

CITY COUNCIL STUDY SESSION ITEM

SUBJECT

Implement the South Bellevue Potential Annexation Area (PAA) annexation work program. This is a proposed three-stage effort to engage and complete the annexation of the unincorporated PAA communities of Eastgate, Tamara Hills, and Hilltop/Horizon View to Bellevue.

STAFF CONTACT

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POLICY ISSUES

Should the City promote annexation of the balance of our PAA and pursue an effective annexation date of April, 2012?

It has been the City's annexation policy since 1979 to "expeditiously" annex the balance of the PAA as requests are made by residents or property owners in the South Bellevue PAA. These unincorporated communities are surrounded by Bellevue and have been within the City's PAA for decades. The policy question has always been not whether the City will annex, but rather *when* annexation should take place.

DIRECTION NEEDED FROM COUNCIL

- X Action
- X Discussion
- Information

Staff is requesting direction on whether the City Council desires to launch a South Bellevue annexation work program using the recommended direct petition method of annexation. These subareas are included: Eastgate, Tamara Hills, and Hilltop/Horizon View. Staff would then work with the PAA residents in each of the three subareas on a Notice of Intent to Petition (aka the 10%) that could be brought forward for Council action. If the initial Notice of Intents are accepted by the City Council in the first half of this year they would lead to initiating full Direct Petitions for the annexation process.

BACKGROUND/ANALYSIS

For the **Potential Annexation Area Overview** map please see Attachment 1.

The South Bellevue PAA includes three islands of varying size:

PAA (2010)	Assessed Value	Population	Acres	Housing
1. Eastgate	\$885,313,000	4,967	616	1,896
2. Hilltop/Horizon View	\$127,792,000	376	112	149
3. Tamara Hills	\$23,041,000	211	22	78
South Bellevue Total	\$1,036,146,000	5,554	750	2,123

*For reference purposes only, there are 3,339 registered voters in the PAA.

Eastgate is located between I-90 on the north and the Somerset, Horizon Heights/ Whispering Heights, and Vuemont neighborhoods on the south, and generally between the Sunset Ravine Open Space to the west, then nearly all the way to the Lakemont/I-90 interchange on the east. The major access and corridors are Newport Way and SE Allen Road running east/west, and 150th Avenue SE and 164th Avenue SE running north/south.

The area is characterized predominately by a mix of older and newer single family housing. The older housing stock is generally in areas west of the Newport Way and 164th Avenue SE intersection, then east along Newport Way to the end. Newer housing stock, including King County-approved subdivision activity, is located south and east of the big bend in 164th Avenue SE over to Cougar Ridge Elementary.

Eastgate also contains two townhouse areas, two small and one large office (Quadrant) buildings west of the 150th Avenue intersection, religious institutions, a PSE utility substation, City and County facilities, and the Newport branch of the King County Library System.

Tamara Hills is an enclave located between Eastgate and Hilltop/Horizon View to the south. It is also characterized predominately by a mix of older and newer single family housing.

Hilltop, Horizon View “B” and Horizon View “C” are the three distinct neighborhoods which make up the third PAA. All are also characterized by older and newer detached single family housing.

Existing service areas are shown in Attachment 2. For operational services, the eastern third of Eastgate receives fire service from Eastside Fire and Rescue. The rest of Eastgate

and the other PAAs receive fire service through Fire District 14, which contracts with the Bellevue Fire Department. Police service to all of the areas is provided by the King County Sheriff. Eastgate and Tamara Hills receive sewer and water service from the Utilities Department. Hilltop and Horizon View are generally on septic, and Hilltop receives water from King County Water District (KCWD) 117, which has its own well and distribution system. All of the areas receive storm water management service from King County Surface Water Management. Transportation maintenance is the province of King County. Residents in the PAAs pay non-city resident fees for recreation services.

Community Interest

Organized groups in the areas have actively engaged in evaluating and beginning to pursue annexation, including the Hilltop Community Association, Horizon View “C” Homeowners Association, and the Eastgate Annexation Group. This latter organization is made up of a group of residents who had previously contacted the City, then formed with a specific task to accomplish annexation by the petition method. They have created neighborhood point persons for relaying information, and sponsor a web site at [http://eastgatenews.com/Eastgatenews/Annexation to Bellevue.html](http://eastgatenews.com/Eastgatenews/Annexation%20to%20Bellevue.html).

