population of one million or more – currently, only King County – the TPA must be formed by two or more jurisdictions acting under an interlocal agreement, with the exception of Federal Way which is authorized to form a TPA by itself.

Within the tourism promotion area, the legislative body may impose a charge of up to \$2 per room per night on lodging businesses with 40 or more rooms. The legislative body may establish up to six different lodging classifications, sometimes referred to as “zones,” with different rates in each. The classifications must be based on geographic location, number of rooms, or room revenue.

The lodging charge does not apply to lodging businesses with less than 40 rooms, temporary medical housing exempt under [RCW 82.08.997](#), or any lodging business, lodging unit, or lodging guest designated as exempt by the legislative authority.

The legislative body may impose an additional charge of up to \$3 per room per night if it has secured the signatures of the persons who operate lodging businesses who would pay 60% or more of the proposed charges. This additional \$3 nightly charge expires July 1, 2027. ([ESSB 6592, Section 2.](#))

Any tourism promotion area fee imposed after January 1, 2020 must be repealed if a majority of the lodging businesses assessed the charges petitions to the legislative body in writing to remove the charge. The legislative authority may determine the timing of when to remove the charge so that the effective date of the expiration will not adversely affect existing contractual obligations, not to exceed 12 months. Any fee in place as

of January 1, 2020 is not subject to this provision unless the jurisdiction increases the charge under Section 2 of ESSB 6592.

### ***Use of Revenue***

The revenues must be used “to promote tourism that increases the number of tourists to the area” ([RCW 35.101.130](#)).

[RCW 35.101.010](#)(4) defines “tourism promotion” as “activities and expenditures designed to increase tourism and convention business, including but not limited to advertising, publicizing, or otherwise distributing information for the purpose of attracting and welcoming tourists and operating tourism destination marketing organizations.”

The city council has sole discretion as to how the revenues will be spent to promote tourism – unlike lodging taxes, which for many jurisdictions depend on recommendations from the lodging tax advisory committee (LTAC). However, the city council may appoint an existing advisory board or create a new advisory board to make recommendations on the use of the TPA revenues if desired.

A “tourist” is defined as follows ([RCW 35.101.010](#)(5)):

[A] person who travels for business or pleasure on a trip:

(a) Away from the person’s place of residence or business and stays overnight in paid accommodations;

(b) To a place at least fifty miles away one way by driving distance from the person’s place of residence or business for the day or stays overnight. However, island communities without land access are exempt from the mileage requirement under this subsection (5)(b); or

(c) To another country or state outside of the person’s place of residence or business.

The legislative authority may contract with tourism destination marketing organizations or other similar organizations to administer the operation of the area.

### ***Timing of Receipts***

Lodging businesses collect the charges and remit them to the Department of Revenue, which deposits the revenues into the Local Tourism Promotion Account. The state treasurer distributes money in the account monthly to the legislative authority on whose behalf the money was collected.

## TRAFFIC AND PARKING FINES

### Quick Summary

- State Supreme Court establishes fines for traffic infractions, but revenues are shared with city where infraction occurred.
- Cities can establish their own parking fines.
- Revenues may generally be used for any lawful governmental purpose.

**RCW:** [46.63.110\(3\)](#) and others

### Traffic Infractions

The state Supreme Court establishes the schedule of fines for traffic infractions ([RCW 46.63.110\(3\)](#); see Infraction Rules for Courts of Limited Jurisdiction (IRLJ) [Rule 6.2](#)). However, cities share in the revenue from infractions committed within their boundaries. After the fines are collected by the municipal or district court, 32% of the non-interest money is sent to the state. The remainder may be deposited in any city fund, and most jurisdictions put this money into the general fund.

The interest is split evenly between the state public safety and education account, the state judicial information system, the city general fund, and the city general fund to be dedicated to fund local courts.<sup>62</sup>

### Parking Fines

A city has complete control over setting the fines for any violation of its parking ordinances. IRLJ [Rule 6.2\(c\)](#) states:

This schedule does not apply to penalties for parking, standing, stopping, or pedestrian infractions established by municipal or county statute. Penalties for those infractions are established by statute or local court rule, but shall be consistent with the philosophy of these rules.

A city may also charge a fine of up to \$25 for failure to pay the parking ticket in the time prescribed by law ([RCW 46.63.110\(4\)](#)).

### Use of Revenues

Traffic and parking fines are unrestricted and may be used for any lawful governmental purpose. However, as noted above a portion of the interest on traffic infractions must be deposited to the general fund to fund local courts.

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<sup>62</sup> See [RCW 3.50.100\(5\)](#) for municipal courts except Seattle, [RCW 35.20.220\(5\)](#) for the Seattle municipal court, and [RCW 3.62.040\(6\)](#) for district courts.

## TRANSPORTATION BENEFIT DISTRICT VEHICLE LICENSE FEES

### Quick Summary

- Any city that has established a transportation benefit district (TBD) may impose a non-voted vehicle license fee up to \$50 or a voted vehicle license fee up to \$100.
- Revenues must be used for specified transportation projects.

**RCW:** [82.80.140](#)

Any city or town may form a transportation benefit district (TBD) under [chapter 36.73 RCW](#) to raise revenues for transportation purposes. TBDs may generate revenue through a variety of means, but the two most popular funding mechanisms are a voted sales tax up to 10 years and 0.2% (see [Transportation Benefit District Sales Tax](#)) and a vehicle license fee (“car tab fee”) up to \$100 as described below.

Any TBD (or city, if the city has “assumed” the TBD under [chapter 36.74 RCW](#)) may impose a vehicle license fee up to \$50 without voter approval, or up to \$100 with voter approval ([RCW 82.80.140](#), [RCW 36.73.040\(3\)\(b\)](#)), in addition to any vehicle license fees charged by the state. Initiative 976, approved by voters in 2019, would have eliminated this authority, but the state Supreme Court struck down the initiative as unconstitutional the following year.

Certain vehicles are exempt under [RCW 82.80.140\(6\)](#), including campers, farm vehicles, mopeds, off-road and non-highway vehicles, snowmobiles, and private use single-axle trailers.

The TBD vehicle license fee may be imposed in addition to the TBD sales tax if desired, and several jurisdictions have imposed both concurrently. It is worth noting that these two revenue options are imposed upon different sources – TBD vehicle license fees are paid solely by city residents who own vehicles, while TBD sales taxes are paid by anyone who makes retail purchases within the city. The amount of revenue a city can generate with each option will also vary depending on the rates imposed, the local economy, and the number of registered vehicles.

