SHB 2249 - H AMD **296**
By Representative Hunter

Strike everything after the enacting clause and insert the following:

"NEW SECTION. **Sec. 1.** (1) The legislature recognizes that counties and cities, the general purpose local governments that are closest to the people, are charged with providing numerous and diverse services to their residents. In providing these services, counties and cities must respond to legislative and citizen directives, and a changing, and often challenging, financial landscape.

(2) The legislature recognizes that population growth and the enactment and maturation of the growth management act has resulted in many governance changes throughout the state, as annexations and incorporations have expanded existing cities and created new incorporated areas. These actions have been consistent with growth management act principles that call for growth to be thoughtfully and deliberately directed to urban areas and areas characterized by urban growth. These actions have also been consistent with pronouncements of the act specifying that, in general, cities are most appropriate providers of urban governmental services, the services and facilities that are historically and typically provided in cities.

(3) Recognizing the governance efficiencies that will result from the annexation of urban and urbanizing areas in the state's largest counties, the principles of fairness that will take root as rural residents cease to bear the costs of providing urban governmental services in unincorporated urban and urbanizing areas, and the unprecedented financial pressures that local governments face, the legislature intends to establish new annexation mechanisms and related

fiscal provisions that apply in counties with more than one million five hundred thousand residents.

Sec. 2. RCW 82.14.415 and 2006 c 361 s 1 are each amended to read as follows:

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

(a) The city has commenced annexation of an area under chapter 35.13 or 35A.14 RCW having a population of at least ten thousand people prior to January 1, ((~~2010~~)) 2015; and

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

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

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

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

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

(b) As of July 1, 2011, and thereafter, 0.85 percent for an annexed area population that is greater than eighteen thousand if:

(i) The annexed area is annexed by a city that has officially designated the area a potential annexation area; and

(ii) The annexed area is, or was prior to November 1, 2008, officially designated as a potential annexation area by a city with a population greater than four hundred thousand, in a county with a population over one million.

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

(b) The maximum cumulative rate of tax a city may impose under subsection (3)(b) of this section is 0.85 percent and for the single annexed area the city may annex and the amount of tax distributed to a city under subsection (3)(b) of this section shall not exceed five million dollars per fiscal year.

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

((~~(5)~~)) (6) All revenue collected under this section shall be used solely to provide, maintain, and operate municipal services for the annexation area.

((~~(6)~~)) (7) The revenues from the tax authorized in this section may 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 that the cities would otherwise expect to receive from the annexation during a year. If the revenues from the tax authorized in

this section and the revenues from the annexation area exceed the costs to the city to provide, maintain, and operate municipal services for the annexation area during a given year, the city shall notify the department and the tax distributions authorized in this section shall be suspended for the remainder of the year.

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

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

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

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

((~~(8)~~)) (9) The tax shall cease to be distributed to the city for the remainder of the fiscal year once the threshold amount has been reached. No later than March 1st of each year, the city shall provide the department with a certification of the city's true and actual costs to provide municipal services to the annexed area, a new threshold amount for the next fiscal year, and notice of any applicable tax rate changes. Distributions of tax under this section shall begin again on July 1st of the next fiscal year and continue until the new threshold amount has been reached or June 30th, whichever is sooner. Any revenue generated by the tax in excess of the threshold amount shall belong to the state of Washington. Any amount resulting from the threshold amount less the total fiscal year distributions, as of June 30th, shall not be carried forward to the next fiscal year.

((~~(9)~~)) (10) The tax shall cease to be distributed to a city imposing the tax under subsection (3)(b) of this section for the remainder of the fiscal year, if the total distributions to the city imposing the tax exceed five million dollars for the fiscal year.

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

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

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

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

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

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

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

Sec. 3. RCW 47.26.086 and 1994 c 179 s 11 are each amended to read as follows:

Transportation improvement account projects selected for funding programs after fiscal year 1995 are governed by the requirements of this section.

The board shall allocate funds from the account by June 30th of each year for the ensuing fiscal year to urban counties, cities with a population of five thousand and over, and to transportation benefit districts. Projects may include, but are not limited to, multi-agency projects and arterial improvement projects in fast-growing areas. The board shall endeavor to provide geographical diversity in selecting improvement projects to be funded from the account.

The intent of the program is to improve mobility of people and goods in Washington state by supporting economic development and

environmentally responsive solutions to our statewide transportation system needs.

