HOUSE BILL REPORT
HB 1425

As Reported by House Committee On:
Local Government
Finance

Title: An act relating to facilitating municipal annexations.

Brief Description: Facilitating municipal annexations.

Sponsors: Representatives Berg, Low, Eslick, Ryu, Stonier, Duerr, Ortiz-Self, Cortes, Peterson, Fosse, Donaghy and Pollet.

Brief History:

Committee Activity:

Local Government: 2/1/23, 2/3/23 [DPS];
Finance: 2/16/23, 2/21/23 [DP2S(w/o sub LG)].

Brief Summary of Second Substitute Bill

- Requires an interlocal agreement for annexed areas in which a sales and use tax is imposed to address certain criteria regarding loss and gain of revenue, development and ownership of infrastructure, and revenue-sharing agreements.
- Removes the requirement that a city commence annexation prior to January 1, 2015, to be eligible for the sales and use tax credit for annexed areas.
- Changes population thresholds for imposing the sales and use tax for annexed areas.

HOUSE COMMITTEE ON LOCAL GOVERNMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Duerr, Chair; Alvarado, Vice Chair; Goehner,

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

Ranking Minority Member; Berg, Griffey and Riccelli.

Staff: Elizabeth Allison (786-7129).

Background:

Growth Management Act.

The Growth Management Act (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 Originally enacted in 1990 and 1991, the GMA establishes land use designation and environmental protection requirements for all Washington counties and cities. The GMA also establishes a significantly wider array of planning duties for 28 counties, and the cities within those counties, that are obligated to satisfy all planning requirements of the GMA.

Urban Growth Areas.

Under the GMA, participating counties are required to designate urban growth areas (UGAs) within their boundaries sufficient to accommodate a 20-year population projection range provided by the Office of Financial Management. Each city located within a planning county must be included within a UGA. Urban growth must be encouraged within UGAs, and only growth that is not urban in nature can occur outside of a UGA. Each UGA must permit urban densities and include greenbelt and open space areas.

Annexation of Territory Within Urban Growth Areas.

The legislative body of a county, city, or town planning under the GMA is authorized to initiate an annexation process for unincorporated territory by adopting a resolution commencing negotiations for an interlocal agreement between a county and any city or town within that county. The territory proposed for annexation must meet the following criteria:

- It must be within the city or town UGA.
- At least 60 percent of the boundaries of the territory proposed for annexation must be contiguous to the annexing city or town.

The interlocal agreement must describe the boundaries of the territory to be annexed and a public hearing must be held by each legislative body. Following adoption and execution of the agreement by both legislative bodies, the city or town legislative body must adopt an ordinance providing for the annexation.

Annexation Sales and Use Tax Credit.

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

- the city has 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; and
- the city determines that the projected cost to provide municipal services to the

annexation area exceeds the projected revenue that the city would otherwise receive from the annexation area on an annual basis.

The tax is a credit against the state sales and use tax. The Department of Revenue must collect the taxes on behalf of the city at no cost to the city, and must remit the tax to the city.

The maximum rate that may be imposed by a city is:
- 0.1 percent 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 percent for an annexed area with a population over 20,000; and
- 0.85 percent 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, if at least one of those cities has a population over 400,000.

Maximum cumulative rates are specified.

All revenue collected may be used solely to provide, maintain, and operate municipal services for the annexation area.

Summary of Substitute Bill:

Annexation of Territory Within Urban Growth Areas.
If an interlocal agreement is used for a sales and use tax credit for annexed areas, the interlocal agreement must address:
- the balancing of annexations of commercial, industrial, and residential properties so that any potential loss or gain is considered and distributed fairly, as determined by tax revenue;
- development, ownership, and maintenance of infrastructure; and
- the potential for revenue-sharing agreements.

Annexation Sales and Use Tax Credit.
The requirement that a city be within a county with a population of at least 600,000 to impose the tax is removed. The requirement that an annexation area must have a population of at least 10,000, and in some circumstances 4,000, to impose the tax is removed. The timeline for commencing annexation prior to January 1, 2015, to be eligible for the tax credit is removed.

To impose the tax, a city must have entered into an interlocal agreement with the county regarding the proposed annexation area.

The maximum levy amount that may be imposed based on population is changed to:
- 0.1 percent for each annexed area in which the population is between 2,000 and

10,000; and

- 0.2 percent for each annexed area in which the population is above 10,000.

Maximum cumulative rates and other requirements related to 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, if at least one of those cities has a population over 400,000, are removed.

