

Issue/Solution Paper Annexation Debt Transfer

The State Growth Management Act (GMA) encourages counties to work toward annexing *urban* unincorporated areas into cities. The properties in a county's unincorporated areas provide road taxes to maintain the extensive network of county roads. There are smaller numbers of taxable properties in the unincorporated areas and their value is typically lower than properties in cities.

When funds to improve or maintain roads are secured by a Bond, the repayment of the debt is based upon the anticipated repayment from a relatively fixed number of properties. Yet, some of the properties eligible (i.e., presumed to repay the debt) are absolved of such responsibility when annexed into an adjacent city, which does not assume such debt. Thus, the encumbered debt is *re-distributed* to the remaining unincorporated properties, even if the improved roads are now within a city.

This results in a reduced county roads district statement of work and, thus, fewer road projects that can be accomplished to meet unincorporated area needs. An example of the potential magnitude of the problem can be seen in King County where, in the last two decades, it is estimated approximately one-third of the unincorporated area residents were part of an annexation to an adjacent city. The road district taxes paid by those properties no longer accrue to the King County's Roads Fund. No such restriction exists for Surface Water Management bonded debt. In fact, Library and Fire District obligations stay with property owners.

There is ~\$3.5 million per year of debt service in 2015 and 2016 for "capacity projects" now located in cities that is still charged to the Roads Fund. The debt service for the South Park Bridge is ~\$2 million per year for 20 years and likely will be charged to the Roads Fund.

It is desired Counties have consistent opportunities to require bonded debt obligations transfer with residents upon annexation. Cities and counties should work together to determine how debt incurred in now-annexed formerly unincorporated areas, which benefit from road improvements, is repaid until fully retired. Consistency in monies and timing should be maintained between County and City Capital Improvement Plans (CIPs) and Transportation Improvement Plans (TIPs) for those road segment improvements meant to meet Transportation Concurrency.

Potential solution paths for discussion: The rigidity of State law could be revisited so that Counties and Cities have the opportunity to "negotiate" any transfer of bonded debt incurred within the annexed area. Approval of County bonded debt could be similar to how cities do so upon annexation by offering a vote to the annexing residents and allow the county to require a disapproval of the annexation should residents vote against the bonded debt continuance.

We have identified the following RCWs that could provide such opportunities:

RCW 35.13.110--Election method--Effective date of annexation or annexation and comprehensive plan or annexation and creation of community municipal corporation, taxation of area annexed.

RCW 35.13.270 and 35A.14.801--Taxes collected in annexed territory--Notification of annexation. (1) Whenever any territory is annexed to a city or town which is part of a road district of the county and road district taxes have been levied but not collected on any property within the annexed territory, the same shall when collected by the county treasurer be paid to the city or town and by the city or town placed in the city or town street fund; except that road district taxes that are delinquent before the date of annexation shall be paid to the county and placed in the county road fund. [Requires road district tax revenue to go to annexing city, e.g., in mid 2013 Bellevue annexed the Eastgate neighborhood, whose residents had already been assessed County road taxes, so the County and Bellevue had to split the revenue proportionately. This law dates back over 60 years ago to 1951 with revisions in 1957 and 1965.]

References:

Dwight Dively, King County Finance Director. [Indicated state law denies ability to have the indebtedness *remain* with the properties that *now* belong to the annexing city. Money is still due and the debt service (principal and interest payments) on debt issued for roads projects is charged to the county's Roads Fund and is, thus, paid out of any Roads District property tax levy. If a debt-financed project is in an area that incorporates or is annexed, the responsibility to pay the debt service on that project remains with the county's Roads Fund. The property owners in the area that is annexed or incorporated no longer pay any Roads District tax levy, so the beneficiaries of the project no longer are paying for it.]