

2010

Lundeen Annexation  
Staff Report

10% Petition



## Overview

A petition signed by property owners representing a minimum of 10% of the assessed value of the subject area (legally described in Exhibit A) has been submitted by Amy and Ryan Lundeen, proponents. The 10% petition is the first substantive step in the 60% petition annexation method.<sup>1</sup>

- This is provided as an information item prior to providing notice to the property owners within the annexation area as described in the City’s annexation public outreach plan.
- The Community Development Department does not recommend that the Council expand or modify this proposed annexation area at this time.
- The next step will be to provide a mailed information packet to all property owners within the annexation area together with mailed notice of the council meeting at which the 10% petition will be considered.
- Once the information packets have been sent out, the 10% annexation petition will be scheduled for City Council action at an upcoming Council meeting.

## Summary of Petition

Pursuant to state statute, the City Council will be presented with the 10% petition in order to decide whether it will: a) accept the petition as presented; b) modify the proposal (add or remove areas); or c) reject it at an upcoming Council meeting.

If the Council should decide to move forward with the annexation proposal, as presented or modified, it will authorize via resolution the circulation of a 60% petition. The proponent will then need to secure property owner signatures representing 60% of the assessed value. Once sufficient signatures have been secured, there are a number of additional steps, including a public hearing and review by the King County Boundary Review Board, which must occur before the Council can approve the annexation via ordinance.

This report contains general information regarding the impacts of the Lundeen annexation proposal.

## Proposal Factors

1. The current population of the petition area is estimated at 97 people. **Exhibit 1** shows population statistics and other key factors for the annexation area located along SE 432<sup>nd</sup> Street.

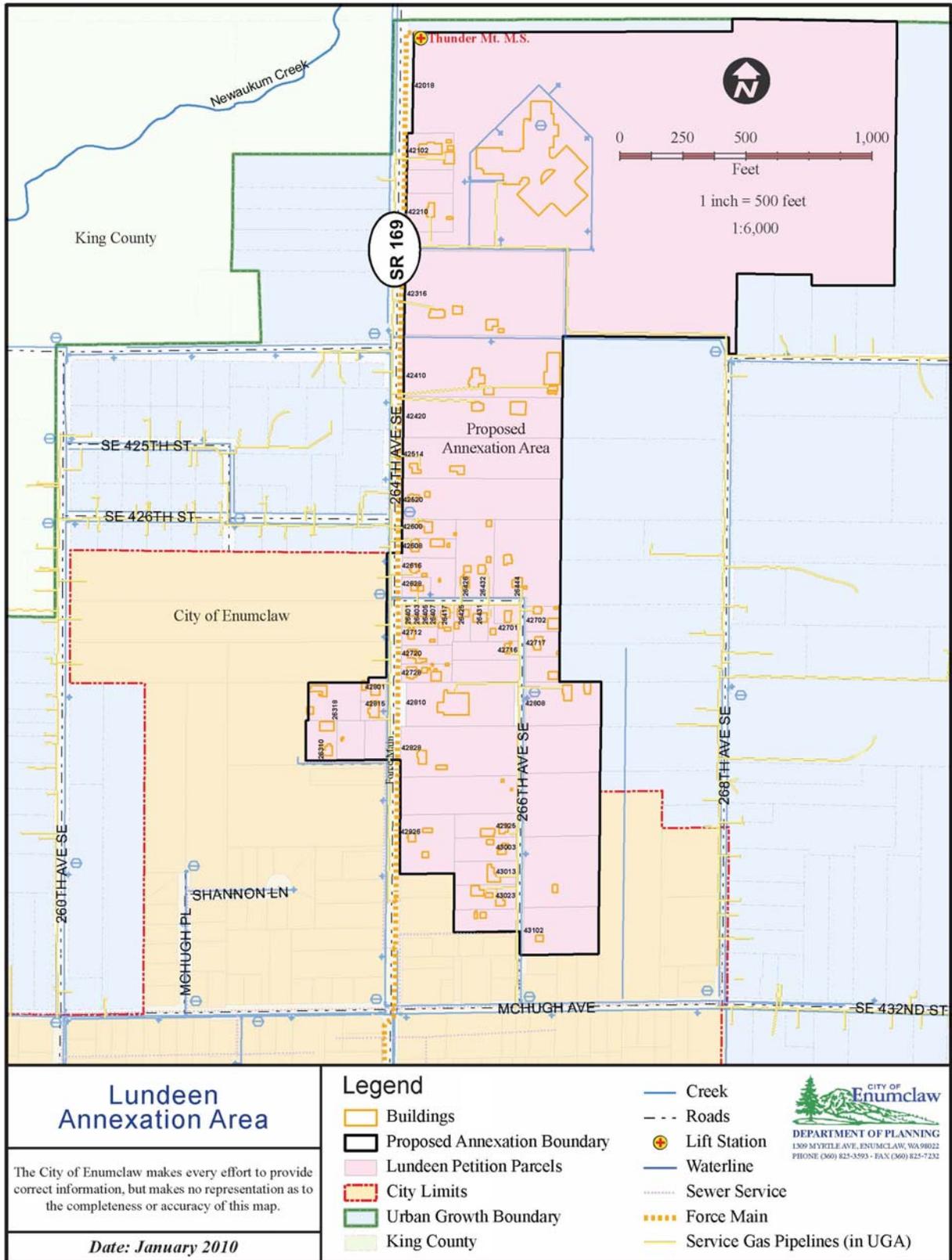
Exhibit 1: Key Factors for Annexation							
Annexation Area	Acres	Type of Housing	Average Household Size	Current Population	Potential Population	Potential Increase in Population	Percent Increase
264TH & 266TH AVE SE	89.3	Residential	2.51	97	288	191	197%

