

Attachment A

2004-381

King County's Annexation Initiative

Transitioning Remaining Urban Unincorporated Areas to City Status:
Sustaining Local Service Delivery to These Communities,
Stabilizing King County's General Fund,
and Achieving the Region's Land-Use Vision

A Report to the King County Council

July 2004

Prepared by:
King County Executive Office
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King County's Annexation Initiative

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July 2004

Executive Summary

This report is in response to 2004 Budget Proviso No. 1, Office of Management and Budget, calling for the Executive to submit a motion and report outlining the vision, goals and implementation plan for the Annexation Initiative for which funding was reserved in the 2004 budget.

The Annexation Initiative has been underway since shortly after the Budget Advisory Task Force issued its report in June of 2003, identifying transition of the remaining urban unincorporated areas to incorporated, or "city" status, as the single most important thing King County could do to stabilize the county's Current Expense (CX) Fund.

Deficits in status quo budgets of the CX funded programs will continue in the range of \$18-22 million per year for the foreseeable future, despite already having cut over \$100 million and 10% of the employee positions associated with these budgets in the last three years. Regional and local services funded in the CX Budget will continue to be hit hard, and service levels will decline, absent a dramatic change in King County's service obligations or available revenues that will end this structural gap between revenues and expenditures.

The Annexation Initiative is a multi-year effort to help remaining urban unincorporated area communities achieve a more secure future through annexation or incorporation to cities. Cities are better able, given state revenue authorities, to provide urban services to these communities than is the county.

This transition is critically important in relieving the CX Fund of local urban service obligations, thus reducing pressure on remaining CX regional and rural service budgets. It also takes a major step forward in achieving the land-use vision reflected in the Countywide Planning Policies (CPPs), and King County's Comprehensive Plan, developed jointly in 1993 by the county and cities. That vision calls for all urban areas of King County to be inside cities, to enable the county to focus on delivery of regional and rural services.

The CPPs call for this vision to be achieved by 2012, but given annexation rates in the last 10 years, the transition will not be complete for another 25-30 years. Annexations have significantly slowed recently for a number of reasons, including resistance of residents, uncertainty about the economy and possible new revenue-cutting initiatives. There is a need to find ways to accelerate the transition of remaining unincorporated urban areas. Unfortunately, King County has little legal or financial leverage in the annexation and incorporation process.

The Annexation Initiative involves the use of ten different strategies to promote and accelerate annexation and incorporation. Strategies must be tailored to each community, as stakeholders have a wide variety of, often conflicting, interests. Primarily, these strategies involve extensive outreach to cities and communities, use of funding incentives and other means. This will not be an easy challenge, however. The remaining urban unincorporated areas, when measuring local revenue generated against the cost of local service delivery, pose operating deficits annually for King County's CX Fund. As overwhelmingly residential areas, these areas do not generate sufficient tax revenue to support urban level services. Currently, the county uses regionally generated revenues to support services in these areas; cities also will need to employ revenues from their commercial centers in the same way if they annex these areas.

Internal to the county organization, there is an equal challenge. As annexations and incorporations occur, county revenues are reduced, but so are county service obligations. Transition plans must be developed so that as areas move to city status, King County reduces its local service delivery programs, to the extent that direct service responsibilities are not replaced by contract services with cities. In the CX Fund in particular, because the vast majority of tax revenues are regionally generated property revenues unaffected by annexation or incorporation, the result of the urban area transition overall is a much greater reduction in the service delivery obligation than in CX revenue: this translates directly into additional dollars being available for the county's regional and local rural service responsibilities. For other direct service operations such as Roads and Surface Water Management, the revenue and service reductions are roughly equivalent, but very large. Complete transition of the urban area to city status will reduce the county's local service population by over 60%, assuming no contract services arise as a result.

The Annexation Initiative Report includes:

- a broad overview of the King County's budget crisis;
- the status and challenge of implementing the region's land use vision;
- the fiscal analysis of costs and revenues associated with the major urban unincorporated areas;
- the proposed policy framework regarding the vision, goals, allocation of funding, and principles for interlocal agreements; and
- the implementation plan for the initiative including presentation of the management plan and organizational structure and a discussion of the 2004, 2005, 2006 work plan objectives and tasks.

In sum, the vision of the Annexation Initiative is to preserve the quality of local government services provided to urban unincorporated communities and reduce CX Fund budget pressure by transferring local service responsibility for these areas to cities via either annexation or incorporation, consistent with the regional land-use vision expressed in the CPPs. This will involve consistent effort over several years, targeted both to external outreach and negotiation, as well as internal transition planning and implementation. The Executive appreciates the support of the County Council, independently elected officials and department leadership and staff to date on this effort and looks forward to the continued partnership ahead in this initiative that will shape King County's future for the better.

Table of Contents

Executive Summary	2
List of Tables, Charts, Appendices, Maps	5
Introduction.....	6
I. Problem Statement: The Dual Challenges of the General Fund Budget Crisis and the Region’s Growth Management Vision	7
A. The General Fund/CX Fund Budget Crisis.....	7
B. The Regional Land-Use Vision: Stalled Transition of Urban Areas	13
• Background	14
• Early Success, but Progress Slowing	15
• Fiscal Challenge of Serving Remaining Urban Unincorporated Areas	16
• Breaking the Log-Jam.....	19
• Support for the Annexation Initiative Concept.....	20
II. The Cost of Serving, & Revenues Generated By, Remaining Urban Unincorporated Areas	21
III. Fiscal Impact of Annexation.....	23
A. Service Impact.....	24
B. Revenue Impact.....	24
• CX Fund.....	25
• Road Fund.....	27
• Surface Water Management.....	27
• Real Estate Excise Tax #1 and #2.....	28
C. Fiscal Impact Summarized	28
IV. Annexations and Incorporations: Process, Incentives, Barriers.....	29
A. The Annexation and Incorporation Process	29
B. Stakeholder Views.....	32
• King County.....	33
• Cities	33
• Residents and Businesses.....	34
• Special Districts	34
C. Strategies	34
V. The Annexation Initiative: Vision, Goals, Allocation of Funding, and Status of Dialogue with Cities and Residents in Largest Areas	37
A. Vision	37
B. Goals	38
C. Funding and Allocation Policies.....	40
VI. Annexation Initiative Implementation Plan.....	43
A. Management Plan and Organizational Structure	43
B. Work Plan Tasks	45
C. Other Components of the Implementation Plan.....	47
• Linkage between Annexation Initiative and the 2004 Comprehensive Plan Update	47
• Criteria for analyzing which areas should be annexed	48
• Method for analyzing feasibility of annexations and fiscal impacts to the county...	48
• Framework for allocating capital reserves and incentive funds.....	48
• Plan for measuring and reporting performance	48
• Council Role	49
VII. Conclusion.....	50

List of Tables, Charts, Appendices, Maps

Tables

- Table 1: Mandated County Services
Table 2: Comparing the 10 Largest Unincorporated Urban Areas/ Potential Annexation Areas in King County, July 2004
Table 3: CX/CJ Fund 2004 Estimated Deficits by Urban Unincorporated Area, and Totals
Table 4: Estimated Annexation Timelines for Urban Unincorporated Areas
Table 5: Six Key Points about the Annexation and Incorporation Process
Table 6: Current Annexation Methods Authorized by State Law
Table 7: Summary of Incorporation Process
Table 8: Ten Strategies to Promote Annexation or Incorporation
Table 9: Status of Annexation/Incorporation Discussions for Major Areas as of July 30, 2004
Table 10: Annexation Initiative 2004 Tasks and Status
Table 11: Annexation Initiative 2005 Objectives and Tasks

Charts

- Chart 1: CX Fund Tax Support: Property and Sales Tax
Chart 2: CX Fund Expenditures, 2004 Adopted Budget,
Chart 3: 2004 CX Fund Revenue All Sources
Chart 4: 2004 CX Tax Revenues
Chart 5: Comparison of County and City general fund revenues Bellevue Example
Chart 6: Comparing Historic Rates of Incorporation and Annexation in King County Since 1990

Appendices

- Appendix A: Map of King County showing ten largest remaining urban unincorporated areas, as of July 2004.
Appendix B: The 10 Largest Remaining Urban Unincorporated Areas in King County as of July 2004: Descriptions, Maps, Demographics, Revenues Generated
Appendix C: Excerpts from State Growth Management Act and Countywide Planning Policies
Appendix D: Recommendations from King County General Government Budget Advisory Task Force Report to Executive Ron Sims, dated June 24, 2003
Appendix E: Second Report of the King County General Government Budget Advisory Task Force, dated June, 2004
Appendix F: Proposed King County Unincorporated Area Budget and Annexation Strategy, with referenced appendices, from Executive Proposed 2004 Budget
Appendix G: Unincorporated Area Budgets in each of the 10 Largest Unincorporated Areas: 2004 Proposed Budget Analysis
Appendix H: Boundary Review Board—Authority and Process
Appendix I: King County Adopted 2004 State Legislative Agenda

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July 2004

Introduction

This report is in response to 2004 Budget Proviso No. 1, Office of Management and Budget, that calls for the Executive to submit a motion approving the vision, goals and implementation plan for the Annexation Initiative outlined in the 2004 budget.

This report describes the problems that led the Executive to recommend funding of the Annexation Initiative in the 2004 budget; describes the challenges around annexation and incorporation; identifies strategies and options for King County to pursue in order to succeed in this initiative; sets forth the implementation plan and criteria the Executive proposes to guide the initiative; and provides an update on the status of the initiative.

The Executive first proposed an initiative to accelerate the pace of annexation and incorporation in October 2002, in his 2003 budget transmittal. In June of the following year, the Budget Advisory Task Force issued its report identifying transition to city status of remaining urban areas as the single most significant action King County could take to stabilize its Current Expense (CX) Fund. The Executive responded by immediately assigning staff to launch an annexation initiative. A summit was held with cities in September 2003 for this purpose; over 100 city and county representatives attended. Annexation was also the subject of the annual meeting with unincorporated area councils in October 2003. That same month, the Executive transmitted the proposed 2004 budget, which detailed the reasons to pursue the Annexation Initiative and sought over \$23 million in funding to support the Initiative.

The County Council approved funding for the Annexation Initiative in the 2004 budget, placing monies in reserve in the CX financial plan. The County Council also requested the Executive submit this report providing additional information on the Annexation Initiative. Annexation issues were also a cornerstone of the county's adopted state legislative agenda for the 2004 session.

Executive staff has engaged in extensive outreach with cities, residents and legislators on annexation and incorporation issues since the 2003 annexation summit. That work continues today. In addition, considerable effort has been expended to provide information to the County Council, County Council staff, and department staff regarding the Initiative, and to develop a coordinated internal management effort.

The Annexation Initiative is designed to address two fundamental, but very different, challenges. First, the Annexation Initiative addresses the crisis in King County's General Fund (or CX Fund): by transferring responsibility for local urban services to cities via annexation or incorporation, the initiative will significantly reduce the amount of local services King County must provide, thus reducing the demands on CX Fund dollars, with which many of those services are now provided. No matter how one classifies revenues in the CX Fund, the simple truth is that the CX Fund is over-subscribed: each year, growth of status quo budget costs exceeds the growth of CX revenues available. Each year, CX budgets must be cut to balance the Fund.

Second, the Annexation Initiative will assist in achieving a core underpinning of the regional growth management vision, as described in King County's Comprehensive Plan and the Countywide Planning Policies: a future in which all urban areas of King County are inside cities, and the county's service responsibility is focused on providing: (1) rural local services and (2) regional services.

The Annexation Initiative is not a simple, short-term effort, nor is it a panacea to King County's budget problems. Success will require an ongoing cooperative effort between the County Council and the Executive, all county agencies, and all county employees. It will also require cooperation of cities, residents, and ideally, the state legislature. It is as much an effort of external outreach and negotiation to communities and cities as it is an internal effort to re-craft service budgets, service delivery strategies and internal service operations.

Ultimately, the Annexation Initiative is about preserving the quality of the remaining urban unincorporated communities and regional and rural services provided by King County. The transition of local urban service responsibility sought through this initiative has been called for by no less than three independent task forces in the last year, and their recommendations echo those of earlier task forces dating back over a decade. The urgency of these recommendations increases each year as King County faces increasingly difficult choices in order to balance the CX Fund budget.

I. Problem Statement: The Dual Challenges of the General Fund Budget Crisis and the Region's Growth Management Vision

The Annexation Initiatives addresses two fundamental but very different challenges now facing King County: the General Fund/CX Fund budget crisis and the region's growth management vision as expressed in the Countywide Planning Policies and King County's Comprehensive Plan. These are summarized in turn below.

A. The General Fund/CX Fund Budget Crisis

Although a relatively small portion of King County's total budget (about 17.5%, \$518 M, of a total 2004 expenditures of \$2.9 billion¹), King County's General Fund/Current

¹ A majority of King County's revenues each year are supported by dedicated revenues that cannot be applied except for specified purposes, and thus are not available to fill budget gaps in CX programs.

Expense Fund (hereinafter “CX Fund”) is home to the budgets for the most basic of governmental services provided by the county. Most of these services are regional in nature, that is, they are provided or made available to all 1.7 million residents of the county. Other services are local in nature, provided to those 353,000 residents living outside of cities and thus dependent on King County to provide the general framework of local government services not provided by special purpose districts. Although state law prescribes little as regards the *manner* in which these services are provided, it does require that the county provide virtually all the categories of service now in place, with the limited exceptions of discretionary services such as parks and human services.

Table 1 illustrates the current mandated services, regional and local, provided by King County: most of these are budgeted in the CX Fund.

Table 1: Mandated county services

Regional services required by state law	Local services required by state law
<i>Superior court</i> <i>Pre-trial felony detention (jail)</i> <i>Public Health**</i> <i>Prosecutor</i> <i>Public defender</i> <i>Public records</i> <i>Property assessment</i> <i>Elections</i> <i>Licensing</i> <i>Juvenile detention, court</i>	<i>Local roads outside cities**</i> <i>Sheriff</i> <i>Misdemeanant court (district court) and related prosecution, public defense</i> <i>Jail for misdemeanor offenders</i> <i>Building permits and inspections**</i> <i>Fire inspections</i> <i>Surface water management**</i>

Except as noted () all these services are budgeted in County General (CX) Fund

King County has two general flexible revenue sources available to it to fund the broad array of services supported by the CX Fund: a regional property tax, collected from all county residents, and sales tax collected both in and outside of cities but at different rates.² User fees also contribute to support some services. These revenues provide the majority of funding support for all regional and local services budgeted in the CX Fund.

Property taxes, the primary source of income to the CX Fund, are capped by Initiative 747. Absent voter approval for an increase, total property tax receipts in any year cannot exceed 101% of prior year collections, plus tax on new construction. An increase in the sales tax could be imposed only following vote of the people; state law provides that such an increase could be used to support regional criminal justice functions or transit functions. The county is currently employing virtually every revenue source available to it under state law,³ and is imposing service and user fees at the maximum allowed by state law. In those limited circumstances where the county has fee setting authority, it

² King County collects sales tax at a rate of 1 percent from unincorporated areas, and at a rate of .15 percent from inside cities (cities collect sales tax at the rate of .85 percent from within their boundaries).

³ With the exception of an unincorporated area admissions tax.

has been steadily raising those fees over time. As a result of the current recession, sales tax receipts to the county have dropped since 2001 in total, and are only now experiencing some resurgence.

Chart 1 below tracks recent history of the two major CX tax sources, excluding special voter approved levies.

76% of Tax Revenue for General Fund is from Property Tax: growth capped at 1% by I-747

In 2003, the rate of property tax growth was 2.6% of which 1.6% was new construction

Sales tax collections have declined in real dollars since 2000—expected to recover to 2000 levels by mid-2005 < \$69M in 2004.

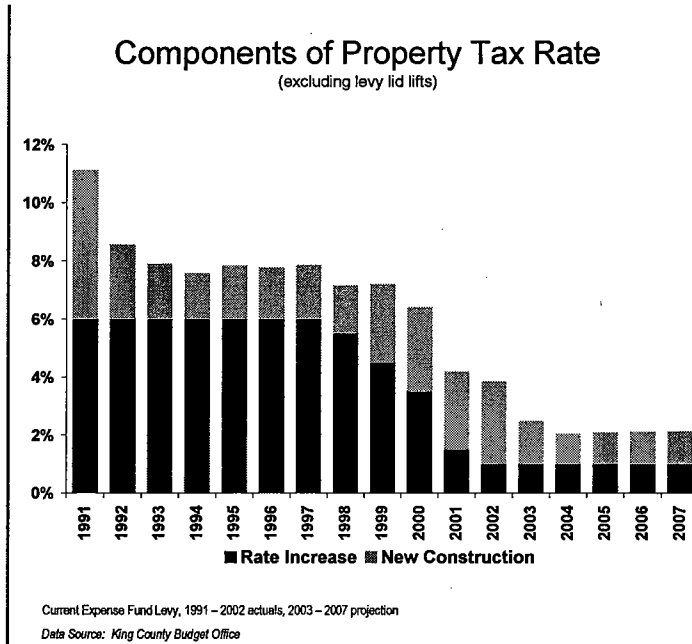
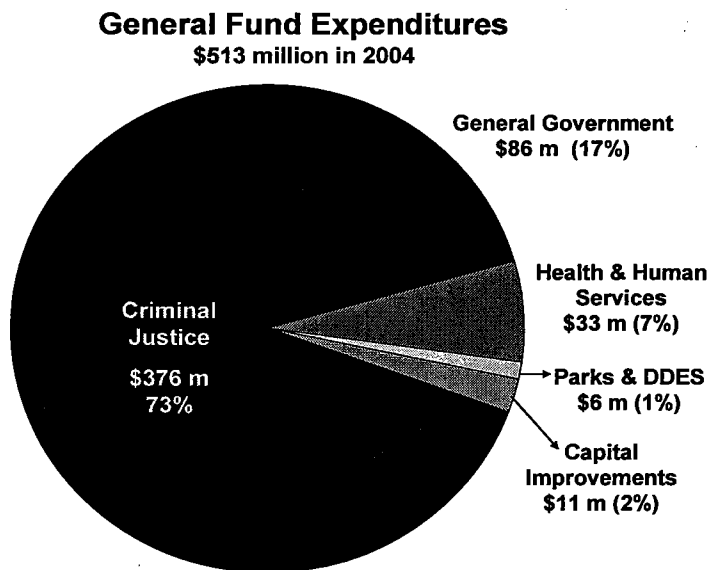
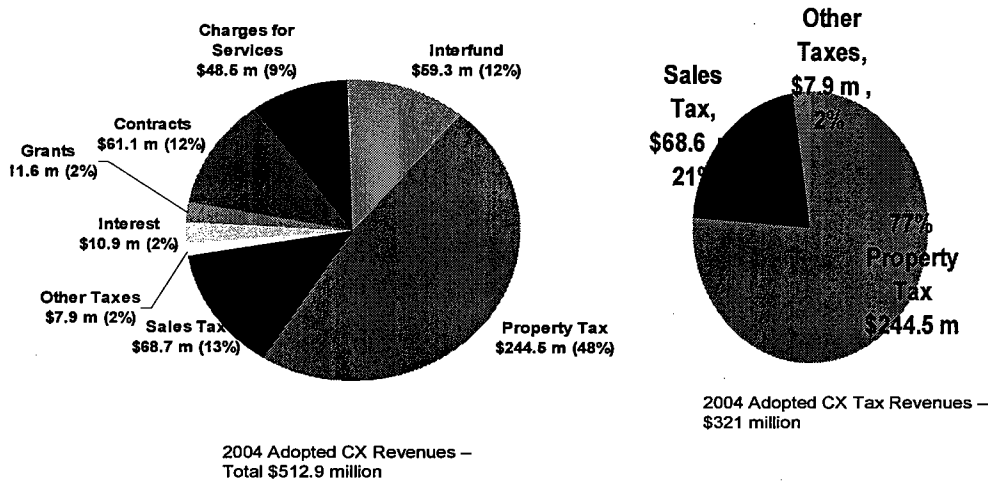


Chart 2 below summarizes the sources and uses of the CX Fund per the 2004 adopted King County budget.



Charts 3 and 4: Show CX Fund Revenue sources 2004: — Total CX revenues and tax revenues.



King County has three primary sources of income derived solely from the unincorporated areas that are directed by state law to fund services for unincorporated area residents.⁴ As a result of both policy and state law limitations, *very little of this money is available to support the general local services budgets in the CX Fund.* These three primary local revenue sources are:

- the unincorporated area property tax, (generally referred to as the “Road Levy”) dedicated to support roads construction and maintenance, with a limited amount of the “road fund” money transferred without state penalty to support traffic enforcement activity of the sheriff’s department;
- surface water management “SWM” fees, imposed on every parcel of unincorporated area property and dedicated to support surface water management programs in unincorporated areas; and
- real estate excise taxes “REET”, collected on sales of real property in the unincorporated area, dedicated as a matter of county policy to support parks capital expenditures, and limited by state law to capital expenditures benefiting unincorporated area residents.

⁴ King County also has a several other smaller amounts of locally derived revenue (i.e., collected only from unincorporated area residents, properties and businesses), such as gambling tax and, shared state revenues, that may be flexibly applied.

As a result of this limited set of revenue options and the various strings attached to their use, as well as the slow or negative growth of the key CX Fund revenue sources, property and sales tax, *many local and regional services are competing for the same limited dollars in the CX Fund, and all services are being cut to balance the CX budget.*

Regionally generated property taxes, as well as sales tax revenue generated within cities are applied to pay for local county services in unincorporated areas. In this sense, the rural and urban unincorporated areas do not “pay their way,” in terms of generating revenue sufficient to cover the cost of local service delivery.

Yet whether or not one believes the various CX revenue sources are being appropriately applied to pay for regional or local services does not change the fact that ***in total, the demands on CX revenues from the current combination of regional and local service responsibilities of the county significantly outstrip the ability of the CX Fund to pay for those services.***

As has been made all too clear by passage of Initiative 747 capping growth of property tax receipts at one percent per year, King County’s General Fund/CX Fund is experiencing a serious structural gap between the rate of growth of expenditures and the rate of growth of revenues. Expenditures, driven largely by growth in personnel costs, salaries and benefits, are growing at a rate of 5.5 to 6.5 percent per year. Revenues, restrained by both Initiative 747, loss of sales tax base to cities, and a general recession, have been growing at around two percent per year.

This structural gap first hit the CX Fund hard three years ago, after passage of I-747 in November of 2001. For the 2002 budget, King County cut \$41 million from CX budgets in order to balance the CX Fund. In 2003, it was a \$52 million deficit. In 2004, it was \$24 million. **Looking to the future, the Office of Management and Budget expects annually recurring CX Fund shortfalls of approximately \$18-22 million per year, given King County’s current service responsibilities and revenues with which to meet those responsibilities.**

King County has taken a number of steps to address this budget shortfall, without a general tax increase. These steps can be generally described as a series of actions to reorganize county government and apply business principles to its operation. They include:

- Consolidated departments – 14 to 7 – and cut overhead;
- Restructured juvenile justice operations to avoid building a new juvenile detention facility;
- Renegotiated jail contracts with cities to avoid construction and operation of new jail;
- Worked with Prosecutor, Sheriff, Superior and District Courts to find operational efficiencies;
- Renegotiated medical benefits with unions in 2002, doubling employee co-pays;

- Based on recommendations of Metropolitan Park Task Force, transferred in-city parks and pools, cut spending 35% (approximately \$20 million) and submitted 4-year regional property tax levy for parks – approved by voters in May 2003;
- Reduced human services funding 30% over three years for a reduction of approximately \$4.6 million;
- Increased fees for services;
- Renegotiated district court contracts with cities;
- Began charging rent to solid waste utility for its use of a general fund asset – the landfill – to provide additional general fund revenues, and applied the rent to fund human services that would otherwise be cut; and
- Established Budget Advisory Task Force, working to implement its recommendations.

In the last three years, over \$100 million has been cut from CX budgets. Over 10% of the employee positions supported in these budgets have been eliminated. But the work is not over, and in fact becomes more difficult as the County will again this year, and each year thereafter, face the need to eliminate \$18-22 million from CX budgets. The majority of the early cuts focused at discretionary services, such as parks and human services, and overhead and administrative functions. But nearly all CX funded department programs have felt the pain of this structural revenue gap and have made budget reductions in the last three years.

In future years, as the discretionary service cuts have already been taken, CX cuts will come increasingly from mandated criminal justice services where the vast bulk of CX dollars are spent. Work is ongoing to find ways to reduce the growth of employee benefits costs, and to look for a more solid long-term foundation for funding of human services and parks expenditures. However, the revenue-expenditure gap cannot be resolved by any single action, or even a handful of actions. There is, as the Budget Advisory Task Force duly noted, “no silver bullet.”⁵ King County must address both the expenditure and revenue side of the structural gap. **The bottom line is sobering and indisputable: recurring annual service reductions to basic county government services, regional and local, are unavoidable given current revenues and obligations.**

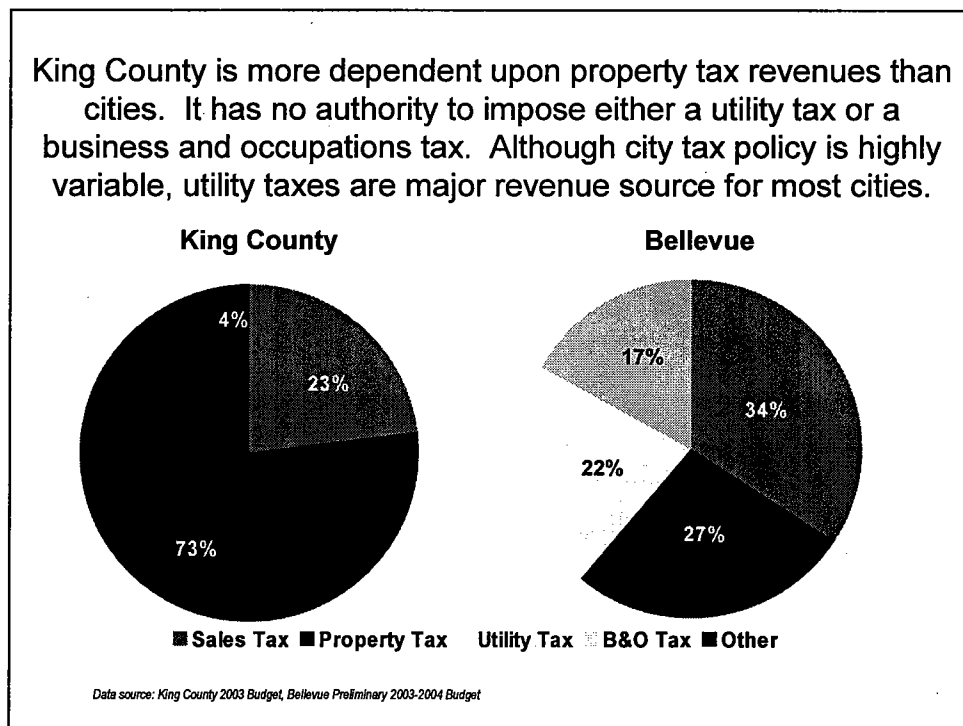
Simply put, there is far too much demand for on CX Fund revenues. And, despite numerous actions to both reduce costs and incrementally increase revenues without a vote of the people, this basic fact remains unchanged. Absent more change, the quality of local and regional government services provided by the county will continue to deteriorate.

In the Executive’s view, it is not sufficient to simply pin hopes on new revenue measures from the voters. Rather, King County must constantly strive to find ways to reduce the CX expenditure line by becoming more efficient, doing more with less, and as proposed by the Annexation Initiative, transferring service responsibilities away where appropriate.

⁵ Budget Advisory Task Force Report, June 2003. See **Appendix D** for a list of all BATF recommendations issued in June 2003. See **Appendix E** for the BATF’s second report, issued June 2004.

A final note regarding this budget crisis: King County is not alone. Virtually all local governments in this state are challenged by the property tax growth limitations of I-747. Most cities in King County face a gap between the rate of growth of expenditures and the rate of growth of revenues. This makes annexation of remaining, largely residential, areas a daunting challenge for cities. However, cities are far less dependent on property taxes than is the county. Virtually all cities in King County impose utility taxes a major source of general fund revenue for cities; business and occupations tax are an important funding source to a smaller number of cities. The county lacks legal authority to impose either a utility tax or a business and occupations tax in support of its own, significant local service obligations.

Chart 5: Comparative General Revenue Sources for King County and Bellevue



B. The Regional Land-Use Vision: Stalled Transition of Urban Areas

The second fundamental challenge that the Annexation Initiative addresses is the difficulty of accomplishing the regional land-use vision. This vision was developed jointly by the county and cities within King County in compliance with the State Growth Management Act. While significant progress has been made in the 10 years since cities ratified the CPPs in 1993, overall there is much work remaining to accomplish the transition of all urban areas to city status, and there are no deadlines, penalties, or financial or other incentives in state law to help push progress forward. The Annexation Initiative is structured in hopes of helping break the log-jam on remaining urban unincorporated areas and to secure their transition to city status by either annexation or incorporation.

Background

In 1990, the Washington State Legislature passed the Growth Management Act (GMA), which requires counties and cities to plan for population growth. In 1992, King County adopted and a majority of the cities ratified a 20-year vision statement and related policies, expressed as a set of “Countywide Planning Policies” (CPPs). The vision in these policies is clear: the county should be the regional service provider and the provider of local services to the rural area, while cities and special districts are the most appropriate providers of local urban services. (See **Appendix C**, excerpts from GMA and CPPs).

The CPPs established an Urban Growth Boundary. With a few exceptions, the area to the west of the Boundary is designated as the urban area and the area to the east of the boundary is considered the rural area. All major commercial and industrial development is restricted to the urban area. Urban service levels are proposed to be higher than rural service levels. Most importantly for the purposes of the Annexation Initiative, *the CPPs call for all urban areas of King County to be part of a city by 2012, which will in turn enable the county to focus on being a regional service provider, and a provider of local rural services.*

It is critical to note that this deadline is a matter of policy, not law: there is no penalty under state law for failing to meet it. It should also be noted that the CPPs state a preference for annexation of remaining unincorporated urban areas as opposed to incorporation. While this is not an absolute barrier to incorporation it does reflect (1) the view that very few if any areas remaining have sufficient commercial development to support urban services for residents in the area; and (2) cities and the county recognize the difficulty of achieving regional solutions involving dozens of city partners.

While considerable progress has been made towards achieving the vision described in the CPPs, progress has slowed in recent years. This stalled transition appears to be attributable to at least four causes, varying from area to area:

1. Resistance of residents to annexing or incorporating;
2. Financial cost to cities of annexing remaining areas;
3. Economic slowdown and uncertainty regarding future tax initiatives; and
4. Temporary repeal of most popular method of annexation, petition method, subsequently reinstated by State Supreme Court.

The Annexation Initiative is designed to accomplish the policy goal of the CPPs to annex or incorporate ALL remaining urban unincorporated areas in King County. These areas are a challenge for the county serve now, and will be a financial drain on cities as annexed. The challenge is complex, as explained further below.