### ***Non-Voted Vehicle License Fees Up to \$50***

The district may only impose a non-voted vehicle license fee up to \$20 initially. After a \$20 fee has been in effect for at least 24 months, the district may increase the fee up to \$40. After a \$40 fee has been in effect for at least 24 months, the district may increase the fee up to the maximum \$50. However, the portion of the fee above \$40 is subject to potential referendum as provided in [RCW 36.73.065\(6\)](#), even if your city has not otherwise adopted powers of initiative and referendum.

If a district imposes or increases its non-voted vehicle license fee that, when combined with fees previously imposed by another district within its boundaries, exceeds \$50, the district must provide a credit so that the combined vehicle fee does not exceed \$50.

Many cities have established non-voted TBD vehicle license fees.

### ***Voted Vehicle License Fees Over \$50***

Any vehicle license fee higher than the amounts listed previously, up to a maximum of \$100, must be approved by a simple majority of voters. The measure may be placed on the ballot at any special, primary,<sup>63</sup> or general election.

According to MRSC's [Local Ballot Measure Database](#), Seattle is the only jurisdiction that has successfully passed a voted vehicle license fee, and even then its first attempt was unsuccessful. Other jurisdictions that have unsuccessfully attempted voted vehicle license fees in the past include King County and the cities of Bremerton, Burien, and Edmonds.<sup>64</sup>

### ***Use of Revenues***

The revenues may be used for eligible “transportation improvements” listed in a local, regional, or state transportation plan in accordance with [chapter 36.73 RCW](#). Improvements can range from roads and transit service to sidewalks and transportation demand management. Construction, maintenance, and operation costs are eligible.

However, [RCW 82.80.140](#) states that the revenue may not be used for passenger-only ferry improvements unless the vehicle license fee is approved by voters.

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63 [RCW 36.73.065](#)(1) states that the tax must be submitted at “a general or special election,” which at first glance might seem to rule out the August primary election. However, [RCW 29A.04.321](#)(2), which establishes the election schedule for local governments, authorizes the county to call up to four “special elections” each year, including the primary election. So for these purposes, “special election” includes the primary election.

64 Bremerton, Burien, and Edmonds all attempted voted vehicle license fees in 2008-2009 under prior legislation, when non-voted fees were capped at \$20. The legislation has since been amended to allow non-voted vehicle license fees up to \$50.

## UTILITY RATES AND CHARGES

### Quick Summary

- Any city that has established a utility must set an appropriate rate to recover cost.
- Revenues must be used for specified utility purpose.

**RCW:** [35.92 RCW](#); [35A.80 RCW](#)

Cities and towns frequently own and manage their own water and sewer utility systems, and some also have stormwater, electric, or garbage utilities. Each of these utilities is considered a “proprietary” activity, which is to say that it functions as a business activity separate from the general governmental activities. (See [chapter 35.92 RCW](#) and [chapter 35A.80 RCW](#) regarding municipal utilities.)

This guide is not intended to address the complexities of proper rate-setting but only to speak to the overarching concepts of utility rates and charges.

### Utility Rate Setting

Ideally, all utility rates, system charges, and service fees should be set to recover the cost of operating the systems, in addition to charging for replacing equipment and adding or expanding facilities to meet regulations, future service demands, and setting aside for unforeseen events such as natural disasters.<sup>65</sup> Revenues for fees and charges must meet the expenses of the system, in addition to setting aside reserves.

Careful and accurate rate and service fee setting will assure that the utility operates in a fiscally responsible manner. Consideration should be given to the following areas when setting rates:

- Operating costs (wages, benefits, engineering fees, office supplies, chemicals, lighting, heat, repairs, and other daily operations);
- Insurance;
- State and local taxes;
- Debt service (principal and interest);
- Planning and engineering;
- Reserves for improvements, expansions, and upgrades; and
- Reserves for unforeseen events such as natural disasters.

Utility rates should also incorporate the utility’s portion of indirect or “overhead” costs incurred by the city, such as payroll administration, human resources, information technology, and shared facilities and equipment. See MRSC’s webpage on [Cost Allocation](#) for more guidance on overhead costs.

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<sup>65</sup> See *Uhler v. Olympia*, 87 Wash. 1 (1915); *Carstens v. Public Utility District No. 1*, 8 Wn.2d 136 (1941)

## ***Use of Revenues***

Utility rates and charges are restricted to the use by the utility for its operations, including all of those costs listed above.

## **OTHER FEES AND CHARGES**

Sprinkled throughout the RCWs is authority for cities to levy fees and charges to cover the cost of providing services or programs and regulatory activities. For example, fees may be charged for:

- Animal licensing<sup>66</sup>
- Concealed pistol license permits<sup>67</sup>
- Fireworks retail and display permits<sup>68</sup>
- Parks, recreation, and cultural facilities and programs<sup>69</sup>
- Processing of development and building permit applications<sup>70</sup>
- Public records copying charges<sup>71</sup>
- Street use permits<sup>72</sup>

This list is not comprehensive, and there are no doubt other examples.

The general guiding principle for these fees and charges is that they may be set at a level that recovers all the direct and indirect costs associated with the activity, including administrative overhead. (See MRSC's webpage on [Cost Allocation](#) for guidance to help make sure you are fully and accurately accounting for indirect or "overhead" costs such as payroll administration, human resources, facility and equipment expenses, and information technology.)

If fees more than recover costs, they then become more like taxes, and cities need specific statutory authority to levy taxes.

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66 Animal licensing: see [RCW 35.23.440](#)(11) for second class cities, [RCW 35.27.370](#)(7) for towns, and [RCW 35A.82.020](#) for code cities.

67 Concealed pistol licenses: see [RCW 9.41.070](#).

68 Fireworks permits: see [RCW 70.77.260](#) and [RCW 70.77.555](#).

69 Parks, recreational, and cultural facilities and programs: see [RCW 35.21.020](#) for cities and towns and [RCW 35A.27.010](#) and [RCW 35A.67.010](#) for code cities.

