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**SUBSTITUTE SENATE BILL 6686**

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**State of Washington**

**59th Legislature**

**2006 Regular Session**

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

READ FIRST TIME 02/17/06.

1       AN ACT Relating to authorizing a local sales and use tax that is  
2 credited against the state sales and use tax; and adding a new section  
3 to chapter 82.14 RCW.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5       NEW SECTION. **Sec. 1.** A new section is added to chapter 82.14 RCW  
6 to read as follows:

7       (1) The legislative authority of any city with a population less  
8 than four hundred thousand and which is located in a county with a  
9 population greater than six hundred thousand that annexes an area  
10 consistent with its comprehensive plan required by chapter 36.70A RCW,  
11 may impose a sales and use tax in accordance with the terms of this  
12 chapter. The tax is in addition to other taxes authorized by law and  
13 shall be collected from those persons who are taxable by the state  
14 under chapters 82.08 and 82.12 RCW upon the occurrence of any taxable  
15 event within the city. The tax may only be imposed by a city if:

16       (a) The city has commenced annexation of an area under chapter  
17 35.13 or 35A.14 RCW having a population of at least ten thousand people  
18 prior to January 1, 2010; and

1 (b) The city legislative authority determines by resolution or  
2 ordinance that the projected cost to provide municipal services to the  
3 annexation area exceeds the projected general revenue that the city  
4 would otherwise receive from the annexation area on an annual basis.

5 (2) The tax authorized under this section is a credit against the  
6 state tax under chapter 82.08 or 82.12 RCW. The department of revenue  
7 shall perform the collection of such taxes on behalf of the city at no  
8 cost to the city and shall remit the tax to the city as provided in RCW  
9 82.14.060.

10 (3) The maximum rate of tax any city may impose under this section  
11 shall be 0.2 percent for the total number of annexed areas the city may  
12 annex. The rate of the tax imposed under this section is 0.1 percent  
13 for each annexed area population that is greater than ten thousand and  
14 less than twenty thousand. The rate of the tax imposed under this  
15 section shall be 0.2 percent for an annexed area which the population  
16 is greater than twenty thousand.

17 (4) The tax imposed by this section shall only be imposed at the  
18 beginning of a fiscal year and shall continue for no more than ten  
19 years from the date the tax is first imposed. Tax rate increases due  
20 to additional annexed areas shall be effective on July 1st of the  
21 fiscal year following the fiscal year in which the annexation occurred,  
22 provided that notice is given to the department as set forth in  
23 subsection (8) of this section.

24 (5) All revenue collected under this section shall be used solely  
25 to provide, maintain, and operate municipal services for the annexation  
26 area.

27 (6) The revenues from the tax authorized in this section may not  
28 exceed that which the city deems necessary to generate revenue equal to  
29 the difference between the city's cost to provide, maintain, and  
30 operate municipal services for the annexation area and the general  
31 revenues that the cities would otherwise expect to receive from the  
32 annexation during a year. If the revenues from the tax authorized in  
33 this section and the revenues from the annexation area exceed the costs  
34 to the city to provide, maintain, and operate municipal services for  
35 the annexation area during a given year, the city shall notify the  
36 department and the tax distributions authorized in this section shall  
37 be suspended for the remainder of the year.

1 (7) No tax may be imposed under this section before July 1, 2007.  
2 Before imposing a tax under this section, the legislative authority of  
3 a city shall adopt an ordinance that includes the following:

4 (a) The rate of tax under this section that shall be imposed within  
5 the city; and

6 (b) The threshold amount for the first fiscal year following the  
7 annexation and passage of the ordinance.

8 (8) The tax shall cease to be distributed to the city for the  
9 remainder of the fiscal year once the threshold amount has been  
10 reached. No later than March 1st of each year, the city shall provide  
11 the department with a new threshold amount for the next fiscal year,  
12 and notice of any applicable tax rate changes. Distributions of tax  
13 under this section shall begin again on July 1st of the next fiscal  
14 year and continue until the new threshold amount has been reached or  
15 June 30th, whichever is sooner. Any revenue generated by the tax in  
16 excess of the threshold amount shall belong to the state of Washington.  
17 Any amount resulting from the threshold amount less the total fiscal  
18 year distributions, as of June 30th, shall not be carried forward to  
19 the next fiscal year.

20 (9) The following definitions apply throughout this section unless  
21 the context clearly requires otherwise:

22 (a) "Annexation area" means an area that has been annexed to a city  
23 under chapter 35.13 or 35A.14 RCW. "Annexation area" includes all  
24 territory described in the city resolution.

25 (b) "Department" means the department of revenue.

26 (c) "Municipal services" means those services customarily provided  
27 to the public by city government.

28 (d) "Fiscal year" means the year beginning July 1st and ending the  
29 following June 30th.

30 (e) "Threshold amount" means the maximum amount of tax  
31 distributions as determined by the city in accordance with subsection  
32 (6) of this section that the department shall distribute to the city  
33 generated from the tax imposed under this section in a fiscal year.

34 NEW SECTION. **Sec. 2.** If any provision of this act or its  
35 application to any person or circumstance is held invalid, the

1 remainder of the act or the application of the provision to other  
2 persons or circumstances is not affected.

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