Early Success, but Progress Slowing

Implementation of the growth management vision in King County had early significant successes. As late as 1989, more than 40% of King County's population resided in the unincorporated area. In 1989 new cities began to incorporate; major commercial development areas were also annexed to cities. From 1989 through 1999, ten new cities incorporated and 323,800 unincorporated residents became city residents. The percentage of county residents living outside cities was nearly cut in half: by 2000, only 21% of the county population lived outside cities. In the last few years, however, the pace of annexation has slowed dramatically. From 2000 through April 2003 only 7,600 residents annexed to cities. *At the rate experienced since 1990, it will take 25 to 30 years to annex the remaining urban unincorporated areas, far longer than the CPP target date of 2012.*

Chart 6: Comparing Historic Rates of Incorporation and Annexation in King County Since 1990

Incorporations since 1990		
City	Date	Pop.
Federal Way	Feb. 1990	67,304
Sea Tac	Feb. 1990	22,694
Burien	March 1993	27,610
Woodinville	March 1993	8,800
Newcastle	Oct. 1994	7,751
Shoreline	Aug. 1995	48,600
Covington	Aug. 1997	12,800
Maple Valley	Aug. 1997	10,980
Kenmore	Aug. 1998	16,900
Sammamish	Aug. 1999	29,400

Total population incorporated since 1990: 252,839 (at time of incorporation)

The 2003 King County Annual Growth Report estimates that **353,000** people still live in unincorporated King County, including some **218,000** residents in urban unincorporated King County. A map identifying the ten largest areas is set forth at **Appendix A**. It illustrates that the remaining urban unincorporated area is comprised of a series of geographically isolated islands surrounded by cities or bordering the rural area. These islands consist of large residential areas and small pockets of commercial retail development that generate limited amounts of sales tax revenue.

The demographics, revenues, and service providers for each of the ten largest remaining unincorporated urban islands are separately described and are reproduced at **Appendix C**, excerpted from the 2003 King County Annual Growth Report. **Table 2** provides a

general comparison of these ten largest remaining urban unincorporated areas of King County.

Of the ten largest remaining urban unincorporated areas, eight have been identified in city comprehensive plan as areas for future annexation (so called “Potential Annexation Areas,” or PAAs). Two of these areas, North Highline/White Center and West Hill/Skyway, remain unclaimed by any city. Some 22,000 urban residents live in smaller unincorporated areas outside these ten largest areas. The large unincorporated areas (for ease of reference, collectively called “PAAs” herein) range in size from as small as 1.2 square miles to as large as 10.7 miles. The population of some of these PAAs exceeds the populations of many existing cities within King County. Eight of the 10 PAAs and the rural area have median incomes well in excess of the county’s median household income of \$53,200. The PAAs represent a mix of well-established neighborhoods built many years ago and newly developed areas with relatively new infrastructure. Both the service needs and infrastructure requirements vary among these areas. Similarly, the attitude of residents towards annexation is also diverse among these areas.

Fiscal Challenge of Serving Remaining Urban Unincorporated Areas

The geographically scattered urban unincorporated area that has resulted from the historical pattern of annexations and incorporations in King County is a challenge for the county to serve efficiently. Service personnel, be they sheriff deputies or road crews must travel through cities to pockets of county responsibility. Travel time eats away at the time that could be devoted to service delivery. Incremental reductions in service territory through piecemeal annexations do not significantly reduce service delivery costs, but do directly reduce revenues received by the county. Boundaries of service territory are often unclear to both service providers and residents alike. Most areas remaining are overwhelmingly residential, and do not therefore spin off sales tax revenues generally necessary to subsidize urban levels of services. While county staff does an excellent job in providing services, they have an inarguably inefficient service territory in which to work.

It is estimated that in 2004, the CX fund will expend approximately \$47 million in CX Funds to provide local urban services to the remaining urban unincorporated areas, and another \$24 million in CX Funds to provide local services in the rural area.⁶ Corresponding local revenues are estimated at approximately \$18 million and \$9.7 million respectively. Transfer of remaining urban unincorporated areas to cities, if properly managed by the county, should eliminate most of this local urban service delivery cost from the CX Fund—providing substantial relief to the remaining CX regional and rural service budgets.

As noted above, absent dramatic change in the county’s revenues and responsibilities, annually recurring CX budget cuts will inevitably result in deterioration in the quality of local services to those communities receive from the county. A better, stronger future for these communities is to become part of a city rather than remain unincorporated. Cities

⁶ The costs of serving the urban unincorporated area are analyzed further below at **Part II** of this report.

are better able to provide the local services that urban areas deserve. Cities have the revenue flexibility that the county lacks, in form of utility tax and business and occupation taxes. However, just as the county experiences that these remaining areas do not “pay their way,” cities will face this same challenge upon annexation. Cities typically subsidize existing residential neighborhoods from sales and other tax revenues generated in commercial “downtown” areas. Thus, annexing residential areas typically increases the pressure on city budgets, not only from the standpoint of the operating budget, but also in terms of the costs of urban infrastructure. With the exception of the West Hill and White Center areas (now under study variously by Renton, Burien and Seattle), all cities with large annexation areas have in the last two years concluded extensive studies of the operating and infrastructure impacts associated with annexing their PAAs.

The Countywide Planning Policies, 10 years after adoption:

Despite much progress, many parts of the urban area remain unincorporated

- Incorporation has moved over 250,000 people into cities since 1990; annexation has moved less than 70,000 people into cities in this same period.
- Pace of annexation has slowed dramatically in recent years: estimate 25-30 years to complete remaining annexations, given historical rates since 1990.
- Remaining Unincorporated Urban Service Area is large, geographically scattered.
- Over 218,000 residents in urban unincorporated King County.
- “Islands” ranging from > 30,000 to <10 persons in population.
- 62 “unincorporated islands” less than 100 acres in size.
- Remaining urban unincorporated areas overwhelmingly residential, very little commercial tax base.
- All remaining areas are claimed by a city (or cities) as potential annexation areas, except West Hill and Highline/White Center.

TABLE 2: Comparing the 10 Largest Unincorporated Urban Areas/ Potential Annexation Areas in King County, July 2004

There are many ways to look at the challenge of annexing a large area: projected service cost, historical service cost; projected infrastructure costs, historical service demands, projected revenue capacity, historical revenue capacity. These sorts of indices are typically dependent upon the tax policies and service policies of a given jurisdiction, which are highly variable, as well as assumptions about the conditions of infrastructure and service demand.

The following chart presents some simple comparative metrics for the 10 largest UAA/PAA's:

UAA/PAA (listed from most to least populous)	Pop (2000 census) (1)	Acreage(2)	Assessed Value (2003)	A.V. per ACRE	A.V. per CAPITA	Median Household Income(3)	% home-owners(4)
Fairwood	39,430	6876 acres	\$2,844,418,000	\$413,671	\$72,138	\$58,000	70.2%
North Highline	32,035	3957 acres	\$1,601,380,000	\$404,699	\$49,988	\$39,950	54.2%
Kirkland PAA	31,723	4438 acres	\$3,085,509,000	\$596,271	\$97,264	\$69,800	76.8%
Kent Northeast	23,555	3466 acres	\$1,403,895,000	\$405,053	\$59,601	\$65,700	80.9%
E. Federal Way	20,350	5046 acres	\$1,296,088,000	\$256,870	\$63,690	\$62,400	85%
West Hill	13,977	1958 acres	\$952,969,000	\$486,685	\$68,181	\$47,385	66.7%
Klahanie	10,953	1230 acres	\$1,066,383,000	\$866,730	\$97,359	\$84,700	78%
Lea Hill-Auburn	8,171	2767 acres	\$887,000,000	\$316,964	\$107,330	\$65,600	79.9%
Renton East	7,370	2126 acres	\$615,600,000	\$289,523	\$83,528	\$65,300	90%
Eastgate	4,558	787 acres	\$488,816,000	\$621,365	\$107,244	\$65,600	77.6%

Rural Area	135,000	1,673 square miles					\$73,400	88 %
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(1) The urban unincorporated population *outside* of these ten areas is 25,374.

(2) A square mile is approximately 640 acres; the Fairwood PAA is nearly 11 square miles in size.

(3) Median Household Income for King County in 2000 was \$53,157: all PAA's but North Highline and West Hill significantly exceed this median household income level.

(4) Percentage Homeowners for King County as a whole in 2000 was 59.8%: all PAA's but North Highline exceed this percentage.

The cost of city-identified infrastructure "deficits" in these areas (ranging from the cost of upgrading stormwater and park facilities, to outfitting additional police officers, housing new staff, and building wider roads and sidewalks) is roughly estimated to approach half a billion dollars, far beyond the capacity of the county to meaningfully offset given its current financial challenges. All jurisdictions have infrastructure deficits and it is a misleading measure to base policy decisions unless a city were bring its own infrastructure up to current standards which none can afford to do.

Thus, the situation may be summarized as follows:

- If annexation is looked at solely as a financial proposition for a single city, the decision will almost always be to reject annexation.
- If looked at solely as a matter of ensuring long-term quality of local services, the decision by a residential community will almost always be to annex or incorporate to avoid deterioration of local service provision by the county.
- If looked at from the perspective of prioritizing and maintaining regional service levels, the decision by the county will be to promote annexation and incorporation as a means to relieve financial pressure on the CX Fund regional and rural services.

But of course, there are always multiple issues involved in these decisions. Achieving the remaining annexations will not be simple or fast. The easy annexations and incorporations have long-since occurred. The most challenging areas, financially and otherwise, remain the task ahead.

Breaking the Log-Jam

As a general policy proposition the region has concluded through adoption of the CPPs that optimal delivery of governmental services requires full and complete annexation and/or incorporation of the urban area, to secure the most efficient and effective regional and local service delivery. Most cities have spent considerable time and effort in planning for the eventual assumption of the remaining urban areas. But the cost of providing services to remaining unincorporated urban areas generally exceeds the local revenues provided by those areas and the county has limited funds available and cannot make annexation “pencil-out” for a city.

The longer the urban unincorporated areas remain on the county’s service plate, the greater the risk to those communities from county budget cuts, and the greater the challenge overall of maintaining any of the services funded by the CX Fund, including all the basic law, safety and justice functions. Delay is not therefore in the county’s interest. Without new strategies such as the Annexation Initiative, it is doubtful that the 2012 transition date for all urban areas will be achieved, let alone advanced.

Fortunately, although Growth Management Act remains a controversial law in some quarters, there remains strong support from cities for growth management and the CPPs; there is no groundswell for dramatic change to their general policy parameters.

Unfortunately, the state never provided promised financial incentives to help build the urban centers and infrastructure to fully accomplish the growth management vision set forth in state law and the CPPs. Equally as concerning, annexation laws in this state put cities and residents in the driver’s seat: the county’s role is largely ministerial. (See discussion below at **Part IV** of this Report).

The benefit from the county achieving annexation is measurable and is significant in terms of the relief to the CX Fund and the resultant ability to stabilize regional and rural service levels. The sooner the transition occurs, the greater the benefit to the CX Fund. A key challenge of the Annexation Initiative is to find ways to bridge the gap between immediate city fiscal pressures and long-term regional policy goals.

Without a deadline for annexation in state law, without state money to facilitate the transition of these stand-alone residential areas, and without legal leverage in the annexation process, the county has limited options available to it to try to push forward the completion of the land-use vision. The Annexation Initiative is structured to assist, but cannot single-handedly achieve, this transition.

Support for the Annexation Initiative Concept

For many years now, cities and other stakeholders have called for the county to focus on regional service delivery and move out of the provision of urban local services. For cities, this has been phrased somewhat controversially as “eliminating the urban subsidy” –spending dollars *generated regionally* on the delivery of *regional services*, rather than bleeding those regionally-generated dollars off to support unincorporated area services. Unincorporated area residents have rankled at this characterization, noting that they (the residents) are subsidizing the cities in which they shop—leaving sales tax revenue behind for the city but getting little in return in the way of local services. This debate continues, but again, regardless of which side one takes in the debate, *the bottom line is that the CX Fund cannot maintain all its current service obligations on current revenues. Moving a large portion of CX service responsibility to cities, consistent with the vision of the CPPs and regional land use vision, can address this challenge.*

Absent dramatic restructuring by the state of county revenues and responsibilities, the transition of all urban areas to city status whether by incorporation or annexation, is a necessary part of the work that must be done to stabilize the CX Fund and the communities, regional and local, that it serves. The need for this transition has been explicitly recognized by no less than three independent commissions within the last year: The King County Budget Advisory Task Force, The King County Municipal League and the King County Governance Commission:

- The King County Budget Advisory Task Force (BATF) in its June 2003 Report concluded that “absent dramatic changes in the way King County does business, and the availability of new revenues, every year in the future, county general government service budgets will be cut and service levels will suffer[and] are not sustainable,” further concluding that “the longer the county remains in the urban service business, the longer the budget crisis will continue.” The BATF recommended launching a major initiative to promote annexation, observing that such effort “may be the single most important step the county can take to address its fiscal challenges.”
- The King County Municipal League, in its November 2003 Report entitled “Shortchanged: King County’s Fiscal Crisis” stated that “King County is experiencing a fiscal crisis, which cannot be addressed adequately without a major change in the county’s responsibilities and focus.” The League Report went on to recommend that “all land within the urban growth boundary should be incorporated or annexed to the city or cities within each areas’ sphere of influence through a collaboration between King County, existing cities and citizens.”
- The King County Commission on Governance, in its March 2004 Report, identified the “inability to resolve issues associated with incorporations and annexations” as a key governance challenge facing the region, and recommended that “King County must take leadership and create the partnership necessary to fulfill the commitments made under the Growth Management Act ten years ago,”

concluding that “[B]y the end of 2005, King County and other jurisdictions should move toward annexation or incorporation of urban islands with the participation of those communities.”

King County is fortunate to have this broad level of understanding and support on annexation and incorporation issues from regional leaders. This support will facilitate progress, but the challenges ahead are significant. This report turns now from the statement of the problem to a more detailed look at the underlying cost and revenue issues associated with remaining urban unincorporated areas.

II. The Cost of Serving, and Revenues Generated By, Remaining Urban Unincorporated Areas

What is the cost to the county of providing services to remaining urban unincorporated areas? What is the cost for any specific area? How much revenue is generated from these areas or any one area? How much revenue will the county lose after any specific annexation occurs? These are questions with growing importance as the county moves ahead with the Annexation Initiative, and demand for answers is increasing:

- Cities want to be able to “truth out” their own estimates of the cost of annexation or incorporation by understanding what the county now spends to serve an area;
- The county can use its cost data to “truth out” city service estimates or city requests for annexation transition funding;
- When an area annexes, understanding of the costs and staffing associated with that area is important baseline data to guide transition of county service budgets in response;
- When an area annexes, understanding how much revenue the county will lose, and what that revenue is currently used for, is another important baseline guide for transitioning service budgets; and
- Categorizing current programs and activities as either “regional” or “local” helps clarify the county’s roles, to both internal and external constituents.

Unfortunately, to date, very few of the county’s operating budgets are set up to provide precise expenditure data on a geographic basis (that is, area by area), the notable exceptions being the Department of Development and Environmental Services (DDDES) and the Parks Division of the Department of Natural Resources and Parks. However, on the revenue side, the situation is much better: the Assessor’s Office data, and models developed by the Office of Management and Budget utilizing assessor and state financial information, can create a fairly precise picture of revenues generated on a parcel-by-parcel basis (an important caveat is the confidentiality of some sales tax data).

For development of the 2005 budget, all county departments are being asked to re-structure their budget presentation to specifically identify:

- Regional expenditures
- Local expenditures
- Local expenditures within each of the 10 largest PAAs
- Local expenditures in the rural area
- Allocation of overhead to each of the foregoing categories

While this new approach will not be perfected within the 2005 budget, it will be an important improvement over earlier estimates which were essentially derived by the Office of Management and Budget by studying the budgets submitted by departments, and making a number of assumptions in order to complete an estimate of regional and local costs. That was the general process used to present the summary information of Unincorporated Area Budget in 2004, which was itself a significant improvement on the calculations presented in the Executive's Proposed 2003 Budget Book.

Appendix F reproduces in full this chapter of the 2004 Executive's Proposed Budget. In this analysis, Executive staff analyzed *seven different funds*⁷ to try to calculate the amount of revenue derived from, and expended on, unincorporated areas (urban and rural) for local service delivery by the entire county organization, not just the CX Fund. The bottom line conclusion from that analysis was that *the CX Fund is "out of balance" by \$57.2 million in 2004, in terms of the amount of regionally generated revenue utilized in the CX fund to support local services in the CX fund. Of that \$57.2 million subsidy total, some \$37.2 million of regional revenue was estimated to be spent on urban local services. Consistent with countywide planning policies supporting regional support of the rural areas, \$19.8 million of regional revenues were used to subsidy local services in the rural unincorporated King County. All six other funds studied were found to be "in balance," i.e., local expenditures did not exceed local revenues.*

Table 3 and **Appendix G** break down the summary presentation in **Appendix F** to illustrate how local service expenditures and revenues tally *in each of the 10 largest PAAs / urban unincorporated areas*. These illustrate that while all areas contribute to the CX Fund "imbalance," some areas generated more revenue for some funds (notably Roads) than were expended in those areas in 2004. There are two significant caveats to this analysis:

- First, because there was no reasonable way to derive stormwater expenditures on a geographic basis, these expenditures were *assumed to balance for each area*.
- Second, a positive "balance" in the Road Fund for any area would be flipped to a negative were any significant capital project undertaken in 2004 in that area: the

⁷ CX Fund, Criminal Justice Fund, Road Fund, Real Estate Excise Tax #1 & #2 Fund, DDES Fund, Parks Fund, Surface Water Management (SWM) Fund

expenditure spikes associated with road capital and overlays makes the single-year “snap-shot” an unreliable picture of the road levy expenditures in any given area over time.

Table 3: CX Fund 2004 Estimated Revenues, Expenditures, and Deficits by Urban Unincorporated Area, and Totals based on population

Urban PAAs	2003 est. pop	% urban uninc. KC	Revenues -- local	Expenditures -- local	CX Deficit
<i>Klahanie</i>	11,300	5%	\$.444	(\$2.9)	(\$2.4)
<i>Eastgate</i>	4,700	2%	\$.446	(\$1.2)	(\$.8)
<i>North Highline</i>	32,600	15%	\$3.2	(\$8.3)	(\$5.1)
<i>Renton East</i>	7,700	4%	\$.361	(\$2.0)	(\$1.6)
<i>Lea Hill</i>	8,800	4%	\$.871	(\$2.2)	(\$1.4)
<i>Finn Hill</i>	32,500	15%	\$2.1	(\$8.3)	(\$6.2)
<i>West Hill</i>	14,300	7%	\$2.0	(\$3.6)	(\$1.6)
<i>Kent NE</i>	24,200	11%	\$1.1	(\$6.2)	(\$5.1)
<i>East Federal Way</i>	20,900	10%	\$1.1	(\$5.3)	(\$4.2)
<i>Fairwood</i>	40,500	19%	\$3.6	(\$10.3)	(\$6.7)
CX Subtotal for 10 largest urban PAAs	197,500	1	\$15.1	(\$50.4)	(\$35.3)
<i>Remaining Urban Islands</i>	19,400	9%	\$3.0	(\$4.9)	(\$1.9)
TOTAL Urban Unincorporated Area	414,400	191%	\$18.1	(\$55.3)	(\$37.2)

Again, the approach to developing regional/local/urban/rural/individual PAA costs and expenditures is being comprehensively reworked for the 2005 budget. While the Executive believes the results will be generally in line with the calculations set forth in **Appendices F and G**, there may be some important differences. Refining and strengthening the accuracy of these cost and expenditure numbers will be a continuing process.

III. Fiscal Impact of Annexation

If the entire remaining urban unincorporated area were annexed in 2004, what would be the impact on King County? While this is a hypothetical question with absolutely no likelihood of occurring, exploring the question provides a sense of the magnitude of change implied for the county as a result of the transition of all urban unincorporated areas to city status. In reality, the transition of urban unincorporated areas to city status

will occur over several years. The regional goal, as set forth in the CPPs, of a complete transition by 2012 is in the Executive's view far too long a time frame given the magnitude of the county's budget crisis and the deterioration of remaining urban unincorporated communities that would occur over this time absent a significant influx of revenue for the county with which to provide local urban services. At the same time, absent a significant change in annexation laws or revenues available to cities, it is not at all clear how far that 2012 date can in fact be accelerated. As noted, at the rate of annexation experienced in the last ten years, completing this transition will take 25-30 years.

This section of the report outlines some preliminary estimates of the fiscal impact of annexation on the county. This is a partial analysis; more complete data will be provided in the 2005 Executive Proposed Budget. A major unknown variable in the analysis, now and as will be presented in the 2005 budget, is the future decision making of cities regarding contracting for services with King County.

A. Service Impact

If all remaining urban unincorporated areas became part of cities in 2004, assuming (for purposes of illustration only) that such cities did *not* enter into *any* new service contracts with the county, responsibility would be eliminated for local urban services to some 218,000 residents, leaving only responsibility for rural population of 134,000, plus existing contract services. In terms of population, this equates to **a loss of 61% of county's current local service population, excluding contract service obligations**. The actual reduction in service responsibility will vary from department to department and fund to fund, and will depend on what type of contractual arrangements with cities arise after annexation or incorporation and how the county chooses to respond to the transition.

It is very clear that significant revenues will be lost from each of the major local service funds if all areas were to annex in 2004. What is not clear is how the county would respond to that loss: how much can and will be cut from each department in direct service costs in response to the loss of service responsibility? How much can and will be cut in overhead? How much demand there will be for contract services in replacement of direct service responsibility?

B. Revenue Impact

The countywide revenue generated of all remaining urban unincorporated areas is estimated at \$119 million, including all seven of the funds analyzed in 2004.⁸ The revenue loss from an immediate annexation of all the remaining urban unincorporated areas would not be the full amount generated as a small amount of regional sales tax would be retained; current expense transfers to DDES and Parks would be again available for regional or rural services (approximately \$4.1 million in the 2004 analysis). Refinement of the revenue loss by PAA is part of the 2005 budget preparation.

⁸ CX Fund, Criminal Justice Fund, Road Fund, Real Estate Excise Tax #1 & #2 Fund, DDES Fund, Parks Fund, Surface Water Management (SWM) Fund.

Mechanically, the revenue impact to the county from annexation, or incorporation, can be generally described as follows, on any particular parcel of property that becomes part of a city:

- Regional levies would remain intact, unaffected
- AFIS, EMS, parks, the general CX levy, etc. remain in place
- County local levies and fees--those imposed by statute only on unincorporated areas-- are eliminated
- The Road Fund is no longer collected by the county (it is essentially replaced by the city's general levy⁹)
- SWM fees are no longer collected by the county
- Gambling taxes are no longer collected (but may be imposed by the city)
- REET #1 and REET #2 are no longer collected
- General sales tax generated on the property (if any) is still collected by the county, but at a much lower rate: .15 percent rather than 1 percent. Transit sales tax receipts are unaffected.
- Some special taxes or state shared revenues will be reduced if receipts are based on local service population (e.g., the local portion of the Criminal Justice Sales tax will be reduced as local service population is reduced by annexation or incorporation)
- Impacts to specific funds vary considerably, with the CX regional funds being relatively less impacted than local service funds as discussed below:

CX Fund

CX revenues are largely unaffected by annexation or incorporation. Regional property tax levy receipts remain the same. There is a loss of gambling tax revenue, license and other fees, and a slight loss of sales tax revenue associated with the transfer of commercial properties to city status. Overall, loss to the CX Fund from a complete transition of urban areas in 2004 would be estimated as high as \$18 million. The corresponding level of local CX direct and overhead service expenditures for urban unincorporated King County is estimated at approximately \$47 million (and an additional \$8.4 million when an allocation of designated reserve one time liabilities is included).

As discussed earlier, the deficit estimated for urban local expenditures including overhead is approximately \$37 million (total expenditures of \$55.2 million adjusted by local revenues of \$18 million). Assuming, for purposes of illustration only, that 80% of the total cost of local urban service delivery including overhead can be eliminated after annexation/incorporation, the net savings to the CX Fund post-annexation would be roughly \$29.6 million per year. Given that many of the county's overhead structures are

⁹ Note that there is a lag between the time an incorporation or annexation happens and the point at which the state is able to adjust the taxing district records for purposes of property tax collections. During this period, which can be as long as 18 months, the road levy will still be collected on the property, but the receipts are required by law to be transferred to the annexing/incorporating city. This can mean a temporary windfall for the annexing city if its general levy is less than the road fund levy rate, which is true for many cities in King County.

relatively inflexible, it is probably not possible in the short term to eliminate all overhead expenditures associated with local urban service delivery. A major challenge will be how to reduce overhead be it, departmental, general county, or internal service fund

Realizing this level of savings will be challenging and time consuming. The transfer of these areas to city status will occur over multiple years complicating efficient delivery of services to remaining areas. The fiscal implications for department and county overhead and internal service funds may, in some instances, result in savings if workload can be correspondingly decreased, but could also result in increases to remaining departments as fixed costs are spread over fewer agencies. Despite the challenge, the options for addressing the structural budget gap are limited and this work must be pursued because if successful, the savings over time to the CX Fund may be dramatic.

Looking to two major service areas within the CX fund, the amount of organizational change implied by complete annexation/incorporation of remaining urban unincorporated areas is very significant:

Sheriff Department. In 2004, the Sheriff Department will provide local public safety services to a population of approximately 572,000, including:

- 134,000 rural residents,
- 218,000 urban unincorporated residents
- 220,342 contract service residents in cities

This calculation excludes regional/special services/other contract services. The urban unincorporated area represents **38% of local service population** now served. None of the cities with the 10 largest annexation areas contract for public safety service with the Sheriff. However, at least 3 of the 10 largest areas appear to have some potential for a transition that could result in a service contract arrangement with the Sheriff:

- Fairwood/Petrovisky—could incorporate rather than annex to Renton or Kent
- Highline/Boulevard Park/White Center—could annex to Burien or incorporate, rather than annex to Seattle
- Klahanie—if relinquished by Issaquah from its PAA, could annex to Sammamish

If these three scenarios were to occur (highly speculative at this point), the local service population loss by the Sheriff would be only 135,582, or about 24% of current local service population.

District Court. The King County District Court now is the court of limited jurisdiction for 743,000 residents of King County, including:

- 134,000 rural residents,
- 218,000 urban unincorporated residents,
- 390,950 contract service residents in cities

(This calculation excludes regional/special services (such as small claims) provided by the District Court.) The urban unincorporated area represents **29% of the Court's local service population**. Excluding Bellevue and Issaquah, the cities with largest annexation areas operate municipal courts rather than contract with King County. Again, incorporation of the Fairwood area and annexation by Burien (or incorporation) of White Center could reduce the impact on the court.

Other Local Urban CX Funded Services. Staff has not yet estimated the loss of service responsibility for other programs such as the jail, and prosecutor/public defender costs associated with district court cases. Unaffected by this transition would be all regional CX Funded Services (superior court and attendant prosecution and public defense costs), juvenile detention, property assessment, etc.

Road Fund

The Road Fund monies are primarily collected from a property tax levy imposed only in unincorporated areas. Some state shared revenues are added to this Fund. Annexation or incorporation in 2004 of all remaining urban unincorporated areas would **reduce Road levy receipts by 47%, or about \$33.7 million**. The King County Department of Transportation provides contract services to over 500,000 city residents, in addition to serving urban and rural unincorporated areas. State law provides for the automatic transfer of county roads to annexing or incorporating cities. Staff estimates that **43% of the total miles of county roads are located in the urban unincorporated area**. (Total unincorporated King County road miles: 1812; Unincorporated King County road miles west of the 2001 Urban Growth line: about 780.)

Surface Water Management

The Surface Water Management Division provides contract services to over 110,000 city residents, in addition to serving unincorporated urban and rural areas. Surface Water Management Fees are collected only in unincorporated areas. Transition to city status of the remaining urban unincorporated area would result in a **loss of about \$8.3M in SWM fees, about 56% of the total annual SWM collections in 2004**.

It is important to note that SWM facilities do not automatically transfer to a city upon annexation or incorporation: transfer must be negotiated with the city in each case, and absent that, the county remains responsible for the facility (but collects fewer or no SWM fees in support thereof). The Urban SWM service area boundary is not contiguous with the urban growth boundary: complete transition will leave behind a small sliver of this urban service area. Staff has not estimated the actual service impact on the SWM Division from transition of urban territory to city status.

Real Estate Excise Tax #1 and #2

King County currently dedicates its REET revenues to payment of certain **bonds** and to fund **parks capital projects**. Complete transition of the urban unincorporated area to city status in 2004 would result in a loss of **72% of the REET revenues (\$7.2M)**. If this were to happen in 2004, there would be insufficient REET #1 receipts to meet debt service on bonds supported by REET # 1, however, a realistic annexation scenario should not result in this occurring. Regardless, this does signal the need to consider identifying replacement funds for regional parks capital and to carefully track the draw-down of REET as annexations occur.

Urban unincorporated area park maintenance now represents 28% of the parks operating budget. These expenditures are not supported by the current regional parks levy, but rather, are supported by the Current Expense Fund. Parks facilities do not automatically transfer upon annexation: transfer must be negotiated in each case with the annexing or incorporating city. If all urban local park facilities transferred, the remaining county system would consist solely of rural local parks, regional parks, the regional trail system, and rural open space, the types of facilities that are now exclusively supported by the current parks levy. The parks levy, set to expire in 2007, is unaffected by annexation since it is a regional property tax levy.

C. Fiscal Impact Summarized

In sum, the fiscal impact on the county of a complete transition of the urban area to city status will be unquestionably significant: in the range of \$29 million annually, assuming limited overhead savings, and depending on future contracting arrangements with cities. The CX Fund generally stands to benefit significantly from annexation, in terms of a greatly reduced service burden with only slightly reduced revenues. Other departments and programs will face a major transition challenge to shrink and balance budgets in tandem with the reduction in revenue and responsibility.

An annexation or incorporation usually takes at least two years to complete, from the time a city starts to study the issue and negotiates agreements with county through the "campaign" phase and to the final switch over in responsibilities. This should allow ample time for county to plan for impacts of service responsibility reductions. Budget impacts will differ by program, and have not yet been completely analyzed.

