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**HOUSE BILL 1425**

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**State of Washington**

**68th Legislature**

**2023 Regular Session**

**By** Representatives Berg, Low, Eslick, Ryu, Stonier, Duerr, Ortiz-Self, Cortes, Peterson, Fosse, Donaghy, and Pollet

Read first time 01/18/23. Referred to Committee on Local Government.

1 AN ACT Relating to facilitating municipal annexations; amending  
2 RCW 35.13.470 and 82.14.415; and providing an expiration date.

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

4 **Sec. 1.** RCW 35.13.470 and 2003 c 299 s 1 are each amended to  
5 read as follows:

6 (1) The legislative body of a county, city, or town planning  
7 under chapter 36.70A RCW and subject to the requirements of RCW  
8 36.70A.215 may initiate an annexation process for unincorporated  
9 territory by adopting a resolution commencing negotiations for an  
10 interlocal agreement as provided in chapter 39.34 RCW between a  
11 county and any city or town within the county. The territory proposed  
12 for annexation must meet the following criteria: (a) Be within the  
13 city or town urban growth area designated under RCW 36.70A.110, and  
14 (b) at least (~~sixty~~) 60 percent of the boundaries of the territory  
15 proposed for annexation must be contiguous to the annexing city or  
16 town or one or more cities or towns.

17 (2) If the territory proposed for annexation has been designated  
18 in an adopted county comprehensive plan as part of an urban growth  
19 area, urban service area, or potential annexation area for a specific  
20 city or town, or if the urban growth area territory proposed for  
21 annexation has been designated in a written agreement between a city

1 or town and a county for annexation to a specific city or town, the  
2 designation or designations shall receive full consideration before a  
3 city or county may initiate the annexation process provided for in  
4 RCW 35.13.480.

5 (3) The agreement shall describe the boundaries of the territory  
6 to be annexed. A public hearing shall be held by each legislative  
7 body, separately or jointly, before the agreement is executed. Each  
8 legislative body holding a public hearing shall, separately or  
9 jointly, publish the agreement at least once a week for two weeks  
10 before the date of the hearing in one or more newspapers of general  
11 circulation within the territory proposed for annexation.

12 (4) If an interlocal agreement under this section is used for a  
13 sales tax credit for annexed areas, the agreement under this section  
14 must address the following:

15 (a) Balancing of annexations of commercial, industrial, and  
16 residential properties so that any potential loss or gain is  
17 considered and distributed fairly as determined by tax revenue;

18 (b) Development, ownership, and maintenance of infrastructure;  
19 and

20 (c) The potential for revenue-sharing agreements.

21 (5) Following adoption and execution of the agreement by both  
22 legislative bodies, the city or town legislative body shall adopt an  
23 ordinance providing for the annexation of the territory described in  
24 the agreement. The legislative body shall cause notice of the  
25 proposed effective date of the annexation, together with a  
26 description of the property to be annexed, to be published at least  
27 once each week for two weeks subsequent to passage of the ordinance,  
28 in one or more newspapers of general circulation within the city and  
29 in one or more newspapers of general circulation within the territory  
30 to be annexed. If the annexation ordinance provides for assumption of  
31 indebtedness or adoption of a proposed zoning regulation, the notice  
32 shall include a statement of the requirements. Any territory to be  
33 annexed through an ordinance adopted under this section is annexed  
34 and becomes a part of the city or town upon the date fixed in the  
35 ordinance of annexation, which date may not be fewer than (~~forty-~~  
36 ~~five~~) 45 days after adoption of the ordinance.

