

South Hill Governance Study

An Informational Study on the Incorporation or Annexation of the South Hill Incorporation Area

Final

Informational Study Only

Prepared for:

Pierce County

Planning and Public Works

November 22, 2023

Project No. M1266.06.003



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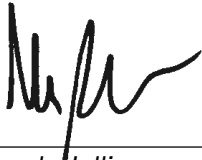


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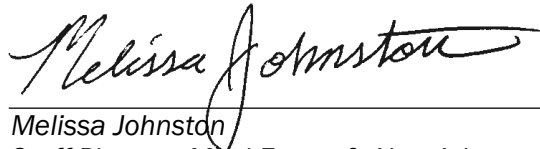
South Hill Governance Study

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Abbreviations

| | |
|--------------------|--|
| B&O | business and occupation |
| BRB | Boundary Review Board for Pierce County |
| CAGR | compound annual growth rate |
| CIP | Pierce County 2022–2023 Biennial Budget Capital Improvements Program |
| Community Plan | South Hill Community Plan |
| Comprehensive Plan | Pierce County Comprehensive Plan |
| CPP | Countywide Planning Policies |
| CRS | Community Rating System |
| EMS | emergency management services |
| EPA | U.S. Environmental Protection Agency |
| FEMA | Federal Emergency Management Agency |
| GMA | Growth Management Area |
| HCT | High-Capacity Transit |
| MFA | Maul Foster & Alongi, Inc. |
| MRSC | Municipal Research and Services Center of Washington |
| Murrey’s Disposal | Murrey’s Disposal Company, Inc. |
| NFIP | National Flood Insurance Program |
| OFM SAEP | Washington State Office of Financial Management’s Small Area Estimates Program |
| PAA | potential annexation area |
| PCRC | Pierce County Regional Council |
| Puyallup | City of Puyallup |
| PIA | potential incorporation area |
| Community Plan | South Hill Community Plan |
| SHAC | South Hill Advisory Committee |
| SHB | Senate House Bill |
| Sound Transit | Central Puget Sound Regional Transit Authority |
| SR | state route |
| Study | South Hill Governance Study |
| Study Area | South Hill Incorporation Area |
| TIP | transportation improvement program |
| REET | real estate excise tax |
| RCW | Revised Code of Washington |

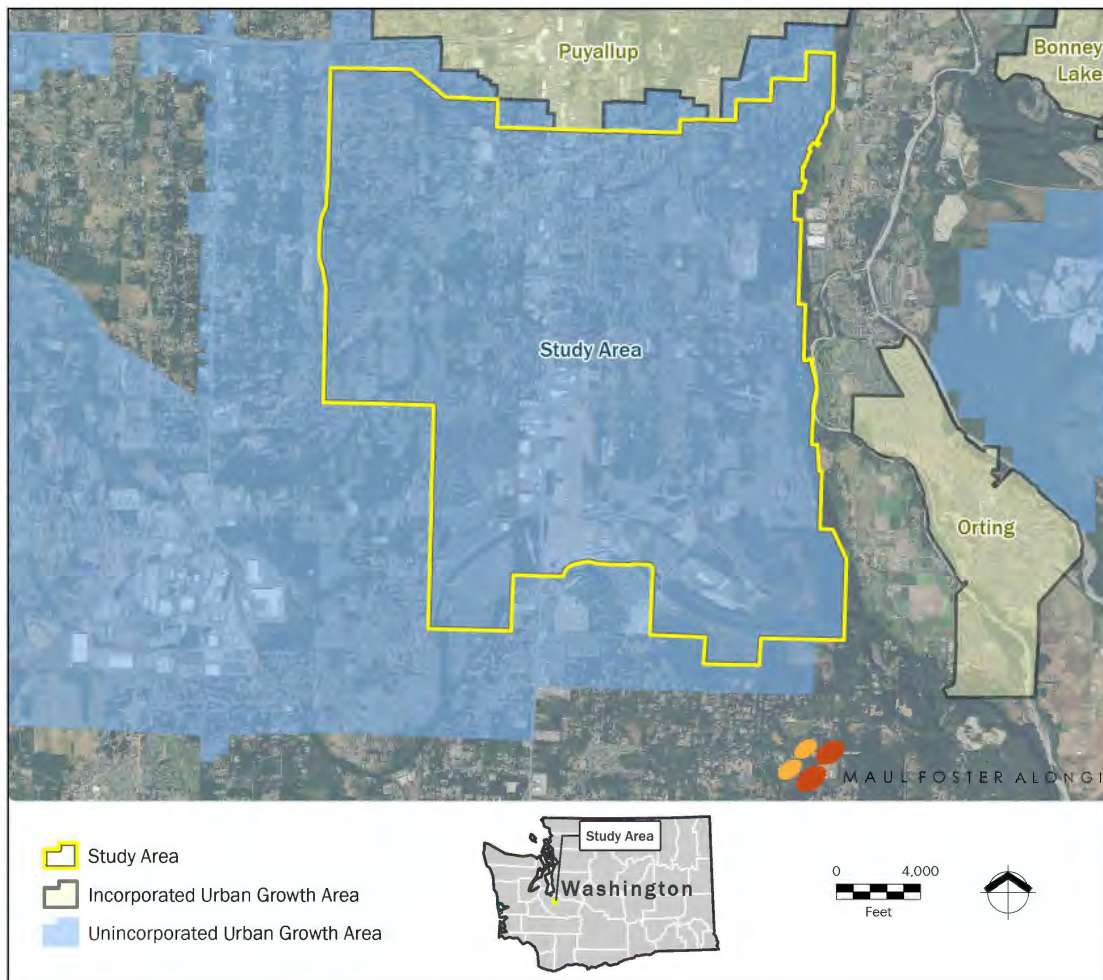
UGA urban growth area
VISION 2050 VISION 2050: A Plan for the Central Puget Sound Region

Summary

Introduction

The South Hill Governance Study (Study) considers and compares the financial feasibility of the South Hill Incorporation Area (Study Area) to incorporate as a new city or be annexed by the City of Puyallup (Puyallup). The Study Area comprises approximately 19 square miles in Pierce County's urban growth area (UGA) immediately south of Puyallup and is home to approximately 64,800 residents (see Figure ES). This summary section is not intended as a stand-alone document and must be evaluated in context with the entire document.

Figure ES: South Hill Study Area



Notes

Sources: Aerial photograph obtained from U.S. Department of Agriculture; Urban growth area and South Hill Incorporation Area boundaries obtained from Pierce County.

Study Purpose

State, regional, and local planning policies encourage unincorporated areas within Pierce County's UGA to either incorporate as their own city or be annexed by a neighboring city. The Study Area is identified in the *Pierce County Comprehensive Plan* as a potential incorporation area. This South Hill Governance Study (study) provides an analysis of the financial feasibility of the Study Area if it were to incorporate. This study also compares the difference between incorporation of the Study Area and annexation by Puyallup so that this alternative can be fully considered by the Boundary Review Board for Pierce County (Revised Code of Washington [RCW] 36.93.170). This study is informational and not part of an incorporation or annexation process as required by state law. The analysis and information presented in this report is for **informational purposes only**.

The study considers these core questions:

- If the Study Area were to become a fully operating city, would it generate enough revenue to provide an equal or better level of service than if it remained unincorporated?
- How would incorporation compare to annexation by a neighboring City (such as Puyallup in the case of this study)?

To evaluate these questions, the study provides the following:

- An analysis of the financial feasibility of the Study Area to incorporate.
- A comparison of the possible outcomes resulting from incorporation or annexation of the Study Area.
- Study Area characteristics including population, housing, employment, land use, and zoning.
- A summary of state and county planning policies and incorporation and annexation processes.

Incorporation and Annexation Processes

For an area to incorporate, a resident of the community must initiate the process by filing a notice of incorporation with the county legislative authority and garnering signatures from at least 10 percent of registered voters in the community (RCW 35.02).

Annexation in the state of Washington can be initiated by a variety of methods and processes, which differ for code and non-code cities.¹ Puyallup is a code city, so annexation of the Study Area by Puyallup would follow the code city process (see RCW 35A.14). Most annexation processes begin through a petition or election method, which can be initiated by residents of that municipality or the local council or government. The most common form of annexation is the sixty percent petition

¹ City and town governments are classified at the time of their incorporation or reorganization. The classification types are first-class city, second-class city, code city, and town. The classification as a first-class city, second-class city, and town depends in part on the size of the municipality at the time of incorporation or reorganization. First-class cities have populations greater than 10,000, operate under RCW 35A, and have adopted a charter. Second-class cities have populations greater than 1,500 at the time of organization; towns have populations of less than 1,500 at the time of organization, and both are not code cities operating under RCW 35A. Code cities operate under RCW 35A. Municipalities with a population of 1,500 or more may choose to incorporate or reorganize as a code city (Title 35A RCW). Code cities and first-class cities are authorized to perform any function not specifically denied by state law; whereas, second-class cities and towns have only those powers expressly granted to them by the state legislature (RCW 35A.01.010, 35A.11.020, 35A.11.050).

method, in which a petition is generated by landowners who represent at least 60 percent of the property value in the area, according to the assessed property valuation.

In Pierce County, incorporation and annexation proposals are to be reviewed by the Boundary Review Board for Pierce County which will affirm, alter, or reject the proposal (RCW 36.93). A step-by-step description of the incorporation and annexation processes is provided in Section 7 of this report.

Methodology

Incorporation Analysis

The financial feasibility analysis performed to evaluate incorporation of the Study Area uses the comparable city method to estimate the general fund, special revenue funds (which include Transportation Capital, Parks Capital, real estate excise tax (REET), and Surface Water Management),² and expenditures. The comparable city method is based on the budget of a city that is similar in size and multiple other factors to the potential incorporated city so that the comparable city serves as a reliable indicator of costs and revenues. This study considered multiple comparable cities that were similar to the Study Area in size and general location. To arrive at budget estimates, municipal budget data from the comparable cities were converted to per capita revenues and costs, and those per capita values were multiplied by the Study Area population to estimate Study Area revenues and costs. The comparable city method assumes that, after incorporation, the Study Area would have levels of service similar to those in the comparable cities. The levels of service were factored into the selection of the comparable cities.

While the comparable city methodology is appropriate for a majority of a potential city's budget, in certain areas more accurate estimates can be achieved. These include the following:

- **Property tax**, based on assessed values within the Study Area.
- **Sales tax**, based on taxable retail sales tax base in the Study Area.
- **Real estate excise tax (REET)**, based on assessor data, to estimate annual sales and sales value within the Study Area.
- **Surface water management fees**—which include user fees and system development charges for new users—are based on fees and conditions from the City of Bonney Lake, which includes both surface water and stormwater management.
- **Capital costs**, based on projected costs from the County applicable to the Study Area.
- **Park and transportation impact fees**, based on current fees charged by the County within the Study Area.

Annexation Analysis

As with the incorporation analysis, the annexation analysis conducted for this study uses the comparative revenues and expenditures for Puyallup. The annexation analysis is based on per capita revenue and cost data provided by Puyallup for its general fund. Special revenue funds were not

² Special revenue funds are typically used by cities to differentiate types of revenues and expenses, as well as to create funds that hold restricted city revenues or revenues that must be used to serve a specific purpose.

included in the annexation analysis, as special revenue funds are typically funded through corresponding charges for services.