70 Development and building permit applications: see [RCW 19.27.100](#) and [RCW 82.02.020](#).

71 Copying charges: see [RCW 42.56.120](#).

72 Street use permits: see [RCW 35.22.280](#)(7) for first class cities, [RCW 35.23.440](#)(33) for second class cities, [RCW 35.27.370](#)(4) for towns, and [RCW 35A.11.020](#) for code cities.



# Special Taxing Districts

Cities also have the option to form certain special taxing districts, generally coextensive with the city's boundaries, to generate additional revenue or shift funding sources.

In addition, cities can annex into existing library districts and fire protection districts, or join with other fire protection jurisdictions to form regional fire authorities, all of which can have revenue impacts especially in the area of property tax levy rates.

Some of the special taxing districts may be organized as completely separate municipal entities – in other words, the city can “spin off” certain functions like parks, libraries, or fire protection to a separate governmental entity with its own legislative body and staff. In other cases, the creation of the special taxing district may be an extension of the city's existing operations. For instance, a newly formed entity might be a legally separate municipal entity, but it might be governed by city council in an “independent and ex officio” capacity. In these scenarios, the city staff perform the functions of the special taxing district through an interlocal agreement with the city.

This chapter will briefly describe the various options and their potential revenue implications.

## FIRE PROTECTION DISTRICT

Any city with a population of 300,000 or less may annex into a fire protection district within “reasonable proximity” under [chapter 52.04 RCW](#). Annexation may require voter approval with a simple majority.

As an alternative to annexation, new legislation in 2017 allows any city or town to establish a fire protection district coextensive with the city's boundaries ([RCW 52.02.160](#)). This is still a new option, and as of 2022 no city has formed a fire protection district. The formation of the district requires voter approval with a simple majority unless the district will be initially funded by benefit charges, in which case approval requires a 60% supermajority.

Fire protection districts are funded primarily by property tax levies up to \$1.50 per \$1,000 assessed value, which will impact the city's general fund levy rate (see [Regular Levy \(General Fund\)](#)).

Other fire protection district funding options including fire benefit charges, EMS levies, multi-year excess levies for operations and maintenance, and general obligation bonds for capital purposes.

## LIBRARY DISTRICT

Any city or town with a population of 300,000 or less may annex into a library district lying contiguous to the city ([RCW 27.12.360](#)). Annexation may require voter approval with a simple majority.

Library districts are funded primarily by a property tax levy up to \$0.50 per \$1,000 assessed value, which will impact the city's general fund levy rate (see [Regular Levy \(General Fund\)](#)).

## METROPOLITAN PARK DISTRICT

Any city or town may form a metropolitan park district (MPD) under [chapter 35.61 RCW](#) to manage, control, improve, maintain, or acquire park and recreation facilities. The formation of an MPD requires voter approval with a simple majority vote. MPDs are funded primarily by a regular property tax levy up to \$0.75 per \$1,000 assessed value, which is approved as part of the initial ballot measure establishing the district.

An MPD may be formed with a separately elected legislative body, or the city council may be designated to serve in an ex officio capacity as the board of metropolitan park commissioners if the district's boundaries are the same as the city's.

## PUBLIC FACILITIES DISTRICT

Most cities may establish a public facilities district (PFD) under [chapter 35.57 RCW](#) for the purpose of constructing, operating, and maintaining "regional centers," defined in [RCW 35.57.020](#) as a convention, conference, or special events center, or any combination of facilities and related parking facilities, whose construction or rehabilitation costs are at least \$10 million including debt service. The formation of a PFD does not require voter approval, but some PFD revenue sources do require voter approval.

PFDs are funded primarily by sales taxes, user fees and charges, admission and parking taxes, general obligation bonds, and revenue bonds.

## REGIONAL FIRE AUTHORITY

Any city may form a regional fire protection service authority under [chapter 52.26 RCW](#) with at least one other "fire protection jurisdiction" (defined as a city, town, fire district, port district, municipal airport, regional fire protection service authority, or Indian tribe) within "reasonable proximity." Forming a regional fire authority requires voter approval with a simple majority vote unless the district will be initially funded by benefit charges or 60% voter-approved property taxes, in which case approval requires a 60% supermajority.

Regional fire authorities are funded primarily by property tax levies up to \$1.50 per \$1,000 assessed value, which will impact the city's general fund levy rate (see [Regular Levy \(General Fund\)](#)).

Other regional fire authority funding options including fire benefit charges, EMS levies, general obligation bonds, and one-year excess O&M levies.

## TRANSPORTATION BENEFIT DISTRICT

Any city may establish a transportation benefit district (TBD) to generate revenue for specific transportation projects ([chapter 36.73 RCW](#)). Forming a TBD does not require voter approval, but some revenue options do require voter approval.

TBD revenue may be used for transportation improvements included in a local, regional, or state transportation plan ([RCW 36.73.015\(6\)](#)). Improvements can range from roads and transit service to sidewalks and transportation demand management. Construction, maintenance, and operation costs are eligible.

The two primary revenue sources for TBDs are a voted sales tax of up to 0.2% with a limit of 10 years (see [Transportation Benefit District Sales Tax](#)) and a vehicle license fee up to \$50 (non-voted) or \$100 (voted) (see [Transportation Benefit District \(TBD\) Vehicle License Fees](#)).

Other potential funding sources include a border area fuel tax for TBDs that include a Canadian border crossing (see [Border Area Fuel Tax](#)), general obligation bonds (see [G.O. Bond Excess Levies \(Capital Purposes\)](#)), one-year excess levies (see [Excess Levies \(Operations & Maintenance\)](#)), vehicle tolls, local improvement districts, and transportation impact fees (see [Impact Fees – Local Transportation Act \(LTA\)](#)), but note that these impact fees are different than the impact fees allowed under the Growth Management Act).

TBDs may either be managed as a separate quasi-municipal entity governed by city council in an independent and ex officio capacity, or the TBD powers and authority can be “assumed” by the city under [chapter 36.74 RCW](#), in which case it will be folded into the city’s transportation operations and cease to be a legally separate entity.

TBDs may also include other cities and counties, as well as port and transit districts, through interlocal agreement ([RCW 36.73.020\(2\)](#)).

# Appendices: Major Revenue Sources by Program Area

This appendix lists the major revenue sources for cities and towns in Washington State, divided into the following program areas:

- Unrestricted revenues – may be used for any lawful governmental purpose
- Affordable housing
- Arts, science, and cultural programs
- Capital projects and facilities
- Fire and emergency medical services
- Mental health and substance abuse
- Parks and recreation
- Police and criminal justice
- Tourism promotion
- Transportation
- Miscellaneous revenues

Some revenue sources may be used for multiple purposes and are listed here under multiple program areas. We have also provided a brief summary of each revenue source, the eligible cities, whether or not the funding source requires voter approval, and the statutory (RCW) citation.

