

HOUSE BILL REPORT

SSB 5864

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: Senate Committee on Ways & Means (originally sponsored by Senators Nelson and Kohl-Welles).

Brief History:

Committee Activity:

Finance: 2/19/16, 2/24/16 [DP].

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: Do pass. Signed by 12 members: Representatives Lytton, Chair; Robinson, Vice Chair; Nealey, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Frame, Manweller, Pollet, Reykdal, Ryu, Springer, Stokesbary and Wylie.

Minority Report: Do not pass. Signed by 2 members: Representatives Vick and Wilcox.

Minority Report: Without recommendation. Signed by 1 member: Representative Condotta.

Staff: Sarah Emmans (786-7288).

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 newly annexed areas. Provisions governing the annexation sales and use tax (annexation 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 annexation 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 annexation 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 annexation 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 annexation tax distributions must be suspended for the remainder of the year. Additionally, the annexation tax may continue for no more than 10 years from the date that each increment of the annexation 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 annexation 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 tax at a rate of 0.85 percent; however, the total amount of revenue from the annexation tax was limited to \$5 million per fiscal year.

As of 2016, six jurisdictions impose the annexation tax: Auburn, Bellevue, Kent, Kirkland, Renton, and Burien.

Summary of Bill:

The \$5 million per year cap for the City of Seattle is increased to \$7.725 million; however, the time period in which the annexation sales and use tax (annexation tax) can be imposed by the City of Seattle is decreased from 10 years to six years. The bill disallows the City of Seattle from imposing the annexation tax unless the annexation is approved by the voters. Also, the city may not impose the annexation tax if the city takes over the provision of sewer services.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) This bill shifts the dollar amounts of current statute and produces about \$4 million less than the current statute. The amount in this bill gets closer to the difference between the amount of tax revenue generated through the annexation of that area and the cost of providing services to the area. This bill passed out of the Finance Committee last year and out of the Senate easily this year.

(Opposed) None.

Persons Testifying: David Foster, King County.

Persons Signed In To Testify But Not Testifying: None.