The analysis assumes the initial year of cityhood after incorporation or annexation to be 2025 but does not adjust for inflation so that alternative initial years can be used. As a result, the study analyzes projected population, housing, and employment growth within the Study Area to capture changes in annual revenues or expenditures.

Key Findings

If the South Hill Study Area were to incorporate, the incorporation analysis estimates that the Study Area would generate roughly \$45 million in general fund revenues while spending about \$46 million during the first full year of operation, in this case 2025 (see Table ES-1). The analysis suggests the newly incorporated city's general fund would remain near balanced through 2035, with estimated expenditures outpacing revenues by about \$500,000 (see Section 6). Table ES-1 also presents the estimated revenues and expenditures of the modeled special revenue funds. Pierce County's upcoming transportation capital projects currently represent a large portion of capital spending planned for the Study Area, totaling as much as \$13.3 million in 2025. There are no surface water management projects currently planned in the Study Area. Available funding in the surface water management fund may be used to support future capital expenditures. Additionally, available REET funds may be used to cover the costs of some capital expenditures, such as transportation capital projects.

Table ES-2 presents the findings from the annexation analysis considering a scenario in which Puyallup fully annexes the South Hill Study Area as well as a baseline scenario assuming no annexation. Using current per capita revenues and expenditures with Puyallup's current tax rates for major revenue drivers such as property taxes and sales and use taxes, the annexation analysis suggests that Puyallup would take on a significant financial burden if Puyallup were to annex the Study Area.

Table ES-1: Estimated General Fund Revenues and Expenditures, Study Area Incorporated as City, for 2025, 2030, 2035

| Fund | 2025 | 2030 | 2035 |
|--------------------------------------|-----------------|----------------|----------------|
| General Fund | | | |
| Fund Revenues | \$45.1 | \$49.4 | \$54.1 |
| Fund Expenditures | \$46.2 | \$50.2 | \$54.6 |
| Fund Balance | (\$1.1) | (\$0.8) | (\$0.5) |
| Transportation Capital Fund | | | |
| Fund Revenues | \$2.9 | \$6.7 | \$11.2 |
| Fund Expenditures | \$13.3 | \$6.2 | \$6.2 |
| Fund Balance | (\$10.3) | \$0.5 | \$5.0 |
| Parks Capital Fund | | | |
| Fund Revenues | \$1.4 | \$2.0 | \$2.6 |
| Fund Expenditures | \$0.7 | \$1.6 | \$1.6 |
| Fund Balance | \$0.7 | \$0.3 | \$1.0 |
| Real Estate Excise Tax Fund | | | |
| Fund Revenues | \$5.3 | \$5.8 | \$6.3 |
| Fund Expenditures | \$0.0 | \$0.0 | \$0.0 |
| Fund Balance | \$5.3 | \$5.8 | \$6.3 |
| Surface Water Management Fund | | | |
| Fund Revenues | \$3.8 | \$3.8 | \$3.8 |
| Fund Expenditures | \$0.0 | \$0.0 | \$0.0 |
| Fund Balance | \$3.8 | \$3.8 | \$3.8 |

Notes

Further information regarding revenues and expenditures can be found in Sections 4 and 5, respectively. For information about the special revenue funds (transportation, parks, REET, and surface water management), please see Sections 4.6 and 5.2.

Sources: Input and source data obtained from the Washington State Office of Financial Management, Pierce County, Puget Sound Regional Council, U.S. Census Bureau, and City of Lakewood.

Table ES-2: Estimated General Fund Revenues and Expenditures, City of Puyallup with and without Annexation of Study Area, 2025, 2030, 2035

| General Fund | Puyallup without Annexation | | | Puyallup with Annexation | | |
|---|-----------------------------|---------|---------|--------------------------|----------|----------|
| | 2025 | 2030 | 2035 | 2025 | 2030 | 2035 |
| Revenues | \$61.2 | \$61.7 | \$70.2 | \$105.3 | \$113.9 | \$123.1 |
| Expenditures | \$63.8 | \$64.6 | \$71.9 | \$128.8 | \$139.1 | \$150.0 |
| General Fund Balance | (\$2.6) | (\$2.9) | (\$1.7) | (\$23.5) | (\$25.2) | (\$27.0) |
| General Fund Balance as Percent of Revenues | (4.3%) | (4.6%) | (2.4%) | (22.4%) | (22.2%) | (21.9%) |

Sources: Input and source data obtained from the Washington State Office of Financial Management, Pierce County, Puget Sound Regional Council, U.S. Census Bureau, and City of Lakewood.

1 Introduction

1.1 Background and Purpose

This South Hill Governance Study (study) considers and compares the financial feasibility of the South Hill Incorporation Area (Study Area) to incorporate as a new city or be annexed by the City of Puyallup (Puyallup). The Study Area comprises approximately 19 square miles in Pierce County's (the County's) urban growth area (UGA) immediately south of Puyallup (see Figure 1-1) and is home to approximately 64,800 residents.

The Study Area is nearly identical to the South Hill Community Plan area as defined by the *Pierce County Comprehensive Plan* (Comprehensive Plan, Pierce County 2023a). The Study Area is within the UGA and contiguous to the City of Puyallup but is not located within a potential annexation area (PAA) (see Figure 1-2).

The Washington State Growth Management Act (GMA) and regional and local planning policies encourage unincorporated areas within Pierce County's UGA to either incorporate as their own city or to be annexed by their neighboring cities. Given that state, regional, and local policies encourage incorporation or annexation of urban areas and that there is significant population and urban development within the Study Area, Pierce County has initiated this informational study to assess the financial feasibility of incorporation and explore the possibility of a future city. Additionally, the study considers the financial feasibility of annexation, as the Boundary Review Board for Pierce County (BRB) will need to consider annexation as an alternative to fully evaluate an incorporation proposal.

This study is not part of an incorporation or annexation process. A proposal to incorporate a new city cannot be filed or approved by a county government, state agency, or the legislature. It must be initiated by the petition of a resident voter and must be voted upon by the residents of the area proposed for incorporation. No petition to incorporate has been filed by residents of South Hill at the time of this report. The analysis and information presented in this study is for informational purposes only. Additionally, this study does not propose financial decisions for a future city; it solely aims to estimate future financial feasibility given existing tax structures and potential per capita expenditures.

The goal of this study is to provide an analysis to support Pierce County staff in understanding the financial feasibility of the Study Area to incorporate and provide a discussion of the differences between incorporation and annexation.

The study considers these core questions:

- If the Study Area were to become a fully operating city, would it generate enough revenue to provide an equal or better level of service than it would provide if it remained unincorporated?
- How would incorporation compare to annexation by a neighboring city (such as City of Puyallup in the case of this study)?

To evaluate these questions, the study provides the following:

- An evaluation of the financial feasibility of the Study Area to incorporate.
- A comparison of the possible outcomes resulting from incorporation or annexation of the Study Area.
- Study Area characteristics including population, housing, employment, land use, and zoning.
- A summary of state, regional, and local planning policies and incorporation and annexation processes.

1.2 Study Timeline

The study was conducted between May and December 2023. The South Hill Advisory Committee (SHAC), Pierce County Regional Council (PCRC), and Pierce County Planning Commission received presentations on the preliminary findings between September and November. The draft study was posted for public comment September through October. See Appendix A for a summary of public comments on the draft report and presentations and responses.

1.3 The Draw of Cityhood

Residents of unincorporated parts of urban areas may wish to incorporate to have greater local control and autonomy. Incorporating allows the residents to create their own form of government and elect leaders that live in the area. Decisions on public services, land use, zoning, design standards, and city-level business regulations can be made by the people who make up that community. The community may elect its own city council, appoint planning commissioners, and have a greater opportunity to participate in decision-making processes to enact ordinances, codes, plans. Residents who advocate for incorporation may feel that the new form of government is closer to home and more responsive to their needs.

1.4 Incorporation and Annexation

This section provides a brief introduction to incorporation and annexation processes. A detailed explanation of each process is provided in Section 7.

Incorporation

The incorporation process is designed to be local in nature (see Revised Code of Washington [RCW] 35.02 and 36.93). For a new city to be successful, incorporation must have broad support among area residents—support that will ultimately manifest in the form of a direct vote for incorporation.

The incorporation process begins when a resident(s) files a notice of incorporation proposal with the county legislative authority. After the notice is filed, proponents gather voters' signatures equal to at least ten percent of the registered voters in the proposed area of incorporation. Next, the BRB holds a public hearing and makes a recommendation in favor of or against incorporation. If the BRB is in favor, a referendum would then be held among the residents of the proposed area of incorporation to determine the success or failure of the proposed incorporation. If the referendum is successful, a

subsequent election is held to select the council members who will preside over the city (MRSC 2023a). The incorporation process is described in detail in Sections 7 and 8.

Annexation

Annexation is a legislative action involving the transfer of land from one jurisdiction to another. The methods of annexation are set forth in Washington state law. The applicable methods depend on whether the annexation is by a code city or non-code city.³ Puyallup is a code city, so annexation of the Study Area by Puyallup would follow the code city process (RCW 35A.14). Cities and towns may only annex property that is located within their designated UGAs (RCW 35.14.005), which are PAAs in Pierce County. The area to be annexed must be contiguous to the code city (RCW 35A.14.010). The Study Area is not within a PAA but is within the UGA and contiguous to Puyallup (see Figure 1-1).

There are ten methods of annexation set forth in state law, of which the sixty percent petition method is the most frequently used. Under this method, the annexation process is initiated by written notice to the city council signed by no less than ten percent of the residents of the area proposed for annexation or landowners representing no less than ten percent of the value of the property proposed for annexation. The city council will then consider at a public hearing whether to accept, reject, or geographically modify the proposed annexation. If the city council chooses to accept the proposed annexation, the initiating party may then circulate a petition. The petition must receive signatures from owners representing at least 60 percent of the assessed value of the area proposed for annexation and then filed with the city. The city council may then choose, but is not required, to set a date for a public hearing to consider the annexation proposal (MRSC 2020). The annexation process is described in detail in Section 7.

Boundary Review Board

The BRB, established by state statute RCW 36.93.03, facilitates and regulates municipal and special district boundary changes, either by annexation or incorporation. The BRB may review any proposal pertaining to the creation, incorporation, or change in the boundary, other than a consolidation of any city town or special purpose district (RCW 36.93.090). While the BRB is required to review all incorporation proposals and other actions as outlined above in the county in which it is located, it does not formally do so unless certain conditions are met, as discussed in detail in Section 7.3.

