

HOUSE BILL REPORT

ESHB 1139

As Passed House:

March 13, 2007

Title: An act relating to the local sales and use tax that is credited against the state sales and use tax for cities to offset municipal service costs to newly annexed areas.

Brief Description: Modifying the local sales and use tax for annexation service costs.

Sponsors: By House Committee on Finance (originally sponsored by Representatives McDermott, McIntire, Springer, Cody, Ericks, Santos, Hasegawa, Simpson, Pettigrew and Kenney).

Brief History:

Committee Activity:

Finance: 1/26/07, 3/5/07 [DPS].

Floor Activity:

Passed House: 3/13/07, 63-32.

Brief Summary of Engrossed Substitute Bill

- Authorizes a city with a population over 400,000 to impose a sales and use tax to offset municipal service costs for newly annexed areas.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Conway, Ericks, McIntire and Santos.

Minority Report: Do not pass. Signed by 3 members: Representatives Orcutt, Ranking Minority Member; Condotta, Assistant Ranking Minority Member and Roach.

Staff: Jeff Mitchell (786-7139).

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

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cities are the providers of local services, until the UGA either becomes part of an existing city through annexation or incorporation. 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.

Last year, legislation was enacted allowing a city to impose a sales and use tax to provide, maintain, and operate municipal services within a newly annexed area.

There are several requirements that have to be met before a city may impose the tax. The city must:

- (1) have a population less than 400,000;
- (2) be located in a county with a population greater than 600,000;
- (3) annex an area consistent with its comprehensive plan;
- (4) commence annexation of an area having a population of at least 10,000 prior to January 1, 2010; and
- (5) adopt a resolution or ordinance stating that the projected cost to provide municipal services to the annexation area exceeds the projected general revenue the city would otherwise receive from the annexed area on an annual basis.

The tax is a credit against the state sales tax, so it is not an additional tax to a consumer.

The tax rate is 0.1 percent for each annexation area with a population between 10,000 and 20,000, and 0.2 percent for an annexation area over 20,000. The maximum cumulative tax rate a city can impose is 0.2 percent. The tax must be imposed at the beginning of a fiscal year and must 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 revenues may not exceed the difference of the amount the city deems necessary to provide services for the annexation area and the general revenue received from the annexation. If the revenues do exceed the amount needed to provide the services, the tax must be suspended for the remainder of the fiscal year.

Prior to March 1 of each year, the city must notify the CTED of the maximum amount of distributions it is allowed to receive for the upcoming fiscal year.

A city may not impose the tax before July 1, 2007.

Summary of Engrossed Substitute Bill:

The requirement that a city have a population less than 400,000, in order to impose the sales and use tax, is eliminated.

Any city with a population greater than 400,000 that annexes an area with a population of at least 10,000 may impose the sales and use tax at a rate of 0.035 percent for each annexed area. The 0.035 percent rate is also the cumulative rate maximum if the city annexes multiple areas.

A city with a population greater than 400,000 must share 20 percent of the tax with an adjacent city that has a population greater than 30,000, as determined by the Office of Financial Management population estimate immediately prior to the first imposition of the tax. The total distributions to both cities may not exceed \$3 million.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) The state is pressing cities to annex unincorporated areas to better meet the needs of the people in the unincorporated areas. To encourage this effort, the Legislature authorized this tax for small cities to provide funds when services costs will exceed revenue. A funding gap would exist if Seattle or Burien annexed North Highline. Both would provide different service levels. The city of Seattle was excluded from the bill last year. This would create a level playing field. However, the percentages in the existing law are not equitable for smaller cities seeking to annex areas. Burien and Seattle are encouraged to work together to provide an amendment that would authorize this funding for Seattle and also increase the rate for smaller cities. The total rate cap was inadvertently removed and needs to be restored. Vancouver is the 4th largest city. We are not included in the statute, but annexation is an important part of our business plan. Annexation would allow us to provide services efficiently. Cities are logical service providers to unincorporated urban growth areas. Allowing Vancouver to impose the tax would provide necessary funds to support these services. The funds would allow us to more effectively implement our annexation plan. Vancouver is contemplating many annexations. One or two of these annexations would meet the population threshold. The city of Seattle would provide a higher level of services to North Highline. Burien can not afford to annex North Highline. Allowing the city of Seattle to annex North Highline would produce the best results for the citizens of North Highline. Seattle is a great city and needs room to expand. It is patently unfair to exclude Seattle from revenue available to all other cities. The North Highline/White Center area has to be annexed in its entirety, not piecemeal.

(Concerns) The City of Burien has been looking at annexing the North Highline area for four years. Even though the tax rate for Seattle is lower, they would secure substantially more money for annexing the same area. This creates an unfair competitive advantage for one city over the other. We would like to see a more equitable solution in the legislation.

(Opposed) None.

Persons Testifying: (In support) Representative McDermott, prime sponsor; Dwight Dively and Kenny Pittman, City of Seattle; Susan Wallace, City of Vancouver; Peggy Weiss, Carlos Jingney and Leticia Riojas, White Center; Karen Veloria, East Gate Public Health Center; Ron Seale, Burien Residents Against Annexation; Jerry Seidl and Stephanie Dotson, North Highland; Mark Lifkes, White Center and North Highland; Melinda Bloom; Sharon Maeda; and Claire Henson and Butch Henderson, Boulevard Park Community Study Group.

(Concerns) Joan McGilton, City of Burien.

Persons Signed In To Testify But Not Testifying: None.