37 **Sec. 2.** RCW 82.14.415 and 2016 c 5 s 1 are each amended to read  
38 as follows:

1 (1) The legislative authority of any city (~~that is located in a~~  
2 ~~county with a population greater than six hundred thousand~~) that  
3 annexes an area consistent with its comprehensive plan required by  
4 chapter 36.70A RCW may impose a sales and use tax in accordance with  
5 the terms of this chapter. The tax is in addition to other taxes  
6 authorized by law and is collected from those persons who are taxable  
7 by the state under chapters 82.08 and 82.12 RCW upon the occurrence  
8 of any taxable event within the city. The tax may only be imposed by  
9 a city if:

10 (a) (~~The city has commenced annexation of an area having a~~  
11 ~~population of at least ten thousand people, or four thousand in the~~  
12 ~~case of a city described under subsection (3)(a)(i) of this section,~~  
13 ~~prior to January 1, 2015; and~~

14 ~~(b))~~) The city legislative authority determines by resolution or  
15 ordinance that the projected cost to provide municipal services to  
16 the annexation area exceeds the projected general revenue that the  
17 city would otherwise receive from the annexation area on an annual  
18 basis; and

19 (b) The city, as provided in either RCW 35A.14.472 or 35.13.470,  
20 has entered into an interlocal agreement with the county regarding  
21 the proposed annexation area.

22 (2) The tax authorized under this section is a credit against the  
23 state tax under chapter 82.08 or 82.12 RCW. The department of revenue  
24 must perform the collection of such taxes on behalf of the city at no  
25 cost to the city and must remit the tax to the city as provided in  
26 RCW 82.14.060.

27 (3) (~~(a) Except as provided in (b) of this subsection, the~~) The  
28 maximum rate of tax any city may impose under this section is:

29 (~~(i))~~) (a) 0.1 percent for each annexed area in which the  
30 population is greater than (~~ten thousand~~) 2,000 and less than  
31 (~~twenty thousand. The ten thousand population threshold in this~~  
32 ~~subsection (3)(a)(i) is four thousand for a city with a population~~  
33 ~~between one hundred fifteen thousand and one hundred forty thousand~~  
34 ~~and located within a county with a population over one million five~~  
35 ~~hundred thousand)) 10,000; and~~

36 (~~(ii))~~) (b) 0.2 percent for an annexed area in which the  
37 population is greater than (~~twenty thousand~~) 10,000.

38 (~~(b) Beginning July 1, 2011, the maximum rate of tax imposed~~  
39 ~~under this section is 0.85 percent for an annexed area in which the~~  
40 ~~population is greater than sixteen thousand if the annexed area was,~~

1 ~~prior to November 1, 2008, officially designated as a potential~~  
2 ~~annexation area by more than one city, one of which has a population~~  
3 ~~greater than four hundred thousand.)~~

4 ~~((a) Except as provided in (b) of this subsection, the)~~ The  
5 maximum cumulative rate of tax a city may impose under subsection (3)  
6 ~~((a))~~ of this section is 0.2 percent for the total number of  
7 annexed areas the city may annex.

8 ~~((b) The maximum cumulative rate of tax a city may impose under~~  
9 ~~subsection (3)(a) of this section is 0.3 percent, beginning July 1,~~  
10 ~~2011, if the city commenced annexation of an area, prior to January~~  
11 ~~1, 2010, that would have otherwise allowed the city to increase the~~  
12 ~~rate of tax imposed under this section absent the rate limit imposed~~  
13 ~~in (a) of this subsection.~~

14 ~~(c) The maximum cumulative rate of tax a city may impose under~~  
15 ~~subsection (3)(b) of this section is 0.85 percent for the single~~  
16 ~~annexed area the city may annex and the amount of tax distributed to~~  
17 ~~a city under subsection (3)(b) of this section may not exceed seven~~  
18 ~~million seven hundred twenty-five thousand dollars per fiscal year.)~~

19 ~~((a) Except as provided in (b) of this subsection, the)~~ The  
20 tax imposed by this section may only be imposed at the beginning of a  
21 fiscal year and may continue for no more than ~~((ten))~~ 10 years from  
22 the date that each increment of the tax is first imposed. Tax rate  
23 increases due to additional annexed areas are effective on July 1st  
24 of the fiscal year following the fiscal year in which the annexation  
25 occurred, provided that notice is given to the department as set  
26 forth in subsection (9) of this section.

