

HOUSE BILL REPORT

HB 1378

As Reported by House Committee On:
Local Government & Housing

Title: An act relating to a city sales and use tax to fund the acquisition and processing of land designated as a clear zone area by the federal government.

Brief Description: Providing a city sales and use tax to fund the acquisition and processing of land designated as a clear zone area by the federal government.

Sponsors: Representatives Green, Kelley, McCune, Kirby, Morrell and Moeller.

Brief History:

Committee Activity:

Local Government & Housing: 2/2/09, 2/12/09 [DP].

Brief Summary of Bill

- Authorizes a code city to impose a local tax credited against state sales and use taxes following an annexation, if the annexed area encompasses one or more military installations in a county with a population of between 800,000 and 900,000.
- Limits the use of the tax revenues to property purchases, clearing land, or razing structures within an area designated as a "clear zone" by the federal government.

HOUSE COMMITTEE ON LOCAL GOVERNMENT & HOUSING

Majority Report: Do pass. Signed by 10 members: Representatives Simpson, Chair; Nelson, Vice Chair; Angel, Ranking Minority Member; Ericksen, Assistant Ranking Minority Member; Cox, Miloscia, Short, Upthegrove, White and Williams.

Minority Report: Do not pass. Signed by 1 member: Representative Springer.

Staff: Thamas Osborn (786-7129)

Background:

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Retail Sales and Use Taxes.

Retail sales and use taxes are imposed by the state, by most cities, and all counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property and some services. Use taxes apply to the value of most tangible personal property and some services when used in this state, if retail sales taxes were not collected when the property or services were acquired by the user. Use tax rates are the same as retail sales tax rates. The state tax rate is 6.5 percent. Local tax rates vary from 0.5 percent to 1.4 percent, depending on the location. The average local tax rate is 2 percent, for an average combined state and local tax rate of 8.5 percent.

City Annexation of Unincorporated Areas.

Under the state's Growth Management Act, counties establish urban growth areas (UGAs) in collaboration with cities. Within a UGA, counties are the providers of regional services, and cities are the providers of local services, until the UGA either becomes part of an existing city through annexation or incorporates. In 2004 the Legislature directed the Department of Community, Trade and Economic Development to study the progress of annexation and incorporation in six urban counties and to identify both barriers and incentives to fully achieving annexation or incorporation of the UGAs in these counties. Lack of funding for municipal services during the transition period following annexation was one of the barriers identified by cities.

Annexation-Related Sales and Use Taxes.

In 2006 legislation was enacted providing certain cities with limited authority to collect sales and/or use taxes from annexation areas. Specifically, a city with a population less than 400,000, and which is located in a county with a population greater than 600,000, may impose a local sales and/or use tax on an annexation area, provided the annexation is consistent with its comprehensive plan. The tax is credited against state sales and use taxes, so it does not constitute an additional tax upon the consumer.

To be eligible to impose the tax, the city must commence annexation of an area having a population of over 10,000 prior to January 1, 2010. In addition, the city must pass a resolution or ordinance finding that the projected cost of providing services to the annexation area exceeds the projected revenue expected to be obtained from the area.

The rate of the tax is 0.1 percent for each annexation area with a population over 10,000 and 0.2 percent for an annexation area with a population over 20,000. The collection of the tax can continue for no more than 10 years from the date it is first imposed.

All revenue from the tax must be used to provide, maintain, and operate municipal services for the annexation area. The revenue may not exceed the difference of that which the city deems necessary to provide services for the annexation area and the general revenue received as the result of the annexation. If the revenue due under the tax exceeds that which is needed to provide the specified services in a given year, the tax must be suspended for the remainder of the year.

Clear Zone.

"Clear zone" is a term used by United States military institutions in designating civilian owned areas immediately adjacent to military bases or installations that, optimally, should be devoid of any development. The ideal clear zone consists only of vacant land. This concept is premised on the determination that areas designated as clear zones should be free of structures or other development that could hamper the safe and efficient operation of military installations. The degree of encroachment of civilian development into designated clear zones is a significant factor considered by the Department of Defense in making base closure decisions.

Summary of Bill:

Following an annexation meeting specified criteria, a code city located in a county with a population of between 800,000 and 900,000 is authorized to impose a local tax credited against state sales and use taxes, provided the following conditions are met: (1) the area to be annexed is comprised of one or more military installations; and (2) the annexation is commenced prior to January 1, 2012. The maximum rate of the tax that may be imposed is 0.2 percent for the total number of annexed areas. This tax is a credit against state sales and use taxes and the Department of Revenue is required to remit the tax to the city.

All tax revenue collected by a city pursuant to such an annexation may be used solely for the acquisition of real property, clearing of land, or razing existing structures, within an area designated as a "clear zone" by the federal government.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) This bill would provide a source of funding for the City of Lakewood to annex areas on the periphery of adjacent military installations in order to create the "clear zone" required under Department of Defense guidelines. The tax revenues provided by the bill can be used solely for the purchase of land around the military installations so that such land could then be cleared in order to create the requisite buffer. Failure to create this clear zone could result in the closure of the military installations in accordance with ongoing base closure decisions being made by the Department of Defense. The growth of the city has caused Lakewood to encroach on the clear zone and it needs to take action to remedy the problem. These military bases are a major factor in the local economy with respect to jobs and other economic activity and any such closure would have a very negative economic

impact on the area. Equally important are the public safety benefits that would accompany the creation of the buffer. Buying the necessary property will cost approximately \$30 million and passage of the bill is essential for Lakewood to be able to afford the project.

(Opposed) None.

Persons Testifying: Representative Green, prime sponsor; and Doug Richardson, City of Lakewood.

Persons Signed In To Testify But Not Testifying: None.