Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 1710

Brief Description: Concerning the local sales and use tax that is credited against the state sales and use tax for cities to offset municipal service costs to newly annexed areas.

Sponsors: Representatives Cody, Nelson and Simpson.

Brief Summary of Bill

- Allows the City of Seattle to impose the annexation sales and use tax up to a maximum of $5 million per year.
- Extends the date to January 1, 2015 for when a city must commence an annexation in order to impose the annexation sales and use tax.

Hearing Date: 2/19/09

Staff: Jeff Mitchell (786-7139)

Background:

Under the state's Growth Management Act, counties establish urban growth areas (UGAs) in collaboration with cities. Within a UGA, counties are the providers of regional services and cities are the providers of local services until the UGA becomes part of an existing city either through annexation or incorporation. In 2004, the Legislature directed the Department of Community, Trade, and Economic Development (CTED) to study the progress of annexation and incorporation in six urban counties, and to identify both the barriers and incentives to fully achieving annexation or incorporation of the UGAs in these counties. Lack of funding for municipal services during the transition period following annexation was one of the barriers identified by cities.

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.

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.

There are several requirements that have to be met before a city may impose the tax. The city must:
(1) have a population less than 400,000;
(2) be located in a county with a population greater than 600,000;
(3) annex an area consistent with its comprehensive plan;
(4) commence annexation of an area having a population of at least 10,000 prior to January 1, 2010; and
(5) 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 10 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. Sales and use tax revenue 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 CTED of the maximum amount of distributions it is allowed to receive for the upcoming fiscal year.

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 will annex the remainder of the North Highline area.

Summary of Bill:

The date that an annexation must commence in order to impose the annexation sales and use tax is extended by five years to January 1, 2015.

Beginning July 1, 2011, the City of Seattle is allowed to impose the annexation sales and use tax at a rate of 0.85 percent; however, the total amount of revenue the City can receive from the tax is limited to $5 million per fiscal year. Also, the annexation area must have a population of at least 18,000, and the City must have designated the area as a potential annexation area as part of its comprehensive plan adoption process.

Appropriation: None.

Fiscal Note: Available.

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