Individual residents and property owners have expressed interest in Eastgate annexation over the years. Many are surprised that Eastgate is not already in Bellevue. Staff typically receives 3-5 email and telephone contacts per month.

Representing their jurisdictions, KCWD 117 (Hilltop) and Fire District 14 have also engaged with the City regarding annexation interest. City staff has met at their request with the commissioners of each of these **special districts**.

Annexation typically raises numerous questions on the part of residents. The proposed annexation work program includes a significant public outreach component designed to help residents fully understand the implications of annexation and the services provided by the City.

Fiscal Implications

Operating Budget

Staff has conducted a sketch level analysis of annual **operating revenues** and **expenditures**. This shows a significant gap between annexation area revenue and expenditures. This general gap has existed since the City first began to estimate Eastgate annexation revenues and expenditures in 2001. See Attachment 3 for major revenue and operating expenditure estimates details.

Operating Budget Annual Costs and Revenues – Sketch Level Estimates

Revenue (from all major sources)	\$1,936,343
Cost (primary depts.: Fire, Police, Parks, Transportation)	\$3,046,760
Net operating deficit	\$(1,110,417)

The difference for annexation timing now is that state statutes now allow the City to make up operating budget gaps by crediting a share of **state sales tax revenue** to those costs, for a period of ten years. This is not an additional tax. It reduces the state's revenue, credits it to the City instead, and is annexation-specific:

“The revenues from the tax authorized in this section may not exceed that which the City deems necessary to generate revenue equal to the difference between the City's cost to provide, maintain, and operate municipal services for the annexation area and the general revenues that the cities would otherwise expect to receive from the annexation during a year.”

-RCW 82.14.415 (7).

The ten-year state sales tax credit becomes an integral part of the annexation financial plan because it potentially makes the City “whole” with respect to operating costs for the ten-year period following annexation.

Capital Budget

Infrastructure in the PAA generally reflects the age of the building stock. All of the areas are older, and are estimated to have **capital needs** primarily in transportation and utility infrastructure. Their capital needs are typical of those found elsewhere in the City, and are similar to the capital needs extant in the last large annexation, that of West Lake Sammamish, in 2001. The sales tax credit described above is not available to cover capital costs.

Utilities estimates about \$1.9M in storm water start-up and ongoing capital costs. These would be proposed for a future CIP.

Transportation has identified critical maintenance and upgrade issues that would need to be addressed within the first to second post-annexation years. These include roadway markings, traffic signalization, and vegetation management costs estimated at \$160,000. Transportation staff has also estimated new streets capital startup costs of approximately \$175,000.

Capital infrastructure needs within the next five years include a substantial repair and overlay of Newport Way, and a major rebuild of the traffic signal at Newport Way and 150th Avenue SE. This cost is estimated at \$2.5M total, and would be proposed for a future CIP.

The Parks and Community Services Department estimates one-time capital investments to improve school athletic facilities at \$3.5M. These would be proposed for a future CIP.

150th Avenue Interlocal: In 1996 the City entered into an Interlocal Agreement with King County to repay the County's financial participation in 150th Avenue improvements capital investment project if annexation occurred. This agreement currently would require the City to pay approximately \$350,000 plus diminishing interest for each remaining year of an amortized repayment schedule that began in late 2007. This agreement is based on a much older King County approach towards annexation. If the annexations proceed now, staff would work with the County to terminate this agreement.

Tax Implications for Homeowners

An **individual residential property owner** would pay lower total taxes in Bellevue than in unincorporated King County. For example, an exceptionally low assessed valuation property in Eastgate (\$291,000 AV) would annually pay an estimated \$365 less for the total of property tax, storm water fees, and utility taxes. An exceptionally high assessed valuation in Eastgate (\$1.5M AV) would save an estimated \$3,210 by being in Bellevue. See Attachment 4 for a city-county comparison of rates.

