Washington Research Council

ePOLICY brief

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# Local Use of the Real Estate Excise Tax

State law authorizes use of several different real estate excise tax (REET) options by local cities and counties. While doing so, it prescribes the purposes for which the jurisdictions may spend the revenue collected. Briefly, these local options allow:

1. Counties to levy a tax of up to 1.0 percent on the value of real estate transactions. The proceeds may only be used for acquisition and maintenance of conservation areas. This is the only local REET option to be imposed on the buyer and it requires voter approval. Authorized by the Legislature in 1990, San Juan County is the only county to levy this option.
2. Cities and counties to levy up to 0.5 percent on real estate sales transactions. This option may only be used if a community opts not to levy the second 0.5 percent retail sales tax that local jurisdictions are authorized to collect. Tax receipts from this source may be used for general government purposes.
3. Cities and counties to levy up to 0.25 percent on real estate transactions. Revenues may be used to fund general capital programs outlined in the capital facilities element of a jurisdiction's comprehensive plan. Most cities and counties have implemented this tax. Both this local option and the 0.5 percent option in lieu of the second 0.5 local sales tax were authorized by the Legislature in 1982.
4. Cities and counties to levy up to an additional 0.25 percent. Receipts from this option are restricted exclusively to growth-related capital projects listed in the capital facilities element of a jurisdiction's comprehensive plan. Also authorized in 1990, this tax has been levied by 100 jurisdictions throughout the state.

The first two options are not widely used. However, questions were raised shortly after the 1990 passage of the second 0.25 percent local option regarding how local jurisdictions were opting to spend the two 0.25 percent options.

### *Restrictions Put in Place*

The real estate and development community sought legislation to require local governments to focus use of REET funds to support high priority, growth-mitigating capital projects. They wanted to assure that the money not be spent on lower priority projects, i.e., those of lesser concern to the community at large, like courthouse improvements, puppet theaters and administrative-related equipment. A jurisdiction that does this, they noted, may then seek voter-approval for more easily defended projects, increasing the tax burden.

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In response, the Legislature in 1992 tightened up its local REET language to restrict more specifically the projects for which REET funds could be appropriated. Lawmakers first revised the types of general capital projects fundable under the first 0.25 percent tax used by cities and counties with populations exceeding 5,000. Revenues from this source may now fund only those capital projects listed in a jurisdiction's comprehensive plan including, "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 and/or judicial facilities; river and/or waterway flood control projects…"

Lawmakers also provided additional restrictions on the eligible uses of the second 0.25 percent local REET option. Not only is use of the funds collected under this option restricted to capital projects listed in the capital facilities element of a jurisdiction's comprehensive plan and voter approval required for local jurisdictions opting not to plan under the state's growth management guidelines, but cities and counties may only use this tax "for planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of streets, road, highways, sidewalks, street and road lighting systems, traffic signals, bridges, domestic water systems, storm and sanitary sewer systems, and planning, construction, reconstruction, repair, rehabilitation, or improvement of parks."

## *How REET Is Being Used*

The Washington Research Council reviewed the recent use of these options in several urban jurisdictions — Spokane County, the City of Spokane, Pierce County and Clark County — and spoke with their budget officials. The following summarizes our findings:

Spokane County levies both 0.25 percent local REET options, and places the revenues in two funds. The revenue produced by each amounts to about $1.5 million annually. The county uses one fund to finance three categories of general capital projects: a new swimming pool, courthouse repairs and improvements, and park improvements. The other fund, which is restricted to capital and infrastructure improvements included in the County's comprehensive plan, finances the debt service for local sewer projects.

The City of Spokane also has two funds that draw on real estate excise tax revenue. One is the Street Fund. In 1999, about 9.4 percent of the Street Fund budget came from the 0.25 percent local REET for general capital purposes. The Street Fund pays for asphalt repair and street lighting. The city's second 0.25 percent local option generated about $1.4 million in 1999, which was used to purchase rights-of-way and fund road projects intended to reduce growth-related congestion.

Clark County levies both 0.25 percent local options and places the revenue in two separate and restricted funds. The first is used to finance a new work center for the jail and to expand the county courthouse. The second REET-funded account – budgeted at $3.8 million this year — has been dedicated to parks and open space.

Pierce County levies only one REET option – the 0.25 percent for general capital purposes. The County uses REET revenues for three primary purposes. The majority of funds – 72 percent – are used for general capital projects, like jail renovation and improvement and construction of general government buildings. Another 25 percent is used for maintenance and construction projects associated with flood control and mitigation activities along the County's rivers. The repurchase of property along some stretches of the County's rivers is credited with minimizing the County's exposure for flood control spending in recent years. Finally, three percent of REET revenues go to pay for improvements at the County's airport and as the matching fund basis often necessary in order to qualify for federal and state grants.

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