Pierce County's procedures require the BRB to hold a public meeting within 30 days after the incorporation proposal is filed. The purpose of the public meeting is to engage with proponents of the proposed action and members of the community within the proposed incorporation community, share information, and gather feedback. After proponents have gathered sufficient signatures and the BRB has received the notice of intention, a public hearing is scheduled. The BRB may do any of the following in response to an incorporation proposal (RCW 36.93.150):

³ City and town governments are classified at the time of their incorporation or reorganization. The classification types are first-class city, second-class city, code city, and town. The classification as a first-class city, second-class city, and town depends in part on the size of the municipality at the time of incorporation or reorganization. First-class cities have populations greater than 10,000, operate under RCW 35A, and have adopted a charter. Second-class cities have populations greater than 1,500 at the time of organization; towns have populations of less than 1,500 at the time of organization, and both are not code cities operating under RCW 35A. Code cities operate under RCW 35A. Municipalities with a population of 1,500 or more may choose to incorporate or reorganize as a code city (Title 35A RCW). Code cities and first-class cities are authorized to perform any function not specifically denied by state law; whereas, second-class cities and towns have only those powers expressly granted to them by the state legislature (RCW 35A.01.010, 35A.11.020, 35A.11.050)

- Approve or modify and approve by adding or deleting territory.
- Disapprove a proposal of an area with a population of less than 7,500.
- Recommend against incorporation of an area with a population of 7,500 or more.

The objectives that the BRB must attempt to achieve are documented in RCW 36.93.180 and include preserving communities, physical boundaries, and logical service areas; encouraging incorporation of large cities in urban areas; and protecting agricultural and rural lands. Other objectives are discussed in detail in Section 7.3.

1.5 Organization of the Report

The remainder of this report is organized as follows:

- **Section 2, Methodology.** Describes the scope of the study, detailed methodology, data sources and assumptions.
- **Section 3, General Characteristics of the Study Area.** Presents a summary of the Study Area's demographics and policies.
- **Section 4, Revenues.** Provides an analysis of the revenue the Study Area would likely receive if it were to incorporate and a comparison to revenues from annexation of the Study Area.
- **Section 5, Expenditures.** Presents analysis of the expenditures the Study Area would likely incur if it were to incorporate and a comparison to expenditures from annexation of the Study Area.
- **Section 6, Financial Feasibility.** Analyzes the financial feasibility, costs, and revenues for the Study Area if it were to incorporate and provides a comparison to the financial feasibility, costs, and revenues of the Study Area if it were annexed by the City of Puyallup.
- **Section 7, Incorporation and Annexation Process.** Explains the step-by-step process for incorporation and annexation.
- **Section 8, Implementation Considerations for Incorporation.** Describes differences in the forms of government that cities may operate under and the pros and cons for choosing each of these forms of government during the incorporation process. Also presents an overview of incorporation transition activities.
- **Appendix A** provides the public comments received as well as responses to them.
- **Appendix B** details the key inputs and assumptions used in this study.
- **Appendix C** provides a detailed explanation of the baseline and alternative scenarios used in the analyses conducted for this report.
- **Appendix D** provides details on the comparable cities under consideration and how Puyallup was selected as the primary comparable city.
- **Appendix E** describes the environmental setting in the Study Area.
- **Appendix F** provides detailed tables and text with the demographic characteristics, commuting trends, and existing districts in the Study Area.
- **Appendix G** enumerates Pierce County's planning and other policies and programs related to annexation.

2 Methodology

2.1 Financial Feasibility

This study presents information about the financial feasibility of the Study Area to incorporate as its own city and compares the feasibility of incorporation to the financial feasibility of annexation by Puyallup. This comparison is intended to provide an understanding of the potential marginal impact to Puyallup and the ongoing financial feasibility of annexation. This financial feasibility and the assumptions used are for informational purposes only and are intended to aid future discussions with the public and policy decision makers.

The results from the data and assumptions described in this study are presented in subsequent sections. Details on the data sources, assumptions, and methods for each scenario are documented in Appendixes B and C. The analysis estimates future revenues and expenditures using population, housing units, and employment growth. The ongoing impact of the COVID-19 pandemic on population, housing unit, and employment growth in the Study Area and Pierce County remains to be seen, as data on long-term trends are not yet available. This analysis uses a medium growth scenario, consistent with 13-year (2010–2022) historically observed rates of growth in the Study Area for population and housing units, as well as the adopted Pierce County Countywide Planning Policies (CPP) employment average annual growth rate for High-Capacity Transit (HCT) communities (Pierce County 2022b).⁴

The financial analysis assesses the Study Area’s first fully operational year following incorporation or annexation and the following ten years. The analysis assumes 2025 to be the first full year of cityhood but does not adjust for inflation, so that the financial analysis can be replicated using alternative initial years. Projected growth is the sole variable in the analysis that impacts changes to annual revenues or costs within the Study Area. Projections are presented through 2035.

This methodology excludes an analysis of the year during which incorporation takes effect because it is assumed that the Study Area would become operational partway through its inaugural year. The financial analysis begins with the first fully operational fiscal year. Furthermore, the unique cash flows and exceptional revenue sources for interim operations during the inaugural year do not affect the more important question of ongoing financial feasibility. This study focuses on the ongoing feasibility of a potential incorporated city and provides a comparison of ongoing financial feasibility under annexation to Puyallup.

⁴ HCT communities identified by the Pierce County CPP include urban areas within the Mid-County, Parkland-Spanaway-Midland, and the South Hill community plan area. Employment data are not available for each community plan area to estimate a South Hill-specific growth rate based on the adopted Pierce County CPP. However, the adopted 2020–2044 average annual growth rate across the entire HCT community plan area presents a growth rate that is more conservative than historical growth between 2010 and 2020 but is less conservative than the Puget Sound Regional Council Land Use Vision—Implemented Targets forecasted average annual growth rate between 2020 and 2044.

Among the many issues a newly incorporated city must consider is that some services may be contracted initially, and some equipment may be leased or purchased on credit. Some of the most critical factors to consider during the start-up of a new city include the following:

- Partial-year operations
- Transition to cash flow of key revenues, such as property and sales taxes
- Initial cost of space and equipment
- Arranging for contracts for continued service
- Adoption of interim codes and ordinances
- The cost of developing a comprehensive plan and associated environmental assessments

Additional information on transition activities is documented in Section 8.

2.2 Services

Some of the services that cities provide and their corresponding facilities can be categorized as essential, while others are deemed discretionary. The future city council determines the level of services to provide following incorporation and election of representatives. The city council would also decide which services the city government will contract for and/or not provide.

For the purposes of this study, the following city services and facilities are identified as essential or discretionary.

Essential services and facilities:

- Building and planning
- City administration
- Fire
- Police
- Solid waste
- Stormwater or surface water management
- Transportation, streets, and sidewalks
- Wastewater
- Water

Discretionary services and facilities:

- Parks and recreation
- Human services
- Library

With the exception of parks and recreation, discretionary services are not funded in this incorporation analysis. Pierce County policies on incorporation indicate that Pierce County would transfer ownership of selected park types that fall within any proposed incorporation or annexation

area (Pierce County 2023a, PR-1.2.3 and PR-1.2.4). This analysis therefore assumes the newly incorporated Study Area will include funding and services for parks and recreation. The level of funding for human services and bicycle facilities will be at the discretion of the potential city as revenues allow. Transit would be provided by Pierce Transit, which currently provides service to a portion of the Study Area. Additional county and regional parks within the Study Area are managed by Pierce County, and libraries are provided by the Pierce County Library System. The annexation analysis makes no assumptions about which agency will provide library services. Puyallup provides library services to the existing city, so it may choose to provide services to the Study Area or may choose to contract those services to the existing district.

Identifying services as essential or discretionary is not the last word on city services. Ultimately, a city will be the policy decision-maker on which services will be provided by other government agencies through contracts or by city employees. In addition, a city may decide to provide some discretionary services if money is available, or contract for services if another agency is better suited to provide such services.

2.3 Other Factors

Washington state law (RCW 36.93.170) lists factors (listed below) that the BRB must include in its consideration of an incorporation proposal. This analysis highlights the assessment of the financial feasibility of providing municipal services for the Study Area if it were to incorporate, but does not provide an assessment of the other factors that the BRB is allowed to consider. The BRB must consider financial feasibility, territory, topography, preservation of agricultural soils, the likelihood of significant growth, and more, as documented below. Data on some of these additional factors are discussed in Section 3 as well as Appendixes E and F as they relate to the purpose of the study.

RCW 36.93.170 states the following:

In reaching a decision on a proposal or an alternative, the board shall consider the factors affecting such proposal, which shall include, but not be limited to the following:

(1) Population and territory; population density; land area and land uses; comprehensive plans and zoning, as adopted under Chapter 35.63, 35A.63, or 36.70 RCW; comprehensive plans and development regulations adopted under Chapter 36.70A RCW; applicable service agreements entered into under Chapter 36.115 or 39.34 RCW; applicable interlocal annexation agreements between a county and its cities; per capita assessed valuation; topography, natural boundaries and drainage basins, proximity to other populated areas; the existence and preservation of prime agricultural soils and productive agricultural uses; the likelihood of significant growth in the area and in adjacent incorporated and unincorporated areas during the next ten years; location and most desirable future location of community facilities;

(2) Municipal services; need for municipal services; effect of ordinances, governmental codes, regulations and resolutions on existing uses; present cost and adequacy of governmental services and controls in area; prospects of governmental services from other sources; probable future needs for such services and controls; probable effect of proposal or alternative on cost and adequacy of services and controls in area and adjacent area; the effect on the finances, debt structure, and contractual obligations and rights of all affected governmental units; and

- (3) The effect of the proposal or alternative on adjacent areas, on mutual economic and social interests, and on the local governmental structure of the county.

2.4 Comparable Cities

This analysis uses the comparable city method to develop estimates for most costs and revenues for the Study Area. The method is predicated on the principle that revenues and costs of another city comparable to the Study Area are reliable indicators of the Study Area's revenues and costs. Ideally, the analysis would use a single comparable city; however, alternative comparisons are used for factors that differ significantly between the Study Area and the primary comparison city.

The comparable city method begins by identifying key indicators, such as population, jobs to housing ratio, and other factors that, when estimated for other cities, can shed light on the Study Area's revenues and costs if it were to incorporate or be annexed. The indicators and comparable cities considered for this study are further explained in Appendix D.

The next step involves aggregating and analyzing data on these key indicators for cities in Pierce County that are roughly comparable to the Study Area in terms of population, projected population growth, housing units, land area, employment, and assessed value. Pierce County staff reviewed the comparison indicators and confirmed the recommendation of using the City of Lakewood as the primary comparison city for the incorporation analysis. Alternative comparisons are used for factors such as surface water management based on soil conditions, as well as gambling tax revenues. Detailed methods for each source of revenue and expense are documented in subsequent sections.

To estimate Study Area revenues and costs, municipal budget data from the City of Lakewood are converted to per capita revenues and costs, and those per capita values are multiplied by the Study Area's population. It is important to note that using per capita costs of a comparable city assumes that the hypothetical incorporated city will receive levels of service similar to the comparable city for each service. Ultimately, the level of service of the future city will be determined by elected representatives of the newly formed government.

When using the comparable city method, the current and future population for the Study Area becomes an important consideration. Appendix C provides the detailed analysis employed to estimate current and forecasted population for the Study Area. In some budget areas, a custom approach is used in lieu of the per capita comparison. The analysis uses data specific to the Study Area whenever possible or uses an alternative per capita comparison that better reflects the Study Area to better estimate potential revenues and expenditures. These alternative approaches include using the Study Area's assessed values to estimate property taxes, and taxable retail sales to estimate sales and use tax revenues.