The Executive has begun to engage all departments in this transition planning, both by direction regarding preparation of 2005 budgets, as well as a Cabinet Level initiative to explore how to manage the transition and to maintain efficiencies of scale as the county service responsibilities shrink over time. All current facilities planning, CIP planning, and operational master planning is being done with an eye to this transition. A key challenge is the difficulty of knowing exactly when and how the transition will occur, particularly since the county can neither force nor delay the timing of any annexation or incorporation. The current best guess on timing of annexation of the largest areas is shown on **Table 4** below:

Table 4: Estimated Annexation Timelines for Urban Unincorporated Areas

PAA Area Name	Cities considering annexation of this area	Possible Annexation timeline based on current information
E. Federal Way	Federal Way	2005-2010+
E. Renton	Renton	2006-2008
Eastgate	Bellevue	2005-2006
Fairwood	Renton; (incorporation effort also underway)	2007 -2010+
Kent NE	Kent	2008+
Finn Hill, Juanita, Kingsgate	Kirkland	2006-2008
Klahanie	Issaquah, Sammamish	2005-2006
Lea Hill	Auburn	2006-2008
North Highline	Seattle, Burien	2007-2008
West Hill	Seattle, Renton	2007-2009
Remainder areas	Remainder areas are located in PAAs of some 12 cities	Could be completed in 2005-2006 with city assistance & resident support

This schedule shows a wide variability of timeline, but some room for optimism. It is based on work in recent months by Executive staff in talking with cities, residents, and County Councilmembers. It is a moving target and will be periodically updated. To understand further why it is such a moving target, it is helpful to understand the variability of the annexation process itself.

IV. Annexations and Incorporations: Process, Incentives, Barriers

A. The Annexation and Incorporation Process

How do annexations happen? What is the county’s role? What is the role of an annexing city? What is the role of residents? What tends to encourage annexations? What discourages them? What strategies that encourage annexation can actually be promoted or undertaken by King County? This section provides insights into the Annexation and Incorporation process in **Table 6**, and outlines specific methods in **Table 7**. Appendix H additionally summarizes the role of the Boundary Review Board (BRB).

Table 5: Six Key Points About the Annexation and Incorporation Process

1. State law provides for several methods of annexation; these typically take at least one or two years to implement from beginning the study process to final transition of authority. Interlocal and Island methods (described below) can be somewhat quicker.
2. King County’s role in all annexation methods is largely ministerial.
3. Cities must in all cases affirmatively act to accept an area before it can be annexed.
4. Residents of an area to be annexed (or incorporated) may in all cases halt an annexation by concerted opposition (signing referendum or voting in opposition).
5. Incorporation is a lengthy process in which the county has a significant role in financially supporting the up-front work examining governance options, notifying community, and funding a feasibility of a proposed annexation, but ultimately the outcome is controlled by residents and shaped by the Boundary Review Board.
6. What works to promote annexation or incorporation in one area may not work in another: the motivations, issues and concerns of residents and cities vary significantly from community to community; stakeholders are often at odds about the best future for an area.

Table 6 provides an overview of the current six methods by which an annexation may occur.

Table 6: Current Annexation Methods Authorized by State Law

Method	Summary of Process
<p>New Petition Method RCW 35A.14.420*</p> <p>(Enacted in 2003 by Legislature in response to state Supreme Court repeal of “old” petition method)</p>	<ul style="list-style-type: none"> • Residents may petition to be annexed to a city by filing “an intention to commence annexation proceeding” signed by owners of 10% of the acreage of the area. • City council decides whether to accept annexation proposal (accept, modify or reject). • Circulation of petition – owners of a majority of the acreage of the area <i>and</i> a majority of the registered voters must sign. • If petition is sufficient, and city council concurs, council passes ordinance annexing subject area. • Petition may set forth zoning and whether area will assume existing bonded indebtedness. • Subject to BRB process.
<p>“Old” Petition Method RCW 35A. 14.120*</p>	<ul style="list-style-type: none"> • Most often used form of annexation. • Petition to annex is circulated in order to obtain signatures of property owners owning at least 10% of area. • Petition presented to city council; council decides whether or not

(invalidated by state Supreme Court in 2002; reinstated in early 2004)	<p>accept petition.</p> <ul style="list-style-type: none"> • Petition is circulated to obtain signatures of property owners representing 60% of assessed value. • Subject to BRB process. • City must pass an ordinance effecting the annexation; is not required to accept petition.
Election Method RCW 35A.14.015*	<ul style="list-style-type: none"> • May be initiated by citizen petition: signatures equal to 10% of votes cast in last general election, requesting annexation election. • City council determines whether to accept petition. • Alternatively, city may pass a resolution expressing its intent to annex & calling election. • Subject to BRB approval process. • Election held – simple majority needed. • City can choose to reject even if election vote is favorable. • Voters vote for/against annexation and assuming city’s bonded indebtedness.
Interlocal Agreement Method* RCW 35A. 14.460 (Enacted in 2003)	<ul style="list-style-type: none"> • Applicable to areas of any size, surrounded at least 60% by one or more cities. • Annexing city and county develop an interlocal agreement setting forth conditions and timing for annexation. • City and county councils adopt interlocal agreement following public hearings; city passes ordinance annexing the area. • Ordinance is subject to referendum, if within 45 days, a petition is signed by 15% of registered voters in area requesting an election. Simple majority approves annexation. • If no referendum filed in 45 days, annexation is effective on stated date. • Subject to Boundary Review Board process.
Small Island Method RCW 35A.14. 182*	<ul style="list-style-type: none"> • Applicable to territory less than 100 acres in size, at least 80% contiguous to the annexing city. • City passes a resolution, holds a public hearing on the matter, then adopts ordinance approving the annexation. • Ordinance is subject to referendum, within 45 days, 10% of voters in area: issue goes to a vote. Simple majority approves annexation. • If no petition filed, annexation is effective. • Subject to BRB process.
Municipal Purposes Method* RCW 35A.14.300	<ul style="list-style-type: none"> • A city may annex territory for municipal purposes, whether contiguous or not, if it is owned by the city. • City Council ordinance required. • BRB review is not required if the property is contiguous to the city. • Typically used for park and recreation property or watersheds. • <i>Cannot be used for residential annexations</i>

*parallel RCW’s are found in Title 35 for cities and towns in most instances, (with some slight variations); the code city statutes are cited here.

Table 7: Incorporation Process Summarized

<p>Incorporation Process Chapter 35.03 RCW</p> <p><i>In King County's urban area, a new city must have a minimum population of 3,000 residents. The BRB may not reject a petition to create a city of over 7,500 residents (it may for smaller cities)—in the case of proposed cities of 7,500 or more residents the BRB can only make recommendations on boundaries and incorporation</i></p>	<ul style="list-style-type: none"> • The process begins with filing of a notice of proposed incorporation with the County Clerk which must contain certain information (form of government, boundaries, etc.) The Clerk transmits this to the Boundary Review Board (BRB). • The BRB sets a public information meeting on the proposed incorporation, at which the citizens incorporation committee reports. Members of the public may provide input. • Following the information meeting, an incorporation petition is drafted and then circulated for signature. Within 180 days of the information meeting, the petition must be signed by not less than 10% of the registered voters in the area and filed with the BRB. • The BRB requests the county to verify the petition signatures (30 days). If valid, the BRB seeks review and comment on the proposal from various county offices, other affected agencies. • An economic and fiscal analysis study is then completed, typically funded by the county, with the BRB selecting the consultant to perform the study. Once completed, the study is circulated for review and comment. • The BRB then conducts a hearing on the proposed incorporation. If the proposed city has a population less than 7,500, the BRB may approve, reject or modify the proposed incorporation/boundaries, based on an assessment of various statutory criteria including financial feasibility of the proposed new city. It may only make recommendations on these issues if the proposed city will have a population over 7,500. • An election on the creation of the new city follows the BRB decision/recommendation, if the citizens committee chooses to proceed. Approval of a simple majority of voters is needed. • Following the incorporation election, a second election must be held to nominate candidates for city council (and if applicable, mayor). • Following the nomination election, a third election must be held to elect the initial city council members (and if applicable, mayor). • The initial city council then takes formal action to incorporate the city; this must occur within 360 days of the incorporation election.
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B. Stakeholder Views

Key stakeholders in an annexation or incorporation process are:

- Annexing and adjacent cities;
- Residents of the area to be annexed/incorporated;
- Businesses located in the area to be annexed/incorporated;
- King County; and
- Special Purpose Districts serving the area (water, sewer, fire).

Each of these stakeholders may have a different view regarding any particular annexation or incorporation proposal, each may be differently motivated to support or oppose such a proposal. Motivations and concerns for each stakeholder group are looked at in turn below.

- **King County**

King County is motivated to achieve annexation and incorporation because such actions are:

- Consistent with adopted land use policies;
- Supported by some constituents and many cities ;
- A path to preserving services to urban unincorporated communities absent new revenue authority for county;
- A tool to relieve pressure on regional and rural services budgets; and
- A way to enable county to focus on long-term mission of providing regional, rural services.

King County will also have some concerns and questions about annexation or incorporation because:

- Some constituents will oppose the actions;
- It will be painful to cut local service programs after annexation or incorporation, and may potentially increase the overhead burden on remaining operations and making existing contract services more costly to customers; and
- Money spent in support annexation and incorporation could instead be spent to shore up current service levels.

- **Cities**

As is true for the county, cities have varied motivations and concerns when considering an annexation. In support of annexing, a city may consider:

- Consistency with adopted local and regional land use policy;
- Relief provided to county regional service budgets serving city residents;
- Acquiring better control over areas that impact the city;
- Current service provision to residents outside city boundaries; and
- Status and federal/state grants associated with a larger size city.

City concerns regarding annexation often include:

- The cost of annexation is probably not fully supported by the taxes generated from the area annexed;
- Infrastructure deficits have to be funded;
- Current residents may oppose annexation fearing degradation of city services;
- Proposed new residents may oppose annexation fearing zoning or other changes under city status;

- Political landscape may alter for a city council if a large area is annexed; and
- Regional services of the county may not noticeably benefit.

- **Residents and Businesses**

These groups also can have conflicting reactions to annexations and incorporation. They may be motivated to support these proposals by:

- Possible service improvements;
- Already identifying themselves as city residents;
- Tax/fee savings;
- Achieving closer to home government; and
- Zoning changes, regulatory changes.

Concerns may include:

- Tax and fee increases;
- Fear of urbanization, zoning and regulatory changes;
- Past conflicts with city;
- Distrust of government in general; and
- Confusion about impact.

- **Special Districts**

Special purpose districts, primarily water, sewer and fire districts are important service providers in unincorporated communities, and district commissions may be key opinion makers and leaders in these communities. Special districts also have varied response to annexation and incorporation. Some may support or remain indifferent to the proposal if:

- The annexing / incorporating city plans to continue to have the district serve its new residents; and
- The city has a good plan/reputation as regards division of district assets, support for district employees who may lose their jobs as a result.

Opposition to annexation or incorporation often arises if the reverse is true: annexation or incorporation may mean a district is completely absorbed by city operations, or left with a difficult to serve, smaller rate base. Laws that govern this transition are different for fire districts than for water and sewer districts. Note the school district boundaries are unaffected by annexation; however, a school district may be concerned about having to interface with multiple cities. And vice versa, a city may prefer to only have to work with a single school district.

C. Strategies

What strategies may be variously employed by stakeholders to promote annexation or incorporation, and which may be employed the county? A list of ten strategies is set forth in **Table 8**. The Executive believes that all these strategies will need to be employed as part of the Annexation Initiative. However, not all strategies will work in

any particular area. Each urban community is unique, and has its own unique history, conditions, and attitudes. Some annexation methods (island, interlocal) may only be used in small areas or areas largely surrounded by a city or cities. In sum, action to promote annexation needs to be tailored to each community. Adding to the complexity of the challenge are the facts that:

- (1) King County lacks legal leverage in the annexation process;
- (2) King County lacks sufficient money to make annexation a revenue neutral proposition for any city; and
- (3) Strategies that a city regards as helpful to annexation may be strongly opposed by residents, and vice versa.

King County cannot aggressively pursue annexation and remain universally popular with all stakeholders. Difficult choices lie ahead for the county whether or not annexation is pursued, but achieving annexation of remaining urban areas, successfully, will require taking some controversial actions.

The Annexation Initiative must be shaped on a community-by-community basis, and success depends on a combination of *building incentives as well as pressure on both cities and residents* to take the actions they must take in order to accomplish the transitions. And, the county needs to be prepared for some opposition as it moves ahead.

Table 8. Ten Strategies to Promote Annexation or Incorporation

No.	Strategy to Promote Annexation or Incorporation	Considerations
1	<p>Advocacy with residents of unincorporated communities to encourage action:</p> <ul style="list-style-type: none"> --explain processes --provide comparative tax, service data --explain county fiscal challenges --assist in preparation of petitions, other documents needed for annexation, incorporation process --sponsor community meetings --undertake community building in support of annexation via telephone outreach surveys, meetings, articles in local newspapers, etc. --fund studies to examine governance options for community, with resident input 	<p>Leadership from County Councilmembers is an important component of this strategy.</p> <p>Requires outside consultant assistance.</p> <p>This strategy is now being employed to varying degrees in White Center, West Hill, and Fairwood.</p> <p>Once an annexation or incorporation proposal is on a ballot, the County cannot continue its advocacy role.</p>
2	<p>Advocacy with legislature:</p> <ul style="list-style-type: none"> --Seek streamlining of annexation process --Seek transition funding for cities taking on areas 	<p>Annexation issues were a major component of King County's 2004 legislative agenda (See Appendix I)</p>
3	<p>Offer cities some funding for operating deficits, infrastructure</p> <p>--</p>	<p>This strategy is the primary focus of Executive staff work to date.</p> <p>Unfortunately, King County cannot offer</p>

		<p>enough money to make remaining annexations “revenue neutral” for cities, so this strategy while helpful, is not in itself sufficient to achieve annexations.</p>
4	<p>Transfer facilities to cities in advance of annexation, and/or use reverse contracting to allow residents to experience city as service provider</p>	<p>This strategy is being explored with some cities (Renton, Federal Way); legal and policy barriers to reverse contracting are significant.</p>
5	<p>Suggest harsher outcomes later: --upzones --downgrade in services</p>	<p>King County attempted a significant upzone in urban areas in 2000 but faced fierce opposition from cities, and abandoned the proposal. Current upzone proposals in King County Comprehensive Plan update are causing some residents in East Renton to look more favorably to annexation than has been the case in the past.</p> <p>Some cities, and the Budget Advisory Task Force, endorsed cutbacks in urban services as a means to “incentivize” residents to annex and address the urban subsidy. Alternately, some cities have sought assurance that county development will not erode levels of service below city minimum standards.</p> <p>Citizens tend to react very negatively to discussions about reduced services: it is often construed as a threat.</p>
6	<p>Invest in PAAs to make them more attractive to cities</p>	<p>This may make residents less interested in annexing.</p> <p>It is unclear that current revenues dedicated to capital can make a significant improvement in PAAs in the near term to make this a very meaningful incentive. However, the alternative -- purposeful disinvestment in anticipation of annexation or incorporation has been poorly received by cities.</p>
7	<p>Allow PAA service and infrastructure levels to decline</p>	<p>This may be unavoidable, but may make a city less interested in annexing, as areas thus become more expensive to take on.</p> <p>Alternately, some cities have suggested this would create an important incentive to residents to annex that is needed, as well as enabling more county revenue to be directed to regional services.</p>
8	<p>Intervene at Boundary Review Board to</p>	<p>Annexations in recent years have</p>

	seek expansion of proposed partial annexation or incorporation proposals	typically been small and piecemeal. The BRB can require a city take a larger area in an annexation. King County is now seeking such an outcome in Redmond's Rose Hill Annexation (city seeking to annex partial island; county requesting BRB to decide city should take entire island). This strategy has also been discussed with Renton as a way to smooth out the city's eastern boundary (both city and county would benefit)
9	Build public and political support for annexation action by cities --use community outreach to encourage residents of annexation areas to request city action. --discussions with press, etc. about budget challenges, risks to service levels of remaining urban unincorporated areas to promote general public support. -- outreach to cities to understand barriers and concern.	Several years of well publicized budget problems at King County appear to be helping promote this strategy. This strategy was key to the park and pool transfers in 2002-2003.
10	Request City Action to Annex Small Areas via either Unilateral Island Annexation method or Interlocal Agreement method	The county cannot compel city action. These methods are subject to referendum by voters living in the annexed areas.

V. The Annexation Initiative: Vision, Goals, Allocation of Funding, and Status of Dialogue with Cities and Residents in Largest Areas

Executive staff has been working to promote annexation or incorporation of the remaining urban unincorporated areas since issuance of the Budget Advisory Task Force in June 2003. The initiative was officially kicked off via an annexation summit in September 2003, with over 100 city and county representatives in attendance. Since that time, positive dialogue has commenced with most cities having major annexation areas. The status of discussions is summarized in **Table 9**. No major annexations are expected to occur in 2004. Significant transition will probably not be in place until 2006. Cities' financial struggles remain the largest impediment to annexation. It is also clear that the process of building residential support in annexation/incorporation areas is a critical but time-consuming process that must occur before cities act.

A. Vision

The motion accompanying this report encapsulates the vision and goals of the Annexation Initiative. The **vision** that underlies the initiative is to preserve the quality of local government services provided to urban unincorporated communities and reduce CX Fund budget pressure by transferring local service responsibility for these areas to cities

via either annexation or incorporation, consistent with the regional land-use vision expressed in the Countywide Planning Policies.

B. Goals

As described earlier, the pace of annexations has slowed recently, and even at the pace of the last decade, it will take 25-30 years to complete annexation of the remaining urban area. The goal of the Annexation Initiative is to accelerate the pace of annexations using such limited reasonable financial and other means as are available to the county with a focus on the larger remaining urban unincorporated areas, in order to:

- preserve the quality of local services to urban communities by transferring them to cities which have greater ability to fund urban local services than does the county;
- provide financial relief to regional and rural service budgets dependent on general county tax revenues;
- achieve the vision for county government set forth in the countywide planning policies; and
- secure annexation of all remaining urban unincorporated areas of the county within four to six years.

Table 9: Status of Annexation/Incorporation Discussions for Major Areas as of July 30, 2004

PAA	Status
Fairwood/ Petrovisky	Renton has indicated it will not be ready to annex this area in the near term, but is concerned about a partial incorporation of the area. A small group of residents in the Eastern portion of the area is seeking to annex part of or all the area. Councilmembers Hammond, McKenna and Pelz, and Executive staff will be working to develop a scope of work for a governance/incorporation feasibility study to identify a path for a feasible near term transition to city status of the <i>entire area</i> , with a goal of launching the study this fall and completing it by mid-2005. The Sheriff's office has expressed strong interest in this area incorporating in order to preserve the service area for the department.
North Highline	After a decade of status as "unclaimed," significant efforts to consider annexation of this area are underway in Seattle and Burien. The Seattle Council has expressed strong reservations about such an annexation. A small area of this community is claimed in the PAA of both Seattle and Tukwila: the area of the First South Bridge and Delta Marine facilities. Burien expects to finish its study of the area this Fall. The unincorporated area council in Highline is expressing strong opposition to annexation by Seattle, and is seeking County support for an incorporation study. Councilmember Constantine and his staff are working with this group of citizens. Multiple non-profit

	groups are active in the area and attempting various community building efforts. The Sheriff's Office has expressed strong interest in this area annexing to Burien or possibly incorporating in order to preserve the service area for the department.
Juanita/Finn Hill	Focus groups conducted by the county of residents in this area indicate strong interest in annexing to Kirkland. Kirkland staff and council are supportive of this but concerned about a several million (estimated \$3-4M/year) operating deficit that would arise from serving the area. Infrastructure deficits are not a significant concern for the city. The city is working with its state legislative delegation on possible legislation that could provide funding to fill the operating budget gap.
Kent Northeast (Panther Lake area)	The city has expressed a strong interest in annexing the area, but like Kirkland, is concerned about a significant annual operating deficit from taking on the area (approximately \$3-4 M/year). Infrastructure deficits are less of a concern than operating deficits. City will face further challenges to its existing budget if sales tax streamlining is adopted.
E. Federal Way	The city has recently completed an extensive annexation study and outreach effort. Their study estimates an operating deficit of \$3.5M per year to provide city level of service to the 21,000 residents. This Fall, Federal Way will seek BRB approval (and subsequent voter approval) for three small annexations (one island and two separate subdivisions), representing perhaps 20% of the population of the remaining area. The proposed annexations will not include any of the five County parks in the PAA. There is no firm timeline for annexing balance of area. The City is also exploring feasibility of annexing adjacent neighborhoods to the South in Pierce County.
West Hill	After removing this area from its PAA several years ago, Renton has expressed renewed interest in annexing at least part of this community, perhaps all of it. Similarly, Seattle is actively investigating the possibility of annexing the area. A committed citizen group has formed to study governance options on behalf of the larger community. This effort will be supported by a consultant study to be funded by the county. Councilmember Pelz has actively urged this group of community leaders to work towards annexation to avoid future service reductions probable under county governance.
Klahanie	The City of Issaquah has recently completed an annexation study that anticipates a \$772,000 annual operating deficit from annexing Klahanie, in addition to a one-time start-up cost of \$1.8M. The study concludes that dedication of REET dollars to capital would result in an annual capital budget surplus from the area of nearly \$400,000/year. County staff has expressed concerns about the study cost estimates, believing the fiscal impact to be much less. The county will be making a financial offer to Issaquah later this summer

	to support annexation. If the city rejects the offer, the Executive may urge the City to relinquish the area in order for Sammamish to annex it; Sammamish has said it expects little in the way of financial impact from annexation and is interested in annexing the community. The Sheriff's department has expressed a strong preference for annexation of Klahanie by Sammamish in order to preserve this service territory for the Department.
Lea Hill-Auburn	The city has requested that King County issue over \$39 million in bonds (sized at a level the debt service of which would be fully supported by all sales tax revenue the County collects from within the City) to fund infrastructure in the Lea Hill and (Auburn) West Hill annexation areas. The Office of Management and Budget has estimated that this proposal, when applied equitably to all annexing/incorporating cities, would require issuance of nearly half a billion dollars in bonds and triple the size of the CX deficit. The Executive has sent a letter to Auburn urging their support in Olympia for alternative transition funding mechanisms that could help address city concerns.
Renton East	Renton and county staff have discussed a joint strategy for rationalizing the city's eastern border as a series of small parcels seek to annex to the city in the near future. City staff have said city is willing to actively participate in an effort to "woo" Renton East residents to annex, and further says that it is hearing more support for such a concept than in the past, provided this effort is led by the county.
Eastgate	Bellevue estimates it will face an operating deficit of approximately \$300,000/year from annexing this area. City has requested a number of County property transfers in exchange; most of these parcels are involved in separate County-City negotiations (e.g., Coal Creek Park, Surrey Downs, Downtown bus site). City has also requested prior completion or funding by County of several capital projects in the area. Some Eastgate residents have approached Councilmember McKenna seeking information and assistance regarding annexation.

C. Funding and Allocation Policies

As part of the 2004 King County budget, the County Council approved initial **funding** for the Annexation Initiative including:

- \$10 million annexation incentive reserve (CX);
- \$7.6 million annexation capital preservation reserve (Roads and REET), (subsequently reduced by \$ M in July 2004 with adoption of the revised Roads CIP); and
- \$185,000 for public outreach and city/county negotiations.

This proposal closely matched the initial proposal from the Executive.¹⁰ Why provide incentive funding? It is clear that money is a major barrier to city action on annexation. Albeit insufficient to address a significant amount of the city concerns, providing county financial support to the cities is recognition of the financial burden annexing cities face and an attempt to respond to those burdens within the confines of the county's budget crisis. In addition, this initial funding provides credibility in the county's effort overall to the cities and to the legislature. Because city concerns include both operating and capital costs, both types of funds were identified to support the initiative.

CX funds were provided in the 2004 budget designated for the Annexation. That is, these funds were not pulled away from existing service budgets. As a policy matter, the Executive believes it was important to launch the Annexation Initiative in a way that was non-punitive to unincorporated residents (i.e., their service dollars were not diverted). Whether this can be continued in the future is unclear. It is clear, however, that additional funding, of capital and other varieties, will be needed to provide meaningful incentive to cities to annex remaining areas.

Because infrastructure deficits are an important concern for many (though not all) cities facing annexation, the Executive proposed that funding for capital projects in PAAs also be included in the Annexation Initiative funding package. The major potential funding sources are Road, REET and SWM dollars: only Road and REET dollars were proposed to be used. Road fund dollars were calculated by (1) identifying projects in PAAs that might, if tied to annexation, increase the incentive for a city to annex; (2) identifying projects that were proposed in urban unincorporated areas but had little or no expectation of construction funding or (3) projects apparently of low priority, stalled and not affecting life-safety issues. The allocation was subsequently substantially reduced by County Council amendment in the Summer of 2004 to amend the Road CIP in response to loss of vehicle licensing fees.

REET dollars were allocated to the Initiative in amounts over and above debt service and parks capital needs.

The use of these funds will be to support all the various strategies, outlined in **Table 8**, as are deemed to be most effective to promote the transition of remaining urban unincorporated areas to city status. As noted, successful strategies will vary from community to community, and will vary over time.

Initial discussions with cities provided the availability of the majority of these funds as a financial incentive, albeit small, to annex. Cities in response have generally noted that while they appreciate the gesture, the funding overall is too little to be a deciding factor in annexation, given existing city fiscal challenges, and the expected exacerbation of

¹⁰ The Executive's Proposed 2004 Budget included the following funding for the Annexation Initiative:

- \$10 million annexation incentive reserve (CX)
- \$13.3 million annexation capital preservation reserve (Roads and REET)
- \$185,000 for public outreach and city/county negotiations

those challenges that would follow any significant annexation. This does not mean that cities will ultimately reject specific funding offers and annex; it does mean that *other strategies and moneys in addition to current county funding are needed to accomplish the goals of the Initiative*. If additional one-time money can be found, the Executive is prepared to support set aside of some amount of those dollars for additional funding of the Annexation Initiative in future budget years, to support both city incentives, and to build resident support for annexation or incorporation.

On the resident side of the equation, Annexation Initiative funding is currently being targeted in part to specific community outreach efforts, a county-funded governance study in West Hill is about to get underway; a similar effort is being considered for White Center. A governance/ incorporation study for the Fairwood/Petrovsky area is under discussion with affected council representatives and a small group of residents advocating for incorporation. Resident focus groups and community surveys will likely be a component of these efforts, and may prove helpful in other communities as well.

The specific dollars allocated out of the Annexation Initiative to any annexing city will ultimately be approved by the County Council as part of an interlocal agreement between the county and the city. It is not possible, or advisable, to detail the negotiating strategy that will be employed in any particular case. However, as a general matter, the Executive proposes that interlocal agreements with cities negotiated pursuant to the Annexation Initiative should:

1. Be based on specific, enforceable annexation commitments by cities;
2. To the extent possible, secure city commitments to provide favorable consideration for county employees laid off as a result of annexation when/if a city hires new staff to serve the annexed area;
3. Provide for the transfer of local county facilities that will be surplus to county needs after the annexation; and
4. Reflect the benefit to the county of:
 - a. annexation occurring sooner rather than later; and
 - b. responsibility for a specific area transferring to a city.

The benefit to the county would be determined based on the benefit to the CX Fund, since this is the fund in crisis, and for which the Initiative has been framed. However, at present, the total benefit to the CX Fund of achieving annexation outstrips the total Annexation Initiative Funding available: hence, a “scaled” allocation to cities reflecting the money available will be needed. The Executive will press for additional Annexation Initiative funding in future budget years.

The final section of this report outlines in further detail the Implementation Plan for the Annexation Initiative.

VI. Annexation Initiative Implementation Plan

Upon full realization the Annexation Initiative will significantly reshape how local government services are provided to citizens in urban King County and in so doing, restructure the programs, operations, and budgets of many King County departments. The implementation plan for the Initiative has two basic parts:

- external outreach and negotiation effort with the urban unincorporated citizens and adjacent cities; and
- internal operational and fiscal evaluation, planning and operating/budget adjustments of all directly impacted departments in response to annexations and incorporations.

The success of the Initiative will require a significant commitment of staffing and financial resources over an extended period of time. the complexity of the effort demands coordinated management and communication across all executive departments, council and legislative agencies, and separately elected officials, as all are affected by the outcome of this major initiative.

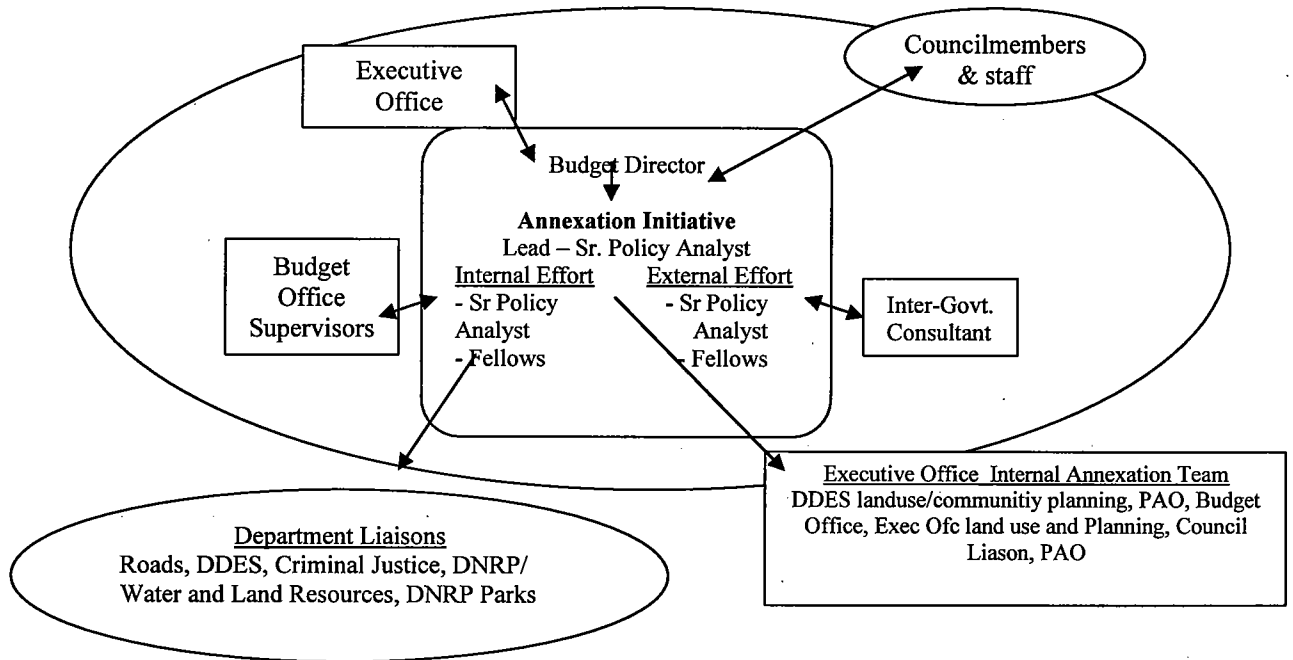
A. Management Plan and Organizational Structure

Given the countywide budget, operational, and management implications of this effort, the Annexation Initiative is being managed through the Office of Management and Budget with close coordination with the Executive Office. The management structure is small enough to be flexible and dynamic as circumstance requires but also effectively connects to the departments, council, and separately elected governmental departments.

Specifically, the Annexation Initiative is under the direct oversight of the county budget director and regularly coordinated with the Executive's chief of staff. Two senior policy analysts in the Office of Management and Budget, one with a background in regional planning, annexations, and intergovernmental relations and one with a background in budget and fiscal analysis have been assigned to manage and coordinate these efforts. Staff resources are supplemented with additional budget office resources as well as the work of the Executive Fellows. In addition, given the need to jump start the dialogue with the cities and citizens of urban unincorporated King County, a portion of the approved funding has supported a contract for additional intergovernmental relations, communications, and negotiation services.

