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## Environment Committee

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### HB 1681

**Brief Description:** Encouraging the annexation of unincorporated urban growth areas.

**Sponsors:** Representatives Appleton, Kirby and Griffey.

#### Brief Summary of Bill

- Extends to January 1, 2022, the deadline for certain cities to commence the annexation of certain unincorporated territories in order to be able to assess a sales and use annexation tax.
- Expands, for certain counties and annexed areas, the population requirements for a city to be able to assess a sales and use annexation tax of 0.1 percent.
- Eliminates a timing requirement for certain unincorporated territories to be eligible for annexation as an unincorporated island of territory.
- Modifies the notice and publication requirement for annexations being undertaken by an interlocal agreement between a city and county, to include the option of publishing a summary of the agreement in a newspaper of general circulation within the area to be annexed for two weeks prior to the hearing, along with concurrently posting the full agreement on the legislative body's official website.

**Hearing Date:** 2/2/17

**Staff:** Robert Hatfield (786-7117).

#### **Background:**

##### Municipal Annexation - Unincorporated Islands of Territory.

Current law authorizes multiple methods of municipal annexations. Although cities that operate under the Optional Municipal Code (code cities) have statutory requirements for governance and operation that are separate from those that do not, the annexation methods that all cities and towns may employ are generally similar.

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Among other permitted annexation methods, all cities and towns may, in accordance with specific criteria and requirements, annex unincorporated islands of territory to the city or town if the territory is within the city or town. Although the provisions governing annexations of unincorporated islands of territory differ for code cities and non-code cities and towns, the provisions for both specify that annexations conducted through these methods are completed through the adoption of an annexation ordinance by the legislative body of the city or town that is subject to referendum for 45 days after its adoption. In order to subject the annexation to a vote, a referendum petition must be signed by qualified electors, whose numbers must total at least 10 percent of the votes cast in the last general state election in the area to be annexed.

A city or town planning under the Growth Management Act (GMA) as of June 30, 1994 may annex unincorporated territory containing residential property owners within the same county and within the same urban growth area if:

- the unincorporated territory is smaller than 100 acres in size and shares at least 80 percent of its boundaries with the annexing city or town; or
- the unincorporated area is of any size, and shares at least 80 percent of its boundaries with the city if the area existed before June 30, 1994.

#### Municipal Annexation - Taxation of Annexed Areas.

In 2004, the Legislature directed the Department of Community, Trade and Economic Development (now known as the Department of Commerce) to study the progress of annexation and incorporation in six urban counties, and to identify barriers and incentives to fully achieving annexation or incorporation of urban growth areas in those counties. Lack of funding for municipal services during the transition period following annexation was one of the barriers identified by cities.

Legislation adopted in 2006 authorized qualifying cities to impose a sales and use tax to provide, maintain, and operate municipal services - a term defined to mean services customarily provided to the public by a city - in newly annexed areas. Provisions governing the annexation sales and use tax, which is a credit against the state sales tax and not an additional tax to a consumer, were amended in 2009 and 2011.

There are numerous requirements that a city must meet before it may impose the tax. The city must be located in a county with more than 600,000 persons, and the annexation must be consistent with the comprehensive plan adopted by the city in conformity with the GMA. In addition, the city may impose the tax only if:

- the city has commenced annexation prior to July 1, 2015 of an area meeting certain minimum population requirements; and
- the city has adopted an ordinance or resolution stating 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 area on an annual basis.

The maximum tax rates that a city may impose on any area annexed under the above conditions are:

- 0.1 percent for each annexed area in which the population is greater than 10,000 (or 4,000, for certain areas with specified city and county population profiles) and fewer than 20,000;
- 0.2 percent for an annexed area in which the population is greater than 20,000;
- beginning July 1, 2011, 0.85 percent for an annexed area in which the population is greater than 16,000 if the annexed area was, prior to November 1, 2008, officially designated as a potential annexation area by more than one city, one of which has a population greater than 400,000.

#### Municipal Annexation - Annexation Through Interlocal Agreement.

Under certain circumstances, a city may enter into an interlocal agreement with a county for the purpose of initiating the annexation process of an unincorporated territory. Prior to the annexation hearing, the agreement must be published at least once a week for two weeks in one or more newspapers of general circulation within the territory proposed for annexation.

#### Growth Management Act.

The GMA is the comprehensive land use planning framework for counties and cities in Washington. Originally enacted in 1990 and 1991, the GMA establishes land use designation and environmental protection requirements for all Washington counties and cities, and a significantly wider array of planning duties for the 29 counties and the cities within that are obligated by mandate or choice to satisfy all planning requirements of the GMA.

The GMA directs planning jurisdictions (*i.e.*, jurisdictions that fully plan under the GMA) to adopt internally consistent comprehensive land use plans that are generalized, coordinated land use policy statements of the governing body. Comprehensive plans, which are the frameworks of county and city planning actions, are implemented through locally-adopted development regulations. Both comprehensive plans and development regulations are subject to review and revision requirements in the GMA.

#### GMA - Urban Growth Areas.

Counties that fully plan under the GMA must designate Urban Growth Areas (UGAs), areas within which urban growth must be encouraged and outside of which growth can occur only if it is not urban in nature. Planning jurisdictions must include within their UGAs sufficient areas and densities to accommodate projected urban growth for the succeeding 20-year period. In addition, cities must include sufficient areas to accommodate the broad range of needs and uses that will accompany the projected urban growth, including, as appropriate, medical, governmental, institutional, commercial, service, retail, and other nonresidential uses.

#### **Summary of Bill:**

The circumstances in which a city may impose the annexation sales and use tax are expanded to include the circumstance in which the city has commenced annexation of an area prior to January

1, 2022, and the annexed area is located in a county that has a population greater than 600,000 but fewer than 1,500,00, and the annexed area has a population of at least 1,500.

The tax rates that may be imposed by a city under the annexation sales and use tax are expanded to include a tax rate of 0.1 percent for each city where the annexed area has a population greater than 1,500, and is located in a county that has a population greater than 600,000 but fewer than 1,500,00.

The criteria for a city or town to annex an unincorporated island of territory to the city or town are modified to eliminate a timing requirement for certain unincorporated territories. Instead, the requirements for a city or town to annex an unincorporated island of territory to the city or town are that the city must be located in a county with more than 600,000 persons, the annexation must be consistent with the comprehensive plan adopted by the city in conformity with the GMA, and the area to be annexed must share 80 percent of its boundaries with the annexing city or town.

For annexations by interlocal agreement, the requirement to publish the agreement for two weeks prior to the hearing is modified to include the option of publishing a summary of the agreement in a newspaper of general circulation for two weeks prior to the hearing, along with concurrently posting the full agreement on the legislative body's official website.

**Appropriation:** None.

**Fiscal Note:** Available.

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