Comparing incorporation of the Study Area to annexation by Puyallup uses methods similar to the comparable city method. Instead of using the City of Lakewood as the primary comparison, the annexation analysis uses municipal budget data from Puyallup converted to per capita revenues and costs multiplied by the Study Area. This method assumes that the Study Area will receive levels of service similar to those in Puyallup for each service. For ease of comparison to the incorporation analysis, the annexation analysis also assumes the entire Study Area would be annexed at one time. In coordination with City of Puyallup staff, it is noted that the City would likely not enjoy economies of scale when expanding city services to the entire Study Area and that per capita estimates of costs

are likely to represent an underestimate of the potential costs of providing urban services to the Study Area.

2.5 Additional Methods

Some of the Study Area's characteristics, expenditures, and revenues can be estimated more accurately using methods other than the comparable city method. Estimation of the following key baseline data and budget items benefits from data specific to the Study Area.

Population and Development

Data on population and housing units for the Study Area are sourced from the Washington State Office of Financial Management's Small Area Estimates Program. Detailed methods and data sources for both baseline and forecasted population, housing units, and employment are documented in Appendix C.

Property Tax

Future property tax revenue projections for the incorporation analysis are estimated using the 2022 and 2023 assessed valuations of real property in the Study Area. These estimates use data derived from the 2023 Pierce County Assessor data and GIS analysis of parcels within the Study Area. The assessed valuation of the Study Area's existing buildings and lands, predictions on the value and tax revenues associated with new construction, and an assumed millage rate allow for specific property tax revenue projections to be customized for the Study Area. The annexation analysis uses the same methods to estimate future property tax revenues for the Study Area. However, rather than assuming the maximum allowable property tax rate, the annexation analysis uses Puyallup's current millage rate of \$0.98 per \$1,000 of assessed value to estimate property tax revenues.

Sales Tax

The amount of sales tax received by a city is largely based on the sales made by businesses in the city. In 2008, the State of Washington moved to a destination-based local sales tax system, called the Streamlined Sales and Use Tax Agreement, in which sales taxes are based on the point of delivery and not the location of the businesses or warehouse. As there is a significant difference in the amount of business activity in the Study Area compared to the amount of business activity in the City of Lakewood, sales taxes are not estimated using the comparable city method. Rather, retail sales taxes for the Study Area are estimated based on custom data of taxable retail sales and sales tax data provided by the Washington State Department of Revenue.

Real Estate Excise Tax

REET revenue estimates are based on anticipated property sales within the Study Area and the value of existing residential and commercial property in the Study Area.

Surface Water Management Fees

Surface water management fee revenues, which includes user fees and system development charges for new users, are estimated for the Study Area based on the current per capita revenues for the City of Bonney Lake's surface water management and stormwater system. Soil and hydrologic

conditions in the Study Area are more similar to conditions in the City of Bonney Lake than to those in the City of Lakewood. Therefore, surface water revenue data from the City of Bonney Lake is assumed to be a better comparison.

Park Impact Fees

Park impact fee revenues are estimated using the current impact fee rates charged by Pierce County. The analysis assumes that the Study Area, as a new city, would be able to charge the same rates.

Transportation Impact Fees

Similar to park impact fee revenues, transportation impact fee revenues are estimated using the current impact fee rates charged by Pierce County, as the analysis assumes an incorporated Study Area would be able to charge the same rate. Transportation impact fees are paid by developer at the time of building permit issuance based on the amount of traffic the new development is anticipated to generate.

Receipt of Grants for Mature Cities

Federal, state, and local grants are sources of revenue that takes time for new cities to acquire. The City of Lakewood has been successful in securing grant revenues, especially in recent years. Between 2016 and 2022, the City of Lakewood secured anywhere from \$1.4 million to \$12 million in grant funding for transportation capital projects, and anywhere from \$25,000 to \$9.8 million in grant funding for parks capital projects annually. The incorporation analysis assumes no grant revenues for the first five years of incorporation and a percentage of Lakewood's median grant revenues for the remaining years, reaching 100 percent of Lakewood's median grant revenues in the final year of analysis.

Capital Costs

Each city's capital costs depend on a variety of uniquely local circumstances. Variations include the age and condition of existing infrastructure, level of service standards, and rates of growth. Because the City of Lakewood's budgeted capital expenditures are targeted to address the city's infrastructural necessities and weaknesses, the City of Lakewood's capital costs are not likely to be a good forecast of the Study Area's needs. Consequently, forecasts are based on Pierce County's assessment of present condition and future needs for infrastructure and capital improvements within the Study Area.

Data Sources

The data used in this study are sourced from the following state, regional, and local sources:

Population, Housing, and Employment

- Pierce County
- Puget Sound Regional Council
- Washington State Office of Financial Management
- U.S. Census Bureau

Revenues and Expenditures

- City of Lakewood
- City of Puyallup
- City of Bonney Lake
- City of University Place
- Pierce County
- Washington State Department of Revenue
- Municipal Research and Services Center of Washington (MRSC)⁵

2.6 Assumptions

The findings in this study depend on a combination of data and assumptions. Understanding the specific assumptions, which are identified throughout the report, is important to understanding the findings of the study.

Levels of Service Similar to Comparable City

The financial feasibility of incorporation has been assessed based on the assumption that a hypothetical incorporated Study Area would offer levels of service similar to those currently provided by the comparable City of Lakewood, given similar levels of taxation in the Study Area. Within the annexation analysis, Puyallup's current levels of service and taxation are applied to the Study Area to estimate future revenues and expenditures.

Responsibility for Services and Facilities

When an area incorporates as a city, the responsibility for governmental services and facilities falls into three categories:

- Services that remain the responsibility of existing government agencies
- Services that become the responsibility of the new city
- Services that the city can choose to provide itself or contract with an existing government agency to provide

Additionally, a new city does not necessarily have to provide services that have become its responsibility, if the city ensures that these services are still provided through a contract with an existing government agency. For this study, such services are assumed to be provided by the newly formed city. While the new city may choose to contract with another agency rather than hire employees, the city is ultimately responsible for ensuring service delivery. For example, the city could choose to contract with a local jurisdiction to provide municipal court services within the newly incorporated community, or it could choose to establish a city-run municipal court. Other services that are often contracted by cities include law enforcement and animal control. Whether the city

⁵ MRSC is a nonprofit organization that helps local governments across Washington by providing legal and policy guidance.

elects to contract for services or provide them directly, these services are considered to be the responsibility of the city and provided by the city.

Services areas that existing agencies will continue to provide:

- Public health—Tacoma-Pierce County Health Department
- Schools—Puyallup School District, Franklin Pierce School District, Orting School District, Sumner School District
- State roads—State of Washington
- Transit—Pierce Transit and Central Puget Sound Regional Transit Authority (Sound Transit)

Services areas to be provided by new city upon incorporation:

- Land use planning and regulation
- Streets and roads
- Stormwater
- Law enforcement (police, jail, courts, animal control)
- Administration (city council, mayor, city clerk, attorney, finance, personnel)
- City parks and recreation

Services the new city can choose to provide directly or contract with existing agencies to provide:

- Fire protection and emergency medical services—Central Pierce Fire and Rescue, Graham Fire and Rescue
- Library—Pierce County Library District
- Solid waste collection—Murrey’s Disposal Company, Inc. (Murrey’s Disposal)
- Water—Firgrove Mutual, City of Tacoma, Fruitland Mutual Water, Alderwood Estates, Southwood Water System (managed by Rainier View Water Company), Western Ranchettes, and Cedarcrest Mobile Home Park
- Sewer—Pierce County Planning and Public Works Sewer Division, City of Puyallup

The annexation model uses the same assumptions about the responsibilities for providing services, with the exception of the provision of library services. The analysis makes no assumptions about whether the City of Puyallup would provide library services for the annexed areas, as it currently does for the City, or would contract with the existing provider in South Hill, the Pierce County Library District.

Population and Housing

Analysis includes three forecasts of future growth rates using data from the Washington State Office of Financial Management, Pierce County, Puget Sound Regional Council, and U.S. Census Bureau. The methodologies used for these forecasts are described in detail in Appendix C.

Revenue and Expenditures

This study assumes that taxes, fees, and charges will continue at approximately the same levels as were in place at the time of this analysis. The property tax and sales tax bases are calculated for the existing real property and economic activity within the Study Area. New revenues are based on growth estimates in the area, and include sales tax on new construction and new consumer spending, property tax revenue from new development, and REET revenue based on anticipated market turnover. Revenue sources new to the Study Area are included only if used by the comparable city, and only if they are widely used by cities in Pierce County.

The per capita cost of most services provided within the Study Area are assumed to be approximately the same as the costs within the comparable city. Capital costs, however, are not based on the comparable city because factors such as age, condition of existing infrastructure, and levels of service are unique for each city. To estimate capital costs, the financial analysis relies on Pierce County's existing capital improvement and capital facilities plans and records of recent expenditures in the Study Area to forecast future needs.

Projections of revenues and costs for determining financial feasibility within this study should be conservative to avoid overestimating the financial feasibility of the Study Area to successfully operate as a city. **This means that the financial analysis errs on the low side for revenues and the high side for costs.**

2.7 Caveats

The reader is advised to consider the following attributes of this study:

- Because the feasibility of incorporation or annexation in the Study Area is absolute, the conditions and conclusions presented in this study are conveyed in a purely objective manner, and do not present the Study Area compared or ranked against other cities in Pierce County.
- There is no conclusion or recommendation regarding whether the Study Area is feasible as an incorporated city or as an annexation to Puyallup. The study objectively reports the results of the financial analysis, allowing readers to draw their own conclusions.
- This study does not include qualitative considerations of the intangible opportunities of being a city or an area of annexation nor does it seek to make policy recommendations that would influence decisions on behalf of future city leaders.

2.8 Fund Accounting

Local government revenue comes from a variety of sources. Revenue from some sources can be used for virtually any purpose, while revenue from other sources must be used for specific purposes. To track the purpose and restrictions for each source of revenue, government agencies create specific funds. Money with no restrictions goes into the general fund. Money intended for stormwater or street maintenance goes into specific funds. The term fund refers to an account used for tracking money rather than a source of revenue. Throughout this analysis, the fund corresponding to each revenue and expense forecast is clearly identified.

Government agencies typically have numerous individual funds and the names for each fund can vary by agency. Also, cities routinely use internal service funds and interdepartmental cost

allocations that are not included in this analysis. The net effect of internal service funds and interdepartmental cost allocations is zero, but they can have important implications for the feasibility of individual funds. A discussion of internal service funds and interdepartmental cost allocations are omitted from this analysis because they are not necessary to achieve the initial financial feasibility analysis and would be determined by future city policy makers of the new city. For simplicity, the financial analysis of incorporation presented in this study uses the following five funds:

- General Fund
- Transportation Capital Fund
- Parks Capital Fund
- Real Estate Excise Tax Fund
- Surface Water Management Fund

Meanwhile, the annexation analysis presented in this study focuses solely on the general fund for Puyallup. A city's general fund, including the one for Puyallup, typically accounts for most operating and administrative costs, including but not limited to, costs for public safety, parks, public works, city manager, and city council. Although Puyallup has an additional 22 special revenue funds, these funds are excluded from the annexation analysis because many of the costs accounted for in these funds are covered through revenues collected through service charges.

