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**SUBSTITUTE HOUSE BILL 1576**

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**State of Washington**

**64th Legislature**

**2015 Regular Session**

**By** House Finance (originally sponsored by Representatives Fitzgibbon, Cody, and Pollet)

READ FIRST TIME 02/27/15.

1 AN ACT Relating to sales and use tax for cities to offset  
2 municipal service costs to newly annexed areas; and amending RCW  
3 82.14.415.

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

5 **Sec. 1.** RCW 82.14.415 and 2011 c 353 s 10 are each amended to  
6 read as follows:

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

16 (a) The city has commenced annexation of an area having a  
17 population of at least ten thousand people, or four thousand in the  
18 case of a city described under subsection (3)(a)(i) of this section,  
19 prior to January 1, 2015; and

20 (b) The city legislative authority determines by resolution or  
21 ordinance that the projected cost to provide municipal services to

1 the annexation area exceeds the projected general revenue that the  
2 city would otherwise receive from the annexation area on an annual  
3 basis.

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

9 (3)(a) Except as provided in (b) of this subsection, the maximum  
10 rate of tax any city may impose under this section is:

11 (i) 0.1 percent for each annexed area in which the population is  
12 greater than ten thousand and less than twenty thousand. The ten  
13 thousand population threshold in this subsection (3)(a)(i) is four  
14 thousand for a city with a population between one hundred fifteen  
15 thousand and one hundred forty thousand and located within a county  
16 with a population over one million five hundred thousand; and

17 (ii) 0.2 percent for an annexed area in which the population is  
18 greater than twenty thousand.

19 (b) Beginning July 1, 2011, the maximum rate of tax imposed under  
20 this section is 0.85 percent for an annexed area in which the  
21 population is greater than sixteen thousand if the annexed area was,  
22 prior to November 1, 2008, officially designated as a potential  
23 annexation area by more than one city, one of which has a population  
24 greater than four hundred thousand.

25 (4)(a) Except as provided in (b) of this subsection, the maximum  
26 cumulative rate of tax a city may impose under subsection (3)(a) of  
27 this section is 0.2 percent for the total number of annexed areas the  
28 city may annex.

29 (b) The maximum cumulative rate of tax a city may impose under  
30 subsection (3)(a) of this section is 0.3 percent, beginning July 1,  
31 2011, if the city commenced annexation of an area, prior to January  
32 1, 2010, that would have otherwise allowed the city to increase the  
33 rate of tax imposed under this section absent the rate limit imposed  
34 in (a) of this subsection.

35 (c) The maximum cumulative rate of tax a city may impose under  
36 subsection (3)(b) of this section is 0.85 percent for the single  
37 annexed area the city may annex and the amount of tax distributed to  
38 a city under subsection (3)(b) of this section may not exceed  
39 ((~~five~~)) eight million dollars per fiscal year.

1       (5)(a) Except as provided in (b) of this subsection, the tax  
2 imposed by this section may only be imposed at the beginning of a  
3 fiscal year and may continue for no more than ten years from the date  
4 that each increment of the tax is first imposed. Tax rate increases  
5 due to additional annexed areas are effective on July 1st of the  
6 fiscal year following the fiscal year in which the annexation  
7 occurred, provided that notice is given to the department as set  
8 forth in subsection (9) of this section.

9       (b) The tax imposed under subsection (3)(b) of this section may  
10 only be imposed at the beginning of a fiscal year and may continue  
11 for no more than six years from the date that each increment of the  
12 tax is first imposed.

13       (6) All revenue collected under this section may be used solely  
14 to provide, maintain, and operate municipal services for the  
15 annexation area.

16       (7) The revenues from the tax authorized in this section may not  
17 exceed that which the city deems necessary to generate revenue equal  
18 to the difference between the city's cost to provide, maintain, and  
19 operate municipal services for the annexation area and the general  
20 revenues that the cities would otherwise expect to receive from the  
21 annexation during a year. If the revenues from the tax authorized in  
22 this section and the revenues from the annexation area exceed the  
23 costs to the city to provide, maintain, and operate municipal  
24 services for the annexation area during a given year, the city must  
25 notify the department and the tax distributions authorized in this  
26 section must be suspended for the remainder of the year.

27       (8) No tax may be imposed under this section before July 1, 2007.  
28 Before imposing a tax under this section, the legislative authority  
29 of a city must adopt an ordinance that includes the following:

30       (a) A certification that the amount needed to provide municipal  
31 services to the annexed area reflects the city's true and actual  
32 costs;

33       (b) The rate of tax under this section that is imposed within the  
34 city; and

35       (c) The threshold amount for the first fiscal year following the  
36 annexation and passage of the ordinance.

37       (9) The tax must cease to be distributed to the city for the  
38 remainder of the fiscal year once the threshold amount has been  
39 reached. No later than March 1st of each year, the city must provide  
40 the department with a certification of the city's true and actual

1 costs to provide municipal services to the annexed area, a new  
2 threshold amount for the next fiscal year, and notice of any  
3 applicable tax rate changes. Distributions of tax under this section  
4 must begin again on July 1st of the next fiscal year and continue  
5 until the new threshold amount has been reached or June 30th,  
6 whichever is sooner. Any revenue generated by the tax in excess of  
7 the threshold amount belongs to the state of Washington. Any amount  
8 resulting from the threshold amount less the total fiscal year  
9 distributions, as of June 30th, may not be carried forward to the  
10 next fiscal year.

11 (10) The tax must cease to be distributed to a city imposing the  
12 tax under subsection (3)(b) of this section for the remainder of the  
13 fiscal year, if the total distributions to the city imposing the tax  
14 exceed (~~five~~) eight million dollars for the fiscal year. A city may  
15 not impose tax under subsection (3)(b) of this section unless the  
16 annexation is approved by a vote of the people residing within the  
17 annexed area. A city may not impose tax under subsection (3)(b) of  
18 this section if it provides sewer service in the annexed area.

19 (11) The resident population of the annexation area must be  
20 determined in accordance with chapter 35.13 or 35A.14 RCW.

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

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

26 (b) "Commenced annexation" means the initiation of annexation  
27 proceedings has taken place under the direct petition method or the  
28 election method under chapter 35.13 or 35A.14 RCW.

29 (c) "Department" means the department of revenue.

30 (d) "Municipal services" means those services customarily  
31 provided to the public by city government.

32 (e) "Fiscal year" means the year beginning July 1st and ending  
33 the following June 30th.

34 (f) "Potential annexation area" means one or more geographic  
35 areas that a city has officially designated for potential future  
36 annexation, as part of its comprehensive plan adoption process under  
37 the state growth management act, chapter 36.70A RCW.

38 (g) "Threshold amount" means the maximum amount of tax  
39 distributions as determined by the city in accordance with subsection

1 (7) of this section that the department must distribute to the city  
2 generated from the tax imposed under this section in a fiscal year.

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