The management structure is illustrated in the diagram below. It ensures a point of contact for all key stakeholders in the county organization:

- Councilmembers and council staff;
- Department representatives (general directors and division managers);
- Budget staff from the Office of Management and Budget and departments and
- Executive staff providing countywide land-use and Regional Planning perspectives.



A significant amount of the financial and program analysis will be performed by existing budget and department staff in addition to the ongoing work they are already doing. As part of the 2004 Adopted Budget, the County Council provided conditional support of the Executive's request for \$185,000 to support a project manager, negotiator, public relations and community outreach efforts for the Annexation Initiative. This funding support has enabled the Office of Management and Budget to increase the level of resources provided to the Annexation Initiative.

Several tasks that are part of the initiative will require outside resources, given the nature of the work. The Executive anticipates additional consultant contracts will be let in order to complete much of the annexation and or incorporation study and potential community outreach work necessary to accelerate annexations. As previously noted, several study efforts are anticipated now and are under development. However, the total number and scope of these study efforts will be determined over time as discussions specific to each PAA evolve: at this time, it is not clear precisely which areas will need what type of study assistance, nor when that assistance will be most timely.

B. Work Plan Tasks

Budget Proviso No. 1, Office of Management and Budget, requests an outline of the Annexation Initiative scheduled tasks for 2004, 2005, and 2006. As previously noted, much of the work to launch the Initiative was completed in 2003 following issuance of the Budget Advisory Task Force Report in June of that year. The first major public event to outline the Initiative for the region occurred at the September 2003 City-County Annexation Initiative Summit attended by several County Councilmembers, their staff, and representatives from over 18 cities. This summit was followed in October 2003 by the annual meeting of the county with Unincorporated Area Council representatives, at which the main topic of discussion was the Annexation Initiative.

Work items for 2004 are presented below. Many of the items have been finished and are discussed in other sections of the Report. The majority of the 2004 tasks focus on external outreach to cities, regional leaders, and residents of urban unincorporated King County. The initial outreach work has provided important information to inform the internal transition and budget planning work program activities that will gear up in the second half of the year, including likely timelines, the need for additional information and financial data to inform negotiations and community dialogue, as well as options for the use of incentive funds. **Table 10** details the tasks identified for 2004.

Table 10: Annexation Initiative 2004 Tasks and Status

Task	Status
<i>Communication and Outreach Activities</i>	
<ul style="list-style-type: none"> • Engage regional leaders as a whole regarding the importance of the County's Annexation Initiative. 	Initiated and Ongoing
<ul style="list-style-type: none"> • Undertake individual city discussions regarding annexations timelines and issues (status of discussion reviewed in Table 9). 	Initiated and Ongoing See Table 9
<ul style="list-style-type: none"> • Conduct community briefings to introduce the Annexation Initiative, the county's Fiscal Crisis, and the annexation (and if relevant the incorporation process) and identify citizens issues and concern. 	Initiated and Ongoing
<ul style="list-style-type: none"> • Brief all affected King County departments and divisions. 	Initiated and Ongoing
<ul style="list-style-type: none"> • Establish clear communication channels on this initiative with King County Councilmembers and County Council staff. 	Initiated and Ongoing
<ul style="list-style-type: none"> • Actively engaged in state level activities regarding annexation methods, related policies and additional funding: 	Ongoing
<ul style="list-style-type: none"> <ul style="list-style-type: none"> ○ Testify in State Legislature 	Complete
<ul style="list-style-type: none"> <ul style="list-style-type: none"> ○ Participate in CTED Study – study will be complete in time for '05 legislative session and inform the anticipated policy discussion. 	Begins August 2004
<ul style="list-style-type: none"> <ul style="list-style-type: none"> ○ Develop joint legislative agenda on annexation with cities in preparation for 2005 legislative session. 	Initiated
<ul style="list-style-type: none"> • Participate in Boundary Review Board proceedings as appropriate to advance Annexation Initiative. 	Ongoing

<i>Policy, Financial, and Annexation Initiative Management Framework</i>	
<ul style="list-style-type: none"> • Prepare amendments to for the 2004 Comprehensive Plan update to support the Annexation Initiative. 	Complete
<ul style="list-style-type: none"> • Based on outreach efforts, develop overall expected timeline for major annexations to guide resource deployment for external negotiation work and King County transitional planning efforts. 	Complete. See Table 4
<ul style="list-style-type: none"> • Identify priority areas for accelerated annexation efforts based on city/resident interest and 2004 financial analysis of unincorporated urban King County 2004 revenue and expenditure data. 	Ongoing
<ul style="list-style-type: none"> • Develop PAA specific strategies based on outreach efforts 	Ongoing
<ul style="list-style-type: none"> • Develop and implement “island” strategy to address the 10% of remaining unincorporated urban areas (approximately sixty islands less than 100 acres in size). 	Fall 2004
<ul style="list-style-type: none"> • Develop criteria for distribution of incentive funds and allocation of capital reserves to inform negotiation strategy. 	In progress.
<ul style="list-style-type: none"> • Survey regional leaders regarding county role in regional, local, rural, and contract services. 	Ongoing – complete by yearend
<ul style="list-style-type: none"> • Initiate cabinet level development of post-annexation regional and local service provider vision statements and general business plans; 	Ongoing
<ul style="list-style-type: none"> • Prepare General Transition Plan Framework to guide long term budget planning and transitional service delivery: <ul style="list-style-type: none"> ○ Identify department/division contacts for ongoing coordination countywide and department/division specific annexation transition planning activities (operational and budget); 	Complete
<ul style="list-style-type: none"> ○ Continue refinement financial analysis methodology of county expenditures as regional; local – urban; local – rural; contract services/other. <i>This is part of the Executive’s development of the 2005 Budget proposal. Work is critical in validating earlier analysis; identifying appropriate use of the data in preliminary decision making about prioritizing and city, and internal transitional operational and budgetary planning decision making post annexations.</i> 	Ongoing
<ul style="list-style-type: none"> ○ Develop framework for examining post annexation changes in service delivery and budget savings scenarios for both direct and indirect costs; and 	Initiate 4th Quarter
<ul style="list-style-type: none"> • Preparation of implementation plan and vision and goals statement per 2004 Budget Proviso No. 1, Office of Management and Budget 	Complete Summer 2004

Planned tasks in 2005 are anticipated as follows:

Table 11 Annexation Initiative 2005 Objectives and Tasks

<i>External Outreach and Negotiation</i>	
<ul style="list-style-type: none"> • Negotiate Interlocal Agreements for as many major PAAs as possible, outlining annexation/incorporation timeline, conditions, and incentives with priority focus on areas that are high CX cost centers such as Fairwood and Highline 	

<ul style="list-style-type: none"> • Pursue State Legislation to increase options to address remaining small areas of urban unincorporated if they are not being annexed in a timely fashion.
<ul style="list-style-type: none"> • Expand citizen/community outreach efforts on community-by-community basis to continue to increase awareness regarding the importance of annexation to address the provision of local services.
<ul style="list-style-type: none"> • Continue to seek additional sources of state funding to support city annexation/incorporation efforts
<p><i>Budget and Transition Planning</i></p>
<ul style="list-style-type: none"> • Building from cabinet work initiated in 2004, prepare for council approval: <ul style="list-style-type: none"> ○ a motion describing the regional vision, roles, responsibilities and services provided by King County once the transition to city status of all urban areas has been achieved; ○ a motion describing the rural vision, roles, responsibilities and services provided by King County once the annexation of the urban areas has been achieved; ○ a motion describing the human resource challenges, opportunities and implementation plan to mitigate the impacts and transition the work force.
<ul style="list-style-type: none"> • Continue to identify options for revising county programs in response to annexations; develop individual transition plans for each impacted department.
<ul style="list-style-type: none"> • Continue to refine and improve financial model and database for unincorporated area revenue and expenditures (regional, local, urban, rural, individual PAA) to support both external outreach needs and internal budget and transition planning work.
<ul style="list-style-type: none"> • Examine opportunities for contracting with cities for service delivery in newly annexed areas.
<ul style="list-style-type: none"> • Work with King County workforce, unions, to identify ways to manage any staff/departmental transitions associated with annexation or incorporation.
<ul style="list-style-type: none"> • Integrate annexation effort and associated transition planning with all operational master plan efforts.
<ul style="list-style-type: none"> • Develop methodology to identify fiscal impacts of changes in the delivery of local services on the county overhead allocation and internal service fund rate models.

2006 tasks will be dependent on progress and experience in finalizing annexation agreements and moving forward with transition planning.

C. Other Components of the Implementation Plan

2004 Budget Proviso No. 1 also directs that the implementation plan address the following items:

- **Linkage between Annexation Initiative and the 2004 Comprehensive Plan Update**

Response: The annexation initiative's vision and goals call for the near term transition of the remaining urban unincorporated areas to cities. This transition is necessary to achieve the regional land use vision set forth in state and countywide policies and to relieve the county from the substantial financial obligation associated with serving these areas. Embodied in the proposed 2004 King County comprehensive plan (section II, Urban chapter) is set of policies that were created specifically to support the goal of

annexation and in some cases incorporation. In summary, the comprehensive plan policies call for among other things: a) timely transition of urban unincorporated areas so that the county can assume its ultimate role as a provider of local rural services and regional services; b) a process to resolve disputed PAAs pursuant to the process set forth in the urban unincorporated territory (“island”) method of annexation; c) the development of interlocal agreements between city and county in order to achieve a seamless governance transition; and, d) the end of opportunistic annexations or annexations that leave behind small dislocated areas.

- **Criteria for analyzing which areas should be annexed**

Response: Part II of this report responds to this item. In summary, consistent with the Growth Management Act and the countywide planning policies, *all unincorporated areas within the urban growth line are to be annexed or incorporated*. King County has little leverage to define which annexations occur first or later. To date, staff has worked to gauge interest and feasibility of annexation/incorporation in each of the 10 largest areas and will continue to work with cities and communities in these high feasibility/interest areas. Work will be focused in the areas of greatest interest and feasibility. Work will also continue to try to raise the level of interest in other areas that may have a significant financial benefit to King County’s CX Fund if annexed.

- **Method for analyzing feasibility of annexations and fiscal impacts to the county**

Response: Part II of the Report identifies PAA-by-PAA costs associated with local urban service delivery. **Appendix G** provides a summary of the analysis by major PAAs. This work relies on an allocation model for expenditures that continues to be refined and improved to better tie to actual expenditures on a service area basis. As noted in the table of 2004 work tasks, continued refinement of the methodology for and data base of urban unincorporated revenue and expenditure will be a critical task in 2004 and 2005.

- **Framework for allocating capital reserves and incentive funds**

Response: Part V of the Report provides detailed discussion of this subject. The allocation of capital reserves and incentive funds will be generally consistent with the proposed policy criteria but will be specifically developed through the negotiation’s associated with annexation of specific major areas.

- **Plan for measuring and reporting performance**

Response: Ultimately, there will be several key measures of the success of the Annexations Initiative. The number of annexation agreements that are completed and annexations that are successful implemented and the associated budget savings that are realized as the county exits from local service provision in urban areas and focuses on regional and rural service delivery. However, shorter term indicators are also available including status report on the tasks identified in the implementation report. Similarly,

given the multi-year nature of the initiative, the Executive and County Council will have the opportunity to re-examine the efficacy of the effort on an annual basis as part of the budget deliberations

Success in promoting annexations will result in a reduced role for the county as an urban local service provider as compared to current activity, although the county may maintain a significant local service contracting role over time. Because the countywide general property tax levy is unaffected by annexation, regional and rural services budgeted in the CX Fund will face less competition for funding as annexation transfers local services responsibility to cities. **However, this benefit will be lost unless local urban service budgets are reduced as areas annex and service responsibilities transfer.** It is therefore critical that the county track the loss of revenue and transfer of service responsibility as they occur, and begin planning for this reduced local service role. The upkeep and refinement of the financial model tracking urban incorporated revenues and expenditures will be a central element in measuring and reporting progress as it will provide a baseline to start from. Analyzing the implications of changes in local service delivery on county overhead at the departmental, general, and internal service fund level will be a difficult but necessary task for realizing all possible savings.

Equally critical to the initiative's success will the effort to address the work force impacts. The Annexation Initiative will create significant impacts on the King County work force and must be undertaken in close collaboration with King County employees. King County is committed to doing everything possible to mitigate these impacts while also maintaining a highly trained and high performing work force that can adapt to the new regional and rural vision of King County. The Executive cabinet has begun work in this area. Submittal of a motion to council describing the human resource challenges, opportunities and implementation plan to mitigate the impacts and transition the work force is identified as one of the 2005 work items.

- **Council Role**

Individual councilmembers will play a critical leadership role in encouraging annexation or incorporation within remaining urban unincorporated communities. As the initiative progresses and significant annexations occur, the County Council as a whole will play a direct role in reviewing and approving proposed interlocal agreements on annexation, and by enacting policy and budget responses to annexation and incorporation. The multiple components of the initiative, both external and internal to the county, and the dynamic aspect of the ongoing discussion will require council staff to play a continuing role above and beyond annual budget deliberations and considerations of interlocal agreements.

VII. Conclusion

The Annexation Initiative, if successfully implemented, will have a profound impact on the shape of county government and the future of remaining urban unincorporated area communities. Success will require consistent effort by all parts of the county organization for several years, and will require support and action by cities, residents, and ideally, the state legislature.

The initiative is well underway, and has already led to a change of the public dialogue regarding the future of these areas as well as some positive new ideas for moving forward on remaining annexation and incorporations. Leadership by individual County Councilmembers in their respective districts will be an increasingly important part of the initiative, as will County Council review of department transition plans detailing how the county will respond as areas annex or incorporate. Much of that transition planning will be developed beginning with the 2005 Executive Budget submittal, continuing into 2005 and 2006.

Clearly, it will be a number of years before all remaining urban areas of King County annex or incorporation but there is room for optimism that current efforts will lead to an acceleration of this transition. This is a tremendously important outcome from the standpoint of the fiscal necessity the county faces to make significant cuts each year to the CX Fund program budgets. However, the county is not in the "driver's seat" to make these changes happen: it must act strategically to promote annexation and incorporation within communities and individual city government organizations. This will require active outreach efforts, continued dialogue with cities, and additional funding for both types of effort, hopefully including some monies from the state government, as this effort is in large part designed to implement the state's growth management act.

The Executive looks forward to a continued and strengthened partnership with the County Council and the county's independently elected officials to carry out this initiative within the county organization, and in communicating its importance to the region as whole.

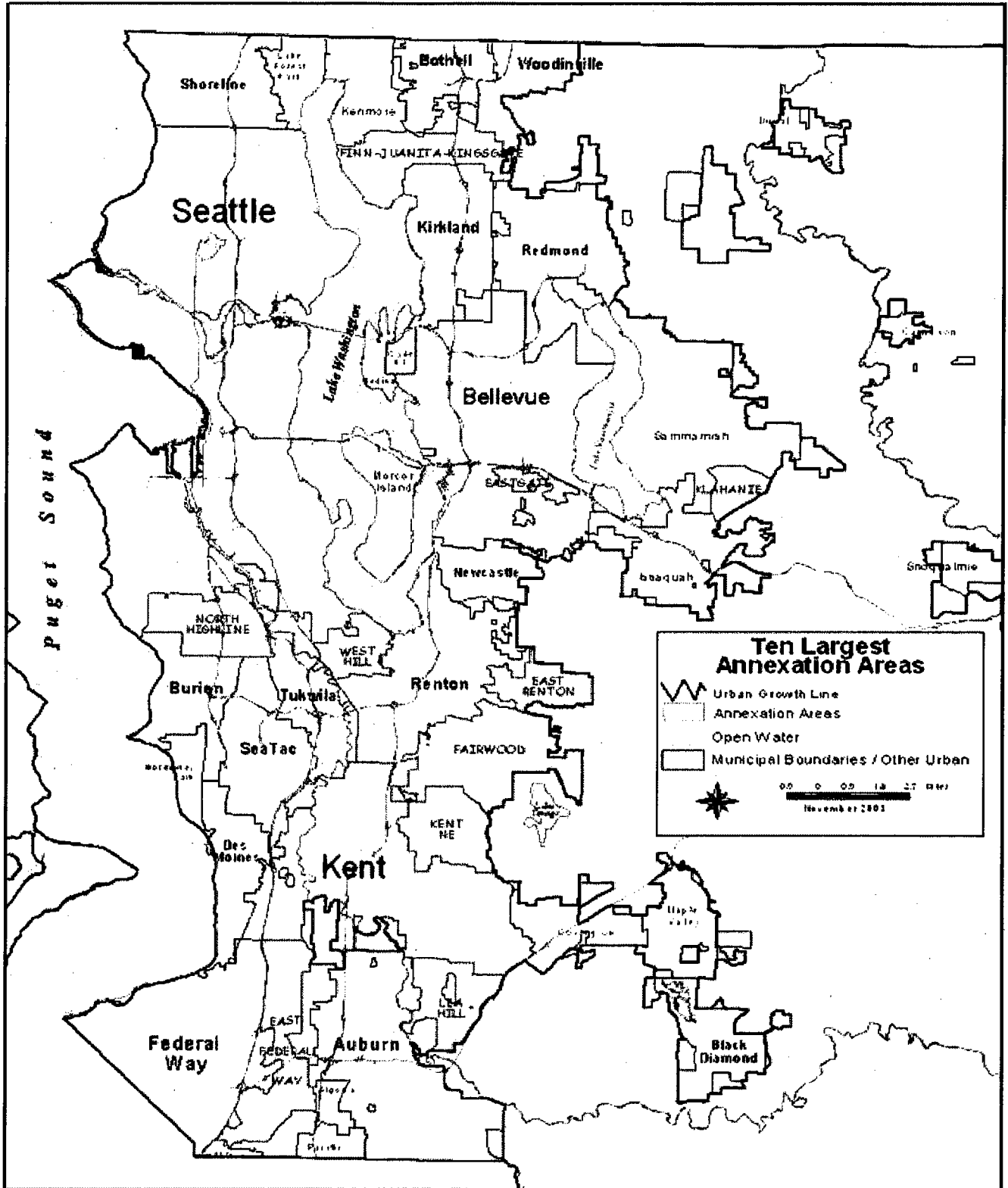
Appendix A

Map of King County showing ten
largest remaining urban
unincorporated areas as of
July 2004

Appendix A

Ten Largest Remaining Urban Unincorporated Areas

(As of November 2003)



Appendix B

The ten largest remaining urban
unincorporated areas in King
County as of July 2004:

descriptions, maps, demographics,
revenues generated

King County Potential Annexation Areas

Under the Growth Management Act, unincorporated areas within King County's Urban Growth Area are encouraged to annex into cities. This section of the Unincorporated Areas chapter identifies ten large communities slated for early annexation to an adjoining city. More than half of the unincorporated population – 192,000 persons in 2000 – resides in these ten "Potential Annexation Areas" (PAAs). On the following pages, one-page PAA Profiles describe the location, economic and tax data, and demographics of each Potential Annexation Area. The ten PAAs are as follows:

East Federal Way

East Renton

Eastgate

Fairwood (including communities of Cascade, Lake Desire and Petrovitsky)

Kent Northeast

Kirkland (including communities of Juanita, Finn Hill and Kingsgate)

Klahanie

Lea Hill

North Highline (including communities of White Center and Boulevard Park)

West Hill (including communities of Skyway and Bryn Mawr)

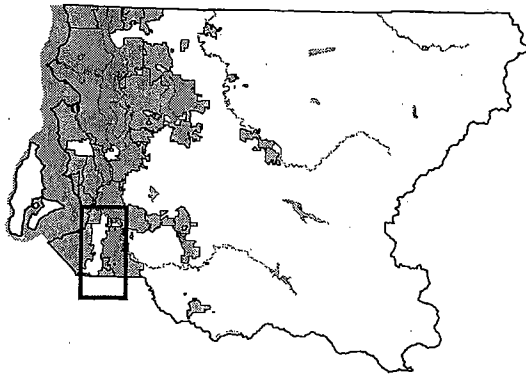
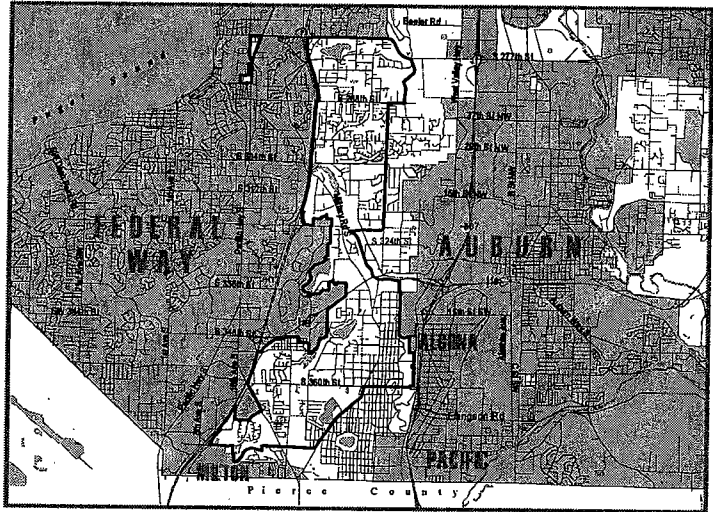
Following the PAA profiles is a "Sources and Notes" page which identifies data sources and explanations of the profile information.

An additional 22,000 persons live in other Urban-designated areas not within a specific large PAA. Some of these neighborhoods are smaller PAAs, but others are not claimed by a specific city. Outside the Urban Growth Area are Rural and Resource designated areas, with nearly 136,000 residents in 2000. A Profile covering Rural unincorporated King County is on page 113.

A map of PAAs and other unincorporated communities is in the map section at the back of the AGR.

East Federal Way Potential Annexation Area

Located east of Interstate 5 and the City of Federal Way, west of the City of Auburn's westerly PAA, the area comprises most of the remaining urban-designated land between Federal Way, Auburn and the Pierce County line. Other Urban-designated unincorporated neighborhoods to the east and southeast are not included in the East Federal Way PAA, but are associated with the cities of Auburn, Pacific or Milton.



QUICK FACTS

Land Area: 5,045.69 Acres or 7.88 Square Miles

King County Council District: 7 (Pete VonReichbauer)

School District: 210 Federal Way

Water District: Lakehaven

Sewer District: Lakehaven

Fire District: 39

Annexing City: Federal Way

Annexation Status:

TAX INFO

2003 Assessed Valuation: \$1,296.1 million
Uninc. Area Levy (\$1,745 per 1,000): \$2,261,544

2002 Real Estate Sales: \$125.7 million
Local Option REET Revenue (0.5%): \$628,600

2002 Taxable Retail Sales: \$67 million
Local Option Sales Tax Revenue (1.0%): \$667,149

EMPLOYMENT

Number of Business Units: 250

Total Jobs: 1,700

Manufacturing: 20

Wholesale/Utilities: 50

Retail: 140

Finance/Services: 470

Government/Education: 530

AFFM/Construction: 490

Source: WA Employment Security Dept

INCOME

Median Household Income: \$62,400

Number of Households: 7,030

Household by Income Category:

0 - 80% 1,870 (27%)

80 - 140% 2,500 (35%)

140%+ 2,660 (38%)

Source: 2000 US Census

DEMOGRAPHICS

2000 Census Population: 20,350

Pop. Per Sq. Mile: 2,580

Median Age: 36.1

Age Structure:

17 and under 5,900 (29.0%)

18 - 64 12,870 (63.3%)

65 and over 1,580 (7.7%)

Race Categories:

Non-hispanic White 16,550 (81.3%)

Black or African Am. 710 (3.5%)

Asian and Pacific Is. 1,400 (6.9%)

Native Am. and other 190 (1.0%)

Hispanic or Latino 700 (3.5%)

Two or more race 800 (3.9%)

HOUSING

Total Housing Units: 7,180

Single Family: 6,060 (84%)

Multifamily: 620 (9%)

Mobile Homes: 500 (7%)

Percent Homeowners: 85%

Average Household Size: 2.90

Median House Value: \$173,300

Median 2 Bedroom Rental: \$890

Source: 2000 US Census

DEVELOPMENT ACTIVITY

2002 New Residential Permits: 283

Single Family: 52

Multifamily: 1 / 231

2002 Formal Plats/Lots:

Applications: 4 / 198

Recordings: 2 / 65

2002 Land Capacity:

Residential In Acres: 689.82

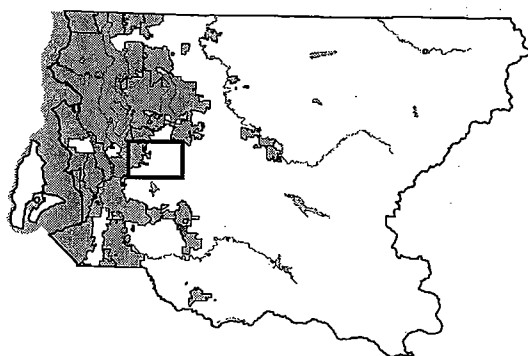
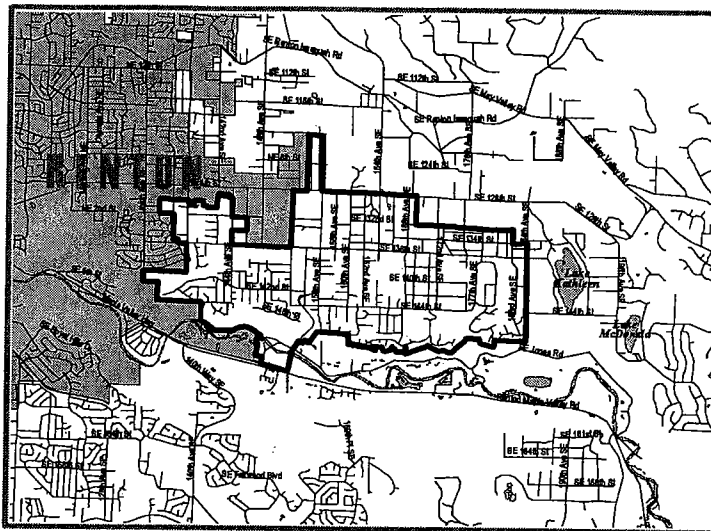
In Units: 3,598

Commercial In Acres: n/a

In Jobs:

East Renton Potential Annexation Area

Located east of the City of Renton, north of the Cedar River. The PAA encompasses most of the remaining Urban Growth Area on the plateau east of Renton out to 184th Avenue SE. Recently, this area has developed primarily through annexation of small parcels into the City of Renton in order to receive City of Renton sewer and water service.



QUICK FACTS

Land Area: 2,126.25 Acres or 3.32 Square Miles

King County Council District: 12 (David Irons)

School District: 403 Renton / 411 Issaquah

Water District: 90

Sewer District:

Fire District: 25

Annexing City: Renton

Annexation Status:

TAX INFO

2003 Assessed Valuation: \$615.6 million
Uninc. Area Levy (\$1,745 per 1,000): \$1,074,400

2002 Real Estate Sales: \$40.2 million
Local Option REET Revenue (0.5%): \$201,250

2002 Taxable Retail Sales: \$17.8 million
Local Option Sales Tax Revenue (1.0%): \$177,580

EMPLOYMENT

Number of Business Units: 100

Total Jobs: 650
Manufacturing: 30
Wholesale/Utilities: 20
Retail: 50
Finance/Services: 100
Government/Education: 250
AFFM/Construction: 200

Source: WA Employment Security Dept

INCOME

Median Household Income: \$65,300
Number of Households: 2,600

Household by Income Category:
0 - 80% 565 (22%)
80 - 140% 1,050 (40%)
140%+ 985 (38%)

Source: 2000 US Census

DEMOGRAPHICS

2000 Census Population: 7,370
Pop. Per Sq. Mile: 2,220

Median Age: 38.2

Age Structure:

17 and under	1,960	(26.7%)
18 - 64	4,830	(65.5%)
65 and over	580	(7.8%)

Race Categories:

Non-hispanic White	6,500	(88.2%)
Black or African Am.	110	(1.5%)
Asian and Pacific Is.	240	(3.2%)
Native Am. and other	70	(1.0%)
Hispanic or Latino	250	(3.4%)
Two or more race	200	(2.7%)

HOUSING

Total Housing Units: 2,650

Single Family	2,430	(92%)
Multifamily	50	(2%)
Mobile Homes	170	(6%)

Percent Homeowners: 90%
Average Household Size: 2.80
Median House Value: \$199,400
Median 2 Bedroom Rental: \$ 906

Source: 2000 US Census

DEVELOPMENT ACTIVITY

2002 New Residential Permits: 4
Single Family: 4
Multifamily: 0/0

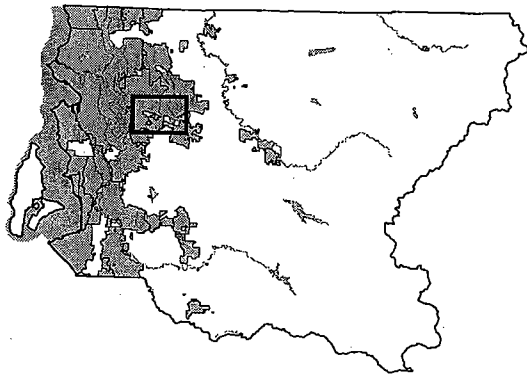
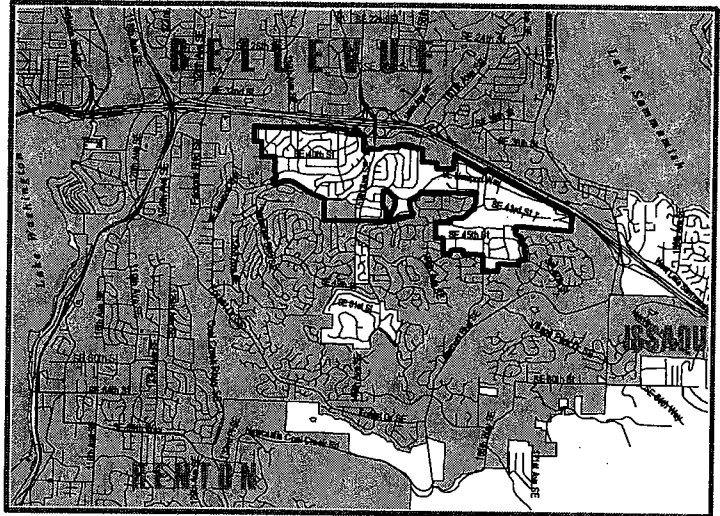
2002 Formal Plats/Lots:
Applications: 1/23
Recordings: 7/376

2002 Land Capacity:
Residential In Acres: 248.35
In Units: 1,091

Commercial In Acres: n a
In Jobs:

Eastgate Potential Annexation Area

Eastgate is an island of unincorporated area entirely surrounded by the City of Bellevue, south of Interstate 90. The Eastgate potential annexation area does not include the Hilltop neighborhood. The area is almost entirely residential.



