

Local Government Finance

Overview – Local governments (counties, cities, and towns) are authorized by state law to levy several taxes and fees to support public services. Local governments have the primary responsibility of funding police, criminal justice, and other public safety services. They also fund road improvements and in many areas human services and parks. Following is a brief overview of the four major sources of revenue for local governments. For more information on local property taxes, please see the Issue Paper on property taxes.

Sales Taxes – Each county and city (or town) is authorized to levy a 0.5 percent basic sales tax and a 0.5 percent optional sales tax. The optional tax is subject to public referendum. The maximum general sales tax a county and city can levy is 1.0 percent. In areas where the county and city use the basic and optional rate, the sales tax is shared between the city and county, with 85 percent of the revenue going to the city and 15 percent to the county. In unincorporated areas, the county receives all of the sales tax revenue. There are also several voter-approved, dedicated sales taxes for criminal justice and emergency communications, and in King County special sales taxes on restaurants to fund the bonds that paid for the professional baseball and football stadiums. Included at the end of this document is a table showing the highest and lowest sales tax rates in each of the 39 counties.

Property Taxes – Every county and city (or town) has a maximum property tax levy it can charge. Local governments and the state are also limited by the constitution and statute for property tax levies. There is a constitutional 1 percent limit, meaning that regular property taxes cannot exceed 1 percent of fair market value. This does not apply to many property tax levies for schools, fire districts, and other taxing jurisdictions because they are “excess” levies and are approved by at least 60 percent of the voters (50 percent simple majority for school levies).

Initiative 747, passed in 2001, also limits the yearly increase of regular property taxes to the lesser of 1 percent or inflation. Voters can approve a higher increase. In addition to regular levies, local governments can ask voters to approve property taxes for road improvements, emergency communications, and bonds for capital improvements. For example, residents living in unincorporated areas of a county pay a regular county road levy that funds road improvements entirely through property taxes. While schools are the major beneficiary of property tax revenue, local governments also rely heavily on property taxes to fund public safety and other services.

Business Taxes – There are three major ways local governments tax business:

- Regulatory licenses;
- Revenue generating licenses; and/or
- Municipal B&O tax.

Regulatory licenses are limited to the cost of administering the license. On the other hand, revenue-generating licenses have no limit and sometimes take the form of an employee (per head) tax or square footage tax based on the size of the business. Only cities are authorized to levy a local B&O tax. Currently, 38 cities (all in western Washington) levy a municipal B&O tax. The rates are capped by state law and all classes must be taxed in the same manner. Cities generally follow the same classifications as the state for tax purposes. Included at the end of this document is a table showing the various city B&O tax rates.

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Utility Taxes – Cities either have their own utility (e.g. water, sewer, garbage) or contract with a private utility or public utility district. Cities can tax utilities similar to other businesses through a utility tax or other means such as a franchise fee. The rate is capped at 6 percent for telephone, light and power, gas distribution, and steam energy businesses unless voters approve a higher rate. There is no limit for water, sewer, or stormwater utilities. Counties are not currently allowed to charge a general utility tax as are cities in unincorporated areas. Utility taxes and franchise fees have become a more popular revenue source in recent years for local governments, and rates vary widely among jurisdictions.

County Sales Tax Rates (as of April 1, 2008)			
County	Highest Sales Tax	Lowest Sales Tax	Highest sales tax rate affects following jurisdictions
Adams	7.6%	7.6%	County-wide
Asotin	7.5%	7.5%	County-wide
Benton	8.3%	7.7%	All cities and PTBA
Chelan	8.0%	8.0%	County-wide
Clallam	8.4%	8.4%	County-wide
Clark	8.2%	7.7%	Vancouver and other cities
Columbia	7.9%	7.9%	County-wide
Cowlitz	7.7%	7.6%	Kelso and Longview only
Douglas	8.0%	7.6%	East Wenatchee, Rock Island, Waterville PTBA
Ferry	7.6%	7.6%	County-wide
Franklin	8.3%	7.7%	Pasco and PTBA
Garfield	7.5%	7.5%	County-wide
Grant	7.9%	7.9%	County-wide
Grays Harbor	8.3%	8.3%	County-wide
Island	8.4%	8.4%	County-wide
Jefferson	8.4%	8.4%	County-wide
King*	9.0%	8.6%	Seattle and most cities
Kitsap	8.6%	8.6%	County-wide
Kittitas	8.0%	8.0%	County-wide
Klickitat	7.5%	7.0%	Cities
Lewis	7.9%	7.7%	Centralia and Chehalis only
Lincoln	7.7%	7.7%	County-wide
Mason	8.4%	8.4%	County-wide
Okanogan	7.7%	7.7%	County-wide
Pacific	7.8%	7.8%	County-wide
Pend Oreille	7.6%	7.6%	County-wide
Pierce	8.8%	7.8%	Tacoma, most cities, PTBA
San Juan	7.7%	7.7%	County-wide
Skagit	8.0%	7.8%	All cities and PTBA

Updated June 2008

Skamania	7.5%	7.0%	North Bonneville only
<i>County</i>	<i>Highest Sales Tax</i>	<i>Lowest Sales Tax</i>	<i>Highest sales tax rate affects following jurisdictions</i>
Snohomish	8.9%	8.0%	Bothell, Snohomish, Brier, Edmonds, Lynnwood, Mill Creek, Mountalke Terrace, Mukilteo, Woodway and PTBA
Spokane	8.6%	8.0%	Spokane, other cities, PTBA
Stevens	7.6%	7.6%	County-wide
Thurston	8.4%	7.8%	Lacey, Olympia, Tumwater, Yelm, PTBA
Whakiakum	7.5%	7.5%	County-wide
Walla Walla	8.3%	8.0%	College Place, Walla Walla, PTBA
Whatcom	8.4%	7.8%	All cities and PTBA
Whitman	7.8%	7.8%	County-wide
Yakima	8.2%	7.9%	City of Yakima, Selah

*In addition to the 9.0 percent regular sales tax rate, an additional 0.5 percent food and beverage tax is applied for funding the baseball stadium. PTBA = Public Transportation Benefit Area (local transit agency)