The Annexation Process

The direct petition method of annexation is recommended. (See Attachment 5 for available methods of annexation). Direct Petition is a two-step process where, at each step, property owners sign a petition for annexation representing thresholds of total assessed valuation. First, the annexation is initiated by petitions representing ownership of at least 10% of assessed valuation. Then the annexation is affirmed by a second set of petitions representing at least 50% of assessed valuation.

The direct petition method is recommended for several reasons:

- The state sales tax credit can only be used on certain of the available annexation methods: direct petition and election.
- This method allows the City to be more involved with annexation proponents.
- It can be managed with existing City resources. The labor-intensive aspects of petition-gathering would be done by residents of the area organized community groups. The City would play informational and facilitation roles.

Each of the three areas within the PAA would have its own annexation direct petition campaign, and City staff will work with groups active in these three areas. All would be coordinated under a single City-managed annexation umbrella. The intent of this approach is to present Council with a single South Bellevue annexation action covering all three areas in a single ordinance (assuming that each independently satisfies the petition requirements). At each stage of the effort, however, the Council maintains its oversight

and decision-making roles, will decide the ultimate annexation configuration, and affirms the conditions for annexation.

Workload Impact

If the annexation effort moves forward, staff proposes a three-stage annexation work program:

1. Pre-annexation preparation—examine infrastructure, confirm pre-annexation zoning, establish outreach, and use fiscal tools to confirm service and revenue impacts;
2. Facilitate the actual annexation process using the Direct Petition method; and
3. Integrate the annexed areas into the City and community.

PCD expects to manage this work program with existing resources, as outlined in the Planning and Community Development Budget One Initiatives for Innovative, Vibrant, and Caring Communities (IVCC)—Annexation of the Eastgate area neighborhoods:

“Work with unincorporated Eastgate neighborhoods to coordinate their anticipated annexation into Bellevue. This includes coordination with other departments to analyze costs and services; coordination of the petition process; and documentation consistent with state requirements.”

Other City staff plays key roles in the annexation effort. These staff would participate in public outreach and annexation logistics during the program. This will also include the work of integrating these areas into the City by inventorying and assessing infrastructure and operational demands, then extending service, as directed by Annexation Element Policies AN-16 and 17. These policies call for establishing departmental service needs, then increasing City services to newly-annexed areas while not decreasing current service levels.

Questions asked at the City Council Retreat

Annexation was discussed briefly at the City Council Retreat. In addition to information above, the following is in response to additional questions raised.

Could King County adopt and apply City of Bellevue development standards in the area, once an annexation is set in motion?

Any powers, privileges or authority exercised by a public agency may be exercised jointly with any other public agency by entering into an interlocal agreement authorized under the Interlocal Cooperation Act at RCW 39.34. The intention for such agreement in this context would be for development review in the Potential Annexation Area to be consistent with City standards. In order to lawfully implement the intent of such an interlocal, the County would need to amend its development code to adopt city standards applicable within the PAA, as well as potentially amend the applicable zoning designation of the affected

properties. After the effective date of those amendments, the County would apply, through its own development code, zoning and development standards consistent with city codes.¹

Because application of standards the same as or similar to city standards would require an amendment to the County's zoning code and development regulations, this process would take several months, would involve a public notice and hearing process, and action by the County Council. This would be quite complex, and would occur at a time when there are no guarantees that the annexation effort would succeed. It would involve first negotiating and adopting an Interlocal Agreement between the City and County in order to identify the amendments required to the County code to make it consistent with city regulations, and then require the County go through the process of adopting development code amendments. This process, even on a "fast track" would likely take at least 7-9 months (i.e. effective September-November 2011 if started immediately).

Staff will pursue an interlocal agreement if Council so directs. But given the magnitude of the effort, together with the long lead times necessary to adopt code authority, staff suggests that this not be pursued.

