

HOUSE BILL REPORT

HB 1576

As Reported by House Committee On: Finance

Title: An act relating to sales and use tax for cities to offset municipal service costs to newly annexed areas.

Brief Description: Concerning sales and use tax for cities to offset municipal service costs to newly annexed areas.

Sponsors: Representatives Fitzgibbon, Cody and Pollet.

Brief History:

Committee Activity:

Finance: 2/3/15, 2/25/15 [DPS].

Brief Summary of Substitute Bill

- Modifies the annexation sales and use tax that may be imposed by the city of Seattle.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives Carlyle, Chair; Tharinger, Vice Chair; Fitzgibbon, Pollet, Reykdal, Robinson, Ryu, Springer, Stokesbary and Wylie.

Minority Report: Do not pass. Signed by 5 members: Representatives Orcutt, Assistant Ranking Minority Member; Condotta, Manweller, Vick and Wilcox.

Minority Report: Without recommendation. Signed by 1 member: Representative Nealey, Ranking Minority Member.

Staff: Jeffrey Mitchell (786-7139).

Background:

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.

In 2004 the Legislature directed the Department of Community, Trade and Economic Development (now known as the Department of Commerce) to study the progress of annexation and incorporation in six urban counties, and to identify barriers and incentives to fully achieving annexation or incorporation of urban growth areas in those counties. Lack of funding for municipal services during the transition period following annexation was one of the barriers identified by cities.

Legislation adopted in 2006 authorized qualifying cities to impose a sales and use tax to provide, maintain, and operate municipal services, a term defined to mean services customarily provided to the public by a city, in a newly annexed areas. Provisions governing the annexation sales and use tax (tax), which is a credit against the state sales tax and not an additional tax to a consumer, were amended in 2009 and 2011.

There are numerous requirements that a city must meet before it may impose the tax. For example, the city must:

- be located in a county with more than 600,000 persons;
- annex an area that is consistent with the comprehensive plan adopted by the city in conformity with the Growth Management Act;
- commence annexation of a qualifying area using direct petition or election annexation methods prior to January 1, 2015; and
- adopt an ordinance or resolution stating that the projected cost to provide municipal services to the annexation area exceeds the projected general revenue that the city would otherwise receive from the area on an annual basis.

All revenue from the tax must be used to provide, maintain, and operate municipal services for the annexation area, an area for which an annexation has been completed. The revenues, which are collected by the Department of Revenue and remitted to the city, may not exceed that which the city deems necessary to generate revenue equal to the difference between the city's cost to provide, maintain, and operate municipal services for the annexation area, and the general revenues that the city would otherwise expect to receive from the annexation in a year. If the revenues from the tax and the revenues from the annexation area exceed the costs to the city to provide, maintain, and operate municipal services for the annexation area during a given year, the tax distributions must be suspended for the remainder of the year. Additionally, the tax may continue for no more than 10 years from the date that each increment of the tax is first imposed.

On December 4, 2008, the cities of Burien and Seattle reached an agreement regarding the annexation of an unincorporated area located between the two cities. This area is referred to as the North Highline area. The population within this area is approximately 33,000. The City of Seattle will annex a portion of the area with a population around 20,000. The City of Burien has already annexed the remainder of the area.

With limited exceptions, the rate of the tax is 0.1 percent for each annexed area with a population greater than 10,000, but less than 20,000, and 0.2 percent for an annexed area with more than 20,000 persons. Additionally, in 2011 the City of Seattle was allowed to impose the annexation sales and use tax at a rate of 0.85 percent; however, the total amount of revenue from the tax was limited to \$5 million per fiscal year.

Summary of Substitute Bill:

The \$5 million per year cap for the City of Seattle is increased to \$8 million; however, the time period in which the annexation sales and use tax can be imposed by Seattle is decreased from 10 years to six years. The bill disallows the City of Seattle from imposing the tax unless the annexation is approved by the voters. Also, the city may not impose the tax if the city takes over the provision of sewer services.

Substitute Bill Compared to Original Bill:

The substitute bill disallows the City of Seattle from imposing the tax unless the annexation is approved by the voters. Also, the city is not allowed to impose the annexation sales and use tax if it provides sewer services within the annexation area. The substitute bill also makes a technical correction.

Appropriation: None.**Fiscal Note:** Available.**Effective Date of Substitute Bill:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.**Staff Summary of Public Testimony:**

(In support) The White Center/North Highline area is in dire need of quality urban services. Many cities in the Puget Sound area have taken advantage of the credit. There are serious public safety needs in the area that don't pencil out right now for Seattle if the sales tax credit is not available. The average household income in the proposed annexation is much lower than Seattle. It is a low-income area. This is an existing tool. The bill only does two things: first, it increases the cap from \$5 million to \$8 million, and second, shortens the period of time in which the credit can be imposed. Overall, this is a savings to the state of \$2 million over the entire time frame of the credit. Over 125,000 people have moved into cities since the creation of the annexation sales tax credit tool.

(Opposed) None.

Persons Testifying: Representative Fitzgibbon, prime sponsor; and Michael Shaw; and Karen Freeman, King County.**Persons Signed In To Testify But Not Testifying:** None.