

FINAL BILL REPORT

2SHB 1425

C 351 L 23
Synopsis as Enacted

Brief Description: Facilitating municipal annexations.

Sponsors: House Committee on Finance (originally sponsored by Representatives Berg, Low, Eslick, Ryu, Stonier, Duerr, Ortiz-Self, Cortes, Peterson, Fosse, Donaghy and Pollet).

House Committee on Local Government

House Committee on Finance

Senate Committee on Local Government, Land Use & Tribal Affairs

Senate Committee on Ways & Means

Background:

Growth Management Act.

The Growth Management Act (GMA) is the comprehensive land use planning framework for counties and cities in Washington. The GMA establishes land use designation and environmental protection requirements for all Washington counties and cities and establishes a significantly wider array of planning duties for the 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

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town within that county. The territory proposed for annexation must:

- be within the city or town UGA; and
- have at least 60 percent of the boundaries of the territory proposed for annexation 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:

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.

A city may not begin to impose the authorized tax after July 1, 2028.

Votes on Final Passage:

House	96	0
Senate	49	0

Effective: July 23, 2023