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**Finance Committee**

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**HB 2249**

**Brief Description:** Modifying local government revenue options in counties with a population of one million five hundred thousand or more.

**Sponsors:** Representative Hunter.

**Brief Summary of Bill**

- Extends annexation commencement date to January 1, 2012, in order for cities in King County to impose annexation sales and use tax.
- Requires cities in King County, by January 1, 2012, to annex potential annexation areas or share additional sales tax revenues with the County.
- Authorizes King County to impose utility taxes until January 1, 2012.
- Authorizes cities and towns in King County to impose business taxes on water-sewer districts if the city or town has annexed its potential annexation areas.
- Eliminates the voter approval requirement for the county public safety sales and use tax in calendar years 2010, 2011, and 2012.
- Authorizes cities to impose the public safety sales and use tax in calendar years 2010, 2011, and 2012.
- Eliminates the anti-supplanting language in the public safety sales and use tax for calendar years 2010, 2011, and 2012.
- Allows cities and counties to use the voter-approved real estate excise tax for park maintenance and operation expenditures.
- Requires the state auditor to conduct a performance audit of King County by January 1, 2011, to assess the quality of services and goods provided by the county.

**Hearing Date:** 2/24/09

**Staff:** Jeffrey Mitchell (786-7139)

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*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.*

## **Background:**

The King County Annexation Initiative is an effort to promote annexation or incorporation of the largest remaining urban, unincorporated areas. These 10 areas are also referred to as potential annexation areas or PAAs. To support annexation or incorporation of the PAAs, the Annexation Initiative provides information to communities on their governance options and financial incentives to cities that annex or incorporate.

A local sales/use tax of up to 0.2 percent was authorized in 2006 for certain cities to provide municipal services related to annexation areas. This tax is referred to as the annexation sales and use tax. The tax may be imposed only if the cost of extending municipal services exceeds the potential local revenue to be derived from the annexation area. The local tax is credited against the state sales tax, thus shifting the cost to the state general fund. The tax is restricted to cities in King, Pierce, or Snohomish counties, except for Seattle. The annexation area must contain a population of at least 10,000 and the annexation process must be initiated by January 1, 2010. The local tax may run for a maximum of 10 years.

Cities may levy a basic 0.5 percent sales and use tax rate, plus an optional tax at rates ranging from 0.1 to 0.5 percent. Under the same statute, counties may levy the same rates as cities. Under the basic 0.5 percent sales and use tax, the maximum city tax rate is 0.425 percent if the county is also imposing the tax. Under the optional tax, a city must share 15 percent of its sales and use tax revenue with the county.

Subject to voter approval, counties may impose a tax up to 0.3 percent for public safety. At least one-third of the tax receipts must be devoted to criminal justice programs, including funding of additional police officers and the relief of congested court systems and overcrowded correctional facilities. The levying county is to retain 60 percent of the receipts and the remaining 40 percent will be distributed to cities within the county on a per capita basis. The statute requires that the use of the revenues be stated in the ballot proposition that goes before the voters; further, the receipts may not be used to replace existing funds for such programs. This local sales tax features another differential tax base which departs from the state sales tax base. Sales of motor vehicles are not subject to the local tax. The tax has been implemented in five counties: Kittitas, Walla Walla, Spokane, Whatcom, and Yakima.

Cities and counties may impose a 0.25 percent real estate excise tax to finance capital projects. Subject to voter approval, cities and counties may impose an additional 0.25 percent real estate excise tax to finance capital projects specified in a comprehensive plan. This tax was authorized in 1990 and to date has been implemented by 132 cities and 19 counties.

Counties are not authorized to impose utility taxes. Cities, while authorized to impose utility taxes, may not impose utility taxes on another municipality unless state statute explicitly authorizes the tax.

Regular property tax revenue for local governments is restricted to a growth rate of 1 percent plus new construction. However, voters may approve regular property tax increases above this 1 percent amount. This voter-approved increase is referred to as a lid lift. A lid lift may be for a single year or for multiple years, not to exceed six years. Multi-year lid lifts must be for a

specific purpose and lid lift funds may not supplant (replace) existing funds used for the purpose specified in the lid lift ballot proposition.

**Summary of Bill:**

The requirement to commence an annexation by January 1, 2010, in order for cities to impose the annexation sales and use tax, is extended to January 1, 2012.

Beginning January 1, 2012, cities in a county with a population of 1.5 million or more that have not annexed potential annexation areas must reduce their basic sales and use tax rate from 85 percent of the maximum authorized rate to 70 percent.

Beginning January 1, 2012, cities in a county with a population of 1.5 million or more that have not annexed potential annexation areas must share 30 percent, as opposed to 15 percent, of city optional sales and use tax revenues with King County.

A county with a population of 1.5 million or more may impose utility taxes on cable, electrical, gas, sewer, solid waste, telephone, and water utilities. The county may not impose the tax after December 31, 2011.

A city or town located wholly or partially within a county with a population of 1.5 million or more and that has annexed any potential annexation areas may impose utility taxes on water-sewer districts.

Cities and counties may use the voter-approved 0.25 percent real estate excise tax for park maintenance and operation expenditures.

A county may impose the public safety sales and use tax without voter approval in calendar years 2010, 2011, and 2012. Cities may also impose the tax in calendar years 2010, 2011, and 2012. The anti-supplanting language is eliminated during these years as well.

The anti-supplanting language for property tax lid lifts is eliminated for levies approved by the voters in 2009, 2010, and 2011.

By January 1, 2011, the state auditor is required to conduct a performance audit in a county with a population of 1.5 million or more. The audit must assess whether policy changes and programs in the county will effectively reduce overhead and other costs, improve services, and streamline operations. The audit must also identify current deficiencies in recognized best practices in the provision of goods and services by the county.

**Appropriation:** None.

**Fiscal Note:** Requested.

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