Shared revenues with cities: 2023-25 biennium

Preserve the historical revenue-sharing partnership between the state and its cities.

Background:

One of the best ways that the state can help serve the needs of residents across Washington is through partnerships with local governments.

For many years, cities have relied on consistent state-shared revenue funds to support safe communities, maintain strong infrastructure, and meet diverse community needs. In recent memory, some of these critical shared revenues have been capped or reduced, which has caused hardship in many communities. In fact, according to the 2024 City Conditions Survey, **82% of cities support an increase to state-shared revenues.**

Municipal Criminal Justice Assistance Account funds are prescriptive in how they are used and are not keeping up with the costs of new programs and services. Cities want to explore alternative policing methods, diversion and mental health response programs, and other complementary programs that improve public safety outcomes. To better serve our communities, cities need increased funding and more flexibility in how these funds can be used.

Recent slower real estate sales and associated REET revenue volatility have meant lower shared revenue distributions from the City-County Assistance Account to low-tax-base cities. In the current biennium, distributions were reduced by $20 million compared to the 2021-23 biennium.

Cities help generate the state's annual revenue

$11.1

billion in sales tax sent to the state general fund

Strong cities need:

- **Continued state investment** (via revenue-sharing) that supports essential programs and services, especially in our smallest communities.
- **Greater flexibility** to spend Municipal Criminal Justice Assistance Account funds on proven alternatives and complementary efforts that support public safety, such as behavioral health co-responders and diversion programs.
- **Restored, enhanced, and increased shared revenues**, especially when there is a commensurate increase in state revenue.
- **Ongoing public safety funding** to help offset ongoing costs associated with implementing law enforcement related legislation**.** In the 2021-2023 biennial budget, the Legislature provided $20 million to Washington's cities for that purpose. Those costs are ongoing, and cities need continued state support to help with the growing costs of public safety programs.

Shared revenues provide stability and continuity for local budgets

Cities are where most of the state's tax revenue is generated. In fact, cities are where most businesses operate, and where 94% of gross state product is generated. It's a wise investment for the state to continue sharing revenues with cities.

These funds provide critical continuity and stability for local budgets—especially for smaller cities and those with limited tax bases. Cities need the state to continue this commitment and explore ways to strengthen revenue-sharing in ways that benefit both cities and the state.

more details on back

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Historical shared revenue distributions and projected 2023-25 city distributions:

Liquor Profits Sharing

Historical distributions: $167.8 million

2023-25 distributions: $98.9 million

The Washington State Liquor Act of 1933 created the state's Liquor Control Board and a state monopoly on the sale of liquor. In 1949, the Legislature amended revenue distributions so that cities would receive 40% of all liquor profits. The Legislature amended distributions in 2012 and capped cities' share of revenues to $49 million.

Liquor Excise Tax Sharing

2023-25 distributions: $89.4 million

In 1955, the Legislature created the Liquor Excise Tax Account and directed 35% of revenue to counties and cities. Out of the revenue shared, cities received 80% of available funds.

Municipal Criminal Justice Assistance Account

2023-25 distributions: $51.7 million

The Municipal Criminal Justice Assistance Account was created in 1990 after city and county governments experienced significantly increased demand for public services due to population growth and changing patterns of illegal behavior. Although the account was temporarily reduced during the 2012 and 2013 fiscal years, cities and towns still receive the originally established revenue amounts. Given the challenges facing our municipal criminal justice system, now is the time to enhance the revenue provided to cities and towns.

City-County Assistance Account

Historical distributions: $377.6 million

2023-25 distributions: $34.6 million

The City-County Assistance Account was originally funded by the Motor Vehicle Excise Tax (MVET) and used to provide sales tax equalization funding to low-sales-tax cities. However, after the MVET was repealed in 1999, the Legislature replaced MVET revenue with highly volatile real estate excise tax (REET) collections. The City-County Assistance Account now provides needed support for the smallest cities and receives 1.4% of total graduated REET collections, as opposed to the original 23.6% of MVET revenue. The distributions for 2023-25 are more than $20 million lower than in 2021-23. These funds are significant to the cities and towns that rely on them, and the state needs to backfill these reductions to provide consistent, reliable support for these small communities.

Fire Insurance Premium Tax Sharing

2023-25 distributions: $14.6 million

The original 1935 distributions of the Fire Insurance Premium Tax account passed 45% of revenues on to qualifying cities and towns. This disbursement rate remained the same for 90 years. In 1999, the Legislature amended the rate of disbursement to 25% and redirected 20% to the Fire Service Training Account. The past few years have brought efforts to further reduce distributions to cities.

Marijuana Excise Tax Sharing

2023-25 distributions: $47.2 million

Voters approved the legalization of recreational marijuana in 2012. In the first biennium (2015-17) of marijuana revenue-sharing, cities, towns, and counties received just $12 million. The Legislature swept a portion of the promised shared revenues in the 2017-19 biennium. In 2022, legislation changed the distribution to a formula based on a percentage of state collections. While revenues will grow in proportion to the state's revenues, this represents only 5% of the cannabis revenue the state receives.

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