This appendix focuses on general governmental revenues and does not include fees for cost recovery (such as building permits) or proprietary activities (such as utility charges).

## APPENDIX A – UNRESTRICTED REVENUES

The following revenue sources may be used, wholly or partially, for any lawful governmental purpose. However, note that some of these revenue sources could be partially restricted. In addition, any revenue sources requiring voter approval must be used in accordance with the purposes stated in the ballot measure, in which case they may be considered restricted resources rather than unrestricted.

Revenue source	Eligible cities	Description	Voter approval?	RCW
<a href="#">Admission Tax</a>	Any city	Tax of up to 5% of the admission charge for various facilities and events. Revenues may generally be used for any lawful governmental purpose.	No	<a href="#">35.21.280</a>
<a href="#">“Basic” Sales Tax/First Half-Cent</a>	Any city	Sales tax of 0.5% for any lawful governmental purpose; revenue shared with county.	No	<a href="#">82.14.030</a> (1)
<a href="#">Brokered Natural Gas Use Tax</a>	Any city	Use tax upon brokered natural gas sales that are not otherwise subject to utility tax; rate must be equivalent to city’s utility tax rate. Revenues are unrestricted.	No	<a href="#">82.14.230</a>
<a href="#">Business and Occupation (B&amp;O) Taxes</a>	Any city	Tax upon local businesses, usually measured by the value of products or gross income/proceeds. Revenues are unrestricted.	No, except for retail businesses if rate exceeds 0.2% of gross receipts/income	<a href="#">35.21.710</a>
<a href="#">Business Licenses/ “Head Taxes”</a>	Any city	Normally business license fees are designed to recoup administrative costs only, but some cities generate revenue through variable business license fees based on criteria such as number of employees, hours worked, type of business, or square footage. Revenues may be used for any lawful governmental purpose.	No	<a href="#">35.22.280</a> (32) <a href="#">35.23.440</a> (8) <a href="#">35A.82.020</a> <a href="#">35.27.370</a> (9)
<a href="#">Cable TV Franchise Fees</a>	Any city	Fee upon cable television providers of up to 5% of their gross revenues (minus certain in-kind contributions) within the franchise area. Revenues may be used for any lawful governmental purpose.	No	<a href="#">35.21.860</a>
<a href="#">City-County Assistance (ESSB 6050)</a>	Cities with relatively low per capita assessed values	Quarterly distribution from state to qualifying cities based on per capita property tax receipts, per capita sales tax receipts, and historical MVET backfill. Revenues may be used for any lawful governmental purpose.	No	<a href="#">82.45.230</a> <a href="#">43.08.290</a>

## Appendix A – Unrestricted Revenues – continued

Revenue source	Eligible cities	Description	Voter approval?	RCW
<a href="#">Excess Levies (Operations &amp; Maintenance)</a>	Any city	1-year property tax levy; may be used for any lawful governmental purpose, but revenues must be spent in accordance with the purpose(s) specified in the ballot measure.	Yes – 60% supermajority	<a href="#">84.52.052</a> , <a href="#">84.52.054</a>
<a href="#">Regular Levy (General Fund)</a>	Any city	Primary source of property tax revenue for cities; may generally be used for any lawful governmental purpose. Maximum levy rate varies between \$1.60 and \$3.825 depending on whether city is annexed to a fire/library district, participated in a regional fire authority, and/or has a pre-LEOFF firefighters' pension fund. May also potentially be increased through "banked capacity" or levy lid lifts.	No, except for levy lid lifts	<a href="#">84.52.043</a> (1)
<a href="#">Leasehold Excise Tax</a>	Any city	Excise tax up to 4% on most leases of tax-exempt properties in lieu of property tax; credited against state and county leasehold excise taxes. May be used for any lawful governmental purpose.	No	<a href="#">82.29A.040</a>
<a href="#">Liquor Excise Tax</a>	Any city	Quarterly distribution from State Treasurer's Office to all cities based on population. At least 2% must be used for approved drug and alcohol treatment programs and 20.23% for public safety programs, but remaining 77.77% may be used for any lawful governmental purpose.	No	<a href="#">82.08.160</a> , <a href="#">82.08.170</a>
<a href="#">Liquor Profits</a>	Any city	Quarterly distribution from State Treasurer's Office to all cities based on population. At least 2% must be used for approved drug and alcohol treatment program, but remaining 98% may be used for any lawful governmental purpose.	No	<a href="#">66.24.065</a>
<a href="#">"Optional" or "Second Half" Sales Tax</a>	Any city	Sales tax up to 0.5% for any lawful governmental purposes; for most cities, revenue is shared with county.	No	<a href="#">82.14.030</a> (2)

## Appendix A – Unrestricted Revenues – continued

Revenue source	Eligible cities	Description	Voter approval?	RCW
<a href="#">Public Safety Sales Tax</a>	Any city, as long as county has not imposed 0.3% public safety sales tax	Sales tax up to 0.1%. At least 1/3 of revenues must be used for criminal justice and/or fire protection purposes; remainder is unrestricted and may be used for any lawful governmental purpose. Counties have similar authority up to 0.3%. Cities and counties share revenue.	Yes – simple majority	<a href="#">82.14.450</a>
<a href="#">Public Utility District (PUD) Privilege Tax</a>	Cities served by PUDs	PUD properties are exempt from property taxes, but the state imposes an excise tax on PUDs to compensate. Revenue is distributed to counties, which must share some revenues with cities. Revenues may be used for any lawful governmental purpose.	No	<a href="#">54.28.020(1)</a>
<a href="#">Traffic and Parking Fines</a>	Any city	State Supreme Court establishes fines for traffic infractions, but revenues are shared with city where infraction occurred. Revenues may be used for any lawful governmental purpose, but a portion must be dedicated to fund local courts.	No	<a href="#">46.63.110(3)</a>
<a href="#">Utility Taxes</a>	Any city	Tax upon local utility providers. Maximum non-voted rate of 6% of gross operating revenues for certain utilities; rates higher than that require voter approval. Revenues may be used for any lawful governmental purpose.	No, unless rate exceeds 6% for certain utilities	<a href="#">35.21.870</a>