To be eligible to receive these funds, a project must be consistent with the Growth Management Act, the Clean Air Act including conformity, and the Commute Trip Reduction Law and consideration must have been given to the project's relationship, both actual and potential, with the statewide rail passenger program and rapid mass transit. Projects must be consistent with any adopted high capacity transportation plan, must consider existing or reasonably foreseeable congestion levels attributable to economic development or growth and all modes of transportation and safety, and must be partially funded by local government or private contributions, or a combination of such contributions. Priority consideration shall be given to those projects with the greatest percentage of local or private contribution, or both.

A city or town located within a county with a population of one million five hundred thousand or more may not qualify for new grants after December 31, 2011, unless the voter's of the city or town have voted upon the annexation of a potential annexation area subsequent to the effective date of this act, but prior to January 1, 2012. This subsection only applies to cities and towns with potential annexation areas recognized in the city or town's comprehensive plan or related document as such plan or related document exists on the effective date of this act.

Within one year after board approval of an application for funding, the lead agency shall provide written certification to the board of the pledged local and private funding for the phase of the project approved. Funds allocated to an applicant that does not certify its funding within one year after approval may be reallocated by the board.

NEW SECTION. **Sec. 4.** A new section is added to chapter 43.155 RCW to read as follows:

A city or town located within a county with a population of one million five hundred thousand or more may not qualify for new loans or pledges after December 31, 2011, unless the voter's of the city or town have voted upon the annexation of a potential annexation area subsequent to the effective date of this act, but prior to January 1, 2012. This section only applies to cities and towns with potential annexation areas recognized in the city or town's comprehensive plan or related document as such plan or related document exists on the effective date of this act.

NEW SECTION. **Sec. 5.** (1) The legislative authority of a county with a population of one million five hundred thousand or more may impose an excise tax on the privilege of engaging in business as a utility. The tax is equal to the gross income of the business, multiplied by a rate not exceeding six percent.

(2) A county must use taxes collected under the authority of this section only for capital projects and services provided within the unincorporated area of the county.

(3) A utility subject to tax under this section must add the tax to the rates or charges it makes for utility services and separately state the amount of tax on billings.

(4) The definitions in this subsection apply to this section.

(a) "Cable service utility" means a person providing cable service as defined in the federal telecommunications act of 1996.

(b) "Electrical power utility" has the same meaning as light and power business as defined in RCW 82.16.010.

(c) "Gas utility" has the same meaning as gas distribution business as defined in RCW 82.16.010.

(d) "Gross income of the business" is defined as provided in RCW 82.04.080.

(e) "Sewer utility" means a sewerage collection business as defined in RCW 82.16.020.

(f) "Solid waste utility" means a solid waste collection business as defined in RCW 82.18.010.

(g) "Telephone utility" means a person providing telecommunications service as defined in RCW 82.04.065.

(h) "Water utility" means a water distribution business as defined in RCW 82.16.010.

(i) "Utility" means an electrical power utility, gas utility, telephone utility, water utility, sewer utility, solid waste utility, or cable service utility.

(5) A county may provide exemptions for sales by utilities to business customers, such as, manufacturing facilities, aircraft repair facilities, industrial parks, industrial facilities, farm businesses, and computer data centers. A county may not provide a general exemption for sales by utilities to residential customers unless business customers are also exempt.

(6) A county must allow a credit against the cable service utility tax for any franchise fee paid by the cable service utility to the county.

(7) A county must allow a credit against the tax imposed under the authority of this section for the amount of any similar utility tax imposed by a city or town on the same taxable event. The credit required by this subsection may not exceed the amount of tax otherwise due.

(8) This section expires January 1, 2012.

NEW SECTION. **Sec. 6.** A new section is added to chapter 35.21 RCW to read as follows:

(1) Subject to the requirements of this section, a city or town located partially or wholly within a county with a population of one million five hundred thousand or more may impose a tax upon the gross income or gross receipts of a water-sewer district.

(2) A city or town imposing the tax authorized under this section may not impose a rate of tax that exceeds six percent.

(3) A city or town may not impose the tax authorized under this section unless the voter's of the city or town have voted upon the annexation of a potential annexation area subsequent to the effective

date of this act, but prior to January 1, 2012. This subsection only applies to cities and towns with potential annexation areas recognized in the city or town's comprehensive plan or related document as such plan or related document exists on the effective date of this act.

Sec. 7. RCW 82.46.035 and 1992 c 221 s 3 and 1991 sp.s c 32 s 33 are each reenacted and amended to read as follows:

(1) The legislative authority of any county or city shall identify in the adopted budget the capital projects, park maintenance and operation expenditures, or both funded in whole or in part from the proceeds of the tax authorized in this section, and shall indicate that such tax is intended to be in addition to other funds that may be reasonably available for ((~~such capital projects~~)) these purposes.

