

# SENATE BILL REPORT

## SB 5334

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As Reported By Senate Committee On:  
Government Operations & Elections, March 1, 2005

**Title:** An act relating to equalizing the costs of providing municipal services to newly annexed areas.

**Brief Description:** Authorizing a temporary annexation surtax for specified cities.

**Sponsors:** Senators Kastama, Finkbeiner, Esser and Keiser.

**Brief History:**

**Committee Activity:** Government Operations & Elections: 1/31/05, 3/1/05 [DPS, DNP].

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### SENATE COMMITTEE ON GOVERNMENT OPERATIONS & ELECTIONS

**Majority Report:** That Substitute Senate Bill No. 5334 be substituted therefor, and the substitute bill do pass.

Signed by Senators Kastama, Chair; Fairley, Haugen, Kline, McCaslin and Pridemore.

**Minority Report:** Do not pass.

Signed by Senators Berkey, Vice Chair; Roach, Ranking Minority Member; and Benton.

**Staff:** Genevieve Pisarski (786-7488)

**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, and a temporary utility surtax was one of the incentives.

**Summary of Substitute Bill:** To pay for providing municipal services in newly annexed areas, certain cities are given authority to impose a temporary annexation surtax on utilities, for up to ten years, after obtaining voter approval. This authority is limited to cities with a population over 30,000 that impose a utility tax and are in a county with a population over 700,000.

These cities must first determine that the annual cost of providing services to a newly annexed area will exceed annual revenue from the area.

The ballot proposition to impose the surtax must state: when collection of the surtax will begin, which can be no sooner than the date of annexation; the maximum rate of the surtax,

which can be no more than 10 percent; the utilities on which it can be collected; and the last year in which it can be imposed. After the temporary annexation surtax is approved, the rate will be set annually at the level necessary to make up the difference between costs and revenues.

Cable providers are exempted.

A city imposing the surtax must notify the Department of Revenue of the boundaries of the annexation area, the rate of the surtax, the effective date, and any subsequent changes in the rate. The effective date and any subsequent changes must occur no sooner than 75 days after notice to the department and only in January, April, July, or October. The department must provide access to existing GIS data by which a utility can determine customers subject to the surtax and the rate. If it uses the GIS data properly, a utility must be held harmless and not liable for difference in amount due, penalties, or interest.

The temporary annexation surtax is not subject to the 6 percent limitation on municipal utility taxes and is not subject to local initiative or referendum.

**Substitute Bill Compared to Original Bill:** Population thresholds are changed from 40,000 to 30,000 and from one million to 700,000.

Exemption of cable providers is added.

Provisions for use of Department of Revenue GIS data and associated notification requirements are added.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Testimony For:** In the case of the City of Kirkland, the cost of providing the city's existing level of service to a proposed annexation area significantly exceeds the revenue that the area will generate. Eventually, the city could make the needed adjustments to fund these services through a uniform tax rate and without reducing the current level of service in the rest of the city, but it would take a long time. The temporary annexation surtax provides a means to fund the transition period. The voters in the annexation area will be able to decide whether they believe that they benefit from the surtax, because they will have to vote to approve it. Currently, there will be a net decrease in the amount of taxes the residents of the annexation area will pay after annexation. The surtax would be a small increase in their utility bills. It would distribute the burden and not just put it on property taxpayers. Some technical changes are being considered to clarify that there would not be double taxation of utility customers. Businesses will not be hurt by the surtax; they benefit from the services, by getting police service, for example, instead of needing to hire their own security. Because voter approval is required in the first place, and there is a ten-year limit on the surtax, referendum is not needed. The number of eligible cities should be increased to cities over 30,000.

**Testimony Against:** This surtax would increase the total tax on wireless service to 32 percent. Even if voters approve the surtax, wireless customers might cancel service because of the increased cost. It isn't feasible for service providers' billing systems to single-out just part of a service area; it would have to be done by hand and would be subject to error. This proposal violates requirements for uniform assessment of taxes. A method that captured for the city the amount of the property tax savings in the annexation area would be more appropriate. This proposal hurts business and jobs; it creates additional administrative expense, creates a competitive disadvantage with neighboring states, and hurts business customers.

**Who Testified:** PRO: Mayor Mary Alyce Burleigh, Tracy Burrows, and Phil Watkins, City of Kirkland; Doug Levy, Cities of Puyallup, Kent, and Renton; Dave Williams, Association of Washington Cities; Mike Doubleday, City of Burien; Mike Ryherd, American Planning Association.

CON: Steve Gano, Cingular Wireless; Tom McBride, Association of Washington Business.