QUICK FACTS

Land Area: 786.68 Acres or 1.23 Square Miles

King County Council District: 6 (Rob McKenna)

School District: 405 Bellevue / 411 Issaquah

Water District: Bellevue

Sewer District: Bellevue

Fire District: 14 and 10

Annexing City: Bellevue

Annexation Status:

TAX INFO

2003 Assessed Valuation: \$488.8 million
Uninc. Area Levy (\$1,745 per 1,000): \$852,936

2002 Real Estate Sales: \$42.6 million
Local Option REET Revenue (0.5%): \$213,100

2002 Taxable Retail Sales: \$27 million
Local Option Sales Tax Revenue (1.0%): \$270,300

EMPLOYMENT

Number of Business Units: 70

Total Jobs: 400
Manufacturing: n/a
Wholesale/Utilities: n/a
Retail and Finance/Services: n/a
Government/Education: n/a
AFFM/Construction: n/a

Source: WA Employment Security Dept.

INCOME

Median Household Income: \$65,600
Number of Households: 1,710

Household by Income Category:
0 - 80%: 385 (22.5%)
80 - 140%: 640 (37.5%)
140%+: 685 (40%)

Source: 2000 US Census

DEMOGRAPHICS

2000 Census Population: 4,558
Pop. Per Sq. Mile: 3,705

Median Age: 37.0
Age Structure:
17 and under: 1,088 (23.9%)
18 - 64: 2,963 (65.0%)
65 and over: 507 (11.1%)

Race Categories:
Non-hispanic White: 3,682 (80.8%)
Black or African Am.: 74 (1.6%)
Asian and Pacific Is.: 457 (10.0%)
Native Am. and other: 25 (0.5%)
Hispanic or Latino: 200 (4.5%)
Two or more race: 120 (2.7%)

HOUSING

Total Housing Units: 1,743
Single Family: 1,588 (91%)
Multifamily: 155 (9%)
Mobile Homes: 0 (0%)
Percent Homeowners: 77.6%
Average Household Size: 2.66
Median House Value: \$222,900
Median 2 Bedroom Rental: \$1,132

Source: 2000 US Census

DEVELOPMENT ACTIVITY

2002 New Residential Permits: 5
Single Family: 5
Multifamily: 0/0

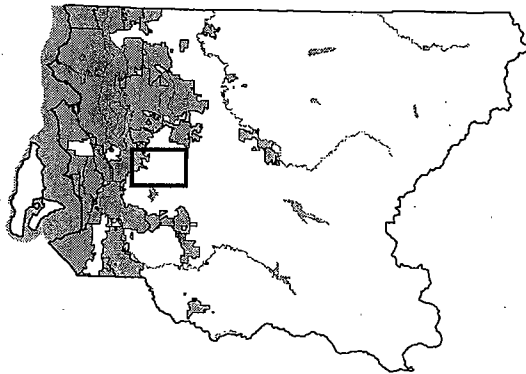
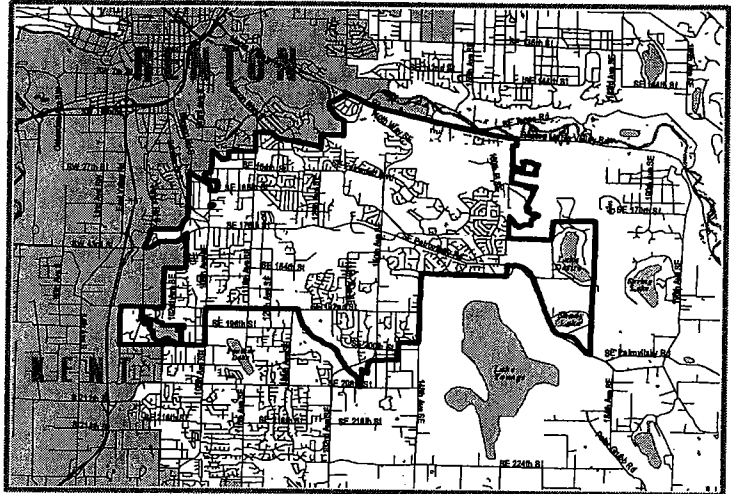
2002 Formal Plats/Lots:
Applications: 0/0
Recordings: 0/0

2002 Land Capacity:
Residential In Acres: 24.15
In Units: 100

Commercial In Acres: n/a
In Jobs:

Fairwood Potential Annexation Area

The largest of the ten PAAs, Fairwood - Petrovitsky is located southeast of the City of Renton and northeast of Kent. The area is bounded by the Urban Growth Boundary on the east and Lake Youngs Watershed on the southeast. From west to east, neighborhoods include Spring Glen, part of Benson Hill, Cascade, Fairwood, and Lake Desire. The County, with the assistance of a community group, completed a governance study in 2000 for this area.



QUICK FACTS

Land Area: 6,876.04 Acres or 10.74 Square Miles

King County Council District: 9 (Steve Hammond) / 6 (Rob McKenna) / 5 (Dwight Pelz)

School District: 415 Kent / 403 Renton

Water District: Soos Creek, Cedar River

Sewer District: Soos Creek, Cedar River

Fire District: 40, 37, 25

Annexing City: Renton

Annexation Status:

TAX INFO

2003 Assessed Valuation: \$2,844.4 million
 Uninc. Area Levy (\$1,745 per 1,000): \$4,963,200

2002 Real Estate Sales: \$ 274 million
 Local Option REET Revenue (0.5%): \$1,369,900

2002 Taxable Retail Sales: \$249.6 million
 Local Option Sales Tax Revenue (1.0%): \$2,495,700

EMPLOYMENT

Number of Business Units: 460

Total Jobs: 3,830

Manufacturing:	70
Wholesale/Utilities:	130
Retail:	1,300
Finance/Services:	1,230
Government/Education:	860
AFFM/Construction:	240

INCOME

Median Household Income: \$ 58,000

Number of Households: 14,630

Household by Income Category:

0 - 80%	4,920	(33.6%)
80 - 140%	4,640	(31.7%)
140%+	5,070	(34.7%)

Source: 2000 US Census

DEMOGRAPHICS

2000 Census Population: 39,430
Pop. Per Sq. Mile: 3,670

Median Age: 35.4

Age Structure:

17 and under	10,340	(26.2%)
18 - 64	26,110	(66.2%)
65 and over	2,980	(7.6%)

Race Categories:

Non-hispanic White	28,050	(71.1%)
Black or African Am.	2,350	(6.0%)
Asian and Pacific Is.	5,450	(13.8%)
Native Am. and other	200	(0.5%)
Hispanic or Latino	1,620	(4.1%)
Two or more race	1,760	(4.5%)

Source: WA Employment Security Dept

HOUSING

Total Housing Units: 15,080

Single Family	10,110	(67%)
Multifamily	4,370	(29%)
Mobile Homes	600	(4%)

Percent Homeowners: 70.2%

Average Household Size: 2.65

Median House Value: \$ 192,800

Median 2 Bedroom Rental: \$ 853

Source: 2000 US Census

DEVELOPMENT ACTIVITY

2002 New Residential Permits: 230

Single Family: 228
 Multifamily: 1/2

2002 Formal Plats/Lots:

Applications: 2 / 38
 Recordings: 7 / 285

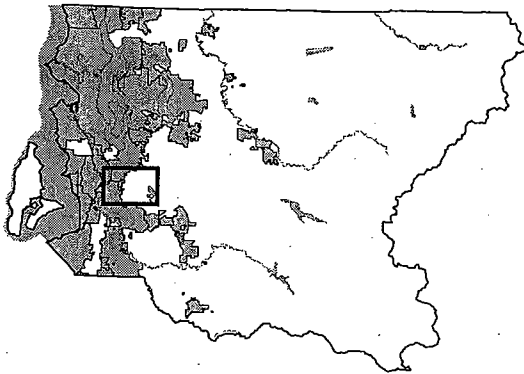
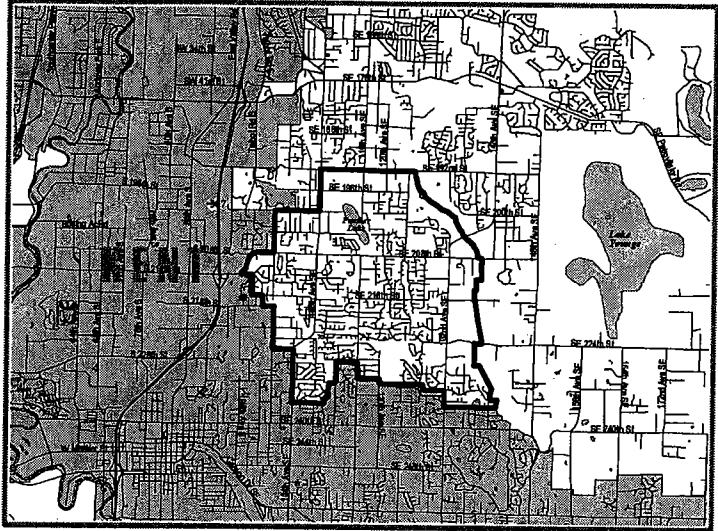
2002 Land Capacity:

Residential In Acres: 604.01
 In Units: 3,801

Commercial In Acres:
 In Jobs:

Kent Northeast Potential Annexation Area

The Kent Northeast area is located east of the City of Kent, on the west plateau of Soos Creek. To the north is the large unincorporated area of Fairwood / Petrovitsky, part of the City of Renton's PAA. Kent Northeast includes the communities of Benson Hill and Panther Lake as well as neighborhoods near Soos Creek Park.



QUICK FACTS

Land Area: 3,465.95 Acres or 5.42 Square Miles

King County Council District: 9 (Steve Hammond)

School District: 415 Kent

Water District: Soos Creek

Sewer District: Soos Creek

Fire District: 37

Annexing City: Kent

Annexation Status:

TAX INFO

2003 Assessed Valuation: \$1,403.9 million
Uninc. Area Levy (\$1,745 per 1,000): \$2,449,656

2002 Real Estate Sales: \$129.3 million
Local Option REET Revenue (0.5%): \$646,400

2002 Taxable Retail Sales: \$48 million
Local Option Sales Tax Revenue (1.0%): \$480,000

EMPLOYMENT

Number of Business Units: 180

Total Jobs: 1,310
Manufacturing: 50
Wholesale/Utilities: 80
Retail: 320
Finance/Services: 370
Government/Education: 420
AFFM/Construction: 70

Source: WA Employment Security Dept

INCOME

Median Household Income: \$ 65,700

Number of Households: 7,940

Household by Income Category:

0 - 80%	2,170	(27.3%)
80 - 140%	2,500	(31.5%)
140%+	3,270	(41.2%)

Source: 2000 US Census

DEMOGRAPHICS

2000 Census Population: 23,555

Pop. Per Sq. Mile: 4,350

Median Age: 34.9

Age Structure:

17 and under	7,130	(30.3%)
18 - 64	14,700	(62.4%)
65 and over	1,725	(7.3%)

Race Categories:

Non-hispanic White	16,850	(71.5%)
Black or African Am.	1,100	(4.7%)
Asian and Pacific Is.	3,550	(15.1%)
Native Am. and other	150	(0.6%)
Hispanic or Latino	880	(3.7%)
Two or more race	1,025	(4.4%)

HOUSING

Total Housing Units: 8,138

Single Family	6,440	(79.2%)
Multifamily	1,160	(14.2%)
Mobile Homes	540	(6.6%)

Percent Homeowners: 81%

Average Household Size: 2.97

Median House Value: \$ 188,000

Median 2 Bedroom Rental: \$ 740

Source: 2000 US Census

DEVELOPMENT ACTIVITY

2002 New Residential Permits: 42

Single Family: 42

Multifamily: 0/0

2002 Formal Plats/Lots:

Applications: 1/141

Recordings: 2/23

2002 Land Capacity:

Residential In Acres: 306.93

In Units: 1,725

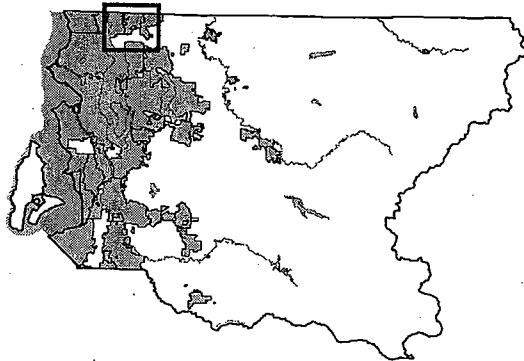
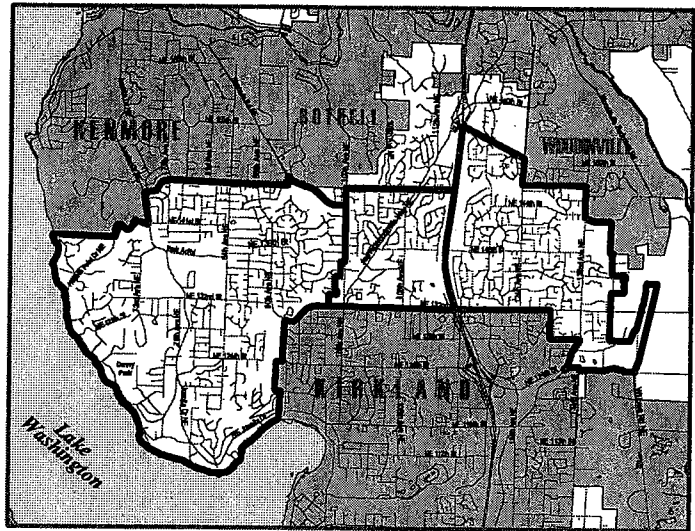
Commercial In Acres:

In Jobs:

Kirkland

Potential Annexation Area

The City of Kirkland's PAA is comprised of the Finn Hill, Juanita and Kingsgate neighborhoods. These areas are generally located to the north of the City of Kirkland, and south of the cities of Kenmore, Bothell and Woodinville. The City of Bothell has a PAA that abuts the City of Kirkland's. In 2001 and again in 2002, the City of Kirkland, with the assistance of the County, completed an annexation fiscal analysis.



QUICK FACTS

Land Area: 4,437.85 Acres or 6.94 Square Miles

King County Council District: 11 (Jane Hague) / 1 (Carolyn Edmonds)

School District: 414 Lake Washington / 417 Northshore

Water District: NE Lake Washington

Sewer District: Northshore

Fire District: 41 and Woodinville Fire District

Annexing City: Kirkland

Annexation Status:

TAX INFO

2003 Assessed Valuation: \$3,085.6 million
 Uninc. Area Levy (\$1,745 per 1,000) \$5,383,900

2002 Real Estate Sales: \$249.7 million
 Local Option REET Revenue (0.5%) \$1,248,700

2002 Taxable Retail Sales: \$115.1 million
 Local Option Sales Tax Revenue (1.0%) \$1,151,200

EMPLOYMENT

Number of Business Units: 520

Total Jobs: 5,040

Manufacturing:	280
Wholesale/Utilities:	560
Retail:	1,120
Finance/Services:	1,560
Government/Education:	830
AFFM/Construction:	690

Source: WA Employment Security Dept

INCOME

Median Household Income: \$69,800

Number of Households: 11,485

Households by Income Category:

0 - 80%	2,665	(23%)
80 - 140%	3,690	(32%)
140%+	5,130	(45%)

Source: 2000 US Census

DEMOGRAPHICS

2000 Census Population: 31,723

Pop. Per Sq. Mile: 4,570

Median Age: 34.9

Age Structure:

17 and under	8,500	(26.8%)
18 - 62	21,200	(66.9%)
65 and over	2,000	(6.3%)

Race Categories:

Non-hispanic White:	25,930	(81.8%)
Black or African Am.:	470	(1.5%)
Asian and Pacific Is.:	2,600	(8.3%)
Native Am. and other:	150	(0.5%)
Hispanic or Latino:	1,370	(4.3%)
Two or more race:	1,170	(3.7%)

HOUSING

Total Housing Units: 11,811

Single Family:	9,300	(78.7%)
Multifamily:	2,490	(21.1%)
Mobile Homes:	21	(0.2%)

Percent Homeowners: 76.8%

Average Household Size: 2.75

Median House Value: \$239,200

Median 2 Bedroom Rental: \$880

Source: 2000 US Census

DEVELOPMENT ACTIVITY

2002 New Residential Units: 128

Single Family:	94
Multifamily:	2 / 34

2002 Formal Plats/Lots:

Applications:	0 / 0
Recordings:	2 / 55

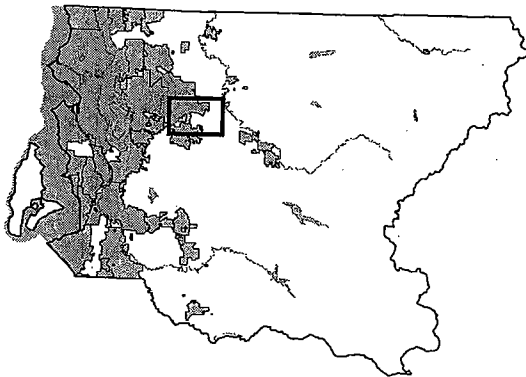
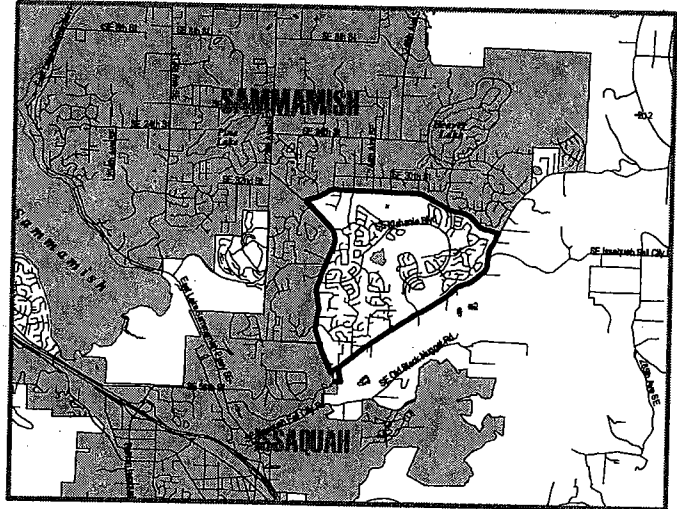
2002 Land Capacity:

<u>Residential</u> In Acres:	152.79
In Units:	770
<u>Commercial</u> In Acres:	11.00
In Jobs:	150

Klahanie

Potential Annexation Area

Klahanie, located on the southeast corner of the City of Sammamish and the northeast corner of the City of Issaquah, is a fully built-out community of 11,000 residents. The City of Issaquah, which has claimed the entire area as a PAA, is currently conducting an annexation feasibility study which is expected to be completed by the end of 2003.



QUICK FACTS

Land Area: 1,230.34 Acres or 1.92 Square Miles

King County Council District: 12 (David Irons)

School District: 411-Issaquah

Water District: Sammamish Plateau

Sewer District: Sammamish Plateau

Fire District: 10

Annexing City: Issaquah

Annexation Status:

TAX INFO

2003 Assessed Valuation: \$1,066.4 million
 Uninc. Area Levy (\$1.745 per 1,000): \$1,860,700

2002 Real Estate Sales: \$99.8 million
 Local Option REET Revenue (0.5%): \$499,000

2002 Taxable Retail Sales: \$20.3 million
 Local Option Sales Tax Revenue (1.0%): \$202,700

EMPLOYMENT

Number of Business Units: 100

Total Jobs: 470
 Manufacturing: -
 Wholesale/Utilities: -
 Retail: 60
 Finance/Services: 200
 Government/Education: 140
 AFFM/Construction: 60

Source: WA Employment Security Dept

INCOME

Median Household Income: \$84,700
Number of Households: 3,670

Household by Income Category:
 0 - 80% 620 (16.9%)
 80 - 140% 860 (23.3%)
 140%+ 2,190 (59.7%)

Source: 2000 US Census

DEMOGRAPHICS

2000 Census Population: 10,953
Pop. Per Sq. Mile: 5,705

Median Age: 32.4

Age Structure:
 17 and under 3,920 (35.8%)
 18 - 64 6,680 (61.0%)
 65 and over 350 (3.2%)

Race Categories:
 Non-hispanic White 8,400 (76.7%)
 Black or African Am. 100 (0.9%)
 Asian and Pacific Is. 1,720 (15.7%)
 Native Am. and other 50 (0.5%)
 Hispanic or Latino 320 (2.9%)
 Two or more race 360 (3.3%)

HOUSING

Total Housing Units: 3,797
 Single Family: 2,900 (76.3%)
 Multifamily: 890 (23.4%)
 Mobile Homes 10 (0.3%)

Percent Homeowners: 77.6%
Average Household Size: 2.99
Median House Value: \$303,600
Median 2 Bedroom Rental: \$1,235

Source: 2000 US Census

DEVELOPMENT ACTIVITY

2002 New Residential Permits: 0
 Single Family 0
 Multifamily 0 / 0

2002 Formal Plats/Lots:
 Applications: 0 / 0
 Recordings: 0 / 0

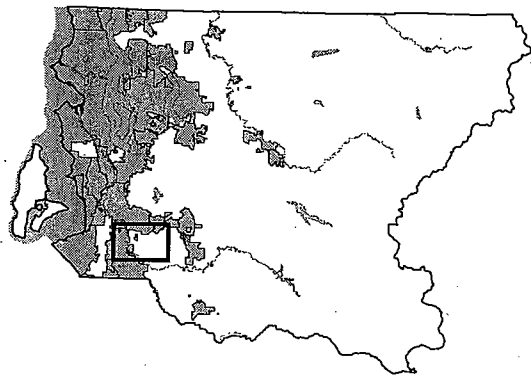
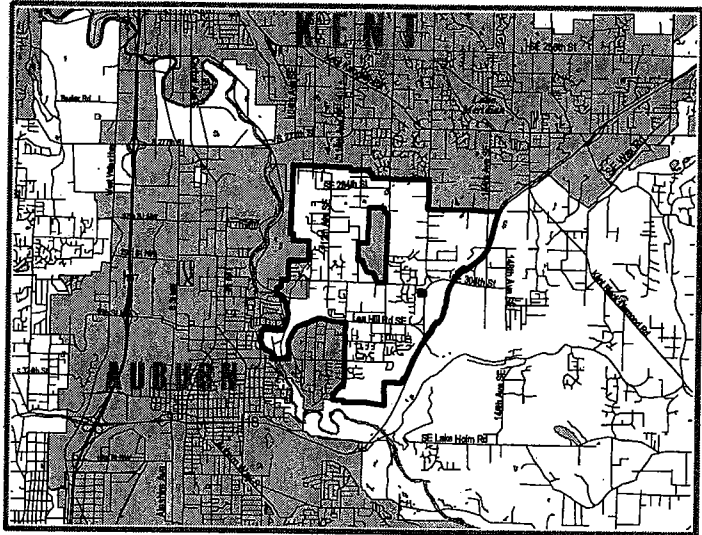
2002 Land Capacity:
Residential In Acres: 38.90
 In Units: 326

Commercial In Acres:
 In Jobs:

Lea Hill

Potential Annexation Area

Lea Hill is located directly east of the City of Auburn and south of the City of Kent. The City of Auburn annexed a portion of Lea Hill in March 2000 which brought an additional 2,700 persons into the city. Although Auburn completed an annexation feasibility study in early 2003, it is unclear as to when the City will resume annexation of this area.



QUICK FACTS

Land Area: 2,766.87 Acres or 4.32 Square Miles

King County Council District: 13 (Julia Patterson) / 9 (Steve Hammond)

School District: 408 Auburn / 415 Kent

Water District: Auburn

Sewer District: Auburn

Fire District: 44 and 37

Annexing City: Auburn

Annexation Status:

TAX INFO

2003 Assessed Valuation: **\$887 million**
 Uninc. Area Levy (\$1,745 per 1,000) \$1,547,729

2002 Real Estate Sales: **\$74.7 million**
 Local Option REET Revenue (0.5%) \$373,000

2002 Taxable Retail Sales: **\$68 million**
 Local Option Sales Tax Revenue (1.0%) \$680,000

EMPLOYMENT

Number of Business Units: 80

Total Jobs: 1,300
 Manufacturing and Wholesale/Utilities: 50
 Retail and Finance/Services: 100
 Government/Education: 1,050
 AFFM/Construction: 100

Source: WA Employment Security Dept

INCOME

Median Household Income: **\$65,700**
 Number of Households: 2,705

Household by Income Category:
 0 - 80% 715 (26.5%)
 80 - 140% 880 (32.5%)
 140%+ 1,110 (41%)

Source: 2000 US Census

DEMOGRAPHICS

2000 Census Population: 8,171
 Pop. Per Sq. Mile: 1,890

Median Age: 32.6
 Age Structure:
 17 and under 2,575 (31.5%)
 18 - 64 5,160 (63.2%)
 65 and over 435 (5.3%)

Race Categories:
 Non-hispanic White 6,820 (83.5%)
 Black or African Am. 180 (2.2%)
 Asian and Pacific Is. 370 (4.6%)
 Native Am. and other 70 (0.9%)
 Hispanic or Latino 400 (4.9%)
 Two or more race 330 (4.0%)

HOUSING

Total Housing Units: 2,794
 Single Family 2,054 (73.5%)
 Multifamily 435 (17.4%)
 Mobile Homes 255 (9.1%)

Percent Homeowners: 80 %
 Average Household Size: 2.98
 Median House Value: \$210,800
 Median 2 Bedroom Rental: \$814

Source: 2000 US Census

DEVELOPMENT ACTIVITY

2002 New Residential Permits: 256
 Single Family: 256
 Multifamily: 0 / 0

2002 Formal Plats/Lots:
 Applications: 2 / 83
 Recordings: 3 / 44

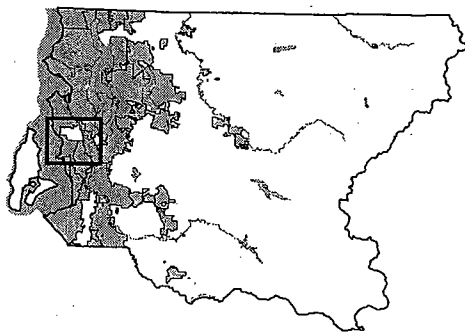
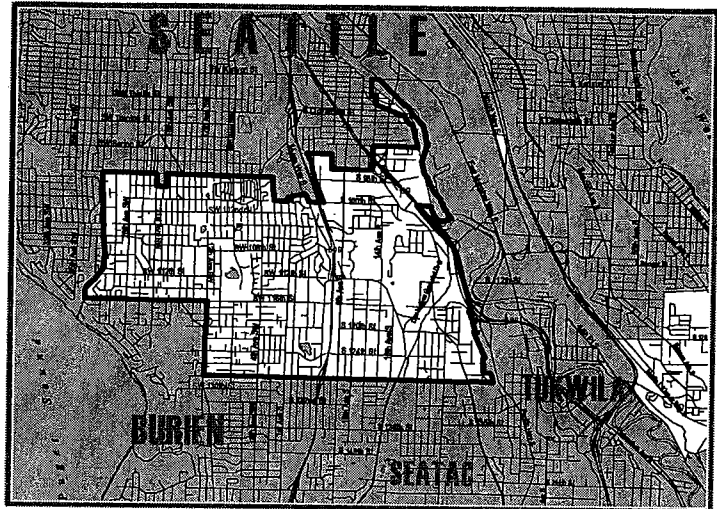
2002 Land Capacity:
Residential In Acres: 417.75
 In Units: 1,674

Commercial In Acres:
 In Jobs:

North Highline

Potential Annexation Area

North Highline, including White Center and Boulevard Park, is one of the largest remaining unincorporated areas in the County. It has one of the most ethnically diverse populations in King County. In 1999, the County, with the assistance of a community advisory group, completed a governance study for the area. In 2001, the County and City of Burien partnered on an annexation feasibility study which assessed the fiscal impact to the city if it were to annex the lower third (South of 116th Street) of the community. Although there has been sporadic interest in this area, none of the adjacent cities of Burien, Seattle, Tukwila or SeaTac currently claim any portion of this community as a potential annexation area.



QUICK FACTS

Land Area: 3,956.96 Acres or 6.18 Square Miles

King County Council District: 8 (Dow Constantine) / 5 (Dwight Pelz)

School District: 401 Highline / 1 Seattle

Water District: Seattle, 45, 20

Sewer District: SW Suburban, Val Vue

Fire District: North Highline

Annexing City: Unclaimed by any adjacent city

Annexation Status:

TAX INFO

2003 Assessed Valuation: \$1,601.4 million
Uninc. Area Levy (\$1,745 per 1,000): \$2,794,200

2002 Real Estate Sales: \$136.1 million
Local Option REET Revenue (0.5%): \$680,500

2002 Taxable Retail Sales: \$194.1 million
Local Option Sales Tax Revenue (1.0%): \$1,940,540

EMPLOYMENT

Number of Business Units: 730

Total Jobs: 6,710
Manufacturing: 1,080
Wholesale/Utilities: 1,260
Retail: 1,290
Finance/Services: 1,820
Government/Education: 720
AFFM/Construction: 540

Source: WA Employment Security Dept

INCOME

Median Household Income: \$39,950

Number of Households: 11,930

Households by Income Category:

0 - 80%	6,310	(53%)
80 - 140%	3,620	(30%)
140%+	2,000	(17%)

Source: 2000 US Census

DEMOGRAPHICS

2000 Census Population: 32,035

Pop. Per Sq. Mile: 5,180

Median Age: 33.4

Age Structure:

17 and under: 8,460 (26.4%)

18 - 64: 20,525 (64.1%)

65 and over: 3,050 (9.5%)

Race Categories:

Non-hispanic White: 17,000 (53%)

Black or African Am.: 2,100 (7%)

Asian and Pacific Is.: 6,300 (20%)

Native Am. and other: 500 (1%)

Hispanic or Latino: 4,200 (13%)

Two or more race: 1,900 (6%)

HOUSING

Total Housing Units: 12,330

Single Family: 8,030 (65%)

Multifamily: 4,070 (33%)

Mobile Homes: 230 (2%)

Percent Homeowners: 54.2%

Average Household Size: 2.68

Median House Value: \$149,400

Median 2 Bedroom Rental: \$640

Source: 2000 US Census

DEVELOPMENT ACTIVITY

2002 Total New Residential Units: 71

Single Family: 25

Multifamily: 4 / 46

2002 Formal Plats/Lots: 0/0

Applications: 1 / 10

Recordings: 1 / 8

2002 Land Capacity:

Residential In Acres: 149.22

In Units: 1,276

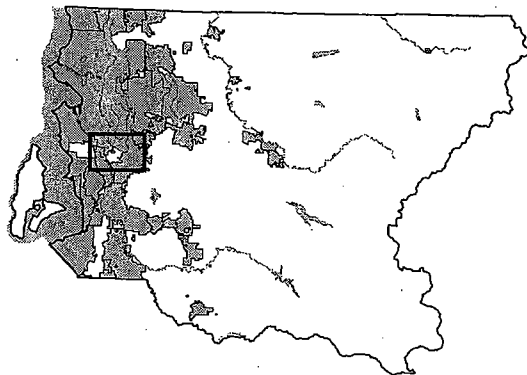
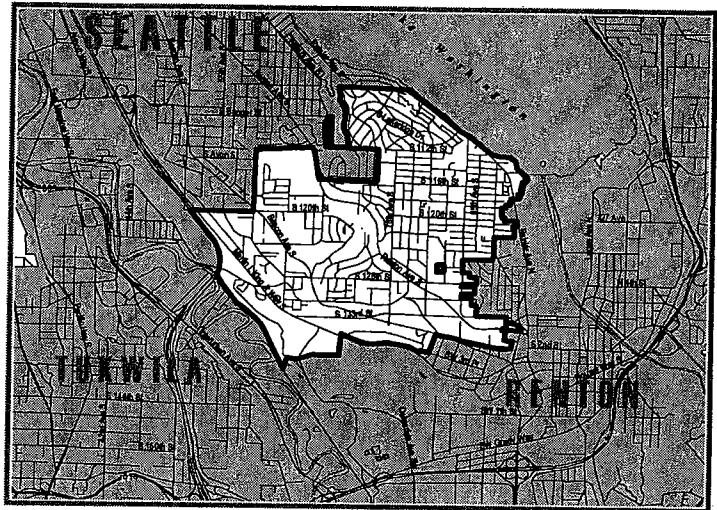
Commercial In Acres: 116.97

In Jobs: 1,544

West Hill

Potential Annexation Area

West Hill is an unincorporated island bordering the southern end of Lake Washington, surrounded by the cities of Seattle, Renton and Tukwila. It is comprised of the neighborhoods of Bryn Mawr, Lakeridge, Skyway, and Earlington. The area is primarily residential and is supported by older and increasingly fewer commercial establishments. West Hill is one of the few unincorporated Urban areas that lacks a PAA designation.



