

Multiple Agency Fiscal Note Summary

Bill Number: 1425 2S HB	Title: Municipal annexations
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Estimated Cash Receipts

Agency Name	2023-25			2025-27			2027-29		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Department of Revenue	(1,700,000)	(1,700,000)	(1,700,000)	(10,000,000)	(10,000,000)	(10,000,000)	(18,000,000)	(18,000,000)	(18,000,000)
Total \$	(1,700,000)	(1,700,000)	(1,700,000)	(10,000,000)	(10,000,000)	(10,000,000)	(18,000,000)	(18,000,000)	(18,000,000)

Agency Name	2023-25		2025-27		2027-29	
	GF- State	Total	GF- State	Total	GF- State	Total
Local Gov. Courts						
Loc School dist-SPI						
Local Gov. Other	Non-zero but indeterminate cost and/or savings. Please see discussion.					
Local Gov. Total						

Estimated Operating Expenditures

Agency Name	2023-25				2025-27				2027-29			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Department of Revenue	.3	68,600	68,600	68,600	.3	62,000	62,000	62,000	.2	31,000	31,000	31,000
Total \$	0.3	68,600	68,600	68,600	0.3	62,000	62,000	62,000	0.2	31,000	31,000	31,000

Agency Name	2023-25			2025-27			2027-29		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Local Gov. Total									

Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Total \$	0.0	0	0	0.0	0	0	0.0	0	0

Agency Name	2023-25			2025-27			2027-29		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Local Gov. Total									

Estimated Capital Budget Breakout

Prepared by: Cheri Keller, OFM	Phone: (360) 584-2207	Date Published: Final 3/10/2023
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Department of Revenue Fiscal Note

Bill Number: 1425 2S HB	Title: Municipal annexations	Agency: 140-Department of Revenue
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
GF-STATE-State 01 - Taxes 01 - Retail Sales Tax		(1,700,000)	(1,700,000)	(10,000,000)	(18,000,000)
Total \$		(1,700,000)	(1,700,000)	(10,000,000)	(18,000,000)

Estimated Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.3	0.3	0.3	0.3	0.2
Account					
GF-STATE-State 001-1	35,900	32,700	68,600	62,000	31,000
Total \$	35,900	32,700	68,600	62,000	31,000

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: Tracey Taylor	Phone: 60-786-7152	Date: 03/07/2023
Agency Preparation: Diana Tibbetts	Phone: 60-534-1520	Date: 03/08/2023
Agency Approval: Marianne McIntosh	Phone: 60-534-1505	Date: 03/08/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 03/08/2023

Request # 1425-3-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

Note: This fiscal note reflects language in 2SHB 1425, 2023 Legislative Session.

COMPARISON OF THE SECOND SUBSTITUTE BILL WITH THE SUBSTITUTE BILL:

The second substitute bill removes the January 1, 2029, expiration date and doesn't allow cities to begin to impose the annexation tax after July 1, 2028.

CURRENT LAW:

Cities could impose an annexation tax to finance municipal services; however, the tax expired.

PRIOR ANNEXATION TAX

Any city within a county with a population greater than 600,000 that annexed an area could impose a sales and use tax in addition to other authorized taxes collected. The tax was imposed by a city if:

- The city had commenced annexation of an area with a population of at least 10,000, or at least 4,000 in certain circumstances, prior to January 1, 2015.
- The city determined that the projected cost to provide municipal services to the annexation area exceeded the projected revenue that the city would otherwise receive from the annexation area on an annual basis.

Maximum rates:

- 0.1% for each annexed area with a population between 10,000 and 20,000, or in some circumstances between 4,000 and 10,000.
- 0.2% for an annexed area with a population over 20,000.
- 0.85% for an annexed area with a population over 16,000 if the area was, prior to November 1, 2008, officially designated as a potential annexation area by more than one city and if at least one of those cities had a population over 400,000.

PROPOSAL:

This legislation reinstates the annexation tax and changes the population thresholds and maximum tax rates as follows:

- 0.1% for each annexed area with a population is between 2,000 and 10,000.
- 0.2% for each annexed area in with a population is over 10,000.

A city must enter into an interlocal agreement with the county regarding the proposed annexation area and imposed tax.

A city may not begin to impose the annexation tax after July 1, 2028.

EFFECTIVE DATE:

The bill takes effect 90 days after final adjournment of the session.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

- The last possible date for a city to impose the tax is July 1, 2028. Once imposed the city receives distributions for 10 years.
- Eight jurisdictions utilized the previous annexation tax to help fund their annexations.

- The average annual annexation tax amount was \$2.9 million.
- This estimate is based on two annexations per year with \$1 million caps.
- The revenue impact of this proposal could be considerably higher depending on the size and number of annexations.
- The performance audits of government account receives a 0.16% share of retail sales and use tax collections. The state-shared local tax amounts exclude the amount the performance audits of government account receives.
- Currently, tribes with compacts receive a share of state sales and use tax and certain business and occupation taxes (RCW 43.06.523). Under this proposal the amount of revenue shared with tribes will not change.
- This legislation passes effective July 23, 2023. The tax can only be imposed at the beginning of a fiscal year. Cities first impose the tax on July 1, 2024, with the first distributions each year occurring in September. This impacts 10 months of cash collections in fiscal year 2025.

DATA SOURCES:

- Office of Financial Management, Central Annexation Tracking System
- Department of Revenue annexation cap calculations

REVENUE ESTIMATES:

This bill decreases state revenues by an estimated \$1.7 million in the 10 months of impacted collections in fiscal year 2025, and by an estimated \$4 million in fiscal year 2026, the first full year of impacted collections.

