SENATE BILL REPORT
SB 5321

As Reported by Senate Committee On:
Ways & Means, February 26, 2009

Title: An act relating to extending a local sales and use tax that is credited against the state sales and use tax.

Brief Description: Extending a local sales and use tax that is credited against the state sales and use tax.

Sponsors: Senators Prentice, Kline, Pflug, Berkey, Shin, Hobbs, McAuliffe, Tom, Keiser, Jarrett and Kauffman.

Brief History:
Committee Activity: Ways & Means: 2/04/09, 2/26/09 [DPS, w/oRec].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5321 be substituted therefor, and the substitute bill do pass.
Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Tom, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Fairley, Hobbs, Keiser, Kohl-Welles, Murray, Parlette, Pflug, Pridemore, Regala and Rockefeller.

Minority Report: That it be referred without recommendation.
Signed by Senators Carrell, Honeyford and Schoesler.

Staff: Dean Carlson (786-7305)

Background: In 2006 legislation was enacted allowing a city to impose a sales and use tax to provide, maintain, and operate municipal services within a newly annexed area. The tax is a credit against the state sales tax, so it is not an additional tax to a consumer. The tax is for cities that annex an area where the newly received revenues received from the annexed area do not offset the costs of providing services to the area.

There are several requirements that have to be met before a city may impose the tax. The city must:
- have a population less than 400,000;
- be located in a county with a population greater than 600,000;

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- annex an area consistent with its comprehensive plan;
- commence annexation of an area having a population of at least 10,000 prior to January 1, 2010; and
- adopt a resolution or ordinance stating that the projected cost to provide municipal services to the annexation area exceeds the projected general revenue the city would otherwise receive from the annexed area on an annual basis.

The tax rate is 0.1 percent for each annexation area with a population between 10,000 and 20,000 and 0.2 percent for an annexation area over 20,000. The maximum cumulative tax rate a city can impose is 0.2 percent. The tax must be imposed at the beginning of a fiscal year and must continue for no more than ten years from the date it is first imposed.

All revenue from the tax must be used to provide, maintain, and operate municipal services for the annexation area. The revenues may not exceed the difference of the amount the city deems necessary to provide services for the annexation area and the general revenue received from the annexation. If the revenues do exceed the amount needed to provide the services, the tax must be suspended for the remainder of the fiscal year.

Prior to March 1 of each year, the city must notify the Department of Revenue of the maximum amount of distributions it is allowed to receive for the upcoming fiscal year.

Summary of Bill (Recommended Substitute): The requirement that a city have a population less than 400,000 in order to impose the sales and use tax is eliminated.

Any city with a population greater than 400,000 that annexes an area with a population of at least 10,000 may impose the sales and use tax at a rate of 0.0034 percent for each annexed area. The 0.0034 percent rate is also the cumulative rate maximum if a city annexes multiple areas.

The sales tax credit is extended for cities annexing qualifying areas from January 1, 2011, through January 1, 2021.

A city that has commenced annexation of enough areas prior to 2010, which would have allowed them to exceed the 0.2 percent limit, may receive an additional 0.1 percent sales tax credit beginning July 1, 2011.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Substitute): A city that has commenced annexation of enough areas prior to 2010, which would have allowed them to exceed the 0.2 percent limit, may receive an additional 0.1 percent sales tax credit beginning July 1, 2011.

Technical changes were made.

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: Renton's population has grown 86 percent since the Growth Management Act (GMA) passed. We will grow to approximately 125,000 people if we annex the two large areas on our borders, making Renton the second largest city in King County. We have many concerns about the fiscal impact of these annexations. We appreciate that this credit has helped to reduce the costs of complying with GMA. We are concerned that we will not have time to qualify for the credit before 2010, so we appreciate the extension of the credit. Even with the extension of the credit, we will still have financial difficulties with the annexations. Without the extension of the credit, we will not be able to bring on the services we need to provide for the annexations.

We would like the credit extended to include Clark County. It is an excellent program. This helps to promote good growth management. It facilitates the annexation of large areas that should be annexed from unincorporated areas to urban areas.

The Vancouver urban growth area is as big as King County's. We would like the same level of help that you have provided others.

Persons Testifying: PRO: Marty Wine, City of Renton; Mark Brown, City of Vancouver.