SENATE BILL REPORT
SB 6686

As Reported By Senate Committee On:
Ways & Means, February 16, 2006

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

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

Sponsors: Senators Prentice, Esser, Kastama, Johnson, Kline, Finkbeiner, Weinstein, Keiser, Berkey and McAuliffe.

Brief History:
Committee Activity: Ways & Means: 1/25/06, 2/16/06 [DPS, w/oRec].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6686 be substituted therefor, and the substitute bill do pass.
Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Doumit, Vice Chair, Operating Budget; Fairley, Kohl-Welles, Pridemore, Rasmussen, Regala, Rockefeller and Schoesler.

Minority Report: That it be referred without recommendation.
Signed by Senators Zarelli, Ranking Minority Member; Brandland, Parlette and Roach.

Staff: Dean Carlson (786-7305)

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 either becomes part of an existing city through annexation or incorporates. 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 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, and a temporary utility surtax was one of the incentives.

Summary of Substitute Bill: Beginning July 1, 2007, a city with a population less than 400,000 and which is located in a county with a population greater than 600,000 that annexes an area consistent with its comprehensive plan may impose a sales or use tax. The tax shall be taken as a credit against the sales tax, so it will not be an additional tax to a consumer.

In order to qualify for the tax, the city commences annexation of an area having a population of over 10,000 prior to January 1, 2010, and must determine by resolution or ordinance that the projected cost to provide services to the annexation area exceeds the projected revenue from the annexation area.

The rate of the tax is 0.1 percent for each annexation area with a population over 10,000 and 0.2 percent for an annexation area over 20,000. The maximum rate of credit the city can impose is 0.2 percent. The tax imposed shall only be imposed at the beginning of a fiscal year and shall continue for no more than ten years from the date it is 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 that which the city deems necessary to provide services for the annexation area and the general revenue received from the annexation. If the revenues due exceed that which is needed to provide the services, the tax must be suspended for the remainder of the fiscal year.

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

Substitute Bill Compared to Original Bill: In order to qualify for the sales tax credit, a city must commence annexation prior to January 1, 2010, instead of 2012. Additional technical changes were made.

Appropriation: None.

Fiscal Note: Requested on 01/18/06.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: We have an area that we should annex, but it would place a big financial burden on the city. We project a $5 million deficit, most of which is police service. This bill will help us bridge the gap. Federal Way has an annexation area of 21,000 people and would like to live up to the ideals of GMA, but it will cost us about $3.6 million a year. This bill will not fully fund the gap, but will help. Renton has nearly 1/3 of the unincorporated urban area in King County. If we were to annex these areas, it would more than double our size, but we could not afford it. The West Hill would be about a $2.5 million operating deficit and would need further infrastructure improvements. King County gives strong support to this bill. It would bring more stability to our budget and would help the cities' budgets in annexing these areas. It is not fair to leave these unincorporated areas behind. Jurisdictions in Pierce and Snohomish counties also support this bill.

Testimony Against: None.

Who Testified: PRO: Doug Levy, Cities of Renton, Kent, Federal Way, Puyallup, Everett; Mary-Alyce Burleigh, Kirland; Eric Faison, City of Federal Way; Jay Covington, City of Renton; Chuck Williams, King County; Celeste Davault; West Hill Unincorporated Area Council.