SENATE BILL REPORT
SSB 5864

As Passed Senate, January 27, 2016

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: Ways & Means: 2/16/15, 2/27/15 [DPS, w/oRec].
Passed Senate: 1/27/16, 44-4.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5864 be substituted therefor, and the substitute bill do pass.
Signed by Senators Hill, Chair; Dammeier, Vice Chair; Honeyford, Vice Chair, Capital Budget Chair; Hargrove, Ranking Member; Keiser, Assistant Ranking Member on the Capital Budget; Ranker, Ranking Minority Member, Operating; Bailey, Becker, Billig, Brown, Conway, Fraser, Hasegawa, Hewitt, O'Ban, Padden, Parlette, Rolfes, Schoesler, Warnick, Hatfield and Kohl-Welles.

Minority Report: That it be referred without recommendation.
Signed by Senator Braun, Vice Chair.

Staff: Juliana Roe (786-7438)

Background: 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.

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.

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 area. 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 ten years from the date that each increment of the tax is first imposed.

On December 4, 2008, the cities of Burien and Seattle reached 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 $7.725 million; however, the time period in which the annexation sales and use tax can be imposed by Seattle is decreased from ten years to six years. The city of Seattle is prohibited from imposing the annexation sales and use tax unless the annexation is approved by the voters residing within the annexed area. It is prohibited to impose an annexation tax if Seattle takes over sewer service in an annexed area in which the population is greater than 16,000 if the annexed area was, prior to November 1, 2008, officially designated as a potential annexation area by more than one city, one of which has a population greater than 400,000.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony on Original Bill: PRO: This bill would help unincorporated North Highline which lies between Burien and Seattle. Portions of this area have been annexed by Burien, but a large part remains unannexed. It is a dense community with urban needs with many low-income individuals. Seattle is looking at annexation for the area, but it needs money for infrastructure and municipal services to maintain the area. Seattle can no longer handle the needs of this community without this bill. The bill allows Seattle to get the money faster up front, even though they will get less money over time.

In the seven years prior to the creation of this tool, King County moved 7000 people into these areas. In the seven years since this legislation was enacted, King County has moved over 100,000 people into these areas.

Persons Testifying: PRO: Senator Nelson, prime sponsor; Karen Freeman, Michael Shaw, King County.