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HOUSE BILL 2681

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State of Washington

63rd Legislature

2014 Regular Session

By Representatives Fitzgibbon, Kochmar, Hargrove, Springer, Bergquist,  
and Freeman

Read first time 01/27/14. Referred to Committee on Local Government.

1 AN ACT Relating to including costs associated with preparing for  
2 new annexations within city sales and use tax authority; and amending  
3 RCW 82.14.415.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 **Sec. 1.** RCW 82.14.415 and 2011 c 353 s 10 are each amended to read  
6 as follows:

7 (1) The legislative authority of any city that is located in a  
8 county with a population greater than six hundred thousand that annexes  
9 an area consistent with its comprehensive plan required by chapter  
10 36.70A RCW may impose a sales and use tax in accordance with the terms  
11 of this chapter. The tax is in addition to other taxes authorized by  
12 law and is collected from those persons who are taxable by the state  
13 under chapters 82.08 and 82.12 RCW upon the occurrence of any taxable  
14 event within the city. The tax may only be imposed by a city if:

15 (a) The city has commenced annexation of an area having a  
16 population of at least ten thousand people, or four thousand in the  
17 case of a city described under subsection (3)(a)(i) of this section,  
18 prior to January 1, (~~2015~~) 2017; and

1 (b) The city legislative authority determines by resolution or  
2 ordinance that the projected cost to prepare for annexation and to  
3 provide municipal services to the annexation area exceeds the projected  
4 general revenue that the city would otherwise receive from the  
5 annexation area on an annual basis.

6 (2) The tax authorized under this section is a credit against the  
7 state tax under chapter 82.08 or 82.12 RCW. The department of revenue  
8 must perform the collection of such taxes on behalf of the city at no  
9 cost to the city and must remit the tax to the city as provided in RCW  
10 82.14.060.

11 (3)(a) Except as provided in (b) of this subsection, the maximum  
12 rate of tax any city may impose under this section is:

13 (i) 0.1 percent for each annexed area in which the population is  
14 greater than ten thousand and less than twenty thousand. The ten  
15 thousand population threshold in this subsection (3)(a)(i) is four  
16 thousand for a city with a population between one hundred fifteen  
17 thousand and one hundred forty thousand and located within a county  
18 with a population over one million five hundred thousand; and

19 (ii) 0.2 percent for an annexed area in which the population is  
20 greater than twenty thousand.

21 (b) Beginning July 1, 2011, the maximum rate of tax imposed under  
22 this section is 0.85 percent for an annexed area in which the  
23 population is greater than sixteen thousand if the annexed area was,  
24 prior to November 1, 2008, officially designated as a potential  
25 annexation area by more than one city, one of which has a population  
26 greater than four hundred thousand.

27 (4)(a) Except as provided in (b) of this subsection, the maximum  
28 cumulative rate of tax a city may impose under subsection (3)(a) of  
29 this section is 0.2 percent for the total number of annexed areas the  
30 city may annex.

31 (b) The maximum cumulative rate of tax a city may impose under  
32 subsection (3)(a) of this section is 0.3 percent, beginning July 1,  
33 2011, if the city commenced annexation of an area, prior to January 1,  
34 2010, that would have otherwise allowed the city to increase the rate  
35 of tax imposed under this section absent the rate limit imposed in (a)  
36 of this subsection.

37 (c) The maximum cumulative rate of tax a city may impose under  
38 subsection (3)(b) of this section is 0.85 percent for the single

1 annexed area the city may annex and the amount of tax distributed to a  
2 city under subsection (3)(b) of this section may not exceed five  
3 million dollars per fiscal year.

4 (5) The tax imposed by this section may only be imposed at the  
5 beginning of a fiscal year and may continue for no more than ten years  
6 from the date that each increment of the tax is first imposed. Tax  
7 rate increases due to additional annexed areas are effective on July  
8 1st of the fiscal year following the fiscal year in which the  
9 annexation occurred, provided that notice is given to the department as  
10 set forth in subsection (9) of this section.