Related Issue

The above addresses development review occurring before the effective date of annexation. A related issue occurs after annexation. What happens to development review that is in process at the time of annexation, i.e. open applications that the City inherits? Under Washington law, certain development applications would be vested to County rules, even following annexation. In the absence of an interlocal agreement allocating responsibility for processing those vested applications, the city would take over permit reviews and inspections, but would be required to carry out those reviews and inspections under County codes. This can be time consuming and expensive as City staff requires additional time to become familiar with the application and interpretation of County codes. In the West Lake Sammamish annexation, the two jurisdictions adopted a post-annexation interlocal that allowed King County to continue processing permit applications under King County rules to allow projects that were in process to continue through to completion under a single regulatory regime.

Once the area is annexed, could the City impose a "grace period" to allow for a gradual easing-in of code enforcement for non-health and safety issues?

Yes, this is an option available to the Council. This falls within the appropriate scope of prosecutorial discretion regarding the application of code enforcement. Were City Council to consider such grace period, it would be reasonable to capture your expectations via

¹ The County and City could not simply agree between themselves that the County would apply the city's codes through its review processes within the County's boundary through an interlocal agreement. Amendment to the County's own codes to establish the applicable standards within the PAA is required. See, e.g. *M.T. Development LLC v. Renton*, 140 Wn. App. 422, 428-29 (2007).

resolution, so staff could then do public outreach, let residents know about the new rules, and provide information regarding when the City would start to enforce them.

NEXT STEPS

Now is an advantageous time to promote annexation:

- It is within the 2015 statutory window created by **RCW 82.14.415 - Sales and use tax for cities to offset municipal service costs to newly annexed areas**—allowing the City to make up operating budget gaps between annexation service costs and revenues by crediting a share of state sales tax revenue, and potentially “making the City whole” for the ten-year period of the credit;
- Neighborhood residents and owners are **ready to actively lead** the annexation effort, having approached the City in an organized fashion. With citizens leading the campaign, this enables staff to engage primarily in an information-sharing and facilitation role.

Staff is requesting direction on whether the City Council desires to launch a South Bellevue annexation work program using the recommended direct petition method of annexation. Staff would then work with the residents of each of the three subareas on Notice of Intents to Petition (aka the 10%) that could be brought forward for Council action. If the initial Notice of Intents are accepted by the City Council in the first half of this year, and result in successful Direct Petition campaigns, the areas could be annexed effective April, 2012.

