

CERTIFICATION OF ENROLLMENT

SUBSTITUTE SENATE BILL 5864

Chapter 5, Laws of 2016

64th Legislature
2016 Regular Session

SALES AND USE TAX--MUNICIPAL SERVICES IN NEWLY ANNEXED AREAS

EFFECTIVE DATE: 6/9/2016

Passed by the Senate January 27, 2016
Yeas 44 Nays 4

BRAD OWEN

President of the Senate

Passed by the House March 1, 2016
Yeas 64 Nays 33

FRANK CHOPP

Speaker of the House of Representatives

Approved March 10, 2016 9:55 PM

JAY INSLEE

Governor of the State of Washington

CERTIFICATE

I, Hunter G. Goodman, Secretary of the Senate of the State of Washington, do hereby certify that the attached is **SUBSTITUTE SENATE BILL 5864** as passed by Senate and the House of Representatives on the dates hereon set forth.

HUNTER G. GOODMAN

Secretary

FILED

March 11, 2016

**Secretary of State
State of Washington**

SUBSTITUTE SENATE BILL 5864

Passed Legislature - 2016 Regular Session

State of Washington

64th Legislature

2015 Regular Session

By Senate Ways & Means (originally sponsored by Senators Nelson and Kohl-Welles)

READ FIRST TIME 02/27/15.

1 AN ACT Relating to sales and use tax for cities to offset
2 municipal service costs to newly annexed areas; and amending RCW
3 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
6 read 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
9 annexes an area consistent with its comprehensive plan required by
10 chapter 36.70A RCW may impose a sales and use tax in accordance with
11 the terms of this chapter. The tax is in addition to other taxes
12 authorized by law and is collected from those persons who are taxable
13 by the state under chapters 82.08 and 82.12 RCW upon the occurrence
14 of any taxable event within the city. The tax may only be imposed by
15 a city if:

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

20 (b) The city legislative authority determines by resolution or
21 ordinance that the projected cost to provide municipal services to

1 the annexation area exceeds the projected general revenue that the
2 city would otherwise receive from the annexation area on an annual
3 basis.

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

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

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

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

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

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

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

35 (c) The maximum cumulative rate of tax a city may impose under
36 subsection (3)(b) of this section is 0.85 percent for the single
37 annexed area the city may annex and the amount of tax distributed to
38 a city under subsection (3)(b) of this section may not exceed (~~five~~
39 ~~million~~) seven million seven hundred twenty-five thousand dollars
40 per fiscal year.

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

9 (b) The tax imposed under subsection (3)(b) of this section may
10 only be imposed at the beginning of a fiscal year and may continue
11 for no more than six years from the date that each increment of the
12 tax is first imposed.

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

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

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

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

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

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

37 (9) The tax must cease to be distributed to the city for the
38 remainder of the fiscal year once the threshold amount has been
39 reached. No later than March 1st of each year, the city must provide
40 the department with a certification of the city's true and actual

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

11 (10) The tax must cease to be distributed to a city imposing the
12 tax under subsection (3)(b) of this section for the remainder of the
13 fiscal year, if the total distributions to the city imposing the tax
14 exceed ~~((five million))~~ seven million seven hundred twenty-five
15 thousand dollars for the fiscal year. A city may not impose tax under
16 subsection (3)(b) of this section unless the annexation is approved
17 by a vote of the people residing within the annexed area. A city may
18 not impose tax under subsection (3)(b) of this section if it provides
19 sewer service in the annexed area.

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

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

24 (a) "Annexation area" means an area that has been annexed to a
25 city under chapter 35.13 or 35A.14 RCW. "Annexation area" includes
26 all territory described in the city resolution.

27 (b) "Commenced annexation" means the initiation of annexation
28 proceedings has taken place under the direct petition method or the
29 election method under chapter 35.13 or 35A.14 RCW.

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

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

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

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

39 (g) "Threshold amount" means the maximum amount of tax
40 distributions as determined by the city in accordance with subsection

1 (7) of this section that the department must distribute to the city
2 generated from the tax imposed under this section in a fiscal year.

Passed by the Senate January 27, 2016.

Passed by the House March 1, 2016.

Approved by the Governor March 10, 2016.

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