<sup>1</sup> RCW 35A.14.120

2. The annexation area, if accepted in its entirety, would add 49 new parcels to the City's current base of some 9,277 parcels. Of the forty-nine parcels being considered, 37 are currently developed as residential (see figure 1, Lundeen Annexation Area). Comparatively, there 4,347 occupied housing units within the city limits.

3. Land included in this annexation proposal is composed of single family residential development designated as Residential 2 (R-2). This zoning designation requires a minimum lot size of 8,400 square feet. The mean parcel size is 1.82 acres. The proponent has not asked for the creation of additional commercial or industrial lands.

**Figure 1: Lundeen Annexation Area - Petition Map, 89.3 acres**



4. Approximately 20 acres, or nearly 23%, is currently developed as residential, primarily single-family, while the remaining 25 acres are potentially available for development. Additional single family lots will likely be created through the platting process. The potential number of lots could reach as high as 76 (see **Exhibit 2**), if developed to its maximum potential. The result could increase density and could raise the population of this area some 191 people or 197%.

5. Should the area be annexed into the city as proposed and should all of the developable land in the current annexation proposal be built out under a single family designation, the potential population of the City would raise by two and one half percent.<sup>2</sup>

<b>Exhibit 2: Single-Family Residential Subdivision Plats</b>									
<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>	<b>I</b>	<b>J</b>
<b>Zone</b>	<b>Planned Density</b>	<b>Project Name or Other ID</b>	<b>Sum of Area</b>	<b>Gross Undeveloped Area</b>	<b>Critical Areas (Wetlands, Slopes, etc.)</b>	<b>Rights-of-Way</b>	<b>Public Purpose Dedications (Drainage, Parks, etc.)</b>	<b>Net Plat Area (I=E-F-G-H)</b>	<b>Potential Number of Lots</b>
	<b>DU/Acre</b>		<b>Acres</b>	<b>Acres</b>	<b>Acres</b>	<b>Acres</b>	<b>Acres</b>	<b>Acres</b>	<b>Lots</b>
R-2(PI)	5.2	264 <sup>TH</sup> & 266 <sup>TH</sup> AVE SE	45.2	24.5	2.5	3.7	3.7	14.7	76

### Assessed Value

Total assessed value of the proposed annexation area is as follows:

<b>Area</b>	<b>Valuation (2009)</b>
264 <sup>TH</sup> & 266 <sup>TH</sup> Ave SE	\$ 9,469,600

### Revenue

Annexation of the subject areas will result in additional property and sales tax revenue. Measured across all funds, the City will realize an annual net gain of approximately \$ 36,857.

### General Fund Revenue

The General Fund Revenue exhibit illustrates a break-down of general fund revenue, which primarily comes in the form of property and utility taxes. As properties develop over time, the City will realize an increase in sales tax receipts on construction materials, and additional population will bring more taxable sales to local vendors. See table.

<sup>2</sup> The Washington State Office of Financial Management (OFM) estimates the population of Enumclaw at approximately 11,460 in 2009 (www.ofm.wa.gov).

**General Fund Revenue**

Potential Annexation Area	Increase in Property Tax Revenue	Decrease in Water and Gas Utility Tax Revenue	Increase in Telephone Utility Tax	Increase in Electric Utility Tax	Increase in Cable Franchise Fee	Increase in State Shared Revenues	Annual General Fund Impact Total
264 <sup>TH</sup> & 266 <sup>TH</sup> AVE SE	\$ 44,348	\$ (1,615)	\$ 3,024	\$ 3,024	\$1,512	\$ 3,773	\$ 54,067

**Capital Fund Revenue**

Capital funds in the form of real estate excise tax (REET) would generate on-going revenue for capital projects identified in the City’s Comprehensive Plan and associated functional plans. The table to the right illustrates anticipated REET funds. In addition to REET revenue, the City may receive a portion of uncollected King County Road Levy and additional gas tax revenue from King County, *depending upon the effective date of annexation*. Both of these revenue sources (road levy by statute, gas tax by policy) are dedicated to the street fund. See table.