ALTERNATIVES

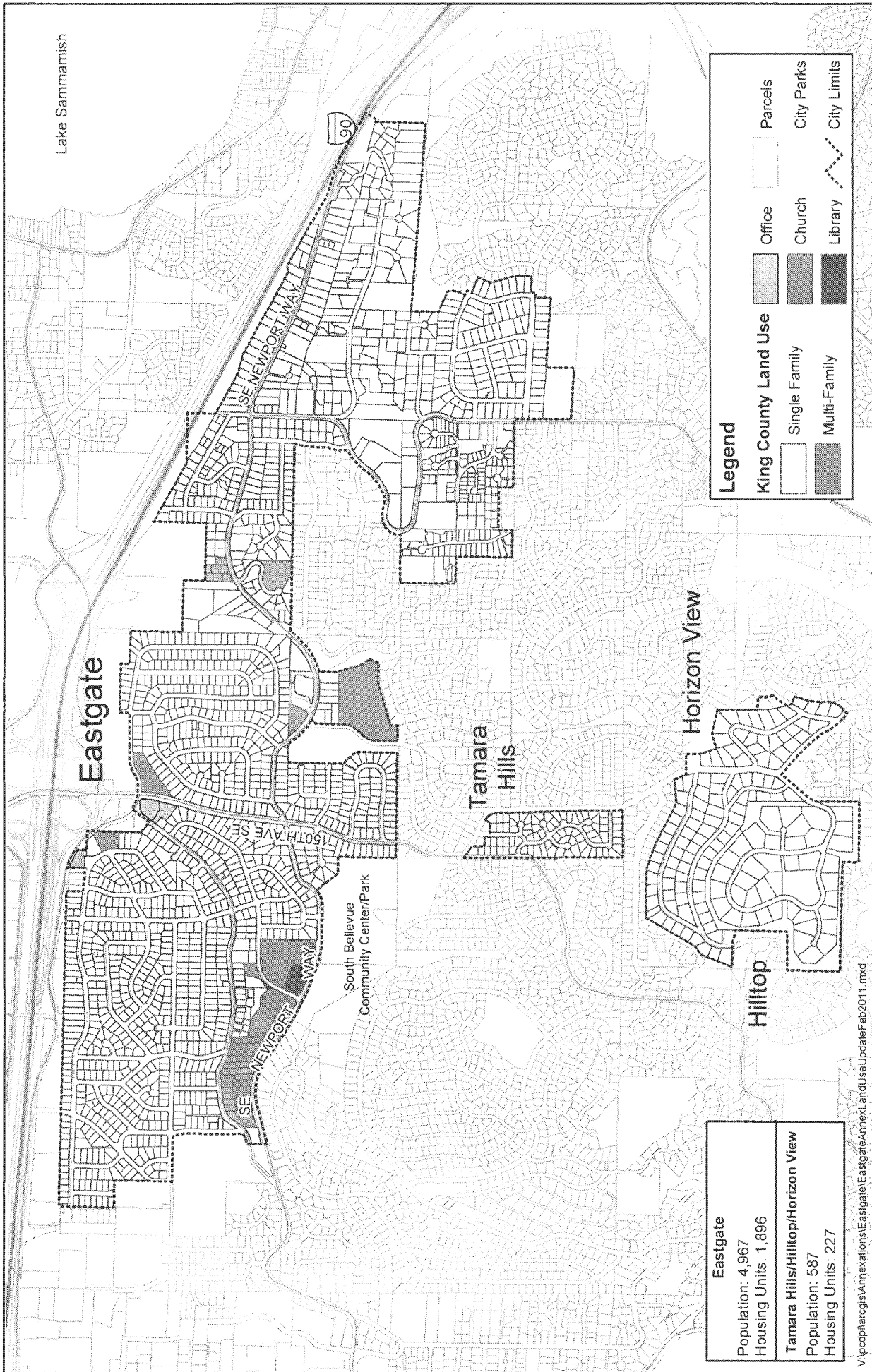
1. Direct City staff to initiate the South Bellevue PAA annexation work program.
2. Revise the proposal, then direct staff to initiate the South Bellevue PAA annexation work program.
3. Provide other direction to staff.
4. Do not initiate the South Bellevue PAA annexation work program at this time.

RECOMMENDATIONS

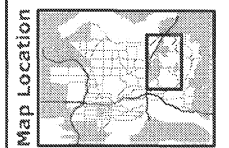
Alternative No. 1.

ATTACHMENTS

1. South Bellevue PAA area map
2. Service areas in South Bellevue PAA
3. Revenue and operating expenditure estimates
4. Tax implications for homeowners – Bellevue vs. King County
5. Methods of annexation review



