

# HOUSE BILL REPORT

## HB 2667

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### As Reported by House Committee On:

Local Government

Finance

**Title:** An act relating to providing municipal services to annexed areas.

**Brief Description:** Providing municipal services to annexed areas.

**Sponsors:** Representatives Springer, Nixon, Hasegawa, Jarrett, Upthegrove, Clibborn and Lovick.

### Brief History:

#### Committee Activity:

Local Government: 1/23/06, 2/2/06 [DP];

Finance: 2/6/06 [DPS].

### Brief Summary of Substitute Bill

- Requires county road property taxes to be transferred to a city or town and expended for municipal services within an annexation area if specific criteria are met.
- Provides that county road property taxes may be made available to and expended by a city or town for municipal services for 10 years after the territory is annexed.
- Specifies that county road property taxes expended by an annexing city or town must be used solely to provide, maintain, and operate municipal services for the annexation area, and may not be used in an annexation area other than that from which the funds were levied.
- Includes provisions relating to the use of county road property taxes from within an annexation area that are allocated to a county sheriff.

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### HOUSE COMMITTEE ON LOCAL GOVERNMENT

**Majority Report:** Do pass. Signed by 4 members: Representatives Simpson, Chair; Clibborn, Vice Chair; B. Sullivan and Takko.

**Minority Report:** Do not pass. Signed by 3 members: Representatives Schindler, Ranking Minority Member; Ahern, Assistant Ranking Minority Member and Woods.

**Staff:** Ethan Moreno (786-7386).

## **Background:**

### County Road Funds and Districts

Each county has a county road fund (road fund). Subject to statutory provisions, funds accruing to a county through a levy against taxable property or from other authorized sources must be credited to and deposited in the road fund.

While statute delineates transportation-based requirements and uses for road funds, including establishing and maintaining county roads, the funds may also be used for other purposes, including community revitalization financing and the provision of county services in unincorporated areas.

County legislative authorities are authorized to form road districts (districts) in unincorporated areas for the efficient administration of county roads. No specific governmental structure is specified in law, as districts are administered by the county legislative authority through the county road engineer.

### Interlocal Agreements

Interlocal agreements allow two or more public agencies, subject to statutory requirements, to enter into agreements to jointly exercise powers, privileges or authorities exercised or capable of being exercised singularly.

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## **Summary of Bill:**

County road fund and county road district provisions are modified to require, upon the satisfaction of certain criteria, road funds levied and collected from within an incorporated annexation area to be transferred to a city or town and expended for municipal services within that annexation area. "Annexation area" is defined to mean an area that has been annexed to a city or town. A county's authority to levy funds from incorporated territory within a district ends 10 years after the city or town annexes the subject area.

County road funds expended by a city or town must be used solely to provide, maintain, and operate municipal services - a term defined to mean those services customarily provided to the public by a city or town - for the annexation area. Expended funds may not be used in an annexation area other than that from which the funds were levied.

Prior to making such transfers and expenditures, specific requirements must be met. The county legislative authority must modify existing district boundaries to include territory inside a city or town within a road district. A boundary amendment to include incorporated territory within a district may be considered more frequently than annually and must have the approval of the applicable city and town legislative authorities. The authority of a county to include territory inside of a city or town within a district expires 10 years after the city or town annexes the subject territory.

Additional requirements must also be met. Prior to the transfer of district funds levied from within an annexation area to a city or town, the legislative authority of the annexing jurisdiction must:

- complete the annexation;
- determine by resolution or ordinance that the costs of providing municipal services to the annexation area exceed or are projected to exceed the annual revenue generated by the city or town from the annexation area; and
- enter into an interlocal agreement with the applicable county or counties specifying the terms by which the funds may be transferred.

The authority of a county to transfer district funds from an annexation area to a city or town expires 10 years after the city or town annexes the subject territory. Similarly, a city's or town's authority to expend transferred funds ceases 10 years after the city or town annexes the subject territory. The period of expenditure may not commence before the date on which the annexation area is annexed.

If an annexing city or town and the applicable county or counties fail to reach agreement on the transfer of district funds, funds accruing to and deposited in the district fund from the annexation area or areas may only be expended by a county in the areas from which the funds were levied.

Funds transferred to a city or town, for three years after the adoption of the required resolution or ordinance, may not include county road taxes allocated by a county legislative authority to a county sheriff. This restriction is limited, however, as transferred funds made available to a city or town must include county road taxes allocated to a county sheriff that are in excess of 4 percent of the revenue from the annexation area.

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**Appropriation:** None.

**Fiscal Note:** Not requested.

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

**Testimony For:** This is one of several bills this session that addresses annexation funding issues. Completing annexations in conformity with the requirements of the Growth Management Act (GMA) is an expensive process, and it is becoming more so. Providing urban services to residential annexation areas is expensive: the costs exceed the generated revenues. The provisions of this bill are optional and limited: the funds transfers will not last longer than 10 years. Police services are among the most costly to provide and this bill includes protections for related funds. The Legislature must provide cities with tools to lower the costs of completing large annexations. The GMA indicates that cities are to be the primary providers of urban services, and counties are finding that the costs of providing services are very high. Cities, however, are reluctant to annex areas because of these service costs. The

legislation is not perfect, but additional annexation funding tools are needed. This bill includes key features, including the requirement for an interlocal agreement. Without agreement between a county and a city, and a demonstrated need, the transfer mechanism cannot be used.

**Testimony Against:** Under this bill, residents will be required to pay city taxes and county road taxes. This will be confusing to taxpayers. The question is not whether the transfer mechanism included within the bill is legal, but whether it should be implemented. Other annexation funding mechanisms are preferable. Multiple authorities will be competing for tax revenues. Residents will feel as though they are being taxed twice.

**Persons Testifying:** (In support) Representative Springer, prime sponsor; Alex Pietsch, City of Renton; and Dave Williams, Association of Washington Cities.

(Opposed) Julie Sexton, Washington Association of Counties; and Robert Carlton.

**Persons Signed In To Testify But Not Testifying:** None.

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## HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives McIntire, Chair; Hunter, Vice Chair; Conway, Ericks, Hasegawa and Santos.

**Minority Report:** Do not pass. Signed by 5 members: Representatives Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Condotta and Shabro.

**Staff:** Rick Peterson (786-7150).

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

The county may not impose the county road tax in the annexation area unless an interlocal agreement between the city and county is in place 120 days before an annexation election or annexation ordinance is adopted, whichever comes first.

**Appropriation:** None.

**Fiscal Note:** Not requested.

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

**Testimony For:** This bill provides a tool that can be used in annexation. There is a dilemma in high growth areas. The counties cannot afford to provide services to urbanizing areas. The cities cannot afford to take these areas without financial assistance. These areas are service and capital deficient. The bill continues the current county road tax for up to 10 years to assist with annexation.

**Testimony Against:** The counties are looking for ways for cities to take unincorporated urban islands and incorporate them. The problem with this solution is that the annexed area will still be paying county taxes and the taxpayers will not understand it. We support other tools, such as state assistance. Please look elsewhere for a solution.

**Persons Testifying:** (In support) Doug Levy, City of Renton.

(Opposed) Julie Sexton, Washington Association of Counties.

**Persons Signed In To Testify But Not Testifying:** None.