
Local Government Committee

HB 1425

Brief Description: Facilitating municipal annexations.

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

Brief Summary of 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.

Hearing Date: 2/1/23

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 Originally enacted in 1990 and 1991, the GMA establishes land use designation and environmental protection requirements for all Washington counties and cities.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

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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 Bill:

Annexation of Territory Within Urban Growth Areas.

If an interlocal agreement is used for a sales 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.

Appropriation: None.

Fiscal Note: Requested on January 30, 2023.

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