
Local Government & Housing Committee

HB 1378

Brief Description: Providing a city sales and use tax to fund the acquisition and processing of land designated as a clear zone area by the federal government.

Sponsors: Representatives Green, Kelley, McCune, Kirby, Morrell and Moeller.

Brief Summary of Bill

- Authorizes a code city to impose a sales and/or use tax in an annexed area if the area encompasses one or more military installations in a county with a population of between 800,000 and 900,000.
- Limits the use of the sales and/or use tax to property purchases, clearing land, or razing structures within an area designated as a "clear zone" by the federal government.

Hearing Date: 2/2/09

Staff: Thamas Osborn (786-7129)

Background:

Retail Sales and Use Taxes.

Retail sales and use taxes are imposed by the state, by most cities, and all counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property and some services. Use taxes apply to the value of most tangible personal property and some services when used in this state, if retail sales taxes were not collected when the property or services were acquired by the user. Use tax rates are the same as retail sales tax rates. The state tax rate is 6.5 percent. Local tax rates vary from 0.5 percent to 1.4 percent, depending on the location. The average local tax rate is 2 percent, for an average combined state and local tax rate of 8.5 percent.

City Annexation of Unincorporated Areas.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Under the state's Growth Management Act, counties establish urban growth areas (UGAs) in collaboration with cities. Within a UGA, counties are the providers of regional services, and cities are the providers of local services, until the UGA either becomes part of an existing city through annexation or incorporates. In 2004, the Legislature directed the Department of Community, Trade, and Economic Development to study the progress of annexation and incorporation in six urban counties and to identify both barriers and incentives to fully achieving annexation or incorporation of the UGAs in these counties. Lack of funding for municipal services during the transition period following annexation was one of the barriers identified by cities.

Annexation-Related Sales and Use Taxes.

In 2006, legislation was enacted providing certain cities with limited authority to collect sales and/or use taxes from annexation areas. Specifically, a city with a population less than 400,000, and which is located in a county with a population greater than 600,000, may impose a local sales and/or use tax on an annexation area, provided the annexation is consistent with its comprehensive plan. The tax is credited against state sales and use taxes, so it does not constitute an additional tax upon the consumer.

To be eligible to impose the tax, the city must commence annexation of an area having a population of over 10,000 prior to January 1, 2010. In addition, the city must pass a resolution or ordinance finding that the projected cost of providing services to the annexation area exceeds the projected revenue expected to be obtained from the area.

The rate of the tax is 0.1 percent for each annexation area with a population over 10,000 and 0.2 percent for an annexation area with a population over 20,000. The collection of the tax can continue for no more than 10 years from the date it is first imposed.

All revenue from the tax must be used to provide, maintain, and operate municipal services for the annexation area. The revenue may not exceed the difference of that which the city deems necessary to provide services for the annexation area and the general revenue received as the result of the annexation. If the revenue due under the tax exceeds that which is needed to provide the specified services in a given year, the tax must be suspended for the remainder of the year.

Clear Zone.

"Clear zone" is a term used by United States military institutions in designating civilian owned areas immediately adjacent to military bases or installations that, optimally, should be devoid of any development. The ideal clear zone consists only of vacant land. This concept is premised on the determination that areas designated as clear zones should be free of structures or other development that could hamper the safe and efficient operation of military installations. The degree of encroachment of civilian development into designated clear zones is a significant factor considered by the Department of Defense in making base closure decisions.

Summary of Bill:

A code city located in a county with population of between 800,000 and 900,000 is authorized to impose a sales and use tax on an annexed area provided the following conditions are met: (1) the area to be annexed is comprised of one or more military installations; and (2) the annexation is commenced prior to January 1, 2012. The maximum rate of the tax that may be imposed is 0.2 percent for the total number of annexed areas.

All tax revenue collected by a city pursuant to such an annexation may be used solely for the acquisition of real property, clearing of land, or razing existing structures, within in an area designated as a "clear zone" by the federal government.

Appropriation: None.

Fiscal Note: Requested on January 29, 2009.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.