## APPENDIX B – AFFORDABLE HOUSING

Revenue source	Eligible cities	Description	Voter approval?	RCW
<a href="#">Affordable Housing Levy</a>	Any city	Property tax levy up to 10 years and \$0.50 per \$1,000 AV to finance affordable housing for very low-income households and affordable homeownership for low-income households.	Yes – simple majority	<a href="#">84.52.105</a>
<a href="#">Affordable Housing Sales Tax Credit (HB 1406)</a>	Any city that enacted its HB 1406 ordinance by July 27, 2020	20-year credit of either 0.0073% or 0.0146% against the state sales tax, depending on whether city has a “qualifying local tax” in place. Revenues may be used for affordable and supportive housing; cities under 100,000 population may also use revenues for rental assistance.	No	<a href="#">82.14.540</a>
<a href="#">Housing &amp; Related Services Sales Tax</a>	Any city, as long as county has not imposed this sales tax first	Sales tax up to 0.1% for affordable housing and related services, including behavioral health facilities and treatment programs.	Optional	<a href="#">82.14.530</a>
<a href="#">Lodging Tax</a>	Any city	Most cities may impose a tax up to 4% on the sale of short-term lodging less than 30 days, of which 2% is a credit against the state sales tax. Revenues must generally be spent for tourism promotion, but may also be used to repay debt for affordable workforce housing near transit stations.	No	<a href="#">67.28.180</a> and <a href="#">67.28.181</a> (1)
<a href="#">REET 2</a>	Cities fully planning under Growth Management Act (GMA)	Additional excise tax of 0.25% on real estate sales; some revenues may be used for affordable housing and homelessness through January 1, 2026.	No, except for voluntary GMA cities	<a href="#">82.46.035</a> (2)



## APPENDIX C – ARTS, SCIENCE, AND CULTURAL PROGRAMS

Revenue source	Eligible cities	Description	Voter approval?	RCW
<a href="#">Cultural Access Program (CAP) Levy</a>	Any city, as long as county has not imposed this levy first	Property tax levy up to 7 consecutive years for nonprofit cultural organizations. Levy amount may not exceed 0.1% of taxable retail sales; may not be imposed concurrently with CAP sales tax.	Yes – simple majority	<a href="#">84.52.821, chapter 36.160</a>
<a href="#">Cultural Access Program (CAP) Sales Tax</a>	Any city, as long as county has not imposed this sales tax first	Sales tax of up to 0.1% and 7 consecutive years for nonprofit cultural organizations; may not be imposed concurrently with CAP levy.	Yes – simple majority	<a href="#">82.14.525, chapter 36.160</a>

## APPENDIX D – CAPITAL PROJECTS AND FACILITIES

Revenue source	Eligible cities	Description	Voter approval?	RCW
<a href="#">G.O. Bond Excess Levies (Capital Purposes)</a>	Any city	Multi-year excess property tax levy to repay unlimited tax general obligation bonds. Revenues are restricted to capital purposes. As soon as debt is repaid, excess levies cease.	Yes – 60% supermajority	<a href="#">84.52.056</a>
<a href="#">Impact Fees – Growth Management Act (GMA)</a>	Cities fully planning under GMA	Fee assessed to property developers to help pay for new or expanded capital facilities directly addressing the increased demand created by that development. May only be imposed for streets, parks, schools, and/or fire protection.	No	<a href="#">82.02.050 – .110</a>
<a href="#">Impact Fees – Local Transportation Act (LTA)</a>	Any city	Fee assessed to property developers to help pay for new or expanded transportation facilities directly addressing the increased demand created by that development. However, the only cities we are aware of that have imposed transportation impact fees have done so under GMA, not LTA.	No	<a href="#">Chapter 39.92</a>
<a href="#">Public Facilities District (PFD)</a>	Any city	Any city may form a PFD to construct, operate, or maintain “regional centers” whose construction or operating costs are at least \$10 million. Revenue sources include sales taxes, user fees, admission and parking taxes, and bonds.	Some revenue sources require voter approval	<a href="#">35.57.020</a>
<a href="#">REET in Lieu of “Second Half” Sales Tax</a>	None – All cities/ towns have imposed 0.5% “second half” sales tax	Excise tax up to 0.5% on real estate sales; revenues are restricted in the same manner as REET 1.	No	<a href="#">82.46.010(3)</a>
<a href="#">REET 1</a>	Any city	Excise tax of 0.25% on real estate sales. May be used for certain capital projects, depending on city’s population and whether it fully plans under the Growth Management Act (GMA). For cities fully planning under GMA, eligible projects must be listed within the comp plan capital facilities element. May also be used for limited O&M costs, with additional reporting requirements.	No	<a href="#">82.46.010(2)</a>

## Appendix D – Capital Projects and Facilities – continued

Revenue source	Eligible cities	Description	Voter approval?	RCW
<a href="#">REET 2</a>	Cities fully planning under Growth Management Act (GMA)	Additional excise tax of 0.25% on real estate sales. May be used for certain capital transportation, water/storm/sewer, and park capital purposes listed in the city's capital facilities plan (CFP). May also be used for limited REET 1 purposes or capital facility maintenance, with additional reporting requirements. Use of revenues is somewhat more restrictive than REET 1.	No, except for voluntary GMA cities	<a href="#">82.46.035</a> (2)

