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**SUBSTITUTE HOUSE BILL 1139**

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**State of Washington**

**60th Legislature**

**2007 Regular Session**

**By** House Committee on Finance (originally sponsored by Representatives McDermott, McIntire, Springer, Cody, Ericks, Santos, Hasegawa, Simpson, Pettigrew and Kenney)

READ FIRST TIME 03/05/07.

1 AN ACT Relating to the local sales and use tax that is credited  
2 against the state sales and use tax for cities to offset municipal  
3 service costs to newly annexed areas; and amending RCW 82.14.415.

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

5 **Sec. 1.** RCW 82.14.415 and 2006 c 361 s 1 are each amended to read  
6 as follows:

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

16 (a) The city has commenced annexation of an area under chapter  
17 35.13 or 35A.14 RCW having a population of at least ten thousand people  
18 prior to January 1, 2010; and

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

5 (2) The tax authorized under this section is a credit against the  
6 state tax under chapter 82.08 or 82.12 RCW. The department of revenue  
7 shall perform the collection of such taxes on behalf of the city at no  
8 cost to the city (~~and shall remit~~). The tax shall be remitted to the  
9 city as provided in RCW 82.14.060 except twenty percent of the tax  
10 levied under subsection (3)(b) of this section shall be distributed to  
11 a city with a population greater than thirty thousand that is adjacent  
12 to the annexation area of the city imposing the tax. For the purposes  
13 of this subsection, "population" means the last population estimate by  
14 the office of financial management prior to July 1st of the year the  
15 tax is first imposed by the city.

16 (3)(a) Except as provided in (b) of this subsection, the maximum  
17 rate of tax any city may impose under this section shall be (~~0.2~~  
18 percent for the total number of annexed areas the city may annex. The  
19 rate of the tax imposed under this section is)):

20 (i) 0.1 percent for each annexed area population that is greater  
21 than ten thousand and less than twenty thousand(~~. The rate of the tax~~  
22 imposed under this section shall be)); and

23 (ii) 0.2 percent for an annexed area (~~which the~~) population that  
24 is greater than twenty thousand.

25 (b) The maximum rate of tax imposed under this section shall be  
26 0.035 percent for each annexed area in which the population is greater  
27 than ten thousand and the area is annexed by a city with a population  
28 greater than four hundred thousand.

29 (4)(a) The maximum cumulative rate of tax a city may impose under  
30 subsection (3)(a) of this section is 0.2 percent for the total number  
31 of annexed areas the city may annex.

32 (b) The maximum cumulative rate of tax a city may impose under  
33 subsection (3)(b) of this section is 0.035 percent for the total number  
34 of annexed areas the city may annex.

35 (5) The tax imposed by this section shall only be imposed at the  
36 beginning of a fiscal year and shall continue for no more than ten  
37 years from the date the tax is first imposed. Tax rate increases due  
38 to additional annexed areas shall be effective on July 1st of the

1 fiscal year following the fiscal year in which the annexation occurred,  
2 provided that notice is given to the department as set forth in  
3 subsection ~~((+8))~~ (9) of this section.

4 ~~((+5))~~ (6) All revenue collected under this section shall be used  
5 solely to provide, maintain, and operate municipal services for the  
6 annexation area. This subsection (6) does not apply to a city that  
7 receives a twenty percent distribution under subsection (2) of this  
8 section.

9 ~~((+6))~~ (7) The revenues from the tax authorized in this section  
10 may not exceed that which the city deems necessary to generate revenue  
11 equal to the difference between the city's cost to provide, maintain,  
12 and operate municipal services for the annexation area and the general  
13 revenues that the cities would otherwise expect to receive from the  
14 annexation during a year. If the revenues from the tax authorized in  
15 this section and the revenues from the annexation area exceed the costs  
16 to the city to provide, maintain, and operate municipal services for  
17 the annexation area during a given year, the city shall notify the  
18 department and the tax distributions authorized in this section shall  
19 be suspended for the remainder of the year.

20 ~~((+7))~~ (8) No tax may be imposed under this section before July 1,  
21 2007. Before imposing a tax under this section, the legislative  
22 authority of a city shall adopt an ordinance that includes the  
23 following:

24 (a) The rate of tax under this section that shall be imposed within  
25 the city; and

26 (b) The threshold amount for the first fiscal year following the  
27 annexation and passage of the ordinance.

28 ~~((+8))~~ (9) The tax shall cease to be distributed to the city for  
29 the remainder of the fiscal year once the threshold amount has been  
30 reached. No later than March 1st of each year, the city shall provide  
31 the department with a new threshold amount for the next fiscal year,  
32 and notice of any applicable tax rate changes. Distributions of tax  
33 under this section shall begin again on July 1st of the next fiscal  
34 year and continue until the new threshold amount has been reached or  
35 June 30th, whichever is sooner. Any revenue generated by the tax in  
36 excess of the threshold amount shall belong to the state of Washington.  
37 Any amount resulting from the threshold amount less the total fiscal

1 year distributions, as of June 30th, shall not be carried forward to  
2 the next fiscal year.

3 ~~((+9))~~ (10) The following definitions apply throughout this  
4 section unless the context clearly requires otherwise:

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

8 (b) "Department" means the department of revenue.

9 (c) "Municipal services" means those services customarily provided  
10 to the public by city government.

11 (d) "Fiscal year" means the year beginning July 1st and ending the  
12 following June 30th.

13 (e) "Threshold amount" means the maximum amount of tax  
14 distributions as determined by the city in accordance with subsection  
15 ~~((+6))~~ (7) of this section that the department shall distribute to the  
16 city generated from the tax imposed under this section in a fiscal  
17 year.

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