(2) The legislative authority of any county or any city that plans under RCW 36.70A.040(1) may impose an additional excise tax on each sale of real property in the unincorporated areas of the county for the county tax and in the corporate limits of the city for the city tax at a rate not exceeding one-quarter of one percent of the selling price. Any county choosing to plan under RCW 36.70A.040(2) and any city within such a county may only adopt an ordinance imposing the excise tax authorized by this section if the ordinance is first authorized by a proposition approved by a majority of the voters of the taxing district voting on the proposition at a general election held within the district or at a special election within the taxing district called by the district for the purpose of submitting such proposition to the voters.

(3) Revenues generated from the tax imposed under subsection (2) of this section shall be used by such counties and cities ((~~solely~~)) for financing capital projects specified in a capital facilities plan element of a comprehensive plan, and, at the option of the city or county, park maintenance and operation expenditures. However, revenues (a) pledged by such counties and cities to debt retirement prior to March 1, 1992, may continue to be used for that purpose until the original debt for which the revenues were pledged is retired, or

(b) committed prior to March 1, 1992, by such counties or cities to a project may continue to be used for that purpose until the project is completed.

(4) Revenues generated by the tax imposed by this section shall be deposited in a separate account.

(5) As used in this section, "city" means any city or town and "capital project" means those public works projects of a local government for planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of streets, roads, highways, sidewalks, street and road lighting systems, traffic signals, bridges, domestic water systems, storm and sanitary sewer systems, and planning, construction, reconstruction, repair, rehabilitation, or improvement of parks.

(6) When the governor files a notice of noncompliance under RCW 36.70A.340 with the secretary of state and the appropriate county or city, the county or city's authority to impose the additional excise tax under this section shall be temporarily rescinded until the governor files a subsequent notice rescinding the notice of noncompliance.

Sec. 8. RCW 84.55.050 and 2008 c 319 s 1 are each amended to read as follows:

(1) Subject to any otherwise applicable statutory dollar rate limitations, regular property taxes may be levied by or for a taxing district in an amount exceeding the limitations provided for in this chapter if such levy is authorized by a proposition approved by a majority of the voters of the taxing district voting on the proposition at a general election held within the district or at a special election within the taxing district called by the district for the purpose of submitting such proposition to the voters. Any election held pursuant to this section shall be held not more than twelve months prior to the date on which the proposed levy is to be made, except as provided in subsection (2) of this section. The ballot of the proposition shall state the dollar rate proposed and

shall clearly state the conditions, if any, which are applicable under subsection (4) of this section.

(2)(a) Subject to statutory dollar limitations, a proposition placed before the voters under this section may authorize annual increases in levies for multiple consecutive years, up to six consecutive years, during which period each year's authorized maximum legal levy shall be used as the base upon which an increased levy limit for the succeeding year is computed, but the ballot proposition must state the dollar rate proposed only for the first year of the consecutive years and must state the limit factor, or a specified index to be used for determining a limit factor, such as the consumer price index, which need not be the same for all years, by which the regular tax levy for the district may be increased in each of the subsequent consecutive years. Elections for this purpose must be held at a primary or general election. The title of each ballot measure must state the limited purposes for which the proposed annual increases during the specified period of up to six consecutive years shall be used((~~, and funds raised under the levy shall not supplant existing funds used for these purposes~~)).

(b) Funds raised by a levy under this subsection shall not supplant existing funds used for the limited purpose specified in the ballot title. For purposes of this subsection, existing funds means the actual operating expenditures for the calendar year in which the ballot measure is approved by voters. Actual operating expenditures excludes lost federal funds, lost or expired state grants or loans, extraordinary events not likely to reoccur, changes in contract provisions beyond the control of the taxing district receiving the services, and major nonrecurring capital expenditures. This subsection (2)(b) does not apply to levies approved by the voters in 2009, 2010, and 2011.

(3) After a levy authorized pursuant to this section is made, the dollar amount of such levy may not be used for the purpose of computing the limitations for subsequent levies provided for in this

chapter, unless the ballot proposition expressly states that the levy made under this section will be used for this purpose.

(4) If expressly stated, a proposition placed before the voters under subsection (1) or (2) of this section may:

(a) Use the dollar amount of a levy under subsection (1) of this section, or the dollar amount of the final levy under subsection (2) of this section, for the purpose of computing the limitations for subsequent levies provided for in this chapter;

(b) Limit the period for which the increased levy is to be made under (a) of this subsection;

(c) Limit the purpose for which the increased levy is to be made under (a) of this subsection, but if the limited purpose includes making redemption payments on bonds, the period for which the increased levies are made shall not exceed nine years;

(d) Set the levy or levies at a rate less than the maximum rate allowed for the district; or

(e) Include any combination of the conditions in this subsection.