## APPENDIX E – FIRE AND EMERGENCY MEDICAL SERVICES SERVICES

Revenue source	Eligible cities	Description	Voter approval?	RCW
<a href="#">Emergency Medical Services (EMS) Levy</a>	Any city, as long as it is not located within a county that has imposed the maximum \$0.50 EMS levy or another taxing district that has imposed an EMS levy	Property tax levy up to \$0.50 per \$1,000 AV for emergency medical care or services. May be imposed for 6 years, 10 years, or permanently, with differing voter approval requirements. May also be imposed by counties, fire districts, public hospitals, and other taxing districts.	Yes – simple majority or 60% supermajority	<a href="#">84.52.069</a>
<a href="#">Fire Protection District</a>	Most cities	Any city may form a new fire protection district, or any city with a population of 300,000 or less may annex to an existing district. Revenue source include benefit charges and property taxes up to \$1.50 per \$1,000 AV; may impact city's general fund levy rate.	Yes – simple majority unless funded by taxes/fees requiring 60% approval	<a href="#">chapter 52.04, 52.02.160</a>
<a href="#">Impact Fees – Growth Management Act (GMA)</a>	Cities fully planning under GMA	Fee assessed to property developers to help pay for new or expanded capital facilities directly addressing the increased demand created by that development. May only be imposed for streets, parks, schools, and/or fire protection.	No	<a href="#">82.02.050 – .110</a>
<a href="#">Liquor Excise Tax</a>	Any city	Quarterly distribution from State Treasurer's Office to all cities based on population. At least 20.23% must be used for public safety programs.	No	<a href="#">82.08.160, 82.08.170</a>
<a href="#">Public Safety Sales Tax</a>	Any city, as long as county has not imposed 0.3% public safety sales tax	Sales tax up to 0.1%. At least 1/3 of revenues must be used for criminal justice and/or fire protection purposes; remainder is unrestricted and may be used for any lawful governmental purpose. Counties have similar authority up to 0.3%. Cities and counties share revenue.	Yes – simple majority	<a href="#">82.14.450</a>
<a href="#">REET 1</a>	Any city	Real estate excise tax up to 0.25% – may be used for specified capital purposes/projects, including fire protection facilities. For cities fully planning under GMA, eligible projects must be listed within the comp plan capital facilities element. May also be used for limited O&M costs, subject to additional reporting requirements.	No	<a href="#">82.46.010(2)</a>

## Appendix E – Fire and Emergency Medical Services – continued

Revenue source	Eligible cities	Description	Voter approval?	RCW
<a href="#">REET 2</a>	Cities fully planning under GMA	Additional real estate excise tax up to 0.25%. Fire protection facilities are not an outright permitted use for REET 2 funds. However, fire protection facilities are eligible under REET 1, and some REET 2 funds may be used for REET 1 purposes subject to additional reporting requirements.	No, except for voluntary GMA cities	<a href="#">82.46.035(2)</a>
<a href="#">Regional Fire Authority</a>	Any city	Any city may join with another fire protection jurisdiction to form a regional fire authority. Revenue sources include benefit charges and property taxes up to \$1.50 per \$1,000 AV; will impact city's general fund levy rate.	Yes – simple majority unless funded by taxes/fees requiring 60% approval	<a href="#">chapter 52.26</a>

## APPENDIX F – MENTAL HEALTH AND SUBSTANCE ABUSE

Revenue source	Eligible cities	Description	Voter approval?	RCW
<a href="#">Cannabis (Marijuana) Excise Tax</a>	Cities that do not prohibit cannabis or have at least one cannabis retailer	<p>Quarterly distribution from State Treasurer's Office (1) to cities that do not prohibit cannabis businesses and (2) to cities where cannabis retailers are physically located.</p> <p>No clear guidance on use of revenues, but stated intent of I-502 is that cannabis legalization will "[allow] law enforcement resources to be focused on violent and property crimes [and generate] new state and local tax revenue for education, health care, research, and substance abuse prevention."</p>	No	<a href="#">69.50.540</a> (2)(g)
<a href="#">Liquor Profits and Liquor Excise</a>	Any city	Quarterly distribution from State Treasurer's Office to all cities based on population. At least 2% must be used for approved drug and alcohol treatment programs.	No	<a href="#">82.08.160</a> , <a href="#">82.08.170</a> (Liquor excise)  <a href="#">66.24.065</a> (Liquor profits)
<a href="#">Mental Health &amp; Chemical Dependency Sales Tax</a>	Tacoma; other cities no longer eligible	Sales tax up to 0.1% for mental health and drug treatment purposes. Mostly imposed by and distributed to counties.	No	<a href="#">82.14.460</a>

## APPENDIX G – PARKS AND RECREATION

Revenue source	Eligible cities	Description	Voter approval?	RCW
<a href="#">Impact Fees – Growth Management Act (GMA)</a>	Cities fully planning under GMA	Fee assessed to property developers to help pay for new or expanded capital facilities directly addressing the increased demand created by that development. May only be imposed for streets, parks, schools, and/or fire protection.	No	<a href="#">82.02.050 – .110</a>
<a href="#">Metropolitan Park District (MPD)</a>	Any city	Any city may form an MPD for park and recreation facilities. Revenue sources include additional property taxes up to \$0.75 per \$1,000 AV.	Yes – simple majority	<a href="#">chapter 35.61</a>
<a href="#">REET 1</a>	Any city	Real estate excise tax up to 0.25% – may be used for specified capital purposes/projects, including parks and recreational facilities. For cities fully planning under GMA, eligible projects must be listed within the comp plan capital facilities element. May also be used for limited maintenance costs, subject to additional reporting requirements.	No	<a href="#">82.46.010</a> (2)
<a href="#">REET 2</a>	Cities fully planning under Growth Management Act (GMA)	Additional real estate excise tax up to 0.25% – may be used for “capital projects” listed within the comp plan capital facilities element, including limited parks capital projects. Use of REET 2 revenues for parks is more restrictive than REET 1. May also be used for limited maintenance costs and REET 1 purposes (including broader definition of parks and recreation), subject to additional reporting requirements.	No, except for voluntary GMA cities	<a href="#">82.46.035</a> (2)

