



# Real Estate Excise Tax (REET) Flexibility - HB 1953

Local real estate excise tax funds can now be used to operate and maintain existing capital facilities

With the passage of **HB 1953**, effective July 22, 2011, at least some local REET funds can be used to operate and maintain capital facilities. The provisions of **HB 1953** will expire on December 31, 2016.

### How is the use of REET restricted?

Before enactment of **HB 1953**, both REET 1 and 2 could be used only for the “planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation or improvement” of capital projects.

The specific types of projects that are REET-eligible are summarized in the table on the reverse. As the table shows, REET 2 is restricted to fewer types of projects. Since the restrictions for REET 1 and 2 are not the same, cities and counties that levy both must track these revenues separately.

### How does the enactment of HB 1953 change the restrictions on the expenditure of REET?

Cities have more flexibility in how they use REET funds. For both REET 1 and REET 2, a city or county may use the greater of \$100,000 or 35 percent of available REET funds annually, but not to exceed \$1 million per year, for the operation and maintenance (O&M) of existing capital facilities. See examples in table below.

### What is REET?

The real estate excise tax (REET) is a tax on the sale of real estate, usually paid by the seller. Cities, towns, and counties use the tax to fund capital projects.

The state levies this tax at the rate of 1.28 percent. REET is collected by county treasurers and distributed to the state and the appropriate local government.

In 1982, cities and counties were authorized to impose an additional 0.25 percent to finance capital improvements (RCW 82.46.010(2)). This is commonly referred to as REET 1. Of our 281 cities, 256 reported imposing REET 1.

In 1990, the Legislature authorized cities and counties planning under the Growth Management Act to impose an additional 0.25 percent REET to finance capital projects specified in the capital facilities element of a comprehensive plan (RCW 82.46.035(2)). This is commonly known as REET 2. Of the 221 cities eligible for REET 2, 166 have reported imposing it.

Examples	REET 1		REET 2		Total REET eligible for O&M
	Collections and/or reserves	Eligible for O&M*	Collections and/or reserves	Eligible for O&M*	
City A	\$45,000	\$45,000	\$0	\$0	\$45,000
City B	\$100,000	\$100,000	\$100,000	\$100,000	\$200,000
City C	\$500,000	\$175,000 (\$500,000 X 35%)	\$500,000	\$175,000 (\$500,000 X 35%)	\$350,000
City D	\$1,200,000	\$420,000 (\$1,200,000 X 35%)	\$1,200,000	\$420,000 (\$1,200,000 X 35%)	\$840,000
City E	\$3,500,000	\$1,000,000 (\$3,500,000 X 35% = \$1,225,000 but the max allowed is \$1,000,000)	\$3,500,000	\$1,000,000 (\$3,500,000 X 35% = \$1,225,000 but the max allowed is \$1,000,000)	\$2,000,000

\*O&M expenditures restricted to capital facility types as summarized in table on reverse.

*continued*

## What if a city or county currently has REET funds in a reserve account?

A city or county may use their reserve REET funds according to the **HB 1953** formula.

## Can REET funds be used for debt service payments?

Only counties are eligible to use REET funds for debt service payments.

## Real Estate Excise Tax (REET) allowable expenditures

Project types	REET 1 Authorized for all cities/counties*	REET 2 Authorized for GMA planning cities/counties only*
Streets, roadways, highways	Yes	Yes
Sidewalks	Yes	Yes
Street lighting	Yes	Yes
Traffic signals	Yes	Yes
Bridges	Yes	Yes
Domestic water systems	Yes	Yes
Stormwater and sanitary sewer	Yes	Yes
Parks	Yes	Yes (no land acquisition)
Recreational facilities	Yes	No
Law enforcement facilities	Yes	No
Fire protection facilities	Yes	No
Trails	Yes	No
Libraries	Yes	No
Administrative or judicial facilities	Yes	No

\*Restrictions for capital investments: Under REET 1, the requirement that projects fit within the eligible project types AND be listed in the capital facilities plan element of their comprehensive plan applies only to cities fully planning under GMA with a population over 5,000. Under REET 2, the requirement applies to cities of all sizes.

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