QUICK FACTS

Land Area: 1,958.08 Acres or 3.06 Square Miles

King County Council District: 5 (Dwight Pelz)

School District: 403 Renton

Water District: Bryn Mawr, Skyway

Sewer District: Bryn Mawr, Skyway

Fire District: 20

Annexing City: Unclaimed by any adjacent city

Annexation Status:

TAX INFO

2003 Assessed Valuation: \$953 million
Uninc. Area Levy (\$1,745 per 1,000) \$1,662,800

2002 Real Estate Sales: \$63.7 million
Local Option REET Revenue (0.5%) \$318,300

2002 Taxable Retail Sales: \$34.2 million
Local Option Sales Tax Revenue (1.0%) \$341,700

EMPLOYMENT

Number of Business Units: 190

Total Jobs: 1,490
Manufacturing: 50
Wholesale/Utilities: 40
Retail: 320
Finance/Services: 500
Government/Education: 480
AFFM/Construction: 100

Source: WA Employment Security Dept.

INCOME

Median Household Income: \$47,385
Number of Households: 5,570

Household by Income Category:
0 - 80% 2,430 (44%)
80 - 140% 1,810 (32%)
140%+ 1,330 (24%)

Source: 2000 US Census

DEMOGRAPHICS

2000 Census Population: 13,977

Pop. Per Sq. Mile: 4,570

Median Age: 38.0

Age Structure:

17 and under 3,190 (22.8%)
18 - 64 8,850 (63.3%)
65 and over 1,940 (13.9%)

Race Categories:

Non-hispanic White 5,960 (43%)
Black or African Am. 3,500 (25%)
Asian and Pacific Is. 3,100 (22%)
Native Am. and other 100 (1%)
Hispanic or Latino 620 (4%)
Two or more race 700 (5%)

HOUSING

Total Housing Units: 5,780
Single Family: 4,190 (72.5%)
Multifamily: 1,390 (24%)
Mobile Homes: 200 (3.5%)

Percent Homeowners: 66.7%
Average Household Size: 2.50
Median House Value: \$181,400
Median 2 Bedroom Rental: \$742

Source: 2000 US Census

DEVELOPMENT ACTIVITY

2002 New Residential Permits: 22
Single Family: 22
Multifamily: 0/0

2002 Formal Plats/Lots:
Applications: 0/0
Recordings: 0/0

2002 Land Capacity:
Residential In Acres: 167.04
In Units: 1,913
Commercial In Acres: n/a
In Jobs:

Sources and Notes:

Data are taken from the 2000 US Census; the Washington State Office of Financial Management; Washington State Employment Security Department; and several departments of King County. Compiled by the Growth Information Team in the King County Office of Management and Budget.

The ten Potential Annexation Areas cover most but not all of Urban-designated unincorporated King County; the remaining smaller communities, covering 26 square miles with about 22,000 persons in 2000, are included in the Unincorporated Area Total profile on page 118.

TAX INFO

2003 Assessed Valuation:
total taxable (not exempt) assessed valuation in Jan. 2003
unincorporated area road levy @ \$1,745 per \$1,000

2002 Real Estate Sales:
Real Estate Excise Tax (REET) #1 and 2 totalling 0.5% of sales price

2002 Table Retail Sales:
estimated local option sales tax revenue @ 1.0% of taxable retail sales
from business activity in this area, and wireless telephone, construction
and automobile sales associated with residential in this area.

Source: King County Office of Management and Budget
For further information see www.metrokc.gov/budget/revenue/

QUICK FACTS

Land Area Source: King County GIS Center and King County Office of Management and Budget.

EMPLOYMENT

Source: WA Employment Security Department via Puget Sound Regional Council

Count of firms with employees covered by unemployment, March 2000.

Total Covered Jobs & Establishments

- Manufacturing
- Wholesale/Utilities/Transportation
- Retail
- Finance/Services
- Government / Education
- Agric, Forest, Fishing, Construction

INCOME

Source: US Census 2000.

Household Income in 1999 reported in 2000

Households by Income Category:

- 0 - 80% - Low / mod. Income < \$42,500
- 80 - 140% - Middle income households
- 140%+ - Upper middle / upper > \$75,000

DEMOGRAPHICS

Source: US Census 2000.
Via US Census Bureau website, www.census.gov.

Race Categories:
Race numbers are approximate and may not add exactly to area total.
Persons of Hispanic Origin can be of any race.

- Non-hispanic White
- Black or African American
- Asian and Pacific Islander
- Native American and other
- Hispanic or Latino

Two or more races, not counted above.

HOUSING

Source: US Census 2000.

Total Housing Units

- Single Family includes townhouses
- Multifamily includes ap' ts, condos
- Mobile Homes includes other units

Percent Homeowners: % of occupied units.

Average Household Size

Median House Value owner occupied

Median Rent including utilities

DEVELOPMENT ACTIVITY

2002 Total New Residential Units
Source: KC DDES building permits

2001 Formal Plats/Lots:
Source: KC Office of Mgmt and Budget, Growth Information Team

2001 Land Capacity:
Source: KC Buildable Lands Evaluation Report 2002. Urban areas only.

Residential In Acres of vacant and potentially redevelopable land parcels.
In Units that can be accommodated

Commercial In Acres of vacant, redev.
In Jobs that can be accommodated

Note: some of job capacity is in projects not counted in vacant commercial acreage.

Appendix C

Excerpts from State Growth
Management Act and Countywide
Planning Policies

Appendix C

Excerpts from State Growth Management Act and Countywide Planning Policies

Appendix C
Excerpts from GROWTH MANAGEMENT ACT and
COUNTYWIDE PLANNING POLICIES

RCW 36.70A.210 County-wide planning policies. (1) The legislature recognizes that counties are regional governments within their boundaries, and cities are primary providers of urban governmental services within urban growth areas.

FW-13 Cities are the appropriate provider of local urban services to Urban Areas either directly or by contract. Counties are the appropriate provider of most Countywide services. Urban services shall not be extended through the use of specific purpose districts without the approval of the city in whose potential annexation area the extension is proposed. Within the Urban Area, as time and conditions warrant, cities should assume local urban services provided by special purpose districts.

LU-31 In collaboration with adjacent counties and cities and King County, and in consultation with residential groups in affected areas, each city shall designate a potential annexation area. Each potential annexation area shall be specific to each city. Potential annexation areas shall not overlap. Within the potential annexation area, the city shall adopt criteria for annexation, including conformance with Countywide Planning Policies, and a schedule for providing urban services and facilities within the potential annexation area. This process shall ensure that unincorporated urban islands of King County are not created between cities and strive to eliminate existing islands between cities.

LU-32 A city may annex territory only within its designated potential annexation area. All cities shall phase annexations to coincide with the ability for the city to coordinate the provision of a full range of urban services to areas to be annexed.

LU-33 Land within a city's potential annexation area shall be developed according to that city's and King County's growth phasing plans. Undeveloped lands adjacent to that city should be annexed at the time development is proposed to receive a full range of urban services. Subsequent to establishing a potential annexation area, infill lands within the potential annexation area which are not adjacent or which are not practical to annex shall be developed pursuant to interlocal agreements between the County and the affected city. The interlocal agreement shall establish the type of development allowed in the potential annexation area and standards for that development so that the area is developed in a manner consistent with its future annexation potential. The interlocal agreement shall specify at a minimum the applicable zoning, development standards, impact mitigation, and future annexation within the potential annexation area.

LU-34 Several unincorporated areas are currently considering local governance options. Unincorporated Urban Areas that are already urbanized and are within a city's potential annexation area are encouraged to annex to that city in order to receive urban services. Where annexation is inappropriate, incorporation may be considered.

RF-5 In order to transition governmental roles so that the cities become the provider of local urban services and the County becomes the regional government providing countywide and rural services, unincorporated Urban Growth Areas are encouraged to annex or incorporate within the 20-year timeframe of these policies. To achieve this goal, all cities that have identified potential annexation areas shall enter into interlocal agreements with King County that includes a plan for development standards and financing of capital and operating expenditures during the period prior to annexation.

Appendix D

Recommendations from King
County General Government
Budget Advisory Task Force to
Executive Ron Sims,
dated June 24, 2003

Appendix D

Recommendations from King County General Government Budget Advisory Task Force Report to Executive Ron Sims, dated June 25, 2003

COUNTY ACTIONS

Service Priority Recommendations:

1. **Ensure discretionary contract services are full cost recovery.** This must include not only consideration of overhead and operation costs, but capital costs as well.
2. **Make budget decisions consistent with the County's growth management vision** (as encompassed in the Countywide Planning Policies). Budget choices should **promote annexation of urban unincorporated areas**, and reflect a *lower service level* for rural areas than for urban service levels (acknowledging some rural subsidy will be appropriate.)
3. **Continue to use restraint in initiating new services and programs.** These should not be initiated unless they (1) are mandated, or (2) if discretionary, are either demonstrably able to save money over a period of years (not necessarily immediately); financially self-sustaining; or serve a highly compelling public purpose and can be delivered at a sustainable service level without undermining other budget criteria.
4. **Consider long-term fiscal impacts of decisions; exercise restraint in expending one-time savings or revenues.** One-time revenues should not be used to support ongoing operations, and, it should be a priority to levelize the rate of ongoing budget cuts (rather than have zero cuts one year and major cuts the next year). Where possible, the County should take actions now that can save money in future years. Commendable examples of steps taken to reduce costs in the long run include restructuring of the juvenile justice operations and renegotiated city jail contract.
5. **Determine the impact of discretionary contract services on overhead.** The clearest opportunities to get out of lines of business are in the area of discretionary contracts, such as road maintenance, sheriff service, and district court. The decision to continue these contracts must be based on sound fiscal policy, rather than popularity. The impact of these contracts on organizational overhead should be examined. Specifically, do such contracts *provide relief* to other County functions by supporting necessary overhead infrastructure – or do these contracts *compel larger system investments, including capital investments* (at the

Department or Countywide level) than otherwise is required, thus driving up costs to the organization?

6. **Give basic service functions of government records, elections, property assessment – the necessary resources to operate in a highly reliable manner.**

Longer-Term Actions:

7. **Develop long-term funding plans for human services and parks, clearly delineating regional and local roles.** Providing these services will become harder to justify if other regional mandates are constantly threatened by budget cuts and service reductions – as is the case today. Passage of the parks in May levy bought a temporary respite for parks. Although we are not here recommending the mechanism for doing so, action may be needed to preserve a similar baseline of regional human services funding. While we acknowledge there is some consensus emerging between cities and the County as to the County's regional human services role, we could not reach consensus on whether funding of human services is in fact a regional service or the responsibility of cities. And, despite the parks levy, funding parks operations remains a long-term challenge. The County simply cannot contribute significantly more to human services funding or parks unless new revenue sources become available.
8. **Reduce the jail healthcare budget.** While we lack the expertise to make specific recommendations here, a \$19 million a year budget for jail health services – outstripping CX support for either parks or human services – calls out for an examination of potential service reductions.

Administrative Efficiency Recommendations:

Near Term/Immediate Actions:

1. **Create a stronger culture of efficiency within the organization.** All branches, and all departments, of the County government must consider whether they are themselves efficient, and whether they are supporting efficiencies within the government as a whole. The County should not limit its efforts to addressing efficiencies only within CX agencies. An emerging culture of “haves” and “have-nots” within the County (distinguishing cash-strapped CX agencies from others) is apparent and not positive for County government as a whole. Being “revenue-backed” is not a reason to ignore the need for efficiencies, particularly in the delivery of local services that are collectively being subsidized. Drawing from the input we received from department directors, we encourage the County to increase accountability at all levels of the organization. Managing for performance, benchmarking, and performance measures: these tools must become part of daily management practice at the County. Incentives should be put in place to help make this cultural change take place: examples such as the

Wastewater productivity initiative should be replicated elsewhere in County government. Policies that arguably discourage savings—such as the budget office **capturing all under-expenditures – should be eliminated**. Duplicative processes and reporting requirements that waste time and resources should be streamlined. For example, we are concerned as well about the amount of Executive staff time that is dedicated to respond to Council budget provisos—over 140 this last budget year alone.

2. **Implement additional efficiencies and control costs in the law, safety and justice arena, through pro-active work of the Criminal Justice Council.** With over 70 percent of the CX Fund expenditures, unquestionably, law, safety and justice functions should not be immune from the need to become more efficient. The culture of autonomy within the separately elected areas of government – sheriff, prosecutor, district court, superior court – must be challenged: coordination and transparency are key to efficiency. The Criminal Justice Council must provide leadership to identify efficiencies and ways to control costs. Without their input, cuts will still have to be made – but perhaps in a less than optimal way. The Task Force respects the expertise of these groups to help identify the most appropriate efficiency tools.

All law safety and justice agencies need to be actively engaged in this effort with the Executive. Are current means of providing services the most efficient and effective? Are specialty courts worth their higher operating costs because of other systemic savings provided? Is service delivery becoming more or less efficient on a per capita or caseload basis? Are service levels growing or declining? Questions such as these should be answered and tracked over time in a consistent manner. Innovations that can streamline operations and save money must be aggressively sought out and implemented. Recent initiatives such as creating a Community Corrections Division with the Department of Adult and Juvenile Detention are important steps, as is the work encompassed in the Juvenile Justice Operational Master Plan and Adult Justice Operational master plan. Efforts to reduce the average daily jail population in the County's jails should also continue.

As an initial step, we strongly encourage an investigation of the potential to save money through **consolidating the administration of district and superior courts**. Ultimately, consolidation of the courts themselves may also be needed to bring additional efficiency to operations.

3. **Provide greater transparency in presenting the budget and budget and operating policies.** The County budget should set forth separate *regional service* and *local service* budgets—detailed by type of service and geography. The County should know how much it spends in *each PAA* on local service. This should be a priority in developing the 2004 budget. Clarity is particularly needed for the law, safety and justice budgets managed under direction of separately elected officials: *budget and management information from these departments must be fully accessible to the Executive and Council*. Uniform definitions should

be developed and employed across the organization when presenting budget information—particularly in the area of *departmental and division overhead*. Effort should also be made to make the *overhead model more understandable*, as we heard considerable concern and confusion on this subject.

4. **Streamline, simplify and standardize operations, practices and policies.** Departments, separately elected officials, and union leaders must be willing to align operations practices and procedures for the benefit of the entire County organization. It is not possible for the Task Force to quantify the savings possible from these items, but our observations suggest that the savings could be significant, given adequate time and funding to implement these suggestions. Engaging all employees in a search for productivity improvements has had demonstrated effect in the business world, yielding as much as five percent annual savings on an ongoing basis. The Department of Executive Services (DES) initiative to make internal practices more uniform is potentially very important initiative. In addition, there should be an ongoing rigorous and comprehensive effort (again involving personnel at all levels of the organization) to *find internal and external barriers to efficiency*—outdated code provisions and policies--and to remove these barriers where possible.
5. **Invest in central systems:** Technology investment in central systems is lagging and must be addressed. The price tag associated with these investments is significant. The County should make it a priority to direct one-time resources to fund these capital investments. Financial Systems Replacement (FSRP) should be a high priority. We also believe the timeline for replacement/acquisition of needed systems can and should be significantly accelerated. To truly realize the benefits of upgraded systems, the County must simultaneously implement greater standardization of basic business practices and procedures. As part of this whole effort, the County should review the experience of the City of San Diego that apparently outsourced much of its Information Technology (IT) function in a manner that preserved individual employee jobs by moving them to private employer.

Longer-Term Actions:

6. **Secure efficiencies through new methods of service delivery: first seek employee ideas and actions; if necessary, contract out services to other governments or to the private sector.** Contracting out is not universally appropriate or cost effective. In particular, the ability to perform services may not exist in some cases outside government, and in all cases sunk investments and the interests of the public must be considered. The County has achieved significant successes through partnership with labor, and this should continue wherever possible. Employees may have the best ideas about how and where to find efficiencies in County operations--and should be actively engaged in this type of inquiry. In fairness, public employees should be given the opportunity to provide services at a competitive cost to private sector options before alternative service

providers are engaged. But ultimately, the goal should be to preserve service levels to the public, not public sector jobs. Some specific ideas that we believe should be pursued include:

- a. **Amend the County Charter and labor policies** to expand the ability to contract out to both the public and private sector where it can preserve public service levels.
 - b. **Pursue “reverse contracting” with cities.** For example, can the City of Bellevue provide equivalent police services as are currently being provided by King County in the neighborhood of Eastgate – but at less cost? Can some cities provide maintenance of neighboring County parks at less cost than the County? The geographically fragmented service area of King County suggests there may well be such opportunities – and the lack of current examples is therefore somewhat surprising. The Task Force encourages the County to actively investigate this idea – *where it can save public dollars.*
7. **Collaborate with other governments.** We would emphasize the importance of maintaining positive dialogue with regional partners – cities, special purpose districts, other counties. King County does not exist in isolation, and we are convinced that the cooperation of other governments will be key to resolving the County’s problems in the longer-term. For example, there may be savings achieved through joint purchasing agreements in areas such as fleet or insurance. We suspect there is a great amount of duplication in the delivery of public services as between the nearly 200 units of government within King County. Opportunities for more efficient service delivery through consolidation must continually be sought out.
8. **Aggressively seek cost control of salaries and benefits.** With these items consuming over seventy percent (70 percent) of the CX dollars, these areas must be a central consideration balancing the budget. The County must consider its employee benefits package: the County has yet to adopt innovations in this area that may assist in controlling annual cost increases. Work on this should begin now, even though the current benefits contract will be renegotiated in 3 years. Data from the state indicates that King County top managerial salaries lag behind both private and public sector comparables. While the County must continue to be vigilant in controlling costs, this raises an underlying basic competitiveness issue: King County must be able to attract and retain good employees.
9. **Examine options to reduce facilities costs.** The County now rents nearly 300,000 square feet in downtown Seattle in numerous office buildings. Should the County buy some building instead? Or build them on land it owns? Should so many County services be in downtown Seattle, given real estate market, lower cost options elsewhere in County? Would greater efficiencies occur from having County functions physically consolidated? The County should undertake a *comprehensive analysis of office space options.*

10. **Explore detention alternatives.** The County should determine whether it would be less expensive to send its low risk prisoners (who otherwise do not qualify for alternative detention) to Yakima, as many cities have done. We understand that the County could only reduce costs on a marginal basis through such steps, so this may not result in savings (in which case, it should not be pursued).
11. **Revise jail employment structures.** In partnership with unions, the County should investigate whether operating efficiencies at jail could be achieved through broader – and far fewer – employee job descriptions than the current 64 separate job titles currently in place.

Aligning Services and Revenues Recommendations:

Near Term/Immediate Actions:

1. **Initiate a comprehensive strategy to simultaneously encourage annexation and reduce the “urban” portion of the local service subsidy.** On a time-limited basis – we propose **three years at the longest** – the County should *re-direct its local revenues to (1) encourage annexation and (2) reduce the subsidy amount.* All local revenues – particularly the unincorporated area property tax levy, Real Estate Excise Taxes, and surface water management fees – should be made available in some degree to support this program. The goal is to focus as much money as feasible – on a time-limited basis – to secure annexation through agreements with cities *and* take immediate steps to reduce the subsidy by (1) reducing service levels and (2) reallocating local dollars to fund more of the local service budgets. At the end of this period, progress must be assessed, and new budget limits established to ensure that the subsidy thereafter does not get worse. This initiative should be launched as part of the 2004 budget.

The County must be unwavering in its commitment to publicly promote annexation. It must be willing to start to immediately reduce services and realign expenditures. In partnership with cities, the County must initiate public dialogue to build grass roots support in PAAs for annexation. Residents must understand that they will see service reductions – and that the only way this can change is if the County imposes new taxes on them or if they annex. Outreach efforts must be tailored to the needs and characteristics of individual communities. The County must be prepared to put substantial dollars on the table for cities (albeit far short of various estimates of ‘urban infrastructure deficit’) to promote annexation.

This initiative will require significant restructuring of current capital improvement programs and operating budgets for local service programs. It will also mean *halting or scaling back plans to bond these revenues* – since if the effort is successful, the tax base to repay such bonds will be transferred to cities. We believe this re-structuring, while painful, is well worth the end result of aligning

County revenues and expenditures, transferring responsibility for expensive service areas, and achieving the regional land-use vision. In practical terms, the reallocation of local revenues can simply mean a delay, rather than cancellation, of projects. Given the magnitude of the budget problem the region must understand the urgency and importance of achieving these remaining annexations.

Three important clarifications to this proposal must be clear:

First, we are not proposing that the County “buy” its way out of the urban unincorporated areas by eliminating infrastructure deficits. There is woefully inadequate funding to do so. Frankly, we do not believe immediate infrastructure upgrades are required in an annexation. Portions of Seattle have been without sidewalks for decades since they were annexed. Eliminating infrastructure deficits using only unincorporated area dollars is not possible in any reasonable time frame, and eliminating infrastructure deficits using regional dollars is not a responsible action given the current pressure on those budgets. And, funding today is much tighter than it has been historically.

Second, Cities cannot fairly insist that the County completely eliminate the subsidy if the urban areas do not in fact annex. Cities would themselves subsidize these areas. Service reductions are inevitable (and appropriate) absent new local revenue streams. But ultimately, if areas remain un-annexed, the cities cannot fairly continue to complain about the subsidy – and some nominal subsidy will, absent new revenue, be necessary to provide urban levels of service.

Third, we are not proposing a “dollar-in dollar-out” approach to serving each individual PAA. Just as cities transfer tax dollars from their commercial areas to support residential neighborhoods, the County needs budget flexibility in directing its local service dollars. A few PAAs may now be net exporters of local service dollars: that may well be appropriate.

2. **Identify the basis and targets for cutting from all local service budgets as annexations occur.** Dollar-for-dollar budget reductions may well be impossible as tax base gradually disappears, leaving potentially even more diffuse geographic service responsibility for the County. However, every effort must be made to reduce local service budgets commensurate with the loss of local revenues. Work must begin immediately to map out the basis on which these cuts will occur.
3. **Quantify the current rural subsidy and rural service levels – and track them over time.** Unless the region wishes to revisit its growth management vision, a rural subsidy is appropriate. But as part of the overall challenge of making the County budget more transparent, the rural subsidy and rural service levels should be quantified and tracked, so that the region can see that rural service levels are provided, and the price tag for doing so. As called for in the CPPs, rural service levels should be demonstrably lower than urban service levels.

Longer Term Actions:

4. **Consider seeking legislation to equalize taxing authorities as between cities and unincorporated areas.** In the long-term, if annexations do not occur, and the County's revenue problems continue, such solutions may be dictated. We recognize that this would take major state legislation, and would probably be a more costly alternative for these areas than annexing to neighboring cities, but we do not think the County should continue to sacrifice regional service levels to fund its local service responsibilities.

Revenue Recommendations:

Immediate/Near Term:

1. **Provide better public information about the County's roles and revenues.** Lack of public understanding is a barrier to reform in Olympia, and a barrier to moving the annexation agenda. It is critical that the public better understand the implications for basic County services resulting from the current property tax limitations and annexation patterns. The County public television station could be a useful tool for this purpose. County elected officials need to become educators and advocates for the government: much could be accomplished if the County's 94 elected officials presented a united front.
2. **Include a concise statement of the fiscal vision for the next several years in the annual budget.** Will new taxes be necessary? If so, for what purposes? Are major new initiatives planned? Are major reductions planned? As noted, while the public generally is unlikely to grant generic "county purposes" tax increases, funding solutions will in all likelihood include periodic special purpose levies as there are limited options to otherwise avoid service cuts and secure wanted new programs. Special purpose levies are easier to justify, however, in the context of an overall plan for the government – so the public isn't wondering when the next request for tax dollars is coming.
3. **Secure full cost recovery on all contracts.** This should include not only overhead and operating, but capital costs as well. This recommendation has been earlier stated, but bears repeating. It is illogical to undertake a major effort to annex areas in order to eliminate the subsidy of County local urban unincorporated area services – only to then continue to subsidize cities through contracts.
4. **Impose fee increases where possible to avoid further service cuts.**
5. **Aggressively pursue grant opportunities.**
6. **Develop a long-term funding plan for parks and human services.**

State Action

Service Priorities:

1. **Aggressively oppose additional state unfunded mandates.** This must remain a major effort of the County in its advocacy work at the state level.

Administrative Efficiencies:

2. **Advocate for greater flexibility in the labor area.** In particular the County should seek changes to binding arbitration requirements in order to provide greater ability to control costs.
3. **Seek changes in state law that will give cities and county tools to act together to achieve greater efficiency.**

Aligning Services and Revenues:

4. **Advocate for a change in state law that will provide for automatic transfer of local parks and recreation facilities to cities upon annexation.**
5. **Identify means to streamline annexation laws and accelerate the annexation process.**

Revenues:

6. **Grant urban counties planning under GMA authority to impose a councilmanic utility tax in urban unincorporated areas,** comparable to existing city authority in scope and amount. This is single most significant step the state could take (without impacting its own budget) to assist the County.
7. **Grant counties authority to raise district and superior court fees.** We would propose full-cost recovery for some civil cases where for example large corporate parties are involved who can easily afford such fees.
8. **Reduce the state's take from locally generated court fees.** Over 40 percent of the fees generated at District Court now are remitted to the state for other programs: those dollars would make a critical difference in the County's ability to continue District Court programs.
9. **Institute authority to impose Superior Court fees on a "per pleading" basis,** as is done in California.
10. **Increase direct state support for District and Superior Court.** The state's sole current contribution – one half the salaries of Superior Court judges – puts it 49th

in the nation in supporting courts, according to the State Administrative Office of the Courts.

11. **Provide some funding support for indigent defense costs.**
12. **Increase legally permissible uses of the Real Estate Excise Tax (REET).** This tax can only be spent for *capital* purposes. As was recommended by the Metropolitan Parks Task Force, some portion of this significant tax source should be available for maintenance purposes – for example to support the operation of capital improvements acquired with REET funds. A further change worth considering would be to allow larger portions of this tax – perhaps all of it to be applied to maintenance purposes in times of an economic downturn.
13. **Continue to fund basic public health.**
14. **Provide state funding for a greater share of the extraordinary aggravated murder costs experienced by counties.** These have reached such a magnitude in King County – even excluding the Ridgeway case – that they threaten the ability to maintain service levels throughout the County’s criminal justice system.
15. **Provide direct state funding to counties for dependency cases.** It is illogical for the state to fund all indigent defense in the state except in King County, simply on the basis that the County historically had adequate funds to do so.
16. **Allow Counties to set public records and license fees at levels that will more closely approximate the full cost of service.**

Regional Dialogue

Service Priorities:

Consolidate and restructure delivery of specialized police functions: The County should initiate a regional dialogue with cities, the port, and the state to examine this service delivery area. Within King County, there are reportedly 80 different specialty police units provided by at least 8 cities and the County. For example, there are three different marine patrol providers patrol Lake Washington. There are multiple SWAT, Bomb, and K-9 teams. There is unquestionably excess capacity here. Can the County continue to afford an air patrol? The control issues here are formidable – but the dollars on the table are potentially very significant if a more rationalized service delivery mechanism can be agreed upon.

Administrative Efficiencies:

Sponsor “Best Practices” forums with other governments in the region. These may be helpful in identifying ways others have addressed common challenges of controlling cost of benefits, managing for performance, benchmarking, contracting out, and similar matters.

Aligning Services and Revenues:

King County and cities should work in the immediate term to refine the annexation strategy we have outlined. Even absent consensus, we believe implementation of this strategy should begin in the 2004 budget.

Revenues:

Work with other government associations to jointly develop and advocate legislative agendas. The “Tri-Association” agenda approach in which the cities, counties and public safety lobbying organizations all worked together in the 2003 legislative session is a potentially very powerful new initiative that should be continued. And, given the importance to the business community of a healthy regional government, we would encourage the County to seek business community support of its legislative agenda where possible.

Appendix E

Second report of the King County
General Government Budget
Advisory Task Force,
dated June, 2004

BATF King County General Government
Budget Advisory Task Force

APPENDIX E

June 29, 2004

Honorable Ron Sims
King County Executive
Suite 400, King County Courthouse
516 Third Avenue
Seattle, WA 98104

**RE: Review of King County's Progress to Date in Implementing the June 2003
Recommendations of the Budget Advisory Task Force**

Dear Executive Sims:

At your request, the King County General Fund Budget Advisory Task Force¹ reconvened in April, 2004 to review and assess progress to date in implementing the recommendations included in the Task Force's June 2003 Report. The Task Force met three times and heard briefings from Executive Staff as well as leaders of the law, safety and justice agencies. We also received public comment from the Suburban Cities Association. We submit to you herewith our findings, with our commendations for your leadership and successes to date, and our assessment of the challenges remaining.

The Task Force's June 2003 Report included 39 recommendations. To fully implement these recommendations requires a fundamental reshaping of County government. Understanding that the "low-hanging fruit" have already been harvested, we did not then, and do not now, expect implementation to be easy or to occur overnight. Overall, we are impressed with the response to the recommendations and the hard work that has occurred and applaud the progress being made. Your administration has acted on a large number of our recommendations many of which will pay off in reduced costs and/or greater efficiencies in the future: essential investments in technology, the annexation initiative, reducing jail health costs, systematic reviews of the operations of district court and the jail, and efforts to reduce the growth of employee health care benefits.