## APPENDIX H – POLICE AND CRIMINAL JUSTICE

Revenue source	Eligible cities	Description	Voter approval?	RCW
<a href="#">Cannabis (Marijuana) Excise Tax</a>	Cities that do not prohibit cannabis or have at least one cannabis retailer	<p>Quarterly distribution from State Treasurer's Office (1) to cities that do not prohibit cannabis businesses and (2) to cities where cannabis retailers are physically located.</p> <p>No clear guidance on use of revenues, but stated intent of I-502 is that cannabis legalization will "[allow] law enforcement resources to be focused on violent and property crimes [and generate] new state and local tax revenue for education, health care, research, and substance abuse prevention."</p>	No	<a href="#">69.50.540</a> (2)(g)
<a href="#">Criminal Justice Distribution – Contracted Services</a>	Cities that contract for a majority of their law enforcement services	Quarterly distribution from state to be used for criminal justice purposes.	No	<a href="#">82.14.330</a> (2)(a)(i)
<a href="#">Criminal Justice Distributions – High Crime</a>	Cities with high crime rates	Quarterly distribution from state to be used for criminal justice purposes.	No	<a href="#">82.14.320</a>
<a href="#">Criminal Justice Distributions – Population</a>	All cities	Quarterly distribution from state to all cities based on population, to be used for criminal justice purposes.	No	<a href="#">82.14.330</a> (1)(a)(ii)
<a href="#">Criminal Justice Distributions – Special Programs</a>	All cities	Quarterly distribution from state to all cities; revenues must be used for innovative law enforcement, at-risk children and child abuse victims, or domestic violence victims.	No	<a href="#">82.14.330</a> (2)(a)(ii)
<a href="#">Criminal Justice Distributions – Violent Crime</a>	Cities with high violent crime rates	Quarterly distribution from state to be used for criminal justice purposes.	No	<a href="#">82.14.330</a> (1)(a)(i)
<a href="#">Criminal Justice Sales Tax</a>	Any county (not cities)	Sales tax of 0.1% – revenues must be used for criminal justice purposes. May only be imposed by counties, but revenue is shared with all cities within the county on a population basis.	No	<a href="#">82.14.340</a>



## Appendix H – Police and Criminal Justice – continued

Revenue source	Eligible cities	Description	Voter approval?	RCW
<a href="#">Gambling Tax</a>	Any city that allows gambling	Cities that allow gambling may tax the proceeds. Maximum tax rates depend upon type of gambling activity. Revenues must be used “primarily for the purpose of public safety.”	No	<a href="#">9.46.110</a>
<a href="#">Liquor Excise Tax</a>	Any city	Quarterly distribution from State Treasurer’s Office to all cities based on population. At least 20.23% must be used for public safety programs.	No	<a href="#">82.08.160</a> , <a href="#">82.08.170</a>
<a href="#">Public Safety Sales Tax</a>	Any city, as long as county has not imposed 0.3% public safety sales tax	Sales tax up to 0.1%. At least 1/3 of revenues must be used for criminal justice and/or fire protection purposes; remainder is unrestricted and may be used for any lawful governmental purpose. Counties have similar authority up to 0.3%. Cities and counties share revenue.	Yes – simple majority	<a href="#">82.14.450</a>
<a href="#">REET 1</a>	Any city	Real estate excise tax up to 0.25% – may be used for specified capital purposes/ projects, including law enforcement facilities and judicial facilities. For cities fully planning under GMA, eligible projects must be listed within the comp plan capital facilities element. May also be used for limited maintenance costs, subject to additional reporting requirements.	No	<a href="#">82.46.010</a> (2)
<a href="#">REET 2</a>	Cities fully planning under Growth Management Act (GMA)	Additional real estate excise tax up to 0.25%. Law enforcement facilities and judicial facilities are not outright permitted uses for REET 2 funds. However, law enforcement and judicial facilities are eligible under REET 1, and some REET 2 funds may be used for REET 1 purposes subject to additional reporting requirements.	No, except for voluntary GMA cities	<a href="#">82.46.035</a> (2)
<a href="#">Traffic Fines</a>	Any city	State Supreme Court establishes fines for traffic infractions, but revenues are shared with city where infraction occurred. Revenues may be used for any lawful governmental purpose, but a portion must be dedicated to fund local courts.	No	<a href="#">46.63.110</a> (3)

## APPENDIX I – TOURISM PROMOTION

Revenue source	Eligible cities	Description	Voter approval?	RCW
<a href="#">Lodging Tax</a>	Any city	Tax up to 4% on the sale of short-term lodging less than 30 days, of which 2% is a credit against the state sales tax. Revenues must generally be spent for tourism promotion. Cities of 5,000 or more population must establish lodging tax advisory committee (LTAC) to guide use of revenues.	No	<a href="#">67.28.180</a> , <a href="#">67.28.181</a> (1)
<a href="#">Tourism Promotion Area Fees</a>	Any city	Nightly per-room fee on lodging businesses on lodging businesses with 40 or more rooms; must be used for tourism promotion that increases the number of tourists to the area.	No	<a href="#">Chapter 35.101</a>

## APPENDIX J – TRANSPORTATION

Revenue source	Eligible cities	Description	Voter approval?	RCW
<a href="#">Border Area Fuel Tax</a>	Any city within 10 miles of a Canadian border crossing, or any TBD encompassing a Canadian border crossing	Local gas tax up to 1 cent per gallon on top of other federal, state, or local gas taxes. Revenues must be used solely for border area jurisdiction street maintenance and construction.	Yes – simple majority	<a href="#">82.47.020</a>
<a href="#">Capron Refunds</a>	Cities in San Juan and Island counties	Refunds of state gas taxes and motor vehicle license fees for cities in San Juan and Island counties to compensate for their lack of state highways and state highway investment. Must be used for same purposes as motor vehicle fuel tax.	No	<a href="#">46.68.080</a>
<a href="#">Commercial Parking Tax</a>	Any city	Tax upon commercial parking businesses. Revenues must be used for transportation purposes.	No	<a href="#">82.80.030</a>
<a href="#">Impact Fees – Growth Management Act (GMA)</a>	Cities fully planning under GMA	Fee assessed to property developers to help pay for new or expanded capital facilities directly addressing the increased demand created by that development. May only be imposed for streets, parks, schools, and/or fire protection.	No	<a href="#">82.02.050 – .110</a>
<a href="#">Impact Fees – Local Transportation Act (LTA)</a>	Any city	Fee assessed to property developers to help pay for transportation improvements directly addressing the increased demand created by that development.	No	<a href="#">Chapter 39.92</a>
<a href="#">Local Household Tax</a>	Cities providing transit service	Excise tax up to \$1 per month per household for public transportation purposes; may not be imposed concurrently with transit sales tax.	No	<a href="#">35.95.040</a>
<a href="#">Local Option Gas Tax</a>	Any county (not cities)	Any county may impose a countywide gas tax of 10% of the state gas tax rate, in addition to existing federal, state, or local gas taxes. Revenues are shared with cities and must be used for transportation/highway purposes.	Yes – simple majority	<a href="#">82.80.010</a>
<a href="#">Motor Vehicle Fuel Tax (MVFT)</a>	All cities	Monthly distribution from state to all cities based on population. Revenues must be used for designated street, road, and highway purposes; must use at least 0.42% for pedestrian, equestrian, or bicycle trails unless such amount would be \$500 or less per year.	No	<a href="#">46.68.090, 46.68.110</a>