3 General Characteristics of the Study Area

This section provides an overview of the Study Area’s community population, history, environmental characteristics, services, current land use, current and projected planning policies and documents for incorporation, and taxable assessed value of real property. Further information on environmental characteristics is provided in Appendix E and further information on demographics, commuting trends, and public transit are provided in Appendix F.

3.1 Population

The population of the Study Area is 64,800 (OFM 2023). The Study Area would rank as the second-largest city in Pierce County if it were to incorporate, exceeded in population only by the City of Tacoma. The Study Area population is larger than the population of Puyallup by more than 20,000 (OFM 2023). The densest areas of population are primarily along Meridian Avenue East, and in the southwest and north central areas of the Study Area (see Figure 3-1).

The financial feasibility analysis includes forecasts of future population growth to forecast potential revenues and understand the impact of assumptions on potential revenues and costs. Appendix C provides the methodology for and evaluation of three growth scenarios, including data sources. The financial feasibility analysis considers three population growth scenarios (low, medium or baseline, and high) based on a population of 64,800 in 2022 (see Figure 3-2).

The medium growth scenario is the most likely growth scenario, with population growth at 2.0 percent annually. This scenario assumes that population will continue to grow at the same rate that it has on average annually between 2010 and 2022. Two alternative scenarios, the low and high scenarios, provide a range of alternative growth scenarios to describe the impact of growth on potential revenue and costs. The low growth scenario, at 1.3 percent annually, is based on the growth targets adopted in the CPPs, representing the minimum growth allowed for planning purposes under the GMA (Pierce County 2022b). The high scenario, at 2.5 percent annually, is based on historical population data, assuming that growth will match the average annual population growth between 2015 and 2022.

3.2 History of South Hill

Native Americans traveled through the South Hill area on the ancient Klickitat Trail or Cowlitz Trail. This trail crossed over the Naches pass and continued through the South Hill community. The trail was used for hundreds of years by Native Americans for trade, hunting, and communication between communities on both sides of the Cascade Range (Pierce County 2023a).

European Americans began using the trail in the 1840s. The trail became a wagon train immigration route in the 1850s and was later developed into a road. South Hill was first settled by European Americans in the 1880s and logging camps and farms were built along Old Military Road. A portion of this road remains and is incorporated into the present-day Old Military Road in the South Hill

community. The development is commemorated in a series of plaques along the stretch of road known as the South Hill Historic Corridor.

The South Hill community remained rural and sparsely populated through the 1950s. Residents lived on farms and wooded lots. Near the corner of Meridian Avenue East and 112th Street, a grocery store, gas station, tavern, and the Willows Dance Hall were among the first businesses in the South Hill community.

Development of State Route 512 (SR-512) in 1956 and its completion in 1972 led to intense commercial development along the corridor and a dramatic increase in population, shaping South Hill into a suburban community. The first Pierce County comprehensive land use plan and the Pierce County zoning code were adopted in 1962, which organized future development into designated locations for commercial business and residential homes. Approximately 7,000 people lived in the South Hill community in the 1970s.

Development continued to accelerate from the 1970s to 1990s. Construction began for major subdivisions and planned developments. Much of the construction was concentrated along Meridian Avenue East. The population of South Hill community was approximately 20,000 residents by the end of the 1980s.

The community of South Hill attempted to incorporate in the 1990s. The Cityhood for Southview Committee initiated a petition drive for incorporation (Vest n.d.). The name of the proposed municipality was to be Southview, as chosen by the Cityhood for Southview Committee. The petition received signatures from 10 percent of registered voters residing within the limits of the proposed city, enough to file the petition with the Pierce County Auditor. The petition also gained support from many local organizations. The BRB examined the request and recommended against incorporation. The proposed incorporation went to the voters in November 1998 and was defeated.

In 1994, Pierce County replaced the 1962 comprehensive land use plan with a newer comprehensive land use plan that included a new section titled Community Plans. South Hill was among the communities that received a community plan. Community plans include specific policies, land use designations, densities, and the design standards that should apply in each community planning area.

From 2000 to the present day, Pierce County continued to plan for growth and development as the population climbed from approximately 32,000 to 64,800 residents (OFM 2023).

3.3 Location and Environmental Characteristics

The Study Area is located on a plateau above the Puyallup River valley. The community within the Study Area is known as South Hill or the Hill due to its location south of the valley encompassing Puyallup and west of the valley encompassing the City of Orting (Pierce County 2023a). The nearby communities of Edgewood and Milton are known as North Hill.

The Study Area is also known as the South Hill Incorporation Area and is nearly identical to the South Hill Community Plan Area, an element of the Comprehensive Plan (Pierce County 2023a), with the exception of a small portion of land to the northeast of the Study Area. The Study Area's northern boundary is defined by Puyallup's PAA. To the east of the Study Area is the Orting valley and a portion of the eastern boundary follows the Puyallup River. Beyond Orting is a sparsely populated, predominantly forested rural region that adjoins Mount Rainier National Park. The southern

boundary is near 176th Street East and the census-designated place of Graham. The western boundary generally follows 70th Avenue. Just beyond the western boundary is the census-designated place of Frederickson. The community is bisected by SR-161, which is also known as Meridian Avenue East (see Figure 1-1).

Water Resources

Water resources in the Study Area include one stream, flood hazard areas, wetlands, and groundwater.

Stream and Basins

One stream, Horsehaven Creek, flows through the Study Area south of 176th Street East and east of Meridian Avenue East. One species of native coho salmon has a known presence within the creek. Three basins are located in the Study Area: Clover Creek, the Mid-Puyallup, and Clear/Clarks Creek. The headwaters of Clover Creek are located to the southeast, just outside the Study Area. Flooding, wetlands, and groundwater recharge are associated with Clover Creek and Clover Creek Basin within the Study Area (Pierce County 2023a).

Flood Hazard Areas

Special flood hazard areas are defined by the Federal Emergency Management Agency (FEMA) as areas having special flood, mudflow, or flood-related erosion hazards, and are shown on a flood hazard boundary map or flood insurance rate map. Flood hazard areas are also referred to as the 100-year floodplain, or the area that will be inundated by the flood event having a 1 percent chance of being equaled or exceeded in any given year. The FEMA maps for Pierce County indicate there are several flood hazard areas (100-year floodplains) within the community. Approximately 223 acres, 2 percent of the Study Area, are designated as having a 1-percent-annual-chance flood hazard area. These flood hazard areas range in size and are typically associated with wetlands, areas of low elevation, Horsehaven Creek, and Clover Creek (see Figure 3-3).

FEMA also maps areas prone to inundation by a flood event having a 0.2-percent chance of being equaled or exceeded in any given year. This area is mapped by FEMA as Zone C or Zone X (unshaded) and is sometimes called the 500-year floodplain. Approximately 981 acres, 8 percent of the Study Area, are classified as 0.2-percent-annual-chance flood hazard areas (see Figure 3-3).

Open Space

Areas designated as open space are found west of Meridian Avenue East between 152nd Street East and 136th Street East as well as several spots along 122nd Avenue East. Clover Creek, outside the Study Area to the southwest, is also identified as a major open space corridor. Pierce County parks cover more than 305 acres within the Study Area.

Urban Forest

Growth in population and development of the South Hill community has led to a dramatic loss of trees over the years. Clearing landscapes completely for development without retaining stands of trees or understory was common practice until residential design standards that require some retention and replanting of trees were adopted in 1998 (Pierce County 2023a). Meridian Avenue East and many other arterials are lacking street trees and vegetative buffers. The urban tree canopy

coverage in Pierce County is 28 percent (Davey Tree 2020); South Hill similarly has approximately 29 percent coverage (see Figure 3-4).

3.4 Services

The Study Area currently receives fire protection and emergency medical services from two fire districts, Central Pierce Fire and Rescue and Graham Fire and Rescue (see Figure 3-5). Multiple water providers serve the Study Area including Alderwood Estates, Cedar Crest Mobile Home Park, City of Tacoma, Firgrove Mutual, Inc., Fruitland Mutual Water Company, Southwood Water System and Western Ranchettes, Inc. (see Figure 3-6). Murrey's Disposal provides solid waste services to the Study Area. Hidden Valley Transfer Station, located on Meridian Avenue East and Sunrise Blvd. East, offers self-haul disposal services for garbage, recycling, yard waste, household hazardous waste, and electronic waste. Four school districts are within the Study Area: Puyallup School District, Franklin Pierce School District, Orting School District, Sumner School District (see Figure 3-7).

3.5 Current Land Use

The Pierce County Assessor's Office classifies how parcels are used. Data from the assessor's office show that the two most prevalent land use classifications in the Study Area are residential and vacant (see Figure 3-8).

Residential use makes up about 57 percent of the Study Area. Residential land use is spread throughout the Study Area. Land used for multifamily housing is typically located along Meridian Avenue East, 122nd Street E, 136th Street E, and other major arterials.

Vacant land makes up about 18 percent of the Study Area. Not all vacant land in the Study Area is developable due to environmental constraints, private road limitations, or because property owners may choose not to develop their land for a variety of economic or personal reasons.

Commercial uses are primarily located along Meridian Avenue East and South of 152nd Street E between Meridian Avenue East and 122nd Avenue E. Approximately 2 percent of the land in the Study Area is used commercially.

Other uses include industrial, institutional, parks and open space, and agricultural. Agriculture is among the least common land uses in the Study Area, with only 16 acres or 0.15 percent of the land used for agriculture.

3.6 Pierce County Planning Policies

Pierce County Comprehensive Plan

The Comprehensive Plan is a 20-year policy document that addresses growth in the unincorporated areas of Pierce County. The current Comprehensive Plan was adopted in 2015 and the most recent amendment took effect on July 1, 2023 (Pierce County 2023a).

The Comprehensive Plan includes several land use goals related to annexation and urban growth area expansion. The goals are listed in Appendix G.

South Hill Community Plan

The *South Hill Community Plan* (Community Plan) was initially adopted by Pierce County on April 22, 2003 (Pierce County 2023a). The Community Plan was most recently updated effective July 1, 2023. The Community Plan is part of the Comprehensive Plan and applies to the area depicted in Figure 1-1. This plan provides a more detailed sense of how the community wants the area to develop in the future, describing how Pierce County will manage future growth in the South Hill community while retaining the attributes that make South Hill unique.

The land use element of the Community Plan provides guidance regarding the allowed locations and intensity of certain land uses.

The Community Plan prioritizes molding Meridian Avenue East into the centers and corridors development pattern. Centers are designed to be compact, walkable communities with a mix of residential and commercial uses, green space, increased density, connectivity, and transit service. These centers are intended to allow opportunities for residents to obtain a few daily goods without driving. The corridor development pattern features commercial and residential uses along the major transportation corridors that connect to the centers.