However, more effort is needed in several areas. Despite the efforts of many it is not clear that all elected officials in County government or all staff share our vision as to the urgency of the challenge and the need to work together to reshape operations. Greater collaboration internally and externally with other local government entities, vendors and labor is needed.

¹ A few of the original members of the BATF were unable to join us for this Phase II effort; those who did participate are identified below.

The County's General Fund financial situation is still headed toward a breakdown. While good efforts have deferred the "train wreck," the County is still on a collision path. Annual revenue growth remains at about 2-3 percent per year, while expenditures continue to grow in excess of 5-6 percent per year. Fundamental change is needed. The County needs to continue to look for ways to aggressively reduce operating costs. Labor costs are the largest single component of expenditures, and these costs continue to grow annually at rates well in excess of rates of revenue growth. In our judgment, new revenues will simply not be forthcoming to avoid the need to grapple with this issue. New ways must be found to involve elected officials, County employees and their union leaders to acknowledge this reality and work together to avert a calamitous loss of essential services.

A number of positive, important steps have been taken by the County and the Executive to follow up on our reports. In particular, we would commend the following actions:

- Funding technology investments in the 2004 budget was a critical step forward and should continue in future budget years, although this has not yet translated into reduced operating costs.
- A clear commitment to—and demonstrated success in actually achieving--full cost recovery in service contracts exists, endorsed by both the Executive and Council.
- Restraint has been shown in launching new initiatives and in expending one-time savings and revenues.
- A plan to substantially reduce the costs of healthcare for jail inmates has been put in place and should yield significant savings over the next two to three years.
- Transparency in the presentation of the budget has improved. Particularly important is the current effort for all departments to build their 2005 proposed budgets from the ground up in categories of regional, local, urban, and rural expenditures: this will enhance understanding of how, and where, the County is spending its revenues.
- Laudable efforts at standardizing business practices have been put in place, particularly in the office of the public defender.
- Implementation of electronic court records systems is a noteworthy efficiency effort by the District and Superior Courts.
- A good start has been made regarding the need to annex remaining urban areas of King County to cities, including funding of over \$10 million in incentive fund. While this amount of funding will not be sufficient to make all annexations occur, it is a good step. Additional ways must be found to address the financial concerns

of annexing cities—although there can be no realistic expectation that the County can responsibly make annexation “revenue neutral” to cities in light of the ongoing budget crisis.

- Work is underway to revise jail employment structures to increase the flexibility of employees and reduce operating costs. We also commend the continued emphasis on alternatives to detention, another key to controlling jail costs.
- A priority on imposing fee increases where possible to avoid service cuts continues to be an important budget factor, as we recommended.
- The Health Advisory Task Force is a potentially important effort to address the rampant increases in benefits costs which are a significant cost driver for the County (as for all businesses and governments). We applaud the Executive’s leadership in initiating this effort.

We express the following notes of concern and need for greater urgency:

- We heard little evidence that there is a widespread involvement of employees in developing ways to do their work more efficiently, using the wastewater productivity initiative as an example. If that isn’t occurring, it should be. There should be a major sense of urgency communicated by all department leaders, and direct involvement by those who know best where waste occurs: the people who do the work.
- The issue of overhead—and how it can be adjusted as annexations occur—continues to loom over the budget discussions. We do not accept the notion that overhead cannot be reduced commensurate with reduced service responsibilities or, as an alternative, that new contracts must be secured as local service responsibility is annexed to cities. In general, the effort must be made to shift more of total operating costs into the category of “variable” rather than “fixed” costs.
- The future of parks and human services remains unresolved. While we would not have expected answers to be in place by now, we must reinforce the urgency to find long-term funding solutions for these services—we do not necessarily assume these services should remain as County-funded operations over the long term.
- Overall, leadership of the law, safety and justice agencies appears overly focused on the need for revenue enhancements as opposed to the need to tackle operational reforms. In particular, there is an apparent lack of enthusiasm for the need to merge the operations of the district and superior courts—which to us remains an obvious area of potential efficiencies. At the very least, consolidation of administrative functions should be pursued. State funding for the courts should

be pursued but the County should not assume this will be successful except possibly in the very long-term. We continue to endorse aggressive effort to secure state legislation revising court fee structures to enhance revenue recovery.

- The idea of reverse contracting with cities to provide services appears to be bogged down by legal and labor issues. We urge continued effort to examine opportunities for efficiencies via this mechanism, understanding that not all such arrangements would save money.
- The long-standing discord in the region among local governments remains a barrier to finding comprehensive solutions to the County's fiscal problems. All parties need to redouble their efforts at collaboration. This does not mean simply conceding the other side's point in a disagreement; it does mean at a minimum an open dialogue and consideration of options before proceeding. The September 2003 annexation summit and October 2003 public safety summit are both commendable efforts and should be replicated in other areas in the future. An enhanced effort to develop and advocate a joint legislative agenda should be a priority for both cities and the County.
- The suburban cities' input to us focused on the challenge of annexation and leads us to question the likelihood that this critically important initiative can be accomplished on a timely basis. Cities must realize that if annexations do not occur soon, residents will share in the financial crisis facing the County, one way or another. We continue to believe the County's funding priorities should be on preserving regional services over funding local services. We would expect and hope to see the urban subsidy drop in the future. However, if the annexation initiative does not soon result in significant transitions and reduced local urban service responsibility, the County should investigate upzoning remaining unincorporated urban areas as a means of generating additional revenue to serve these areas.
- The future of urban service levels in unincorporated areas needs to be clearly enunciated by the County. We understand some County Councilmembers are taking steps to educate their district residents on the impending service cuts, and we applaud this. These dialogues must be translated into action at budget time as well. The urban subsidy cannot continue to grow at the expense of regional service levels. If residents of urban unincorporated areas do not understand and observe that their local county services are declining, they are unlikely to support annexation.

Our 2003 Report included several recommendations for state legislative action. Unfortunately, the state has been largely non-responsive to the financial predicament of counties. This is partially due to the fact that King County legislators in particular and counties statewide in general, haven't coalesced around legislative priorities: this must occur, and soon. We have previously called out the importance for counties to have

control over existing revenue sources and be authorized to impose a councilmanic utility tax in urban unincorporated areas. For so long as the County remains in the urban local service business, the utility tax is a basic financial tool needed to defend against further erosion of regional (and local) services, and will also help facilitate annexation.

State inaction in the long run will increase the dissatisfaction of the voters with state and local leadership, as citizens face financial crises in government provided services. The distribution of property and sales tax dollars as between cities, counties, school districts, special districts, and the state is lost on the vast majority of citizens. State leaders need to acknowledge that they are a part of an integrated government service system. The recommendations on state funding, and especially on the granting of authority to set fees, need to be taken much more seriously. We encourage the County to be aggressive in seeking needed changes from Olympia. We hope the legislature will eventually respond.

In closing, we observe a hard-working effort on the part of the Executive, his staff and the Council to act on many of our recommendations. The County's structural revenue-expenditure gap continues to threaten basic services that all residents rely upon. This is a long term problem requiring long term solutions. Unfortunately, time is of the essence and a sense of urgency and the need for immediate action is required. The County needs to do more to address this challenge, and cannot simply rely on future voted tax increases to shore up programs: the operating cost structures must be rebuilt.

At the same time, it is clear to us that the County acting alone cannot secure all needed changes: support from cities and the legislature is indispensable to success, as is support from the business community, labor and the public at large. The work achieved by the County in the last few months is commendable, and must continue. The sense of urgency to grapple with the fiscal crisis must be reinforced at all levels of the organization, and within the region. We hope this interim assessment can help do just that, and we will look forward to learning of the County's continued efforts in this regard.

Sincerely,

/s/
Bob Wallace
Co-Chair

/s/
John Warner
Co-Chair

*Budget Advisory Task Force Members participating in this effort,
in addition to the Co-Chairs include:*

Clem Edwards	Rollin Fatland	Hon. Booth Gardner
Hon. Darcy Goodman	Jim Hattori	Peggy Phillips
Connie Proctor	Hon. John Spellman	Aggie Sweeney

Appendix F

Proposed King County
unincorporated area budget and
annexation strategy, with referenced
appendices, from Executive
Proposed 2004 Budget

Proposed Unincorporated Area Budget and Annexation Strategy

Introduction and Overview

The Executive is proposing a three-year initiative to promote annexation, premised on the need for a collaborative process that recognizes the fiscal impacts to cities of annexing largely residential areas. Described below is the policy basis for this initiative, the details of the initiative, and the related calculation of local and regional revenues and expenditures. The Budget Advisory Task Force agreed that the County suffers from a system of service priorities that has led to a misalignment of revenues and expenditures, concluding: “[w]hile some rural service subsidy is necessary and appropriate under growth management principles, the Task Force believes that acting to address the urban subsidy may be the single most important step the County can take to address its fiscal challenges.”

The new initiative to promote the annexation to cities of remaining urban unincorporated areas of King County is largely consistent with the strategy outlined by the Budget Advisory Task Force. It will help accomplish a major tenet of the region’s growth management vision that has been in place for more than 10 years. This initiative is also critical to securing long-term budget stability to the County’s Current Expense (CX) Fund. Over time, the County can better provide regional and rural services—its long-term governmental role---by securing the appropriate transfer to cities of local urban service responsibility.

The present general government operations of the County are not sustainable. Each year in the future will see reductions in all general County service levels—regional, rural and urban local services.

Completing annexation of the remaining urban areas to cities will transfer most of the County’s local service responsibilities to cities, a transition that is supported by both state law and regional policies. The timing of annexations is under the control of neither the cities nor the County. A successful annexation initiative depends on establishing a positive collaboration and dialogue between three interest groups: residents, the County, and cities.

The annexation initiative described here will also require new discipline in tracking County revenues and expenditures. As territories annex to cities, there is a direct and measurable loss of revenue to the County that must be reflected in County budget reductions. Planning for annexation will require the County to re-assess the priorities and policies around many of its local service functions.

Finally, the size of the urban subsidy depends on assumptions made about revenue and expenditure allocation. On this, there have and will continue to be disagreements. What is most important, however, is to identify ways to make annexations succeed in the remaining urban unincorporated areas, and to pursue those steps to success while simultaneously working to stabilize the CX budget.

King County's Growth Management Vision

In 1990, the Washington State Legislature passed the Growth Management Act, which requires counties and cities to plan for population growth. In 1992, King County adopted and a majority of the cities ratified a 20-year vision statement and related policies, expressed as a set of "Countywide Planning Policies" (CPPs). The vision expressed in these policies is clear – the County should be the regional service provider and the provider of local services to the rural area, while cities and special districts are the most appropriate providers of local urban services. The CPPs established an Urban Growth Boundary. With a few exceptions, the area to the west of the Boundary is designated as the urban area and the area to the east of the Boundary is considered the rural area. All major commercial and industrial development is restricted to the urban area. Urban service levels are proposed to be higher than rural service levels.

- **Early Success, but Progress Slowing**

Implementation of the growth management vision in King County had early significant successes. As late as 1989, more than 40% of King County's population resided in the unincorporated area. In 1989 new cities began to incorporate; major commercial development areas were also annexed to cities. From 1989 through 1999, ten new cities incorporated and 323,800 unincorporated residents became city residents. The percentage of County residents living outside cities was nearly cut in half: by 2000, only 21% of the County population lived outside cities. In the last few years, however, the pace of annexation has slowed dramatically. From 2000 through April 2003 only 7,600 residents annexed to cities.

The 2003 King County Annual Growth Report estimates that 351,843 people still live in unincorporated King County, including some 216,000 residents in urban unincorporated King County. The current unincorporated urban area consists of large residential areas and small pockets of commercial retail development that generate limited amounts of sales tax revenue. The remaining urban unincorporated area is a series of geographically isolated islands surrounded by cities or bordering the rural area.

- **Fiscal Challenge of Serving Remaining Urban Unincorporated Areas**

While this geographically scattered urban area is a challenge for the County to serve efficiently, cities contemplating annexation recognize that in most cases, taxes generated in residential areas will not fully support the cost of urban local services. Cities typically subsidize their existing residential neighborhoods from revenues generated in commercial "downtown" areas. Annexing and adding more residential areas thus typically increases the pressure on city budgets. If annexation is looked at solely as a financial proposition for a single city, the decision will almost always be to reject annexation. As a larger policy proposition however, the region as a whole has concluded through adoption of the Countywide Planning Policies that optimal delivery of governmental services requires

PROPOSED UNINCORPORATED KING COUNTY BUDGET AND ANNEXATION STRATEGY

annexation—to achieve the region’s land use vision and secure the most efficient and effective regional and local service delivery. Thus, a key challenge of an annexation strategy is to find ways to bridge the gap between immediate city fiscal pressures and long-term regional policy goals.

- **A Closer Look at the Urban Unincorporated Area**

This year’s King County Annual Growth Report assesses the remaining urban unincorporated area by major geographic areas. The demographics, revenues, and service providers for each of the ten largest remaining unincorporated urban islands are separately described. Eight of these areas have been identified in city comprehensive plan as areas for future annexation (so called “Potential Annexation Areas,” or PAAs). Two of these areas, North Highline/White Center and West Hill/Skyway, remain unclaimed by any city.

These ten largest unincorporated areas are described in part in the table below, as well as the remainder urban area and rural area:

Area	Annexing City	Sq. Miles	Population – 2000 Census	Median Household Income – 2000 Census
East Federal Way	Federal Way	7.9	20,300	\$62,400
East Renton	Renton	3.3	7,400	\$65,300
Eastgate	Bellevue	1.2	4,600	\$65,600
Fairwood	Renton	10.7	39,400	\$58,000
Kent Northeast	Kent	5.5	23,600	\$65,700
Kirkland	Kirkland	6.9	31,700	\$69,800
Klahanie	Issaquah	1.9	11,000	\$84,700
Lea Hill	Auburn	4.3	8,200	\$65,700
North Highline	None	6.2	32,400	\$39,950
West Hill	None	3.2	14,000	\$47,385
“Other” urban area			22,000	
Rural Area	None	1,673	135,000	\$73,400

The remaining large unincorporated areas (for ease of reference, collectively called PAAs herein) range in size from as small as 1.2 square miles to as large as 10.7 miles. The population of some of these PAAs exceeds the populations of many existing cities within King County. Combined, the population of the 10 largest PAAs is equivalent to what would be the second largest city in Washington State. Eight of the 10 PAAs and the rural area have median incomes well in excess of the County’s median household income of \$53,200. The PAAs represent a mix of well-established neighborhoods built many years ago and newly developed areas with relatively new infrastructure. Both the service needs and infrastructure requirements vary among these areas. Similarly, the attitude of residents towards annexation is also diverse among these areas.

The Annexation Strategy: Executive's Proposal

The Executive is proposing the creation of an Annexation Incentive Reserve and a new PAA Capital Preservation Project in order to promote annexation of remaining urban unincorporated areas. Together, these initiatives will make significant dollars available to annexing cities over the near term, without imposing new taxes or reducing local service budgets.

The concept is to utilize these funds as an offset to the financial burden assumed by cities in annexing. The goal is not—nor can it be—to make annexation a revenue neutral proposition for cities: the service demands on the County are simply too great, and revenues too scarce, for that to be feasible. The dollars proposed are however, a significant financial contribution in light of the County's fiscal condition and achievable without reducing local service budgets.

Because of the variable condition of PAAs, and the unique concerns of each of the communities to be annexed, the strategy will be implemented through targeted outreach to communities conducted in concert with cities, and negotiation of annexation agreements addressing the needs and concerns of the residents, cities and the County. In accordance with the recommendations from the Budget Advisory Task Force, this annexation strategy is launched in the 2004 budget as the first year of a three-year strategy. The specifics as to funding for the strategy are as follows:

- **Annexation Incentive Reserve:** A \$10 million Annexation Incentive Reserve will be funded from one-time dollars in the CX Fund. This allows the strategy to proceed without negative impact to the local service budgets. The allocation of these dollars to cities will be structured to promote annexation as soon as possible while recognizing the different service and infrastructure burdens associated with each area.

It is not expected that all annexations will be accomplished by the end of 2004, or even by the end of 2005. It is proposed that unexpended portions of the Reserve would be rolled over into the 2005 budget and supplemented, if possible, with additional one-time revenues. This same rollover and additional cash infusion would again occur in 2006, the third-year of the strategy. At the end of the three-year period, the County would assess the success of the strategy and determine whether the strategy should be continued.

- **PAA Capital Preservation Project:** Most of the capital investment occurring in urban unincorporated areas is through use of the County Road Fund, and to a lesser extent, application of Real Estate Excise Tax and Surface Water Management revenues. For 2004, the Executive has made a conservative screening of capital projects currently programmed in the six-year Capital Improvement Program for Roads and the Real Estate Excise Tax funds. A small number of projects will be *deferred* by at least one-year, and the monies attributable to those projects will be transferred to a city if the area in which a

PROPOSED UNINCORPORATED KING COUNTY BUDGET AND ANNEXATION STRATEGY

project would have occurred is annexed within the deferral period. In addition, certain unincorporated area projects have been cancelled due to cost growth, shifting project priorities; monies from these projects and from certain efficiencies have been captured and *reprioritized* in order to be made available to annexing cities for infrastructure improvements in annexing areas. No life/safety projects or projects with significant matching funds at risk are included in this project. In the two categories—deferral and reprioritization—are the following sums:

- **Deferral:** \$5.6 million in Roads projects and \$.8 million in REET projects.
- **Reprioritization:** \$5 million in Roads capital funding and \$2 million in REET funding.

These sums, totaling slightly over \$13 million, would be held over for a period of three years and would be transferred to an annexing city for capital improvements to annexing areas upon terms and conditions negotiated in interlocal agreements that cities and the Council approve. In this way, residents know projects will occur if annexation happens in the near future, but must recognize that as financial pressures on the County mount over time, capital priorities may change. In turn, a city contemplating annexation has assurances that the County is not arbitrarily disinvesting in the area on the eve of annexation. At the end of three years, the County would assess whether such funds should continued to be held or reprioritized to other purposes. Similar screening of capital budgets would occur in years 2 and 3 to determine whether additional funds should be added (or removed) from the PAA Capital Preservation Project.

As noted, this strategy is consistent with the County's comprehensive plan, the Countywide planning policies developed jointly by cities and the County, and the recommendations of the Budget Advisory Task Force. Over time, success in this strategy will reduce and eventually eliminate the County's urban local service responsibilities – providing needed relief to both regional and rural service budgets.

This is not a short-term strategy, nor is it a panacea. Multiple other actions must occur over time to stabilize the County's Current Expense Fund, and slow the rate of service level reductions necessary to balance the CX budget. Success in this annexation strategy will require support from the cities and the residents of urban unincorporated areas. Also critical to note, success will require that the County reduce local urban service budgets as annexations occur, to account for the loss of tax base and service responsibility. However, as was noted by the Budget Advisory Task Force in its June 2003 report, taking action on the urban local service responsibilities "may be the single most important step the County can take to address its fiscal challenges."

Local Revenue and Expenditure Imbalance: Refining the Analysis

In last year's Executive proposed budget, an unincorporated area budget was presented, the scope of which included most but not all local services provided to the residents of King County's unincorporated area. A general local revenue and expenditure analysis was presented, illustrating an imbalance between local revenues and local services

PROPOSED UNINCORPORATED KING COUNTY BUDGET AND ANNEXATION STRATEGY

estimated at \$41.3 million in 2003. Similar reviews over the last 15 years have resulted in similar conclusions as to the existence of a "subsidy" of local services from regionally generated revenues.

This year, the analysis has been changed in four key ways. *First*, it has been expanded to include all local services, rather than the subset of services included in prior analyses. *Second*, the analysis has been segregated by fund, in recognition of the fact that dollars are not fully fungible between funds because of restrictions in state law and County Code. *Third*, the analysis of these separate funds is scrutinized for projects that, while benefiting unincorporated area residents, also benefit the region. *Fourth*, the local expenditures from these funds have been separated into urban and rural categories.

More specifically, the analysis includes services from the 2003 analysis (law, safety and justice; parks; human services; and road maintenance, operation and construction) and *adds* local permitting and surface water management services. All of these services are budgeted within one or more of **seven separate funds**, with each fund subject to expenditure restrictions defined by State law, standard accounting practices and County Code. These seven funds provide services both regional and local in nature, as well as contract services to third parties. Thus, the analysis categorizes the revenues and expenditures in each fund as either: (1) regional, (2) contracts and grant services, or (3) unincorporated local service. Within the unincorporated local category, urban and rural revenues and expenditures have been identified.

This refined analysis incorporates a greater degree of accuracy than prior years, particularly in terms of revenue projections attributable to specific geographic areas. Expenditure projections were also improved, but because County reporting systems for expenditures are typically not made on a geographic basis, a number of assumptions must be made to allocate expenditures, including planning models, geographic information systems (GIS), workload indicators, acreage and population estimates. **Appendix A** describes the general process and assumptions used. More work remains to bring the expenditures projections to the same degree of confidence as exists with the revenues.

In sum, the analysis shows that while some local service funds are being applied significantly in support of projects of regional benefit (in particular, the REET funds and Road Fund), the fact that monies in these funds are not fungible to support CX budgets means that the County's funding problem is focused on the CX Fund. The analysis concludes that *the CX Fund is "out of balance" by \$57.2 million in 2004, in terms of the amount of regionally generated revenue utilized in the CX fund to support local services in the CX fund.*

- **Local Unincorporated Area Revenues**

County revenues are a mix of taxes, revenues from other governments, permits, fees, charges and fines. Federal and state laws and regulations restrict the use of most revenues. Regional revenues are defined as either generated county-wide, i.e., the

PROPOSED UNINCORPORATED KING COUNTY BUDGET AND ANNEXATION STRATEGY

County –wide property tax or revenues received from the Federal and State government based on the County population or distributed to all Counties without regard to population. Unincorporated revenues are: (1) revenues collected solely from unincorporated King County residents; (2) revenues distributed by the state based on the unincorporated population; or (3) revenues whose use is restricted to unincorporated services. Unincorporated revenues include the following:

- Property tax generated solely from the unincorporated area (commonly called the “road” levy),
- 85% of the local retail sales and use tax collected in unincorporated areas*
- The 1/10 of one percent sales tax for criminal justice purposes (received based on unincorporated population),
- Real Estate Excise Taxes (REET) #1 & #2.
- Surface Water Management Fees
- Rural Drainage Fees
- A portion of the recently passed Parks levy (the portion for rural parks)
- State grants and distribution of selected statewide revenues.

*15% of the 1% sales tax collected by the County in unincorporated areas is directed under this analysis to the category of regional revenues. This parallels the allocation of the 1% sales tax collected within cities, which by law is allocated 85% to the city (for local city purposes) and 15% to the County. The County allocation is the same regardless of the unincorporated population, thus there is no basis in law for allocating this in-city sales tax to local services.

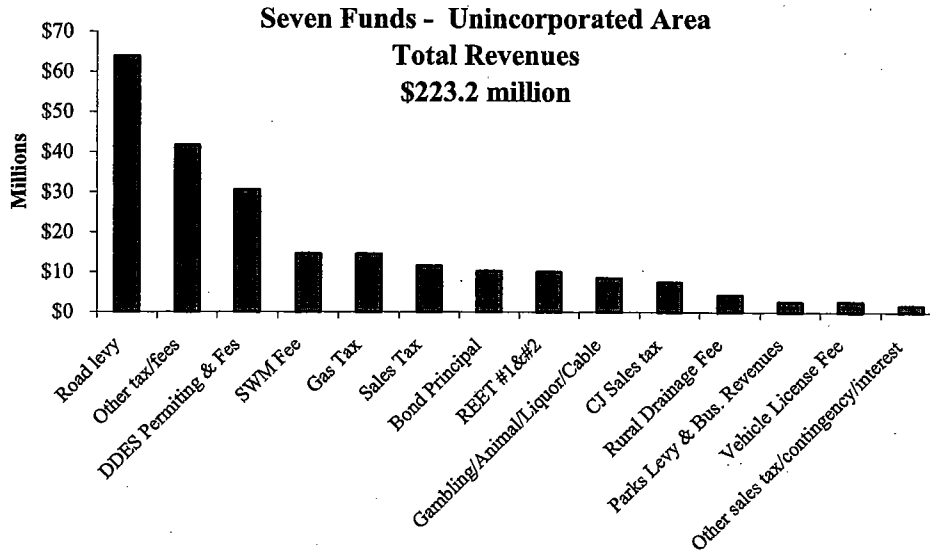
The County also imposes timber and gambling excise taxes as well as a motor vehicle fuel tax. The County charges fees for the Motor Vehicle License and Cable Franchise and for land use and building permits. All these revenues are considered local unincorporated revenues.

Seven funds report local revenues and expenditures, specifically:

- CX Fund
- Criminal Justice Fund
- Road Fund
- Real Estate Excise Tax #1 & #2 Fund
- DDES Fund
- Parks Fund
- Surface Water Management (SWM) Fund

PROPOSED UNINCORPORATED KING COUNTY BUDGET AND ANNEXATION STRATEGY

These seven funds report the following local revenues from the unincorporated area in 2004:



Other fees/taxes include a \$20 million receipt of Road levy revenues in the capital program from the operating program.

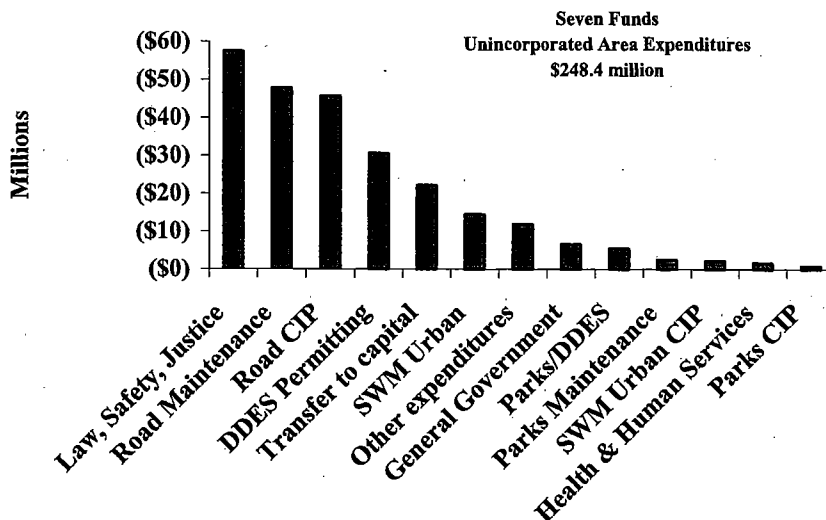
- **Local Unincorporated Area Expenditures**

The County provides local services to unincorporated area residents. The local services are:

- *Law, Safety & Justice services:* Local law enforcement; certain district court services, fire investigation and code enforcement and emergency management services
- *Human & Health services:* Senior services, community services and indigent defense services
- *Parks, Roads & Permitting:* Local parks; road construction and maintenance; transportation planning and concurrency
- *General Government:* the Council, the Executive, finance, budgeting and human resource management.
- *Surface Water Management Services:* storm water services; salmon recovery

PROPOSED UNINCORPORATED KING COUNTY BUDGET AND ANNEXATION STRATEGY

In the 2004 proposed budget, the local services provided to the unincorporated area are as follows:



Transfer to Capital category is primarily a \$20 million transfer of Road levy funds from the operating program to the Capital program.

- **Assigning Revenues and Expenses to Regional, Contract, and Local/Unincorporated Categories**

Revenues and expenditures for each of the seven funds were assigned to one of the following categories: (1) regional; (2) contracts and grants; (3) unincorporated *urban local*; and (4) unincorporated *rural local*. Because there are legal restrictions regarding the ability to co-mingle revenues and expenditures between funds, each fund must prepare its own “balance” sheet combining its own revenues and expenditures.¹ There are multiple layers of detail supporting each balance sheet. At the highest level of summary, the balance sheet reports how much revenue the fund starts the year with (i.e. the “beginning fund balance”), the estimated revenues for the year, the estimated expenditures for the year, the amount held in reserve for anticipated expenditures, and the final result: the “Undesignated Fund Balance.” The Undesignated Fund Balance must be positive indicating the revenues available during the year exceed the planned and anticipated expenditures.

For the 2004 proposed budget, each of the funds provide a positive Undesignated Fund Balance and therefore meet all necessary legal requirements. The balance sheets for all seven funds are found in **Appendix B**. The revenues and expenditures shown are

¹ Last year’s budget prepared a very general financial plan merging all reported funds. As this gave a false impression that the moneys could be co-mingled among the funds, separate balance sheets are reported here.

PROPOSED UNINCORPORATED KING COUNTY BUDGET AND ANNEXATION STRATEGY

allocated to the regional, contract and grants, and unincorporated area categories. An imbalance results when local revenues and expenditures do not match. *For all but one fund, the revenues and expenditures balance: the fund out of balance is the CX Fund.*

The Balance Sheet for the CX Fund is as follows:

	2004 Proposed	Regional	Contracts & Grants	Unincor- porated Area	Urban	Rural
Beginning fund balance	\$74.5	\$74.5				
Revenues	\$509.0	\$397.0	\$84.2	\$27.8	\$18.1	\$9.7
Expenditures	(\$513.0)	(\$357.7)	(\$84.2)	(\$71.2)	(\$46.9)	(\$24.1)
Reserves	(\$ 44.5)	(\$ 30.7)		(\$13.8)	(\$ 8.4)	(\$ 5.4)
Undesignated Fund balance	\$26.0	\$ 83.0		(\$57.2)	(\$37.2)	(\$19.8)

The balance sheet above shows that the \$27.8 million in anticipated 2004 local revenues collected for the unincorporated area do not fully pay for the \$71.2 million in proposed expenditures and \$13.8 million in reserves.² The revenue shortfall of \$57.2 million is comprised of two parts: \$37.2 million estimated for the urban area and \$19.8 million in the rural area. This revenue shortfall is made to “balance” with the reallocation of *regional revenues* to the unincorporated area category, thus reducing the amount of money available for regional services.

In 2003, the unincorporated subsidy was estimated at \$41.2 million, based on aggregating the analysis of fewer funds. When those same funds are combined this year, the subsidy is estimated at \$32.6 million. The reduction in the overall subsidy is primarily caused by a refinement in the allocation of CX expenditures, particularly those for Law, Safety and Justice services (more expenditures identified as regional in nature than previously) and the establishment of a separate Parks fund with a significantly smaller budget than prior years, largely supported through the 2003 regional and rural parks levy.

Summary

Even if one disagrees with the details in calculating the subsidy or CX Fund imbalance, it is clear that annexation reduces local service obligations of—and local tax revenues to—the County. These changes must be tracked over time, and accounted for by real changes in local service budgets. The analysis presented here provides a more detailed tracking than has ever been available historically. It highlights the need for changes in local service budgets, and it highlights the benefit that can be achieved from a successful annexation strategy. While these changes will be challenging to implement, the beneficiaries of this effort will ultimately be all residents receiving regional services, as well as the rural residents who will continue to be dependent on King County for many local services.

