

SENATE BILL REPORT

SB 6487

As of February 5, 2014

Title: An act relating to 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.

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: Senator Hill.

Brief History:

Committee Activity: Ways & Means: 2/04/14.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Dean Carlson (786-7305)

Background: Legislation adopted in 2006 authorized qualifying cities to impose a sales and use tax to provide, maintain, and operate municipal services, a term defined to mean services customarily provided to the public by a city, in a newly annexed area. Provisions governing the annexation sales and use tax (tax), which is a credit against the state sales tax and not an additional tax to a consumer, were amended in 2009 and in 2011.

There are numerous requirements that a city must meet before it may impose the tax. For example, the city must:

- be located in a county with more than 600,000 persons;
- annex an area that is consistent with the comprehensive plan adopted by the city in conformity with the Growth Management Act;
- commence annexation of a qualifying area using direct petition or election annexation methods prior to January 1, 2015; and
- adopt an ordinance or resolution stating that the projected cost to provide municipal services to the annexation area exceeds the projected general revenue that the city would otherwise receive from the area on an annual basis.

All revenue from the tax must be used to provide, maintain, and operate municipal services for the annexation area, an area for which an annexation has been completed. The revenues, which are collected by the Department of Revenue and remitted to the city, may not exceed that which the city deems necessary to generate revenue equal to the difference between the

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city's cost to provide, maintain, and operate municipal services for the annexation area, and the general revenues that the city would otherwise expect to receive from the annexation in a year. If the revenues from the tax and the revenues from the annexation area exceed the costs to the city to provide, maintain, and operate municipal services for the annexation area during a given year, the tax distributions must be suspended for the remainder of the year. Additionally, the tax may continue for no more than ten years from the date that each increment of the tax is first imposed.

With limited exceptions, the rate of the tax is 0.1 percent for each annexed area with a population greater than 10,000, but less than 20,000, and 0.2 percent for an annexed area with more than 20,000 persons.

Summary of Bill: A city may not collect the annexation sales tax credit if an adjacent city, which did not exist at the time of initial determination of the potential annexation area, would be able to annex the area without claiming the tax annexation sales tax credit. The legislative authority of the adjacent city must adopt an ordinance that states that the city would be able to annex the area without claiming the annexation sales tax credit.

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: PRO: The Growth Management Act (GMA) encourages the growth of cities within the GMA boundaries. The potential annexation area (PAA) existed before Sammamish was created. Issaquah was supposed to release it from its PAA in 2002. They never did. This is not a competition between cities. Sammamish surrounds this area and can offer better services to the area without negative ramifications. The older city has no plans to solve many of the problems.

CON: This credit is only available if the city incurs more costs than revenues. The residents want to be annexed by the city with the lower property taxes. Issaquah strongly opposes this bill. The ballots are already in the mail. All other cities have the ability to use the credit, but if you pass this, only Issaquah will not. This bill should be known as the Lucy with the football bill and Issaquah is Charlie Brown. Now there is a chance the voters will approve the annexation by Issaquah, and this bill will take that away. We realize the start-up costs associated with the annexation will put us at a deficit. We need to make sure the annexed area receives equal services that the rest of the city receives.

Persons Testifying: PRO: Don Gerend, City of Sammamish councilmember; Tom Vance, Mayor, City of Sammamish.

CON: Paul Winterstein, City of Issaquah; Michael Foss, Richard L'Heureux, Klahanie PAA Resident & Brookshire Estates Homeowners' Assn.; Fred Butler, Mayor, Issaquah; Senator Mullet.