3.7 Pierce County Zoning Regulations

Pierce County establishes permitted uses for unincorporated areas through the Pierce County zoning code. Use types and categories for each zone are documented in Title 18A Development Regulation –Zoning (Pierce County 2022a). Additional use and development considerations are listed in Title 18A pertaining to the South Hill Community Plan area. There are 14 zoning districts designated within the Study Area (see Figure 3-9):

- Towne Center
- Employment Corridor
- Urban Corridor
- Neighborhood Corridor
- Employment Center
- Community Centers
- Neighborhood Center
- Residential/Office-Civic
- Moderate-High Density Residential
- High Density Single-Family
- Moderate Density Single-Family
- Residential Resource
- Master Planned Communities
- Park and Recreation

The Towne Center land use designation allows development that supports a walkable, compact community with access to shops and services from high-density multifamily residential areas. There are two Towne Centers along SR-161. The Longston Towne Center is around 132nd Street East and the Sunrise Village Towne Center is around 156th Street East. The Longston Towne Center has newer high-density residential developments and a variety of commercial businesses and services such as grocery, restaurants, pet supplies retailer, movie theater, and medical facilities. Sunrise Village Towne Center has many commercial businesses, community events, a library, and medical services and includes a large area of undeveloped land. Surrounding neighborhoods are predominately single-family residential with some multifamily developments in the vicinity.

The corridor land use designations (Employment Corridor, Urban Corridor, and Neighborhood Corridor) allow commercial and residential uses along the major transportation corridors that connect to the Towne Centers. The Neighborhood Corridor zone allows smaller, limited neighborhood commercial and civic uses, and all residential uses at a density of 6 to 25 units per net acre. The Neighborhood Corridor zone is applied in the Study Area along SR-161 and 112th Street East.

The Moderate Density Single-Family land use designation is intended to provide areas for urban single-family and two-family residential development. The Moderate Density Single-Family designation is the predominant designation in South Hill.

3.8 Countywide and Multi-County Planning Policies

Pierce County Countywide Planning Policies

The PCRC was created to ensure planning between Pierce County and its cities and towns was accomplished in a coordinated, consistent manner. The PCRC comprises elected officials from Pierce County, each of its 23 cities and towns, and the Port of Tacoma (Pierce County n.d.a). The PCRC is responsible for coordinating planning efforts among jurisdictions, agencies, federally recognized tribes, ports, and adjacent regions where there are common borders or related regional issues, to facilitate a common vision (Pierce County 2022b).

The primary responsibility of the PCRC is to ensure that the GMA requirements are coordinated within the County and the region. The countywide coordination is accomplished through the implementation of the Pierce County CPP, updated on May 17, 2022, and ratified on November 14, 2022. The policies also establish processes and mechanisms to foster open communication and feedback among the jurisdictions (Pierce County 2022b).

Annexation Policies

As required by the GMA, the Pierce County CPP establishes UGAs in consultation with cities, with each city identifying land needed to accommodate 20-year growth. While the GMA does not explicitly equate UGAs with municipal annexation areas, the UGAs around cities may be considered PAAs for cities. Pierce County CPP UGA-4 states that "Potential Annexation Areas shall be designated through the Pierce County Comprehensive Plan in consultation with cities and towns" (Pierce County 2022b).

The County recognizes that the unincorporated lands within UGAs are often PAAs for cities. Although the CPP stipulates that annexation is a more desirable option, it provides the means for incorporating unincorporated areas. The County works with existing municipalities and emerging communities to ensure efficient transitions (Pierce County 2022b).

Annexations and incorporations have direct and significant impacts on the revenue of county government, and therefore, may affect the ability of the County to fulfill its role as a provider of certain regional services. The municipalities will work closely with the County to develop appropriate revenue sharing and contractual service arrangements that facilitate the goals of the GMA (Pierce County 2022b).

VISION 2050: A Plan for the Central Puget Sound Region

Members of the Puget Sound Regional Council adopted *VISION 2050: A Plan for the Central Puget Sound Region* (VISION 2050) in October 2020 (PSRC. n.d.). VISION 2050 is a plan for the region's growth, capturing a vision for the region's environmental, economic, and transportation future. VISION 2050 also includes a regional growth strategy for how and where the central Puget Sound region can grow to a forecasted 5.8 million people and 3.4 million jobs by the year 2050 (PSRC 2020). The multi-county planning policies described in VISION 2050 support and implement the regional growth strategy, the regional transportation strategy, and the regional economic strategy. Cities and counties use multi-county planning policies as guides when updating local comprehensive plans. Relevant goals and implementation strategies from VISION 2050 for the Study Area are included in Appendix G.

3.9 Planning Documents and Efforts Needed for a New City

Planning and community development departments facilitate the development and implementation of long-range plans and policies. If the Study Area were to incorporate, the new city is required to adopt a comprehensive plan and development regulations pursuant to the GMA (RCW 36.70A). Given that the Puyallup River is designated as a shoreline of state in the Study Area (Chapter 173-18-310 WAC) and there are special flood hazard areas (see Figure 3-3) in the Study Area, the new City would need to adopt a shoreline master program and local floodplain management regulations. A suite of supporting long-range plans may be desirable as well to expand on specific topics in the Comprehensive Plan.

Comprehensive Plan

Upon incorporation, the new city would be required to plan under the GMA (RCW 36.70A) and adopt a comprehensive plan and its associated elements. The new comprehensive plan would address elements such as land use, housing, capital facilities, climate change and resilience, utilities, transportation, economic development, and parks. The new city would then adopt zoning and development regulations to implement planning policies set forth in the comprehensive plan and guide the issuance of permits and enforcement of city codes.

Capital Improvement Plan

The capital facilities element of a comprehensive plan guides the development and improvement of publicly owned land, buildings, infrastructure, and systems. Capital facility planning efforts in cities typically document project needs for public buildings; transportation systems including streets, intersections, sidewalks; water, stormwater, and wastewater systems; parks and recreation facilities; and police and fire protection.

RCW 36.70A.070 states that a capital facilities plan element must consist of the following:

- a. An inventory of existing capital facilities owned by public entities, showing the locations and capacities of the capital facilities
- b. A forecast of the future needs of such capital facilities
- c. The proposed locations and capacities of expanded or new capital facilities
- d. At least a six-year plan that will finance such capital facilities within projected funding capacities and will clearly identify sources of public money for such purposes
- e. A requirement to reassess the land use element if probable funding falls short of meeting existing needs and to ensure that the land use element, capital facilities plan element, and financing plan within the capital facilities plan element are coordinated and consistent

Transportation Improvement Plan

In addition to the transportation element required as part of a comprehensive plan, all cities, towns, and counties are required to develop and adopt a six-year transportation improvement program (TIP), also known as a transportation improvement plan (RCW 35.77.010).

The TIP is a short-range planning document that describes the available budget for transportation improvement projects planned for the next six years.

The TIP must be consistent with the comprehensive plan and updated yearly through a public hearing process. Each jurisdiction must review and update its TIP every year, following one or more public hearings.

Floodplain Management Plan and Policies

Pierce County participates in the National Flood Insurance Program (NFIP) and the voluntary Community Rating System (CRS) program. Participating in the NFIP by adopting and implementing local floodplain management regulations that contribute to protecting lives and reducing the risk of new construction and improvements from future flooding enables property owners to purchase flood insurance through the NFIP. CRS is a voluntary incentive program that recognizes and encourages community floodplain management activities that exceed the minimum NFIP requirements. One example of an above-and-beyond standard adopted by Pierce County is regulating 500-year floodplains in the same manner as 100-year floodplains (Pierce County Code Chapter 18E.70). In CRS communities, flood insurance premium rates are discounted by 5 to 45 percent to reflect the reduced flood risk resulting from the community's efforts that exceed NFIP requirements. Pierce County participates at Level 2, which results in a 40 percent flood insurance premium rate discount for all policy holders in the Study Area because they are currently under the jurisdiction of Pierce County.

To retain the 40 percent discount in flood insurance premium rates after incorporation, the new city would need to participate in the NFIP and choose to participate in CRS at a Level 2 or better. To participate in the NFIP and CRS, the new city must adopt and implement local floodplain management regulations. Additionally, for CRS, the new city would need to commit to and document conducting community floodplain management activities that exceed the minimum NFIP requirements.

Puyallup participates in the NFIP, but not the CRS. If the Study Area were to be annexed by Puyallup, the 40 percent discount in flood insurance policies would no longer be available unless Puyallup were to enroll in the CRS program at a Level 2 or better.

Shoreline Master Program

A portion of the eastern boundary of the Study Area follows the Puyallup River, which is designated a shoreline of the State of Washington.

The Shoreline Management Act requires local governments with shorelines of the state within their boundaries to develop and administer a shoreline master program (RCW 90.58). The Shoreline Management Act was passed by the Washington State Legislature in 1971 and adopted by voters in 1972. Its overarching goal is "to prevent the inherent harm in an uncoordinated and piecemeal development of the state's shorelines." (RCW 90.58.020). The primary responsibility for administering this regulatory program is assigned to local governments, with oversight by the Washington State Department of Ecology. Local shoreline master programs establish goals and policies that are implemented through use regulations. A city's shoreline master program must be incorporated into its comprehensive plan; following that, the new city would need to adopt regulations to implement the program to ensure that no substantial development is permitted on the state's shoreline unless a permit is obtained from the city that demonstrates consistency with the shoreline master program.

Additional Long-Range Plans

Some of the additional plans a new city could consider developing to expand on or add to the required comprehensive plan elements include the following:

- Climate action and sustainability plans
- Emergency management, hazard mitigation, and disaster debris management plans
- Urban forestry management plan
- Transportation system plan
- Parks master plan
- Stormwater management, watershed, and basin plans
- Subarea and neighborhood plans

Coordination of Plans and Policies with Other Jurisdictions

Solid Waste Management Plan

Each county, in cooperation with the jurisdictions located within the county, is required to prepare a comprehensive solid waste management plan (RCW 70A.205.040). Pierce County most recently adopted the *Tacoma-Pierce County Solid and Hazardous Waste Management Plan: 2021–2040* (Tacoma-Pierce County 2021). This plan also serves the cities and towns that have interlocal agreements to participate in the County's disposal system. This plan would apply to the newly incorporated city after it signed an interlocal agreement.