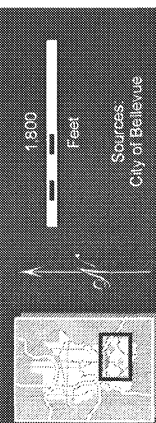
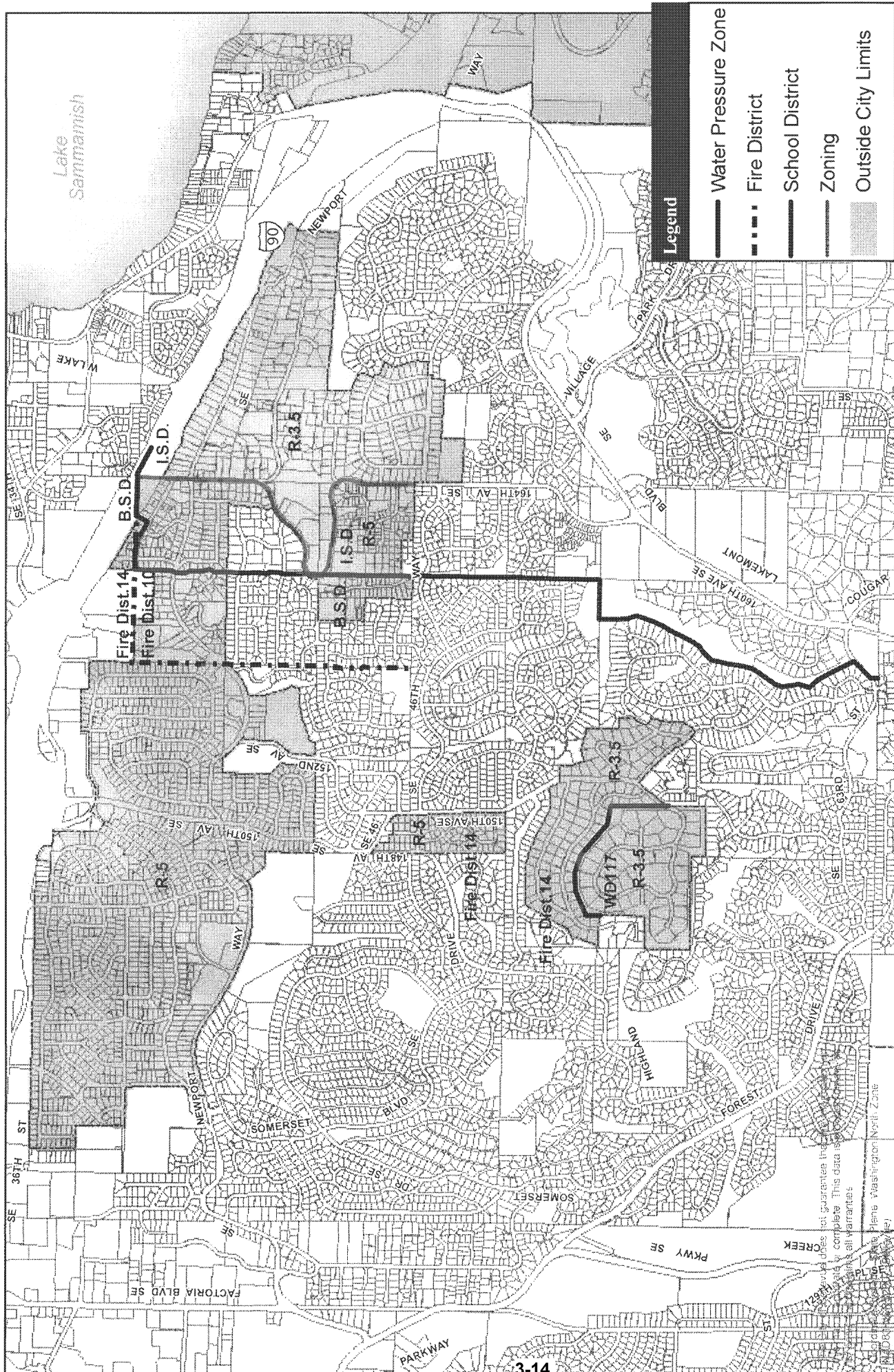
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South Bellevue Potential Annexation

City of Bellevue
IT Department
GIS Services

Plot Date: 2/22/2011



Sources:
City of Bellevue

Eastgate, Hilltop/Horizon View, and Tamara Hills PAAS



Major Source Revenue and Main Operating Departments Operations costs estimates**South Bellevue PAAs**

These “sketch level” estimates are valid for 2011

Revenue Source	Amount (\$)	Fund Use Restrictions
Property Tax	1,126,572	General Fund Human Services Funds
Utility Tax	688,795	General city operations
State-shared liquor taxes	61,290	General Fund
State-shared motor vehicle fuel tax	59,686	General Fund
General Fund subtotal	1,936,343	

Expenditures (General Fund operating cost)	Amount (\$)
Fire	1,114,577
Police	1,108,116
Parks and Community Services	280,000
Transportation	544,067
General Fund subtotal	3,046,760
Revenue total	1,936,343
Revenues (+) / Expenditures (-) net	(1,110,417)