² As last year’s analysis also shown insufficient revenues, it is assumed that the CX fund for the unincorporated area would begin the year with \$0 in the beginning fund balance.

PROPOSED UNINCORPORATED KING COUNTY BUDGET AND ANNEXATION STRATEGY

There is a lot to be gained in terms of County fiscal stability from a successful annexation strategy. But little about annexation is under the control of the County. The County neither has the funds to make annexation an irresistible proposition for cities, nor the power to force any area to annex. The Executive believes the annexation strategy here proposed is a fiscally responsible first step in resolving a major factor in the County's financial challenges and achieving the region's growth management vision. But adoption of the 2004 budget proposals regarding annexation is only one step down the path to annexation that will require collaboration and cooperation of all involved.

Appendix A: Revenue Estimate Methodology

Property Tax

2002 Assessment Data, used to calculate 2003 tax liability, were used to prepare unincorporated area levy revenue estimates. Each parcel in unincorporated King County was geocoded, geographically placed at a point relative to the urban growth boundary. Assessed valuation for 2004 tax collections was projected using 2003 actuals and building permit activity. This approach was also undertaken to allocate Leasehold Excise Tax revenue.

Real Estate Excise Tax

A complete database of taxable real estate transactions was constructed for 2000, 2001, 2002, and the first six months of 2003, including the taxable amount and parcel number. Data were cross-referenced with the geocoded 2002 Assessment file to identify the geographic pattern of REET tax collections. 2004 revenue was projected using the REET forecasting model, which predicts future revenue levels based on historic collections and economic indicators, including prevailing interest rates and aggregate housing demand. The 2004 revenue forecast was matched the geographic pattern of tax collections, omitting unusual tax payments (such as two exceptionally large timber land transactions), to project REET revenue levels relative to the urban growth boundary.

Sales Tax

Taxable retail sales were analyzed through the county's sales tax database of state combined excise tax returns. Given the complexities of local option sales tax revenue assignment, a multi-tiered approach was undertaken to properly credit taxable retail sales. Retail establishments, and sales tax filers that reported addresses within unincorporated King County, or had an ascertainable address through telephone directory or Internet searches, were directly geocoded. Receipts from certain industrial classifications were assigned by appropriate demographic factors. Wireless telephone revenue was allocated according to population, automobile and car/vessel registrations according to income-weighted population, construction according to building permits, and business services according to the number of businesses, adjusted by the average number of employees. In total, 39 percent of sales tax revenue was allocated through automatic or manual geocoding and another 47 percent by industrial classification. The residual, consisting of smaller establishments with little to no tax liability, was allocated proportionately to other sales tax receipts.

Gambling Taxes

Revenue from each of the county's licensed gambling establishments was geocoded according to business location.

Pet Licenses

Zip+4 data reported on each new or renewal application for a pet license in 2002 were geocoded, resulting in the address of each licensee being geographically placed at a point relative to the urban growth boundary.

Other Revenues

Other revenues were generally allocated on the basis of population or personal income. In some cases, like the Liquor Excise Tax and Liquor Control Board Profits, this was done to mirror the state distribution formula for that revenue. In other cases, like the Motor Vehicle Fuel Tax, this approach was undertaken as a proxy for more complex and less easily replicated state distribution formula.

PROPOSED UNINCORPORATED KING COUNTY BUDGET AND ANNEXATION STRATEGY

Appendix B – Seven Fund Balance Sheets

	2004 Proposed	Total Regional	Contracts & Grants	Total UKC	Total Urban	Total Rural
Current Expense:						
Beginning Fund Balance	74.5	74.5				
Total Revenues	509.0	397.0	84.2	27.8	18.1	9.7
Total Expenditures	(513.0)	(357.7)	(84.2)	(71.2)	(46.9)	(24.1)
General Reserves	(44.5)	(30.7)		(13.8)	(8.4)	(5.4)
Undesignated Fund Balance	26.0	83.0	(0.0)	(57.2)	(37.2)	(19.8)
Criminal Justice						
Beginning Fund Balance	2.6	1.4		1.2	0.8	0.4
Total Revenues	16.5	6.8	2.3	7.3	4.5	2.9
Total Expenditures	(17.2)	(13.1)	(1.8)	(1.8)	(1.1)	(0.6)
General Reserves	(0.2)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
Undesignated Fund Balance	1.8	(5.0)	6.8	6.8	4.1	2.7
Road Fund						
Beginning Fund Balance	6.7	4.2	2.0	2.0	0.9	1.1
Total Revenues	151.7	9.9	119.4	119.4	58.2	60.6
Total Expenditures	(159.0)	(14.6)	(116.9)	(116.9)	(56.5)	(59.6)
General Reserves	0.6		0.6	0.6	0.4	0.1
Undesignated Fund Balance	0.0	(0.4)	5.0	5.0	3.1	2.2
Reet #1 & #2						
Beginning Fund Balance	5.6		5.6	5.6	3.4	2.2
Total Revenues	10.0		10.0	10.0	7.2	2.8
Total Expenditures	(12.6)	(11.8)	(0.7)	(0.7)	(0.7)	
General Reserves	(2.0)		(2.0)	(2.0)	(2.0)	
Undesignated Fund Balance	0.9	(11.8)	12.9	12.9	7.9	5.0
Water & Land Resources						
Beginning Fund Balance	1.5		1.5	1.5	0.6	0.9
Total Revenues	42.9	21.1	19.6	19.6	8.3	11.4
Total Expenditures	(44.0)	(23.0)	(21.0)	(21.0)	(8.9)	(9.9)
General Reserves	0.6	0.2	0.3	0.3	0.1	0.3
Undesignated Fund Balance	0.9	(1.7)	0.5	0.5	0.1	2.7

PROPOSED UNINCORPORATED KING COUNTY BUDGET AND ANNEXATION STRATEGY

	2004 Proposed	Total Regional	Contracts & Grants	Total UKC	Total Urban	Total Rural
DDES						
Beginning Fund Balance	4.1		4.1	4.1	2.3	1.8
Total Revenues	33.1		32.9	32.9	18.1	14.8
Total Expenditures	(30.7)		(30.5)	(30.5)	(16.8)	(13.7)
General Reserves	(3.4)		(3.4)	(3.4)	(1.9)	(1.5)
Undesignated Fund Balance	3.1		3.1	3.1	1.7	1.4
Parks Fund						
Beginning Fund Balance	0.1	0.1				
Total Revenues	31.2	24.9	6.2	6.2	4.7	1.5
Total Expenditures	(29.7)	(23.3)	(6.2)	(6.2)	(4.8)	(1.5)
General Reserves	0.1	0.0	0.0	0.0		0.0
Undesignated Fund Balance	1.7	1.7	0.0	0.0	(0.1)	0.1

Appendix G

2004

Urban Unincorporated Area
Financial Analysis
Revenues, Expenditures, and
Reserves by major PAA

2004 Analysis of Urban Unincorporated Area Revenues, Expenditures, and Reserves

		IN THOUSANDS \$'s										
Fund	Type	Klahanie	East-gate	North Highline	Renton East	Lea Hill	Fin Hill	West Hill	Kent NE	East Federal Way	Fair- wood	Other Urban Islands
General Fund	Beginning Fund Balance Total	-	-	-	-	-	-	-	-	-	-	-
	Revenue Total	444	446	3166	361	871	2062	2025	1055	1084	3581	3012
	Expenditures											
	General Government	(230)	(96)	(664)	(157)	(179)	(662)	(291)	(493)	(426)	(825)	(395)
	Health and Human Services	(59)	(25)	(170)	(40)	(46)	(170)	(75)	(126)	(109)	(212)	(101)
	Law, Safety, and Justice	(1873)	(779)	(5405)	(1277)	(1459)	(5388)	(2371)	(4012)	(3465)	(6715)	(3216)
	Physical Environment	(223)	(93)	(643)	(152)	(174)	(641)	(282)	(478)	(413)	(799)	(383)
	Other CX Expenditures	(6)	(3)	(17)	(4)	(5)	(17)	(8)	(13)	(11)	(22)	(10)
	Current Expense CIP	(51)	(21)	(148)	(35)	(40)	(147)	(65)	(110)	(95)	(184)	(88)
	Expenditures Total	(2443)	(1016)	(7048)	(1665)	(1903)	(7026)	(3092)	(5232)	(4519)	(8756)	(4194)
	Reserves Total	(438)	(182)	(1264)	(299)	(341)	(1260)	(554)	(938)	(810)	(1570)	(752)
(deficit)/surplus		(2437)	(752)	(5146)	(1602)	(1373)	(6225)	(1621)	(5116)	(4245)	(6745)	(1935)
Criminal Justice	Beginning Fund Balance Total											
	Revenue Total	39	16	114	26	29	113	50	84	73	141	81
	Expenditures Total	228	95	667	153	170	661	291	491	424	821	472
	Reserves Total	(58)	(24)	(167)	(39)	(45)	(167)	(73)	(124)	(107)	(208)	(99)
	Other Fund Transactions Total	(1)	(0)	(1)	(0)	(0)	(1)	(1)	(1)	(1)	(2)	(1)
(deficit)/surplus		209	87	613	140	154	606	267	449	388	753	453
Roads Fund	Beginning Fund Balance Total											
	Revenue Total	49	23	105	38	42	151	49	72	70	170	173
	Expenditures Total	1644	31	8142	3790	2321	8846	2845	3575	4866	12323	9789
	Other Fund Transactions Total	70	627	(7829)	(4364)	(1097)	(4980)	(1950)	(1547)	(4021)	(14336)	(17076)
(deficit)/surplus		23	10	67	16	18	67	29	50	43	83	40
REET 1	Beginning Fund Balance Total											
	Revenue Total	1787	691	484	(521)	1283	4084	973	2150	958	(1760)	(7075)
	Expenditures Total	37	15	42	13	23	92	21	41	41	94	93
	Reserves Total	259	108	292	94	159	642	147	287	286	659	649
	Other Fund Transactions Total	0	0	0	0	0	0	0	0	0	0	0
(deficit)/surplus		(145)	(60)	(163)	(52)	(89)	(359)	(82)	(160)	(159)	(368)	(362)
REET 2	Beginning Fund Balance Total											
	Revenue Total	209	87	236	76	129	518	119	231	230	532	523
	Expenditures Total	259	108	292	94	159	642	147	287	286	659	649
	Reserves Total	(35)	(15)	(102)	(24)	(28)	(102)	(45)	(76)	(65)	(127)	(61)
	Other Fund Transactions Total	0	0	0	0	0	0	0	0	0	0	0
(deficit)/surplus		433	180	426	146	260	1059	221	442	451	1065	1111

2004 Analysis of Urban Unincorporated Area Revenues, Expenditures, and Reserves

		IN THOUSANDS \$'s										
Fund	Type	Klahanie	East-gate	North Highline	Renton East	Lea Hill	Finn Hill	West Hill	Kent NE	East Federal Way	Fair- wood	Other Urban Islands
WLRD	Beginning Fund Balance Total	29	15	104	22	25	100	45	64	59	124	0
	Revenue Total	415	211	1473	306	353	1419	629	902	826	1756	0
	Expenditures Total	(434)	(244)	(1728)	(319)	(368)	(1473)	(653)	(943)	(862)	(1825)	(33)
	Other Fund Transactions Total	4	2	13	3	3	13	6	9	8	16	8
	(deficit)/surplus	15	(16)	(138)	12	14	58	26	32	31	72	(25)
DDES	Beginning Fund Balance Total	68	69	220	139	193	233	134	122	150	257	667
	Revenue Total	548	550	1766	1113	1546	1870	1079	977	1208	2067	5355
	Expenditures Total	(508)	(510)	(1638)	(1032)	(1434)	(1735)	(1001)	(906)	(1120)	(1917)	(4967)
	Other Fund Transactions Total	0	0	0	0	0	0	0	0	0	0	0
	Reserves Total	(57)	(57)	(184)	(116)	(161)	(194)	(112)	(102)	(126)	(215)	(557)
	(deficit)/surplus	51	51	164	104	144	174	100	91	112	192	499
Parks	Beginning Fund Balance Total	0	0	0	0	0	0	0	0	0	0	0
	Revenue Total	96	34	949	699	3	163	311	97	812	452	1118
	Expenditures Total	(98)	(35)	(966)	(712)	(3)	(166)	(317)	(99)	(827)	(452)	(1109)
	Other Fund Transactions Total	0	0	0	0	0	0	0	0	0	0	0
	(deficit)/surplus	(2)	(1)	(17)	(13)	(0)	(3)	(6)	(2)	(16)	(1)	9
All Funds (deficit)/surplus		207	303	(3443)	(1681)	575	128	47	(1784)	(2153)	(6039)	(6584)

Deficit/Surplus calculation includes allocation of reserve funds designated for liabilities

Appendix H

Boundary Review Board Overview

Appendix H

Boundary Review Board Overview

The Boundary Review Board for King County was created by 1967 legislation, for the purpose of guiding and controlling the creation and growth of cities in metropolitan areas. The legislation mandated Boundary Review Boards in four Washington State counties, including King County. The legislation also provided an option for creation of Boundary Review Boards in the State's other counties. There are now Boundary Review Boards in 17 counties in Washington State.

Appointments

The Boundary Review Board for King County has eleven members. Three members are appointed by the Governor, three are appointed by King County Executive (with Council confirmation), three are appointed by the mayors in King County, and two are appointed from nominations made by fire, water and sewer districts. The Boundary Review Board members may not be associated with other King County jurisdictions at the time they are serving on the Board, but there are former city mayors and district officials on the Board.

Purpose

The Boundary Review Board considers proposals for creation of or changes to boundaries by cities, fire districts, and water/sewer districts within King County. Proposed boundary changes may include city or district annexations, new city incorporations, assumptions, mergers, extensions of service, and similar actions. The Boundary Review Board provides independent, quasi-judicial review of all proposed annexations, mergers and similar actions. Thus, the Board offers a unique (and often sole) opportunity for citizens to participate in review of creation of or changes to boundaries of cities and special purpose districts.

The Boundary Review Board evaluates applications to ensure compliance with criteria established under state law (RCW 36.93) for changes to or creation of new boundaries. The Board also must ensure compliance with the State Growth Management Act, King County Comprehensive Plan, and various other regional and local plans. The Board conduct administrative reviews for all other actions; public hearings are conducted upon request by affected jurisdictions and/or community members.

More specifically, citizens seeking incorporation must notify the King County Council. The Boundary Review Board then assumes responsibility for review of incorporation materials and for providing fiscal and land use analyses of applications. The Boundary Review Board evaluates applications to ensure compliance with criteria established under state law (RCW 36.93 – Boundary

Review Board Enabling Act. The Board also must ensure compliance with the State Growth Management Act, King County Comprehensive Plan, and various other regional and local plans. For all incorporations the Boundary Review Board holds public information meetings and conducts a public hearing for the purpose of establishing final boundaries. The Board makes a recommendation to the voters within the incorporation area on the incorporation. The voters of the incorporation area make the final decision in an election on the incorporation. In recent years, the Board has reviewed 12 applications for incorporation.

For all other proposed actions (e.g., annexations, mergers), the applicant must file a Notice of Intention with the Boundary Review Board. The Board notifies all potentially interested jurisdictions of the action and invites public comment during a 45-day public review period. The Board holds a public meeting to review the proposal with respect to State and County regulations (e.g., State Growth Management Act, King County Comprehensive Plan, RCW 36.93). The action is finalized at the close of the public comment period unless there is a specific request for a public hearing before the Board. From 2000 to the present, the Board has reviewed more than 105 applications for a variety of proposed actions.

The Boundary Review Board will hold a public hearing for an action (e.g., annexation, assumption, merger) if there is an official request from an affected jurisdiction or from a citizen petition signed by affected residents or property owners. A public hearing will include presentations by proponents and opponents of an action and by other citizens affected by a proposed action. Following the hearing, the Board will evaluate testimony to determine whether the proposed action meets or fails to meet required Boundary Review Board criteria, the Growth Management Act, the King County Comprehensive Plan, and other essential factors. Based upon the Board's findings, the Boundary Review Board will act to approve, deny, or modify the boundaries of the proposed annexation, merger or other boundary action.

Boundary Review Board Services

Boundary Review Board staff is responsible for providing application materials for annexation, incorporation, mergers and other actions. Staff is available to provide information concerning requirements for annexation, incorporations, mergers and other actions. Staff can provide applicants and other interested parties with regulations, guidelines and other standards pursuant to various actions. The Board's Special Assistant Attorney General can address questions and provide legal interpretations that concern the applicability of general regulations to particular types of proposals.

Staff can advise applicants as to materials that are necessary for a complete application and those supplemental materials that may improve Board understanding of the proposed action. Staff is not permitted to assist in preparing an application.

Boundary Review Board staff determines whether an application is complete. Staff ensures that all applications are submitted for appropriate agency and public review. Staff provides the initial analysis of proposals for actions. Staff reports upon findings of fact and provides the proposal analysis to the Boundary Review Board.

Staff also provides information services and/or liaison services concerning the structure and function of the Boundary Review Board. These services are provided to King County officials (e.g., Executive, County Council, Department of Development and Environmental Services, Office of Finance), to the State Boundary Review Board Association, to the American Planning Association, to the State Legislature, to local jurisdictions and to community groups.

Criteria for New City Incorporations, Annexations and Other Cases/Consistency with Growth Management

The 1990 Growth Management Act established an Urban Growth Area (UGA) – intending to direct substantial growth to areas within an Urban Growth Boundary, and to preserve lands outside of the boundary for such low density uses as rural residential use, agriculture, forestry, mining and natural preserves.

The Growth Management Act also mandated that each community inside the UGA develop a Comprehensive Plan. The purpose of the Comprehensive Plan was to establish policies to provide for land use, housing, transportation, utilities, public facilities and the natural environment for that community over a 20-year period. As a part of the Comprehensive Plan, each community was required to identify Potential Annexation Areas (PAA) – areas that would be logical extensions to a community and that could be served by the community. Policies to provide for development and services to the PAA were to be included in the Comprehensive Plan. Policies for areas within city boundaries and PAAs were required in order for the community to have the Comprehensive Plan accepted by the State of Washington. Citizens of unincorporated lands are encouraged to join existing cities, however, creation of new cities through incorporation is also consistent with the Growth Management Act.

Under state law, the Boundary Review Board is mandated to evaluate and act upon applications for creation of or changes to boundaries within the Urban Growth Area, including annexations, incorporations, mergers, and similar actions. The Board's decisions must be consistent with the Growth Management Act (GMA), RCW 36.93 (the Boundary Review Board Enabling Act), the King County Comprehensive Plan, and other regional and jurisdictional plans.

In recent years, the Board has been asked to consider in public meetings and public hearings, matters related to: definition of urban growth areas; allocation of land to a community's potential annexation area (e.g., overlapping jurisdiction, exclusion from potential annexation areas); land designation and land use;

environmental protection; interpretation of authorities of special purpose districts and municipal jurisdictions; and provision of services to urban areas and to rural areas. Further, hearings have been required in response to concerns by government jurisdictions or citizens concerning the timeliness of an action – for example, where limited fiscal resources or service capacity restrict the ability of a local jurisdiction to govern new citizens.

Over the past several years, there have been eleven successful new city incorporations in King County: SeaTac, Federal Way, Burien, Newcastle, Shoreline, Maple Valley, Covington, Kenmore, Woodinville, and, most recently, Sammamish. One proposed incorporation – the City of Briarwood -- failed in election in early 1998. This decision was consistent with a recommendation by the Board that voters turn down the incorporation.

Of late, the Board has reviewed annexations and other actions from the City of Auburn, City of Bellevue, City of Issaquah, City of Kent, City of Redmond, City of Renton, City of Newcastle, City of Sammamish, City of SeaTac, City of Lake Forest Park, City of Shoreline and City of Woodinville. Actions by several special purpose districts have also come before the Board.

The Board has made decisions to approve, deny or modify proposed actions. For example, the Board expanded boundaries of annexations proposed by the City of Redmond and the City of Renton to provide for more effective and efficient local governance. The Board denied a series of four annexations proposed by the City of Woodinville, all outside the Urban Growth Area boundary. In other cases, proposed annexation actions outside the Urban Growth Area were withdrawn after a Boundary Review Board hearing was requested, or adjustments were worked out between the city and King County.

Two cases brought to the Boundary Review Board, and then appealed to the judicial system, have recently come to conclusion. One case, brought to the Board twice, was the proposed City of Federal Way assumption of Lakehaven Utility District, which serves most of the City and a large unincorporated area to the east of the City. The City withdrew its first request for assumption, but then resubmitted the proposed action. The Boundary Review Board denied the assumption. The City appealed the Board decision to Superior Court, with a request that the court case not proceed until after the 1999 legislative session as new legislation was anticipated in support of the Federal Way position. A mutual agreement was achieved between Federal Way and the Utility District in 2002. The second case brought to the Board was a proposal by Auburn to annex a 12-acre parcel (the Stewart Property) located within the King County UGA and designated for agricultural use in the King County Comprehensive Plan. The County Plan required an interlocal agreement to preserve the resource character of the land. Auburn proposed, instead, a light industrial annexation in anticipation of likely future use. The Board denied the annexation, finding the proposal inconsistent with both the King County Comprehensive Plan and the GMA. The Stewarts appealed this decision, contending that the Board was empowered to

redesignate the land from agricultural use to light industrial use. The Superior Court and the Court of Appeals issued opinions, in agreement with the Board, that the statutory objective of the boundary review boards is to protect land designations; boards may not make land use decisions.

Future Opportunities and Challenges

The Board contemplates a busy and challenging future. The State of Washington and King County have taken several recent actions to encourage the implementation of State Growth Management Act provisions supporting local governance of urban areas.

More specifically, the State Legislature – in its 2003 Session – approved legislation to provide new systems for annexation by the citizen petition method. Similarly, the Supreme Court of Washington is reconsidering a decision of (March 2002) prohibiting petition method annexations by jurisdictions– where the petition is based upon land value -- which was the primary method of annexation of land into municipalities. The Court's decision did not prohibit the election method of land annexations or prohibit petition method annexations for special purpose districts.

Further, the Office of the King County Executive has advised the Board to expect proposals for annexation of up to 1800 square miles of urban area in the years between 2004 – 2012. This advice is based upon the fact that the King County Executive and King County Council have approved a Budget Advisory Task Force Report that establishes annexation of urban unincorporated area as a key priority for the County. The County is developing policies and programs (e.g., financial incentives) to encourage citizens of urban unincorporated areas to join existing cities and to encourage cities to annex such urban areas. Under the Task Force's "ideal scenario" annexation of all urban areas would occur by 2006. The County considers it reasonable to plan for all urban areas to become incorporated by 2012. The Board will be responsible for review of each application for annexation.

In that period, as well, it is anticipated that cities and special purpose districts will seek to streamline provision of services through assumptions, mergers and similar actions. The Board will also be responsible for review of those applications.

When unincorporated lands in King County are established within local jurisdictions – through annexation, incorporation, assumption or merger -- the Boundary Review Board will have completed its mandate to the State and its mission to King County.

Boundary Review Board staff are available at 206-296-6800 to provide additional information concerning the organization's legal mandate, role and responsibilities, and current and anticipated actions before the Board. Thank you for your interest in the Boundary Review Board.

Appendix I

King County Adopted 2004 State
Legislative Agenda



King County

King County 2004 STATE LEGISLATIVE AGENDA

Priority	Department	Item	Description
1	Executive/ Council	Preservation of Basic County Government Services	<p>King County continues to increase internal efficiency and reorganize its functions in order to reduce its spending significantly. In the last two years, the County has cut more than \$90 million, totaling approximately 20% of its general fund, and eliminated nearly 10% of the staff positions in these service areas. Despite these actions, the County cannot sustain its current service levels given an ongoing gap between the rate of growth of expenditures (5.5-6.5% per year) and general revenue growth (less than 2% per year).</p> <p>This reality has been recognized by experts and stakeholders throughout the state. After an eight month review, the King County General Government Budget Advisory Task Force, co-chaired by former chair of the Greater Seattle Chamber Bob Wallace and former Boeing executive John Warner, concluded in June 2003 that without fundamental restructuring of the manner in which services are delivered and new revenues, the County will be forced to make service cuts every year in the future.</p> <p>For King County to continue delivering basic government services, it needs preservation -- if not expansion -- of state support. If the State is not able to expand support to adequately fund the mandates upon local government, revenue tools should be provided to local governments to allow for fiscal home rule.</p> <p>Law, safety, and justice costs, now consuming over 70% of King County's general fund budget, are growing much faster than the revenues to support them. Many of these costs are due to state-imposed or statutory responsibilities. Extraordinary criminal justice cases are also severely impacting county finances.</p> <p>Counties, as general governments, have the most limited set of tax options in the State and are bound by an antiquated tax structure. County government is, by state law, dependent on property and sales taxes (unlike cities that have utility and business and occupation taxing authority). Municipal annexations and incorporations have eroded the County's sales tax base. King County continues to support its request for increased councilmanic revenue options. The County also seeks more flexibility in setting fees to recover the costs of service delivery.</p>



King County

King County 2004 STATE LEGISLATIVE AGENDA

Priority	Department	Item	Description
		Preservation of Basic County Government Services, continued	<p>King County supports an allocation to local governments from the assistance provided in 2003 by the federal government as relief during the recession. These funds are idle in state reserves while local governments are struggling.</p> <p>Finally, King County opposes the imposition of un/underfunded state mandates. Legislative changes that increase county costs or responsibilities must be mitigated with increased state funding or reduced state mandates. State budget cuts should not be accomplished by shifting costs to counties.</p>
2	Executive/ Budget, Dept. of Development and Environmental Services, Dept. of Natural Resources & Parks	Annexation Reform and Smart Growth Management	<p>The state Growth Management Act (GMA) defines cities as the appropriate urban service providers, and counties as the appropriate regional and rural service provider. Despite significant success at implementing the GMA, King County is still the "local government" for nearly 350,000 residents living in unincorporated areas – nearly 220,000 of them in <i>urban</i> unincorporated areas that are slated for eventual annexation to cities.</p> <p>If annexations continue in King County at the rate that has been experienced over the last nine years, it will take another 25 to 30 years for annexations to be completed – far longer than the 2012 deadline that cities and the County have identified in Countywide Planning Policies.</p> <p>Lacking urban funding tools, and given its heavy dependence on property tax, the County is unable to maintain its regional and local service levels under current revenue constraints. As part of its Annexation Initiative, King County continues to support its request for councilmanic authority to impose a utility tax in urban unincorporated areas.</p> <p>The County is making efforts to accelerate annexations -- but cities are rightfully concerned about the cost of assuming responsibility for remaining urban unincorporated areas that are largely residential in nature and thus not self-supporting. Completion of annexations would not only be a major milestone in achieving the region's growth management vision, it would also provide tremendous budget relief to King County: the County could then focus on its regional and rural service responsibilities.</p> <p>Consistent with the recommendation of the King County General Government Budget Advisory Task Force, King County has launched a major initiative to annex to cities its Potential Annexation Areas within the Urban Growth</p>



King County 2004 STATE LEGISLATIVE AGENDA

Priority	Department	Item	Description
		<p>Annexation Reform and Smart Growth Mgt., continued</p>	<p>Boundary. Over \$20 million in County funding has been identified in King County's 2004 budget for allocation to annexing cities, in recognition of the fiscal challenge posed by major residential annexations.</p> <p>King County seeks the following legislative changes in order to carry out this Annexation Initiative:</p> <ul style="list-style-type: none"> ▪ Study the Means to Accelerate Annexation King County supports a state-funded study, to be completed by December 2004, to assess progress in achieving key growth management goals in urban counties and identify strategies to accelerate the annexation of remaining urban unincorporated areas. These could include strategies such as increased state funding and other financing options including more flexible use of the county road levy as well as potentially establishing a state-mandated deadline for implementation of the GMA or modifying the powers of the Boundary Review Boards. ▪ Surface Water and Local Parks Facilities and Properties Automatically Transferred to Cities upon Annexation King County supports an amendment to RCW 36.89 and/or 36.94 so that surface water management facilities and properties and local parks facilities and properties owned and/or maintained by counties become the responsibility of cities upon an annexation or incorporation. RCW currently provides for county roads to become cities' responsibility at the time of annexation/incorporation – this requested action would provide the same for surface water facilities and properties and local parks facilities and properties. ▪ Increased Capital Funding for Infrastructure Needs King County supports increased state support to cities to help with the capital transition costs of annexation. ▪ Technical Fixes to the new Petition Legislation King County supports technical changes to the new petition annexation law, SSB 5409, to convert the requirement to secure signatures from not less than 50% of the <i>registered voters</i> of the area to securing signatures from not less than 50% of <i>those voting at the last general election</i>.
3	Department of Transportation (DOT)	<p>Transportation Solutions and Regional Funding</p>	<p>Congestion in the Puget Sound region threatens the economy of not only King County but of the entire state. Although the five cents gas tax - statewide transportation package is helping the State make progress on critical projects, there is significant statewide need that has not been met. Additionally, with the passage of Initiative 776, King County and the cities within the County lost more than \$200 million over the next ten years (approximately \$20 million each year) for county road improvements and city street maintenance. King County supports legislative action to mitigate of the impact of Initiative 776.</p>



King County

King County 2004 STATE LEGISLATIVE AGENDA

Priority	Department	Item	Description
		Transportation Solutions and Regional Funding, continued	<p>King County supports additional increases in both state and regional funding to improve the movement of people and freight. King County also supports state funding of the critical road and infrastructure network as well as additional alternatives to automobile travel.</p> <p>King County supports the Regional Transportation Investment District (RTID) process already underway while recognizing that amendments to the RTID legislation may need to be made. These may include revisions to revenue sources, state bonding authority, clarified tolling authority, and the expansion of project eligibility to encompass a blend of roads and transit, including other forms of high capacity transit.</p>
4	Department of Community and Human Services (DCHS)	Mental Health Funding	<p>Funding for King County's mental health system was severely cut in the last three legislative sessions, resulting in significant reductions to critical services for at-risk and vulnerable populations. As passed in the 2001 legislative session, because of a reallocation formula, the state budget <i>reduced</i> King County Regional Support Network (RSN) funding by \$40 million over six years. Budget reductions made during the 2002 legislative session to RSN reserve funds and inpatient rates cost King County an additional \$10 million. In 2003, the Governor's veto of an administrative cap reduction (\$5.8 million statewide) will result in a ratable reduction cut to King County of approximately \$1.7 million.</p> <p>King County supports use of the temporary increase from the Federal Medical Assistance Percentage (FMAP) to eliminate the ratable reduction, thereby allowing the state to earn federal match revenue. Given the budget cuts in recent years, any additional federal dollars generated from mental health services should be earmarked for mental health to help stabilize the system.</p> <p>Finally, King County supports mental health rates that reflect variation in severity of need as well as the costs of providing the necessary level of care. At a minimum, a regional rate structure is necessary to continue funding at a level that meets the needs of the severely and persistently mentally ill in King County.</p>
5	Department of Executive Services	Elections Write In Voter Intent Correction	King County supports legislation that would address problems related to determining voter intent for write in candidates.