Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Local Government & Housing Committee

HB 2909

Brief Description: Allowing certain cities to impose sales and use taxes to offset municipal service costs to newly annexed areas.

Sponsors: Representative Appleton.

Brief Summary of Bill

- Authorizes a city in a county with a population density greater than 620 persons per square mile and less than 680 persons per square mile that annexes an area to impose a sales and use tax.

Hearing Date: 1/28/10

Staff: Thamas Osborn (786-7129).

Background:

Retail Sales and Use Taxes.

Retail sales and use taxes are imposed by the state, by most cities, and all counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property and some services. Use taxes apply to the value of most tangible personal property and some services when used in this state, if retail sales taxes were not collected when the property or services were acquired by the user. Use tax rates are the same as retail sales tax rates.

Annexation-Related Sales and Use Taxes.

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 in which the revenues obtained from the annexed area do not offset the costs of

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providing municipal services. In order for a city to impose the tax the annexation must meet the following requirements:

- the annexing city must be located in a county with a population greater than 600,000;
- the annexation of the area must be consistent with the city's comprehensive plan under the Growth Management Act (GMA);
- the area being annexed must have a population of at least 10,000;
- the annexation must commence prior to January 1, 2015; and
- the annexing city must 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 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. 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.

Summary of Bill:

A city in a county with a population density greater than 620 persons per square mile and less than 680 persons per square mile that annexes an area may impose a sales and use tax. The annexation must be consistent with the city's comprehensive plan under the GMA. The revenues generated from the tax may not exceed the amount necessary to provide, maintain, and operate municipal services within the annexed area.

Appropriation: None.

Fiscal Note: Requested on January 25, 2010

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