**Capital Fund Revenue**

Potential Annexation Area	Annual <u>Increase</u> in Real Estate Excise Tax
264 <sup>TH</sup> & 266 <sup>TH</sup> AVE SE	\$ 7,000

**Utility Fund Revenue**

Utility fund revenue for the water and sewer utilities would decrease because of the loss of the extra charge imposed on out of city water and sewer customers. See table.

**Utility Fund Revenue**

Potential Annexation Area	Annual <u>Decrease</u> in Rate-Payer Revenue
264 <sup>TH</sup> & 266 <sup>TH</sup> AVE SE	\$ (24,209)

**Timing of Sales and Property Tax Receipts**

Tax receipts do not immediately flow into the City coffers after annexation. The timing of receipts must be carefully planned out if the goal is to minimize the lag time between annexation and receipt of property, sales, and state-shared revenues. Property tax has the longest lag between annexation and the receipt of the first tax revenues. The boundaries of a city for property tax purposes are the “officially established boundaries” that exist on August 1 of the year in which the property taxes are levied. RCW 84.09.030. *Thus, a city may levy taxes during the current year for receipt during the next year for any annexation that is officially completed by August 1. If the annexation is completed after August 1, the city will have to wait until the following year to levy the tax to apply in the annexed area.* For example, if an annexation is completed by August 1 of Year 1, the city can levy taxes in November of Year 1 and receive its first substantial property tax revenue after April 30 of Year 2. If the annexation is not completed until August 2 (or later) of Year 1, the city will have to wait until November of Year 2 to levy its property tax and will not receive its first revenues until the spring of Year 3. Upon annexation, the city does receive the revenue from the levied but uncollected county road district taxes (RCW 35.13.270, 35A.14.801), but this may be less money than the city would get if it were levying its own tax. Also, the road district tax revenues must be placed in the city street fund rather than the general fund, which the city might consider a drawback. For property tax

purposes, it definitely pays to plan ahead when considering an annexation. The City must decide the timeframe for which it is willing to front the costs of annexation prior to receiving funds. The following points describe when revenue will be received by the City post-annexation:

- a) Property tax: annexation must be completed prior to August 1<sup>st</sup> in order to set levy rate in November; first property tax receipt would be in April of the following year.
- b) Sales tax: 75-day notification to Dept. of Revenue – 2 to 5 month lag time.
- c) King County Road Levy – received in current year; must be used only for road capital.
- d) State-shared revenue begins to accrue in year of annexation.

For this proposed annexation, the first substantial property tax revenue will most likely be made after April 30 in the year 2012.

### **Municipal Services and Staffing**

The absorption of an additional 97 people into the City is unlikely to have a measurable effect on current levels of service or staffing levels. As noted in the annexation study, the City is in a position to absorb additional population without incurring incremental costs of service. The annexation study, as illustrated by tables 23-30,<sup>3</sup> predicts no staffing changes are needed at this time to serve the proposed annexation area. The tables suggest staffing changes in 2015. Due to the insignificant increase in service, staff did not attempt to quantify the incremental costs associated with this proposed area.

### **Capital Improvements**

Capital improvement (roads, water, sewer, etc.) needs exist in the proposed annexation area (see attached Public Works memo). As with capital deficiencies within the current city boundaries, staff will document, prioritize and include the needs in the appropriate capital program. Funding for capital projects will be done via the annual budget process. As noted above, REET will be the primary source of revenue, as well as state/federal grants and traffic impact mitigation fees paid by new development.

### **Prospective Residents and Taxation**

Upon annexation, new residents would experience a change in the type and amount of taxes paid. **Exhibit 3** provides a comparison between county and city taxes from the perspective of the taxpayer under an assessed value of \$233,900. The most notable change for residents would be the payment of utility fees and utility taxes. Currently, residences in unincorporated King County do not pay utility taxes. Upon annexation into the City, residents would be subject to the city's tax on a range of utility services. The amount of tax is usually directly related to the amount of service consumed, making the net change in taxes paid different for each taxpayer. **Exhibit 4** describes utility fees and taxes in further detail.

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<sup>3</sup> Enumclaw Annexation Study, Berk & Associates, 2009, Tables 23-30.