27 ~~((b) The tax imposed under subsection (3)(b) of this section may~~  
28 ~~only be imposed at the beginning of a fiscal year and may continue~~  
29 ~~for no more than six years from the date that each increment of the~~  
30 ~~tax is first imposed.)~~

31 (6) All revenue collected under this section may be used solely  
32 to provide, maintain, and operate municipal services for the  
33 annexation area.

34 (7) The revenues from the tax authorized in this section may not  
35 exceed that which the city deems necessary to generate revenue equal  
36 to the difference between the city's cost to provide, maintain, and  
37 operate municipal services for the annexation area and the general  
38 revenues that the cities would otherwise expect to receive from the  
39 annexation during a year. If the revenues from the tax authorized in  
40 this section and the revenues from the annexation area exceed the

1 costs to the city to provide, maintain, and operate municipal  
2 services for the annexation area during a given year, the city must  
3 notify the department and the tax distributions authorized in this  
4 section must be suspended for the remainder of the year.

5 (8) No tax may be imposed under this section before July 1,  
6 ((2007)) 2023. Before imposing a tax under this section, the  
7 legislative authority of a city must adopt an ordinance that includes  
8 the following:

9 (a) A certification that the amount needed to provide municipal  
10 services to the annexed area reflects the city's true and actual  
11 costs;

12 (b) The rate of tax under this section that is imposed within the  
13 city; and

14 (c) The threshold amount for the first fiscal year following the  
15 annexation and passage of the ordinance.

16 (9) The tax must cease to be distributed to the city for the  
17 remainder of the fiscal year once the threshold amount has been  
18 reached. No later than March 1st of each year, the city must provide  
19 the department with a certification of the city's true and actual  
20 costs to provide municipal services to the annexed area, a new  
21 threshold amount for the next fiscal year, and notice of any  
22 applicable tax rate changes. Distributions of tax under this section  
23 must begin again on July 1st of the next fiscal year and continue  
24 until the new threshold amount has been reached or June 30th,  
25 whichever is sooner. Any revenue generated by the tax in excess of  
26 the threshold amount belongs to the state of Washington. Any amount  
27 resulting from the threshold amount less the total fiscal year  
28 distributions, as of June 30th, may not be carried forward to the  
29 next fiscal year.

30 ~~(10) ((The tax must cease to be distributed to a city imposing~~  
31 ~~the tax under subsection (3)(b) of this section for the remainder of~~  
32 ~~the fiscal year, if the total distributions to the city imposing the~~  
33 ~~tax exceed seven million seven hundred twenty-five thousand dollars~~  
34 ~~for the fiscal year. A city may not impose tax under subsection~~  
35 ~~(3)(b) of this section unless the annexation is approved by a vote of~~  
36 ~~the people residing within the annexed area. A city may not impose~~  
37 ~~tax under subsection (3)(b) of this section if it provides sewer~~  
38 ~~service in the annexed area.~~

39 ((11)) The resident population of the annexation area must be  
40 determined in accordance with chapter 35.13 or 35A.14 RCW.

1        (~~(12)~~) (11) The following definitions apply throughout this  
2 section unless the context clearly requires otherwise:

3        (a) "Annexation area" means an area that has been annexed to a  
4 city under chapter 35.13 or 35A.14 RCW. "Annexation area" includes  
5 all territory described in the city resolution.

6        (b) "Commenced annexation" means the initiation of annexation  
7 proceedings has taken place under the direct petition method or the  
8 election method under chapter 35.13 or 35A.14 RCW.

9        (c) "Department" means the department of revenue.

10       (d) "Municipal services" means those services customarily  
11 provided to the public by city government.

12       (e) "Fiscal year" means the year beginning July 1st and ending  
13 the following June 30th.

14       (f) "Potential annexation area" means one or more geographic  
15 areas that a city has officially designated for potential future  
16 annexation, as part of its comprehensive plan adoption process under  
17 the state growth management act, chapter 36.70A RCW.

18       (g) "Threshold amount" means the maximum amount of tax  
19 distributions as determined by the city in accordance with subsection  
20 (7) of this section that the department must distribute to the city  
21 generated from the tax imposed under this section in a fiscal year.

22       NEW SECTION.    **Sec. 3.** This act expires January 1, 2029.

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