11 (6) All revenue collected under this section may be used solely to  
12 prepare for annexation and to provide, maintain, and operate municipal  
13 services for the annexation area.

14 (7) The revenues from the tax authorized in this section may not  
15 exceed that which the city deems necessary to generate revenue equal to  
16 the difference between the city's cost to prepare for annexation and to  
17 provide, maintain, and operate municipal services for the annexation  
18 area and the general revenues that the cities would otherwise expect to  
19 receive from the annexation during a year. If the revenues from the  
20 tax authorized in this section and the revenues from the annexation  
21 area exceed the costs to the city to prepare for annexation and to  
22 provide, maintain, and operate municipal services for the annexation  
23 area during a given year, the city must notify the department and the  
24 tax distributions authorized in this section must be suspended for the  
25 remainder of the year.

26 (8) No tax may be imposed under this section before July 1, 2007.  
27 Before imposing a tax under this section, the legislative authority of  
28 a city must adopt an ordinance that includes the following:

29 (a) A certification that the amount needed to prepare for  
30 annexation and to provide municipal services to the annexed area  
31 reflects the city's true and actual costs;

32 (b) The rate of tax under this section that is imposed within the  
33 city; and

34 (c) The threshold amount for the first fiscal year following the  
35 annexation and passage of the ordinance.

36 (9) The tax must cease to be distributed to the city for the  
37 remainder of the fiscal year once the threshold amount has been  
38 reached. No later than March 1st of each year, the city must provide

1 the department with a certification of the city's true and actual costs  
2 to prepare for annexation and to provide municipal services to the  
3 annexed area, a new threshold amount for the next fiscal year, and  
4 notice of any applicable tax rate changes. Distributions of tax under  
5 this section must begin again on July 1st of the next fiscal year and  
6 continue until the new threshold amount has been reached or June 30th,  
7 whichever is sooner. Any revenue generated by the tax in excess of the  
8 threshold amount belongs to the state of Washington. Any amount  
9 resulting from the threshold amount less the total fiscal year  
10 distributions, as of June 30th, may not be carried forward to the next  
11 fiscal year.

12 (10) The tax must cease to be distributed to a city imposing the  
13 tax under subsection (3)(b) of this section for the remainder of the  
14 fiscal year, if the total distributions to the city imposing the tax  
15 exceed five million dollars for the fiscal year.

16 (11) The resident population of the annexation area must be  
17 determined in accordance with chapter 35.13 or 35A.14 RCW.

18 (12) The following definitions apply throughout this section unless  
19 the context clearly requires otherwise:

20 (a) "Annexation area" means an area that is being or has been  
21 annexed to a city under chapter 35.13 or 35A.14 RCW. "Annexation area"  
22 includes all territory described in the city resolution.

23 (b) "Commenced annexation" means (~~the initiation of annexation~~  
24 ~~proceedings has taken place under the direct petition method or the~~  
25 ~~election method under chapter 35.13 or 35A.14 RCW)) annexation  
26 proceedings have been initiated under chapter 35.13 or 35A.14 RCW and  
27 satisfy one of the following requirements:~~

28 (i) If proceeding under the election method, a majority of voters  
29 have voted for annexation and the annexing city has set an effective  
30 date within two years following the election; or

31 (ii) If proceeding under the direct petition or interlocal method,  
32 the city has set an effective date within two years of adoption of the  
33 resolution or ordinance setting the effective date.

34 (c) "Department" means the department of revenue.

35 (d) "Municipal services" means those services customarily provided  
36 to the public by city government.

37 (e) "Fiscal year" means the year beginning July 1st and ending the  
38 following June 30th.

1 (f) "Potential annexation area" means one or more geographic areas  
2 that a city has officially designated for potential future annexation,  
3 as part of its comprehensive plan adoption process under the state  
4 growth management act, chapter 36.70A RCW.

5 (g) "Threshold amount" means the maximum amount of tax  
6 distributions as determined by the city in accordance with subsection  
7 (7) of this section that the department must distribute to the city  
8 generated from the tax imposed under this section in a fiscal year.

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