
Local Government Committee

HB 1153

Brief Description: Equalizing the costs of providing municipal services to newly annexed areas.

Sponsors: Representatives Springer, Nixon, Clibborn, Jarrett, Simpson, P. Sullivan, Shabro and B. Sullivan.

Brief Summary of Bill

- Authorizes qualifying cities to impose and collect a voter-approved, utility-based annexation surtax to customers within an annexation area.
- Limits the amount of time that revenue may be collected under the surtax to a maximum of ten years.
- Specifies that revenue collected from surtax must be collected as a utility tax and must be used solely to provide, maintain, and operate municipal services for the annexation area.
- Includes provisions related to the annexation surtax.

Hearing Date: 1/26/05

Staff: Ethan Moreno (786-7386).

Background:

Current law authorizes multiple methods for municipal annexations. While cities and towns have separate statutory provisions for classifications, governance, and operation, the annexation methods they may employ are largely similar. With some exceptions, annexation methods generally require voter and/or property owner approval.

Cities and towns may impose a tax on utility businesses for the privilege of conducting business. Taxes imposed under this authority are traditionally based upon gross receipts or gross income. City and town utility taxes on electrical energy, natural gas, steam energy or telephone businesses may not exceed six percent unless a higher rate was approved by the jurisdiction's voters. There is no statutory limit on the rate for other traditionally taxed utilities, such as solid waste services, water and sewer services, and cable television services.

Every city and town first imposing a business and occupation tax or increasing the rate of tax after April 22, 1983, must provide for a referendum procedure that is applicable to the ordinance imposing the tax or rate increase. In accordance with specified provisions, if a sufficient number

of valid signatures are obtained by the referendum petitioner, the referendum measure must be voted upon at a special or general election.

Summary of Bill:

Authorization Provisions

Cities with a population greater than 40,000 in a county with a population greater than one million that impose a utility tax may also impose and collect a temporary annexation surtax of up to 10 percent on the business activity of providing a utility service to customers within an annexation area if:

- The city legislative authority has adopted a resolution initiating annexation according to specified provisions or has annexed an area within the preceding 12 months;
- The city legislative authority has adopted a resolution or ordinance determining that the projected cost of providing municipal services to the annexation area exceeds the projected general revenue the city would otherwise receive from the area on an annual basis; and
- A ballot proposition authorizing the surtax is submitted to the voters in the annexation area and is approved by a majority of those voting on the proposition.

Collection and Use Provisions

Revenue from the surtax must be collected in the same manner as the utility tax on that utility service. "Utility tax" is defined to mean any tax on the privilege of conducting a utility business, including business activities traditionally taxed as utilities. The surtax is separate from and in addition to other utility taxes and is not subject to the six percent tax rate limit that applies to electrical energy, natural gas, steam energy, or telephone utility businesses.

The surtax must be measured by the gross receipts or income received from the business of providing utility services to the annexation area. "Annexation area" is defined to mean, in part, an area that was annexed to a city during the preceding 12 months, or that is the subject of a resolution pertaining to specific annexation methods requiring voter approval. The surtax may not be imposed before the date the area is annexed to the city and may not be imposed for more than ten years from its date of first collection.

Revenue from the surtax must be used solely to provide, maintain, and operate municipal services for the annexation area. "Municipal services" is defined to mean those services customarily provided to the public by a city government.

The council of a city authorized to collect the surtax must hold an annual public hearing and must adopt an ordinance setting the surtax rate. The adopted rate must not exceed that which the city deems necessary to generate revenue equal to the difference between the city's cost to provide, maintain, and operate municipal services for the annexation area, and the general revenues the city would otherwise expect to receive from the annexation area during that year. The rate may not exceed ten percent and may not exceed the voter-approved rate.

Ballot Provisions

Ballot propositions for the surtax must be prepared by the city attorney for the annexing city and must conform with requirements for local ballot measures. The ballot proposition must state:

- The commencement date for collection of the surtax;

- The maximum rate of the surtax;
- The utility services to which the surtax may be applied; and
- The final year in which a surtax may be imposed.

A ballot proposition proposing the surtax may be submitted simultaneously with any ballot proposition or propositions regarding annexation under specified provisions. Additionally, the election costs associated with the approval of the surtax must be paid by the city.

Notwithstanding other provisions of law, the surtax must not be the subject of a local initiative or be subject to local referendum.

Appropriation: None.

Fiscal Note: Requested on January 25, 2005.

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