## Appendix J – Transportation – continued

Revenue source	Eligible cities	Description	Voter approval?	RCW
<a href="#">Multimodal Funds and Increased MVFT</a>	All cities	Quarterly distribution from state to all cities based on population. Increased MVFT must be spent for same purposes as motor vehicle fuel tax; multimodal funds may be spent for any transportation purpose.	No	<a href="#">46.68.126</a>
<a href="#">Parking Meters</a>	Any city	Parking meter fees may be used for administrative costs, parking studies, and acquisition and maintenance of off-street parking facilities.	No	WAC: <a href="#">308-330-650</a>
<a href="#">REET 1</a>	Any city	Real estate excise tax up to 0.25% – may be used for specified capital purposes/ projects, including transportation capital projects. For cities fully planning under GMA, eligible projects must be listed within the comp plan capital facilities element. May also be used for limited maintenance costs, subject to additional reporting requirements.	No	<a href="#">82.46.010</a> (2)
<a href="#">REET 2</a>	Cities fully planning under GMA	Additional real estate excise tax up to 0.25% – may be used for “capital projects” listed within the comp plan capital facilities element, including transportation capital projects. May also be used for limited maintenance costs, subject to additional reporting requirements.	No, except for voluntary GMA cities	<a href="#">82.46.035</a> (2)
<a href="#">Transit Sales Tax</a>	Cities providing transit service	Sales tax up to 0.9% for public transportation purposes. Few cities provide transit service directly, so typically this sales tax authority is used by public transportation benefit areas (PTBAs) or other transit providers.	Yes – simple majority	<a href="#">82.14.045</a>
<a href="#">Transportation Benefit District (TBD)</a>	Any city	Special taxing district to generate revenue for transportation projects included in a local, regional, or state transportation plan. Most common TBD revenue sources are sales taxes and vehicle license fees, but some other options are available.	Some revenue sources require voter approval	<a href="#">82.14.0455</a> , <a href="#">36.73.040</a> (3)(a), <a href="#">36.73.065</a> (1)

## APPENDIX K – MISCELLANEOUS REVENUES

Revenue source	Eligible cities	Description	Voter approval?	RCW
<a href="#">Annexation Services Sales Tax</a>	Certain cities in King, Pierce, and Snohomish counties	Credit against state sales tax for certain cities that annexed territory prior to January 1, 2015, to help defray the costs of providing municipal services to the area.	No	<a href="#">82.14.415</a>
<a href="#">Cannabis (Marijuana) Excise Tax</a>	Cities that do not prohibit cannabis or have at least one cannabis retailer	<p>Quarterly distribution from State Treasurer's Office (1) to cities that do not prohibit cannabis businesses and (2) to cities where cannabis retailers are physically located.</p> <p>No clear guidance on use of revenues, but stated intent of I-502 is that cannabis legalization will "[allow] law enforcement resources to be focused on violent and property crimes [and generate] new state and local tax revenue for education, health care, research, and substance abuse prevention."</p>	No	<a href="#">69.50.540</a> (2)(g)
<a href="#">Fire Insurance Premium Tax</a>	Cities with a pre-LEOFF fire pension fund	Annual distribution from State Treasurer's Office to cities with firefighters' pension funds, based on their proportionate share of firefighters. Revenues must be used for firefighters' pension fund.	No	<a href="#">41.16.050</a>
<a href="#">Investments (Interest Earnings)</a>	Any city	Any city may invest excess monies to generate additional income for one or more funds.	No	<a href="#">35.39.034</a> , <a href="#">35A.40.050</a>
<a href="#">Refund Levies</a>	Any city	Property tax levies to pay for property tax administrative refunds or refunds due to judgments.	No	<a href="#">84.69.020</a> , <a href="#">Chapter 84.68</a>
<a href="#">Surplus Transfers from Utilities and LIDs</a>	Cities with a utility or LID surplus	Cities may be able to transfer surplus funds from a local improvement district (LID) or utility to the general fund, but only under certain circumstances. Cities should generally not have utility surpluses.	No	<a href="#">35.37.020</a> , <a href="#">35.27.510</a>
<a href="#">Timber Excise Tax</a>	Cities with timber assessed value	Credit up to 4% against state timber excise tax. Imposed by counties, which share revenue with other taxing districts based on timber sales, timber assessed value, and levy rates. Eligible cities will receive a distribution for all of their levies.	No	<a href="#">84.33.041</a> , <a href="#">84.33.051</a> , <a href="#">84.33.081</a>

# Recommended Resources

Below are additional resources from other organizations that provide further explanation of local government revenues and distributions.

## ***Revenue Sources Generally***

### **Washington Department of Revenue:**

- [Statistics & Reports](#) – Comprehensive website tool to create interactive sales and use tax, property tax, and other local government tax reports.

## ***Property Taxes***

### **Washington Department of Revenue:**

- [Property Tax Levies Operations Manual](#) – Very comprehensive and detailed manual for administering property taxes.
- [Ballot Measure Requirements](#) – Overview of voted property tax levies, including types of voted levies, the levy lid, election dates, and ballot title requirements.

## ***Sales Taxes and Other Excise Taxes***

### **Washington Department of Revenue:**

- [Local Tax Reference Guide](#) – Summaries for all local sales and use taxes, including lodging tax, credits against the state sales tax, and brokered natural gas use tax, as well as E-911 excise taxes and rental car taxes.
- [Tax Reference Manual](#) – General information and history for selected state and local excise taxes; addresses state sales taxes but not local sales taxes.
- [Local Sales and Use Tax Distribution](#) – Annual summaries of sales tax distributions by type and jurisdiction.

## ***State Distributions to Local Governments***

### **Washington State Fiscal Website:**

- [State Spending: Distributions by Local Entities](#) – Lists state shared revenues for each jurisdiction for recent state fiscal years. Click on the icon next to the distribution source name for a detailed description and history of that revenue stream.
- [Distributions to Local Entities](#) – Interactive revenue distribution reports for local government entities from 2012 to present by distribution source, by local government entity, or source totals. Distribution amounts reported are based upon the state fiscal period of July 1 to June 30. Under “Reports and Tools,” click on “Local Tax Distribution.”

### **Washington State Treasurer’s Office:**

- [Local Government Revenue Distributions](#) – Brief descriptions, contact information, and distribution data for each local distribution source.

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