Basin Plans

Three basin plans adopted by Pierce County overlap the Study Area: Clover Creek, Mid-Puyallup River, and Clear/Clarks Creek (Pierce County 2023a). The goals of the basin plans are to reduce flood hazards, improve water quality, and improve wildlife habitat. The basin plans are focused on

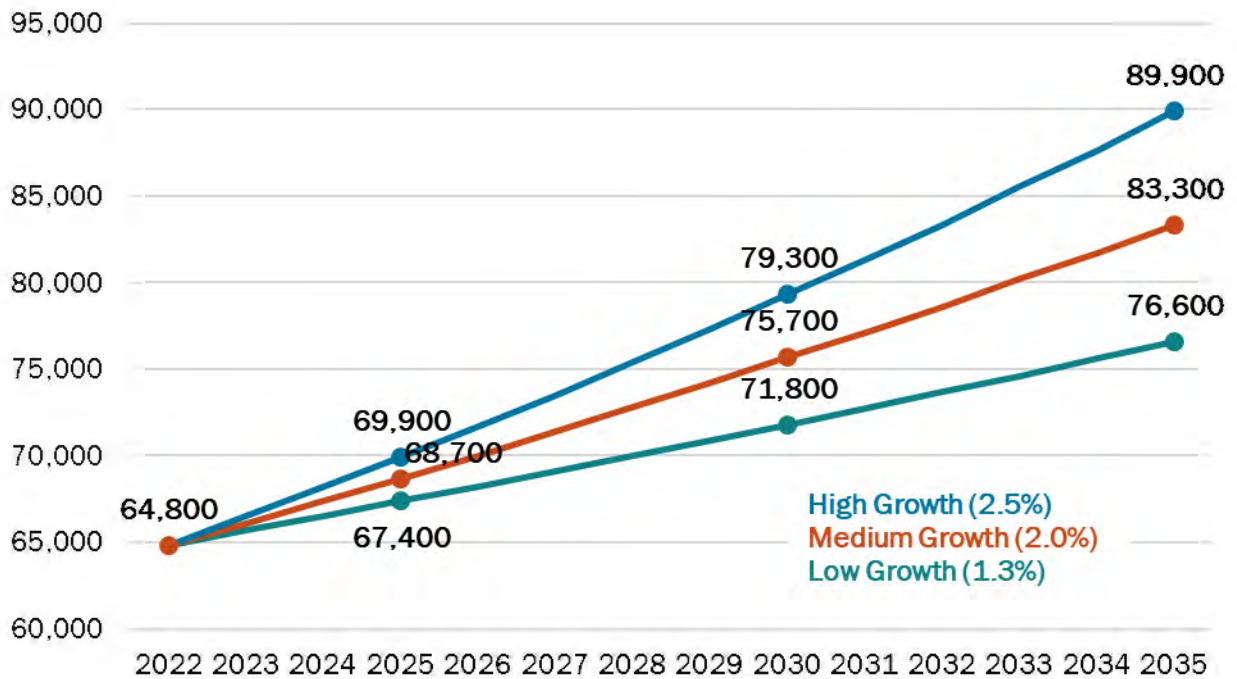
unincorporated Pierce County but include areas in incorporated cities, because the basins span both incorporated and unincorporated land, and stormwater runoff travels through the basins crossing from one jurisdiction to another. If the Study Area becomes incorporated, management of the basins within the Study Area would be the responsibility of the new city and best managed in collaboration with Pierce County and any other jurisdictions within each basin’s boundaries.

3.10 Taxable Assessed Value

The Pierce County Assessor’s Office reports that the taxable assessed value of real property within the Study Area in 2023 is \$10.8 billion, an increase over the 2022 assessed value of \$8.9 billion (based on land and building improvement values). To project the taxable assessed value for 2024, the value on which year 2025 property taxes are levied, the financial analysis assumes no appreciation and an estimated \$182 million in new assessed value resulting from new construction. Each year the assessed value of land and buildings is updated based on forecasted population and employment growth.

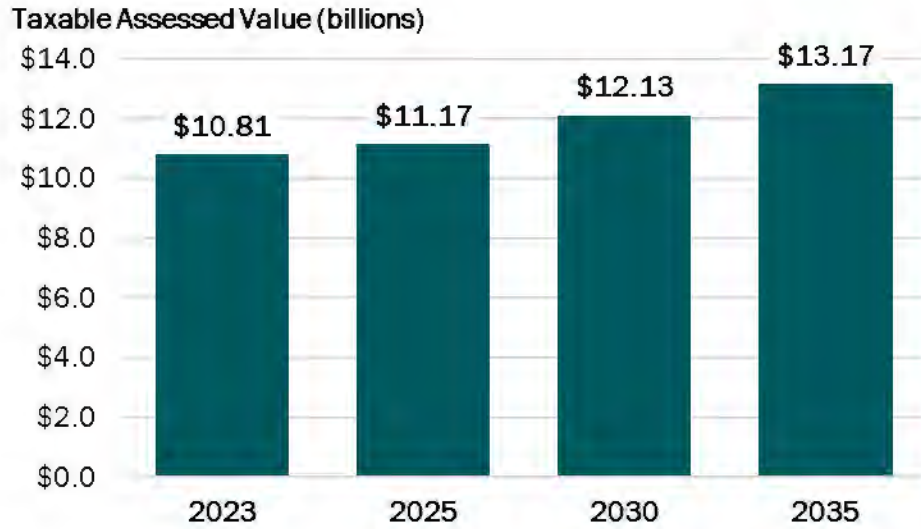
Based on this approach, Figure 3-10 demonstrates the estimated total assessed value within the Study Area. The total taxable assessed value is estimated at \$11.2 billion in 2025, increasing to \$12.1 billion 2030, and \$13.2 billion in 2035. This is approximately \$158,000 in taxable assessed value per resident in 2035.

Figure 3-2: Population Growth Forecasts, Study Area Incorporated as a City, 2022–2035



Sources: Input and source data from the Washington State Office of Financial Management, Pierce County, and U.S. Census Bureau.

Figure 3-10: Assessed Real Property Value, Study Area Incorporated as a City, 2023, 2025, 2030, and 2035



Note

Taxable assessed value growth is driven solely by new construction. The analysis does not adjust for inflation so that the financial analysis can be replicated using alternative initial years. Projected growth is the sole variable in the analysis that impacts changes to annual revenues or expenditures within the Study Area.

Sources: Inputs and data obtained from the Pierce County Assessor, Washington State Office of Financial Management, Pierce County, Puget Sound Regional Council, and U.S. Census Bureau.

4 Revenues

The three largest sources of revenue for cities in Washington are typically property taxes, sales taxes, and utility taxes. Cities have other sources of revenue, but those sources usually generate smaller amounts. Table 4-1 summarizes the estimated general fund revenues for an incorporated Study Area in 2030.

Table 4-1: Estimated General Fund Revenues by Line Item, Study Area Incorporated as City, 2030

| Revenue Source | 2030 Total | Percent of Total |
|------------------------------|---------------|------------------|
| Property Tax | \$19.7 | 40 |
| Local Sales and Use Tax | \$8.5 | 17 |
| Brokered Natural Gas Use Tax | \$0.2 | 0 |
| Criminal Justice Sales Tax | \$1.6 | 3 |
| Utility Tax | \$6.4 | 13 |
| Gambling Tax | \$0.2 | 0 |
| Cannabis Tax Distribution | \$0.2 | 0 |
| Franchise Fees | \$5.3 | 11 |
| Licenses and Permits | \$2.8 | 6 |
| State-Shared Revenues | \$2.8 | 6 |
| Charges for Services & Fees | \$0.3 | 1 |
| Fines and Forfeitures | \$1.4 | 3 |
| Total | \$49.4 | 100 |

Sources: Inputs and data obtained from the Washington State Office of Financial Management, Pierce County, Puget Sound Regional Council, U.S. Census Bureau, and City of Lakewood, 2023.

Table 4-2 presents total estimated general fund revenues for 2025, 2030, and 2035 if the Study Area were to incorporate.

Table 4-2: Estimated General Fund Revenues, Study Area Incorporated as City, 2025, 2030, and 2035

| Revenue Source | Total Revenues (millions) | | |
|------------------------------|---------------------------|--------|--------|
| | 2025 | 2030 | 2035 |
| Property Tax | \$18.2 | \$19.7 | \$21.4 |
| Local Sales & Use Tax | \$7.8 | \$8.5 | \$9.4 |
| Brokered Natural Gas Use Tax | \$0.2 | \$0.2 | \$0.2 |
| Criminal Justice Sales Tax | \$1.5 | \$1.6 | \$1.8 |
| Utility Tax | \$5.8 | \$6.4 | \$7.0 |
| Gambling Tax | \$0.2 | \$0.2 | \$0.3 |

| Revenue Source | Total Revenues (millions) | | |
|-----------------------------|---------------------------|---------------|---------------|
| | 2025 | 2030 | 2035 |
| Cannabis Tax Distribution | \$0.2 | \$0.2 | \$0.3 |
| Franchise Fees | \$4.8 | \$5.3 | \$5.9 |
| Licenses & Permits | \$2.5 | \$2.8 | \$3.0 |
| State-Shared Revenues | \$2.5 | \$2.8 | \$3.1 |
| Charges for Services & Fees | \$0.2 | \$0.3 | \$0.3 |
| Fines & Forfeitures | \$1.2 | \$1.4 | \$1.5 |
| Total | \$45.1 | \$49.4 | \$54.1 |

Sources: Inputs and data obtained from the Washington State Office of Financial Management, Pierce County, Puget Sound Regional Council, U.S. Census Bureau, and City of Lakewood.

Revenues accounted for within the general fund do not include all revenues estimated for the incorporated Study Area, as discussed in Section 2. All restricted revenues estimated in this analysis are allocated to separate funds.

Table 4-3 presents estimated general fund revenues under a scenario in which Puyallup annexes the South Hill Study Area. Property taxes and retail sales and use taxes represent the largest revenue sources.

Table 4-3: Estimated General Fund Revenues, Puyallup Annexation of Study Area, 2025, 2030, and 2035

| Revenue by Source and/or Department | Revenues Upon Annexation (millions) | | |
|-------------------------------------|-------------------------------------|----------------|----------------|
| | 2025 | 2030 | 2035 |
| Property Tax | \$23.4 | \$26.0 | \$28.5 |
| Local Retail Sales & Use Tax | \$37.0 | \$39.7 | \$42.4 |
| City Manager | \$0.7 | \$0.7 | \$0.7 |
| Development and Permitting Services | \$5.6 | \$6.0 | \$6.5 |
| Legal | \$0.0 | \$0.0 | \$0.0 |
| Library | \$0.0 | \$0.0 | \$0.0 |
| Municipal Court | \$2.5 | \$2.7 | \$2.9 |
| Parks and Recreation | \$2.9 | \$3.1 | \$3.4 |
| Police | \$8.7 | \$9.5 | \$10.2 |
| Public Works | \$0.0 | \$0.0 | \$0.0 |
| Non-Department | \$24.4 | \$26.1 | \$28.3 |
| Total Revenues | \$105.3 | \$113.9 | \$123.1 |

Sources: Inputs and data obtained from the Washington State Office of Financial Management, U.S. Census Bureau, Pierce County, Puget Sound Regional Council, and City of Puyallup.

4.1 Property Tax

Property taxes are one of the primary sources of city revenue for many of Washington’s cities. Property taxes provide cities with an unrestricted revenue resource. In this analysis, the general fund

levy will generate the city's estimated property tax revenues. There are additional property tax options, restricted in use, that can be voted through by a city's council or residents.