### Exhibit 3: Property Tax Comparison

Annexation – 2010 Tax Year				Levy Code	Levy Code	
Road Tax for LC 3550				3550	1181	
2010 Assessed Value	2010 Tax Rate per \$1,000 of AV	2010 Taxes		2010 Rate Breakdown	2010 Rate Breakdown	Rate Change
\$ 233,900.00	12.58	\$ 2,942.32				
City Tax for LC 1181						
2010 Assessed Value	2010 Tax Rate per \$1,000 of AV	2010 Taxes	Average \$ Tax Chg			
\$ 233,900.00	11.34	\$ 2,652.49	\$ (289.83)			
				District Levies		
				State Schools	2.22253	2.22253 0.00000
				City-wide regular levy	0.89729	0.89729 0.00000
				City-wide Transport levy	0.06501	0.06501 0.00000
				City lid lifts (voted)		
				AFIS (Fingerprint ID)	0.04571	0.04571 0.00000
				Parks/Open Space	0.10902	0.10902 0.00000
				Human Services/Vets	0.04468	0.04468 0.00000
				City bonds (voted)	0.07410	0.07410 0.00000
				City Cons. Futures	0.04918	0.04918 0.00000
				City Flood Zone	0.10514	0.10514 0.00000
				City Ferry	0.00348	0.00348 0.00000
				Port	0.21597	0.21597 0.00000
				EMS (voted)	0.30000	0.30000 0.00000
				Enumclaw SD 216 M & O (voted)	2.91140	2.91140 0.00000
				Enumclaw SD 216 Bond (voted)	1.21849	1.21849 0.00000
				Enumclaw SD 216 Capital (voted)	0.99848	0.99848 0.00000
				City or Road Tax	1.93572	2.01641 0.08069
				Fire District #28	0.89795	0.00000 (0.89795)
				King County Library General Fund	0.42188	0.00000 (0.42188)
				King County Library Bonds (voted)	0.06338	0.06338 0.00000
				<b>TOTAL</b>	<b>12.57941</b>	<b>11.34027 1.23914</b>

### Exhibit 4: Utility Taxes

Utility	Description
Water/Sewer	Water and sewer rates are 50% higher for outside city limit customers due to the higher cost of service for the sparsely populated county area. Upon annexation the 50% surcharge will not apply and existing water/sewer customers will pay the lesser inside city rate. The city's utility tax rates (currently at 8%) are included (rolled-in) within each utility's rate structure, so customers will not see any impact on water/sewer utility taxes.
Garbage	State law allows the current collector (Waste Management) to continue providing service for seven years after annexation. The city's 8% solid waste utility tax will apply upon annexation.
Electricity and Telephone	Upon annexation, the city's utility tax rate (currently at 6%) will apply.
Natural Gas	The city already serves the annexation areas with natural gas. The city's natural gas utility tax (currently at 4%) is included in the rate and thus customers will not see any impact on natural gas utility taxes.
Cable TV Franchise Fee	Upon annexation, Comcast's City Franchise Fee pass-through (currently at 5%) will apply, which is the same as the County's.

## **Findings and Conclusions**

1. The proposed annexation represents roughly 8% of the city's urban growth area.
2. The area includes no King County properties and/or facilities that the city must take receipt or ownership of.
3. Current city staffing levels are sufficient to provide existing levels of service to the annexation area and its approximate 97 residents.
4. The city will realize additional tax revenue from the proposed area in 2012.
5. The proposed annexation area is residential in character and has a comprehensive land use designation as Single Family Residential and Public Institutional or R-2 and Public zoning.
6. The city will take on the capital maintenance and operation of roads, including: SE 427th Street, southern portion of SR169/Porter St, and 266th Ave SE (Hansen St). As for SR169/Porter Street north of SE 426<sup>th</sup> Street, WSDOT will retain permitting ownership and permitting authority for any road or utility work in the State Route.
7. There is sufficient interest expressed in the form of signators to the 10% petition to assume that the collection of signatures representing 60% of the assessed value may be obtained by the applicant.
8. Annexation of the city's urban growth area (UGA) is generally in the best financial interest of the city. The annexation study, completed by Berk & Associates, notes that the area to the north of city boundaries is of less interest than those areas west of city boundaries.
9. The city has the ability to provide immediate municipal services to the proposed annexation area.
10. Acceptance of the 10% petition in no way binds the city council to annex the proposed area. The city council will have several more decision points regarding this annexation, specifically at the 60% petition acceptance and following the review performed by King County Boundary Review Board.
11. As future growth occurs within the annexation area, the city will need to assess when to add additional equipment and staffing resources.
12. Fire service to the area is already provided by Fire District No. 28.
13. The annexation area represents a growth opportunity for future utility funds under new development.

## **Recommendation**

Administration recommends acceptance of the proponent's 10% petition and authorization the circulation of a 60% petition.