Substitute Bill Compared to Original Bill:

The substitute bill adds a statutory reference relating to a code city's annexation of unincorporated territory that is adjacent to another city through interlocal agreements to the specified statutory references for entering into interlocal agreements.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) Counties are growing in unincorporated areas. This bill is about incentivizing cities to actually incorporate areas. The GMA assumes that unincorporated UGAs will be annexed over time by cities. Cities can provide urban services better than counties that aren't equipped to provide them. Economic circumstances do drive annexations, and willingness to annex is an important factor. This was recognized by the Legislature in 2006 with the creation of the annexation sales tax credit. The credit expired in 2015. Voters have rejected annexations in the past due to the levels of service that would be required to extend fire services.

Reinstating the sales tax will provide an incentive for cities to actually annex areas. Lowering the population requirements for the sales tax credit from 10,000 to 2,000 also helps incentivize annexations. Annexation is called out in a regional plan that counties must follow, but large unincorporated areas put pressure on cities. The financial strain can be mitigated by language in the bill.

This bill is the single most expedient, cost-effective, politically cohesive thing that the legislative body can do this year that relates to density and housing. Triplexes are already allowed in Lacey in residential zones, and density is 50 percent greater than in unincorporated areas. Accessory dwelling units are also approved, and this bill provides the catalyst for annexation. If annexation occurs, overnight triplexes become legal in all residential zones, there is higher density, and there is access to accessory dwelling units.

There is one small change that needs to take place to clarify what is already allowed in the bill. There is a statutory reference that references another statute, and the amendment would incorporate the reference into the bill. The bill gets to the issue that most of the transportation cost of annexation is borne by an adjacent city. It offers a funding opportunity to provide needed municipal services to annexed areas. Services include transportation corridors, sidewalk construction, park construction, and accessibility. The sales tax credit can also be used to provide needed levels of community safety for protections against criminal activity. It can also be used to augment hiring and keep up with population growth.

Annexations are an important part of the GMA. They are good for people and the planet, and ensure that dense areas receive services that cities are meant to provide. The sales tax credit was a game-changing tool when it was authorized in 2006. The current proposal uses the original formula, which did not add enough revenue because it didn't offset the cost of providing services enough. Annexing areas with lower average incomes will recoup much less revenue than annexing areas with higher incomes and more sales tax revenue. This bill came out of the Collaborative Roadmap process and came out unanimously. There is no real concern with the bill as it is a good tool to help bring areas of communities that need to be serviced a level of government equipped to provide the service.

The interlocal agreement is particularly important for counties. Counties have been damaged financially as cities annex land for commercial and industrial lands while leaving residential lands to the county. The interlocal agreement requires a discussion about balancing such annexations, which allows counties to not be hurt financially by keeping residential areas and giving up commercial and industrial areas. The revenue-sharing language allows a conversation between counties and cities and how each might be affected positively and negatively, and allows them to come up with an agreement to ensure both remain stable over time.

(Opposed) None.

Persons Testifying: Representative April Berg, prime sponsor; Megan Dunn, Snohomish County; Carl Schroeder, Association of Washington Cities; Lisa Brandl, City of Vancouver; Brian Enslow, City of Lacey; Debora Munguia, City of Shoreline; Dave Somers, Snohomish County; Paul Jewell, Washington State Association of Counties; and Karen Meyering, King County.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON FINANCE

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Local Government. Signed by 12 members: Representatives Berg, Chair; Street, Vice Chair; Orcutt, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Barnard, Chopp, Ramel, Santos, Springer, Stokesbary, Walen and Wylie.

Staff: Tracey Taylor (786-7152).

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Local Government:

Additional clarification is provided by including a statutory reference to the sales tax credit for annexed areas and providing a specific date for the last day to impose the tax.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) Citizens demand services and sometimes the counties are too large to address the needs of these small unincorporated areas. The Growth Management Act assumes Urban Growth Areas will be annexed because cities have the ability to provide services over the long-term. There are financial and economic barriers to annexations that need to be mitigated. This bill renews a proven and effective tool that enables communities to address their unique needs. The requirement for an interlocal agreement allows for balancing the nature of the properties annexed, managing the infrastructure investments, and providing for revenue share to mitigate and manage financial impacts.

(Opposed) None.

Persons Testifying: Representative April Berg, prime sponsor; Megan Dunn, Snohomish County Council; Dave Somers, Snohomish County Executive; Paul Jewell, Washington State Association of Counties; Brian Enslow, Cities of Vancouver, Lacey, and Ferndale; and Carl Schroeder.

Persons Signed In To Testify But Not Testifying: None.