Detached SF*	Bellevue levy \$7.89/\$1,000 AV	King County levy \$10.26/\$1,000 AV	Annual Property Tax difference	Bellevue Storm water drainage fee**		Utility tax*** diff. City (347)-County (25)	Annual Total Benefit
A	B	C	D (B-C)	E1 COB total	E2 Change from KC	F	D + E2 + F
Low AV Eastgate \$291,000	2,296	2,986	(690)	189	-6	322	(374)
High AV Eastgate \$1,561,000	12,316	16,016	(3,700)	354	+159	322	(3,219)
Average AV Tamara Hills \$365,730	2,886	3,752	(866)	161	-34	322	(578)
Average AV Hilltop \$812,755	6,413	8,339	(1,926)	630	+435	322	(1,169)
Average AV Horizon View \$774,891	6,114	7,950	(1,836)	368	+173	322	(1,341)

*All figures are based on 2010 tax year. AV = Assessed Value (source: King County Assessor)

*Bellevue schools, FD 14. See Attachment 1 for boundaries

**KCSWM is a fixed \$195. The change from KC is the difference between that fixed fee and the COB total.

***City average utility fee presumes all taxed utilities are used: garbage, electric, natural gas, water, sewer, storm drainage, cable TV, telephone, and cell phone for an average of \$347. The County fee is a fixed \$25 for street lights = difference of \$322

This chart shows the total tax (property, storm water fee, and utility tax) implications of individual annexation area properties being in Bellevue as compared to unincorporated King County.

For example, an exceptionally low assessed value property in Eastgate (\$291,000 AV) would annually pay an estimated \$374 less in Bellevue than in unincorporated King County; the highest single-family assessed valuation property in Eastgate (\$1,561,000) would save an estimated \$3,219 by being in Bellevue.

Method	Features	Sales Tax Credit applies	Timeline
35A.14.120-150 Direct Petition Owners representing 10% of AV to initiate Owners representing 60% of AV to proceed to hearing on annexation Supermajority drops to 50% when PAA is surrounded more than 80%	- City Council controls action both to initiate and to annex - Allows full city information role - Method addresses comp plan and zoning designations, and bonded indebtedness - Method excludes creation of community council (allowed only through election method) - Method is predominant in WA, even with newer methods	Yes	Typical calendar is 11-14 months: 10%/50% acceptance - Assessor certification - BRB review - Council hearing and action
35A.14.420.450 Direct Petition – alternate Owners representing 10% of acreage to initiate Owners representing majority of area AND simple voter majority to proceed to hearing on annexation	Same features as Direct Petition	Yes	Same features as Direct Petition
35A.14.015-.100 Election Council resolution or 10% voter initiates Boundary Review Board review City Council requests special election ballot filed and election held	- Simple majorities to approve annexation, but bonded indebtedness requires majority of at least three-fifths (60%) of the voters - Number of electors voting on the question [needs to be] not less than forty percent of the total votes cast in last general election. - A combined ballot question requires a sixty percent supermajority, however, the Council may elect to accept simple majority results on the annexation question alone (no indebtedness) or turn down the results - Council must annex if annexation vote and bonded indebtedness pass; Council may decline to annex if annexation vote passes but bonded indebtedness vote fails - Allows creation of a community council	Yes	Typical calendar is 10 months, but must use specific election dates - Council resolution or 10% voter initiate - BRB meets, holds hearing - Council requests election - Election - City acceptance and certification
35A.14.295-.299 - Unincorporated island Any size and 80% contiguous	- Council resolves to annex - Council holds public hearing and adopts ordinance - Subject to 45-day referendum of ten percent of votes cast in last general election - Excludes community council formation	No	Typical calendar is two months for action, then 45-day waiting period
35A.14.460 - .470 City/County Interlocal If area is sixty percent contiguous	- County or city may initiate and enter into an interlocal - Subject to 45-day referendum of fifteen percent of votes cast in last general election.	No	Typical calendar is >6 months
35A.14.480 Fire District Interlocal A city may annex territory within fire district if the district, city, and county agree thru agreement	If all agree, the subsequent annexation ordinance is not subject to referendum. If the district doesn't enter into the agreement, the ordinance is subject to 45-day referendum of ten percent of votes cast in last general election	No	Typical calendar is >6 months