HOUSE BILL REPORT
SSB 6686

As Passed House:
March 6, 2006

Title: An act relating to authorizing a local sales and use tax that is credited against the state sales and use tax.

Brief Description: Authorizing a local sales and use tax that is credited against the state sales and use tax.

Sponsors: By Senate Committee on Ways & Means (originally sponsored by Senators Prentice, Esser, Kastama, Johnson, Kline, Finkbeiner, Weinstein, Keiser, Berkey and McAuliffe).

Brief History:

Committee Activity:

Finance: 2/23/06, 2/28/06 [DP].

Floor Activity:

Passed House: 3/6/06, 75-23.

Brief Summary of Substitute Bill

- Authorizes some cities to impose up to a 0.2 percent sales and use tax credited against the state tax to fund services to newly annexed areas.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 9 members: Representatives McIntire, Chair; Hunter, Vice Chair; Roach, Assistant Ranking Minority Member; Condotta, Conway, Ericks, Hasegawa, Santos and Shabro.

Minority Report: Do not pass. Signed by 2 members: Representatives Orcutt, Ranking Minority Member and Ahern.

Staff: Rick Peterson (786-7150).

Background:

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 (CTED) 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. The study recommended consideration by the Legislature of:

- providing incentives for interlocal agreements, or for joint applications for state planning and infrastructure funding;

- reducing the lag time after annexation to collect property and sales tax revenues;

- creating a state fund for annexations – possible sources of funding to consider include; and
    (1) authorizing a local 1 percent sales tax on new construction credited against the state sales tax;
    (2) earmarking more of the state's real estate excise tax for state infrastructure funds to locals;
    (3) diverting a portion of the state property tax; and
    (4) diverting the 0.08 local sales/use tax in "urban" counties for infrastructure funding in the unincorporated UGA.

- creating more local tools for funding annexations:
    (1) authorizing counties to impose a utility tax in unincorporated UGAs, revenues from which would be largely dedicated to supporting city-borne annexation transition costs;
    (2) authorizing cities to impose a utility tax surcharge; and
    (3) authorizing cities and/or counties to create an annexing capital facilities district.

Summary of Bill:

Beginning July 1, 2007, a city with a population less than 400,000 and which is located in a county with a population greater than 600,000 that annexes an area consistent with its comprehensive plan may impose a sales or use tax. The tax is credited against the sales tax, so it is not an additional tax to a consumer.

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 over 20,000. The maximum rate of credit the city can impose is 0.2 percent. The tax will continue for no more than 10 years.

The tax is available if the city commences annexation of an area having a population of over 10,000 prior to January 1, 2010, and determines that the projected cost to provide services to the annexation area exceeds the projected revenue from the annexation area.

All revenue from the tax must be used to provide, maintain, and operate municipal services for the annexation area. The revenues may not exceed the difference of that which the city deems necessary to provide services for the annexation area and the general revenue received from the annexation. If the revenues exceed that which is needed to provide the services, the tax must be suspended for the remainder of the fiscal year.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: The bill provides a funding mechanism to facilitate annexation. The need for annexation is an outgrowth of the state mandated growth management (GMA). Under GMA there is an expectation that unincorporated urban growth areas will incorporate or be annexed into a city. All of the remaining unincorporated urban growth areas are residential and do not provide revenues that match the cost of providing services. The gap between the costs of providing these services and the revenue potential is growing larger over time. The bill is about doing the work of GMA and facilitating annexation in areas where the cost of annexation is high. Counties are struggling to maintain services in these areas and are eager to have these areas annexed. The bill only applies to very large annexations. All the regular processes for annexation will continue. The bill only deals with allowing a state contribution to the cost of annexation.

Testimony Against: None.

Persons Testifying: Representative Springer; Doug Levy, Cities of Renton, Kent, Federal Way, Puyallup and Everett; and Mike Ryherd, City of Kirkland.

Persons Signed In To Testify But Not Testifying: None.