(5) Except as otherwise expressly stated in an approved ballot measure under this section, subsequent levies shall be computed as if:

(a) The proposition under this section had not been approved; and

(b) The taxing district had made levies at the maximum rates which would otherwise have been allowed under this chapter during the years levies were made under the proposition.

Sec. 9. RCW 82.14.460 and 2008 c 157 s 2 are each amended to read as follows:

(1) A county legislative authority may authorize, fix, and impose a sales and use tax in accordance with the terms of this chapter.

(2) The tax authorized in this section shall be in addition to any other taxes authorized by law and shall be collected from those persons who are taxable by the state under chapters 82.08 and 82.12 RCW upon the occurrence of any taxable event within the county. The rate of tax shall equal one-tenth of one percent of the selling price

in the case of a sales tax, or value of the article used, in the case of a use tax.

(3) Moneys collected under this section shall be used solely for the purpose of providing for the operation or delivery of ((~~new or expanded~~)) chemical dependency or mental health treatment programs and services and for the operation or delivery of ((~~new or expanded~~)) therapeutic court programs and services. For the purposes of this section, "programs and services" includes, but is not limited to, treatment services, case management, and housing that are a component of a coordinated chemical dependency or mental health treatment program or service.

(4) All moneys collected under this section must be used solely for the purpose of providing new or expanded programs and services as provided in this section, except that a portion of moneys collected under this section ((~~shall not~~)) may be used to supplant existing funding for these purposes((~~, provided that~~)) in a county with a population greater than one million five hundred thousand persons as follows: Up to fifty percent may be used to supplant existing funding in the fiscal year ending in 2010; up to forty percent may be used to supplant existing funding in the fiscal year ending in 2011; up to thirty percent may be used to supplant existing funding in the fiscal year ending in 2012; up to twenty percent may be used to supplant existing funding in the fiscal year ending in 2013; and up to ten percent may be used to supplant existing funding in the fiscal year ending in 2014.

(5) Nothing in this section shall be interpreted to prohibit the use of moneys collected under this section for the replacement of lapsed federal funding previously provided for the operation or delivery of services and programs as provided in this section.

NEW SECTION. **Sec. 10.** A new section is added to chapter 43.09 RCW to read as follows:

(1) By January 1, 2011, the state auditor shall conduct a performance audit of any county with a population of one million five

hundred thousand or more to specifically determine whether policy changes and programs the county has adopted since January 1, 2009, will effectively reduce overhead and other costs, improve services, and streamline operations. The performance audit must identify current deficiencies in recognized best practices in the provision of county goods and services and how the provision of these goods and services could be provided more efficiently and effectively. As part of the performance audit, the auditor shall also evaluate the amount of local and regional services provided by the county within and outside city limits and contrast this with other large counties in Washington and with counties of similar size in other states. The state auditor shall use money distributed to the auditor under RCW 82.08.020(5) to pay for the performance audit required under this section.

(2) This section expires January 1, 2012.

NEW SECTION. **Sec. 11.** Section 5 of this act constitutes a new chapter in Title 36 RCW.

NEW SECTION. **Sec. 12.** Section 9 of this act expires July 1, 2014."

Correct the title.

EFFECT: (1) Clarifies for sections 3, 4, and 6 of the bill that annexation of potential annexation areas (PAAs) must occur before January 1, 2012, for PAAs recognized in the city or town's comprehensive plan on the effective date of the act. (2) Specifies for the purposes of sections 3, 4, and 6 of the bill that the voter's of a city or town must vote to annex a remaining PAA for the city or town to maintain TIB and public works assistance account funding and impose a utility tax on water-sewer districts. (3) Authorizes cities and towns with no PAAs to impose the utility tax on water-sewer districts. (4) Clarifies that a city or town's utility tax on water-sewer districts only applies to services provided within the city limits. (5) Allows counties to impose the utility tax countywide, however, a county must provide a credit for any city utility tax. (6) Eliminates

the section of the bill pertaining to code cities because it is not necessary. (7) Allows King County to use mental health sales and use tax funds to partially supplant other monies used for mental health/chemical dependency services (50% - FY 2010; 40% - FY 2011; 30% - FY 2012; 20% - FY 2013; 10% - FY 2014). (8) Clarifies that the disallowance of TIB/Public Works Assistance funding only applies to new grants/loans issued after January 1, 2012. (9) Extends the commencement date for the annexation sales and use tax by 3 years, to 2015. (10) Allows the City of Seattle to impose the annexation sales and use tax up to $5 million per year.

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