This bill also increases local revenues by an estimated \$1.7 million in the 10 months of impacted collections in fiscal year 2025, and by an estimated \$4 million in fiscal year 2026, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2024 -	\$ 0
FY 2025 -	(\$ 1,700)
FY 2026 -	(\$ 4,000)
FY 2027 -	(\$ 6,000)
FY 2028 -	(\$ 8,000)
FY 2029 -	(\$ 10,000)

Local Government, if applicable (cash basis, \$000):

FY 2024 -	\$ 0
FY 2025 -	\$ 1,700
FY 2026 -	\$ 4,000
FY 2027 -	\$ 6,000
FY 2028 -	\$ 8,000
FY 2029 -	\$ 10,000

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

FIRST YEAR COSTS:

The department will incur total costs of \$35,900 in fiscal year 2024. These costs include:

- Labor Costs – Time and effort equate to 0.3 FTE.
- Attend implementation meetings, monitoring, and maintenance.

SECOND YEAR COSTS:

The department will incur total costs of \$32,700 in fiscal year 2025. These costs include:

Labor Costs – Time and effort equate to 0.3 FTE.

- Attend implementation meetings, monitor reports, prepare statistics, train examiners, and test system changes.
- Collaborate with jurisdictions.
- Review ordinances and tax imposition timelines.

ONGOING COSTS:

Ongoing costs for the 2025-27 biennium equal \$62,000 and include similar activities described in the second-year costs. Time and effort equate to 0.3 FTE each year.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.3	0.3	0.3	0.3	0.2
A-Salaries and Wages	22,000	20,300	42,300	40,600	20,300
B-Employee Benefits	7,300	6,700	14,000	13,400	6,700
E-Goods and Other Services	4,500	4,000	8,500	6,200	3,100
J-Capital Outlays	2,100	1,700	3,800	1,800	900
Total \$	\$35,900	\$32,700	\$68,600	\$62,000	\$31,000

III. B - Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
EXCISE TAX EX 3	61,632		0.1	0.1	0.1	0.1
EXCISE TAX EX 4	68,076		0.1	0.1	0.1	0.1
MGMT ANALYST4	73,260	0.3	0.1	0.2	0.1	0.1
Total FTEs		0.3	0.3	0.3	0.3	0.2

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

Part V: New Rule Making Required

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 1425 2S HB

Title: Municipal annexations

Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

Cities: increase in sales tax revenue

Counties:

Special Districts:

Specific jurisdictions only: cities with interlocal agreements for annexation areas

Variance occurs due to:

Part II: Estimates

No fiscal impacts.

Expenditures represent one-time costs:

Legislation provides local option: Cities can impose an annexation tax to finance municipal services

Key variables cannot be estimated with certainty at this time: It is unknown which cities and counties would form interlocal agreements and begin imposing the tax

Estimated revenue impacts to:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Estimated expenditure impacts to:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Part III: Preparation and Approval

Fiscal Note Analyst: Tammi Alexander	Phone: 360-725-5038	Date: 03/10/2023
Leg. Committee Contact: Tracey Taylor	Phone: 360-786-7152	Date: 03/07/2023
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 03/10/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 03/10/2023

Part IV: Analysis

A. SUMMARY OF BILL

Description of the bill with an emphasis on how it impacts local government.

This fiscal note reflects language in 2SHB 1425, 2023 Legislative Session.

CHANGES BETWEEN THIS VERSION AND PREVIOUS BILL VERSION:

The second substitute bill removes the January 1, 2029, expiration date and doesn't allow cities to begin to impose the annexation tax after July 1, 2028.

SUMMARY OF CURRENT BILL:

This legislation reinstates the annexation tax and changes the population thresholds and maximum tax rates as follows:

- 0.1% for each annexed area with a population is between 2,000 and 10,000

- 0.2% for each annexed area in with a population is over 10,000

A city must enter into an interlocal agreement with the county regarding the proposed annexation area and imposed tax.

A city may not begin to impose the annexation tax after July 1, 2028.

B. SUMMARY OF EXPENDITURE IMPACTS

Expenditure impacts of the legislation on local governments with the expenditure provisions identified by section number and when appropriate, the detail of expenditures. Delineated between city, county and special district impacts.

CHANGES IN EXPENDITURE IMPACTS BETWEEN THIS VERSION AND PREVIOUS BILL VERSION:

None

EXPENDITURE IMPACTS OF CURRENT BILL:

By itself, the authority granted in this resolution has no fiscal impact.

For those cities choosing to impose the annexation tax, there could be administrative costs related to establishing the required interlocal agreement with the county. It is unknown which cities would pursue this local option or if interlocal agreements already exist, therefore costs cannot be estimated.

C. SUMMARY OF REVENUE IMPACTS

Revenue impacts of the legislation on local governments, with the revenue provisions identified by section number, and when appropriate, the detail of revenue sources. Delineated between city, county and special district impacts.

CHANGES IN REVENUE IMPACTS BETWEEN THIS VERSION AND PREVIOUS BILL VERSION:

None

REVENUE IMPACTS OF CURRENT BILL:

By itself, the authority granted in this resolution has no fiscal impact.

For cities choosing to impose the annexation tax, there would be an increase in sales tax and use revenue for those jurisdictions. It is unknown which cities and counties would form interlocal agreements, therefore the impact is indeterminate.

According to the Department of Revenue (DOR) this bill could increase local revenues by an estimated \$1.7 million in the 10 months of impacted collections in fiscal year 2025, and by an estimated \$4 million in fiscal year 2026, the first full year of impacted collections. Please see the DOR fiscal note for their assumptions and data sources. Increased revenue would only be dispersed to cities imposing the tax.

SOURCES:

Department of Revenue fiscal note, 2SHB 1425 (2023)

House Bill Report, HB 1425, Local Government Committee (2/3/2023)