Upon incorporation of the Study Area, the new city's tax levy rate would be limited to a maximum of 0.16 percent. The Study Area is located within existing fire and library districts that would continue to provide services after incorporation. The maximum allowable levy rate for cities that are not annexed to a fire or library district is 0.36 percent. Cities annexed to fire and library districts cannot levy property taxes on the portion of the total allowable property tax levy reserved for fire and library services when these services are provided by public districts. The fire district levy, Central Pierce Fire and Rescue and Graham Fire and Rescue, can be as high as 0.15 percent. A library district levy, Pierce County Library District, can be as high as 0.05 percent. Subtracting the allowable fire and library district rates from the maximum city rate of 0.36 percent results in a maximum city levy of 0.16 percent ($0.36\% - 0.15\% - 0.05\% = 0.16\%$). The analysis performed for the Study Area assumes that the existing fire and library district providers will continue to provide services after incorporation.

Currently, the Study Area is subject to 11 individual property tax levies, as follows:

- Washington State
- Local school district
- Library district
- Port district
- Fire district
- Flood control district
- County roads
- Pierce County
- Conservation futures fund
- Sound Transit
- Emergency medical services

Most of the individual levies are countywide and would remain unchanged by either incorporation or annexation of the Study Area.

Property tax levy rates throughout the Study Area differ based on the relevant taxing agencies serving each property. Table 4-4 presents the various levy rates by taxing districts that represent more than one percent of the Study Area's land acres. Nearly 81 percent of all land area and more than 82 percent of all parcels fall within a single tax area (Tax Area 195). Table 4-4 breaks out the levy rates for each taxing agency, accounting for the interplay between these taxing agencies. This interplay means that property tax levy rates differ from property to property within the Study Area. Any properties served by the exact same agencies will have the same levy rate.

Under the assumptions used by the analysis of potential incorporation, property tax rates would increase by \$0.62 per \$1,000 of assessed value, as the \$0.98 per \$1,000 county roads tax would be replaced by the city levy of \$1.60 per \$1,000.

Table 4-4: Forecasted Property Tax Levy Rates by Tax Area Following Incorporation

| Levy | Prior to Incorporation by Tax Area | | | | Following Incorporation by Tax Area | | | |
|------------------------|------------------------------------|---------------|---------------|---------------|-------------------------------------|---------------|----------------|---------------|
| | 195 | 196 | 220 | 401 | 195 | 196 | 220 | 401 |
| State | \$2.31 | \$2.31 | \$2.31 | \$2.31 | \$2.31 | \$2.31 | \$2.31 | \$2.31 |
| Local School | \$3.27 | \$3.27 | \$3.27 | \$1.72 | \$3.27 | \$3.27 | \$3.27 | \$1.72 |
| Port District | \$0.13 | \$0.13 | \$0.13 | \$0.13 | \$0.13 | \$0.13 | \$0.13 | \$0.13 |
| Fire District | \$0.77 | \$0.77 | \$1.00 | \$0.77 | \$0.77 | \$0.77 | \$1.00 | \$0.77 |
| Flood Control District | \$0.10 | \$0.10 | \$0.10 | \$0.10 | \$0.10 | \$0.10 | \$0.10 | \$0.10 |
| County Tax | \$0.73 | \$0.73 | \$0.73 | \$0.73 | \$0.73 | \$0.73 | \$0.73 | \$0.73 |
| Conservation Futures | \$0.03 | \$0.03 | \$0.03 | \$0.03 | \$0.03 | \$0.03 | \$0.03 | \$0.03 |
| Transit | \$0.16 | \$0.16 | \$0.16 | \$0.16 | \$0.16 | \$0.16 | \$0.16 | \$0.16 |
| EMS | \$0.50 | \$0.50 | \$0.40 | \$0.50 | \$0.50 | \$0.50 | \$0.40 | \$0.50 |
| Library District | \$0.33 | \$0.33 | \$0.33 | \$0.33 | \$0.33 | \$0.33 | \$0.33 | \$0.33 |
| County Road | \$0.98 | \$0.98 | \$0.98 | \$0.98 | N/A | N/A | N/A | N/A |
| City | N/A | N/A | N/A | N/A | \$1.60 | \$1.60 | \$1.60 | \$1.60 |
| Total | \$9.30 | \$9.30 | \$9.43 | \$7.75 | \$9.93 | \$9.93 | \$10.05 | \$8.38 |

Notes

EMS = emergency medical services.

N/A = not available.

Source: Data obtained from the Pierce County Assessor.

Unchanged Levies

The following property tax levies would remain unchanged if the Study Area incorporated or were annexed to Puyallup:

- **State:** The Washington State property tax levy is paid by all properties throughout the state and, as of 2023, currently totals \$2.31 per \$1,000 of assessed value. This levy is used to support schools throughout Washington.
- **Local school:** Properties within a particular school district boundary pay property taxes toward that local school district. The Study Area is currently served by four school districts.
- **Port district:** As for other taxing districts, Port districts can levy property taxes. The port district levy that applies to residents of the Study Area currently totals \$0.13 per \$1,000 in assessed value.
- **Fire district:** Fire districts can levy property taxes to fund their operations. The Study Area is currently served by two fire districts: Central Pierce Fire and Rescue and Graham Fire and Rescue, which currently levy rates of \$0.77 and \$1.00 per \$1,000 assessed value, respectively (see Figure 3-5). Both incorporation and annexation analyses assume that the Study Area would continue to be served by existing fire and emergency service providers.
- **Flood control district:** Flood control district levies are an example of non-voted regular levies that special districts can levy. The current levy rate charged to properties in the Study Area totals \$0.10 per \$1,000 in assessed value.

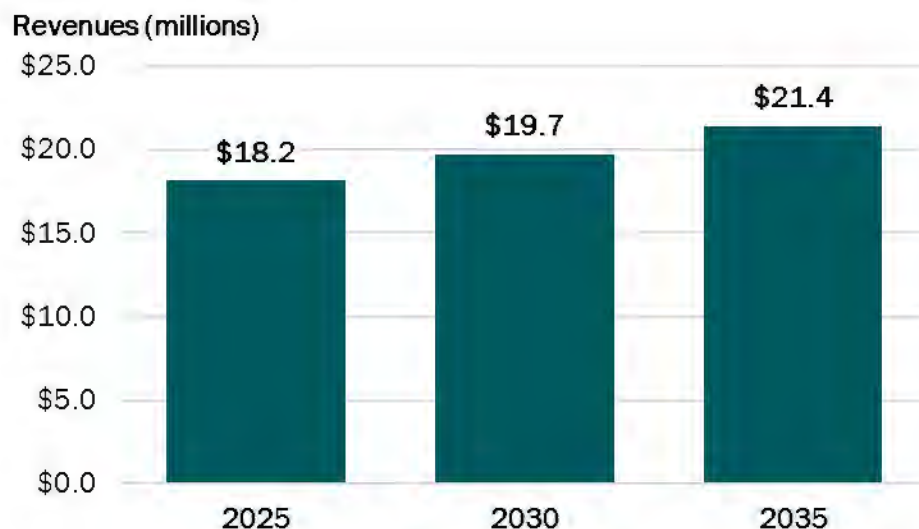
- **County tax:** Each county can levy property taxes on all properties within their boundary, representing an important source of county revenue (MRSC 2022). As of 2023, Pierce County's property tax levy is \$0.73 per \$1,000 of assessed value.
- **Conservation futures:** The conservation futures levy is also a county-imposed levy used for the purchase of open space and future development rights. The current conservation futures levy in Pierce County is \$0.03 per \$1,000 of assessed value.
- **Transit:** Sound Transit levies a property tax of \$0.16 per \$1,000 in assessed value throughout the Study Area as well as within the City of Puyallup. Pierce Transit receives funding from the Central Puget Sound Regional Council for the operation of regional express transit services.
- **Emergency medical services:** A city, town, county, or special district providing emergency medical services (EMS) to fund emergency medical care or emergency medical services can impose an EMS levy (MRSC 2022). Two fire districts provide EMS in the Study Area (see Figure 3-5). The two fire districts serving the Study Area levy rates of \$0.50 and \$0.40 per \$1,000 of assessed value, depending on the district, for EMS.

Changed Levies

The following levies may change upon incorporation or annexation of the Study Area.

- **Library district:** All properties within a library district, in this case the Pierce County Library District, pay a property tax levy. The levy is used to fund the operation of the library district. This levy, currently \$0.33 per \$1,000 of assessed value, is assumed to remain unchanged in the incorporation scenario. However, Puyallup provides its own library services; therefore, the annexation scenario assumes that library services in the Study Area would be provided by the Puyallup, either through contract to the Pierce County Library District or through expansion of the Puyallup library system. Puyallup currently does not have a library district levy.
- **County road tax:** The County imposes the county road tax only to properties within the unincorporated areas of its boundaries (MRSC 2022). If the Study Area were to either incorporate or be annexed by the City of Puyallup, the county road tax would no longer be charged to cities within the Study Area. The county road tax would be replaced by a city levy.
- **City:** If the South Hill Study Area were to incorporate or be annexed, properties would be subject to a city property tax levy. In the incorporation scenario, the levy rate is capped at \$1.60 per \$1,000 of assessed value, and the analysis assumes that the newly incorporated area would levy the maximum allowable levy. In the annexation scenario, the levy rate would match the rate levied by Puyallup, currently at \$0.98 per \$1,000 of assessed value (see Figure 4-1).

Figure 4-1: Estimated Property Tax Revenues, Study Area Incorporated as City, 2025, 2030, and 2035



Sources: Inputs and data obtained from Pierce County and Puget Sound Regional Council.

The State of Washington caps a city’s total property tax levy, but the amount of tax collected by a city can increase year over year. The total increase is also capped, however. This increase cap, known as the 101 percent limit, requires that a city’s total property tax levy cannot increase by more than one percent or by more than the rate of inflation each year, whichever is lower. The cap excludes the levy rate on new construction each year (MRSC 2022). Both incorporation and annexation analyses do not include an adjustment for inflation and therefore capture property tax revenues solely through new construction. The cap does not factor into the modeling of property tax revenue.

4.2 Retail Sales and Use Tax

Sales and use taxes are another important source of general fund revenue for cities and towns throughout Washington. Cities, towns, and counties may impose a local sales tax on top of the state sales tax rate of 6.5 percent. Sales and use taxes typically apply to retail sales of tangible personal property; some services are also subject to sales tax, including hotel and motel services, landscape maintenance, physical fitness activities, and others. Retail sales tax applies to sales by sellers with or without a physical presence in the state, and rates are determined by the jurisdiction that acts as the final destination of the good or service purchased.

Current sales tax rates within the Study Area range between 9.5 and 10.1 percent. The first 6.5 percent is the statewide sales tax, the remaining 3.0 to 3.6 percent applies to the unincorporated areas in Pierce County and includes unrestricted and restricted components of sales tax (DOR 2023). Unrestricted revenue sources can be used on any lawful government purpose, while restricted revenue sources are limited to select government spending (MSRC 2020).

The majority of a city’s sales tax revenue is typically generated by the basic and optional sales tax, also known as the first half and second half sales tax, both of which can be imposed by cities or counties without voter approval. The basic, or first half, is a 0.5 percent rate applied to any taxable event. The optional, or second half, is an additional rate, up to 0.5 percent, imposed in increments of

0.1 percent. Cities retain 85 percent of the total 1.0 percent tax; the remaining 15 percent goes to the county.

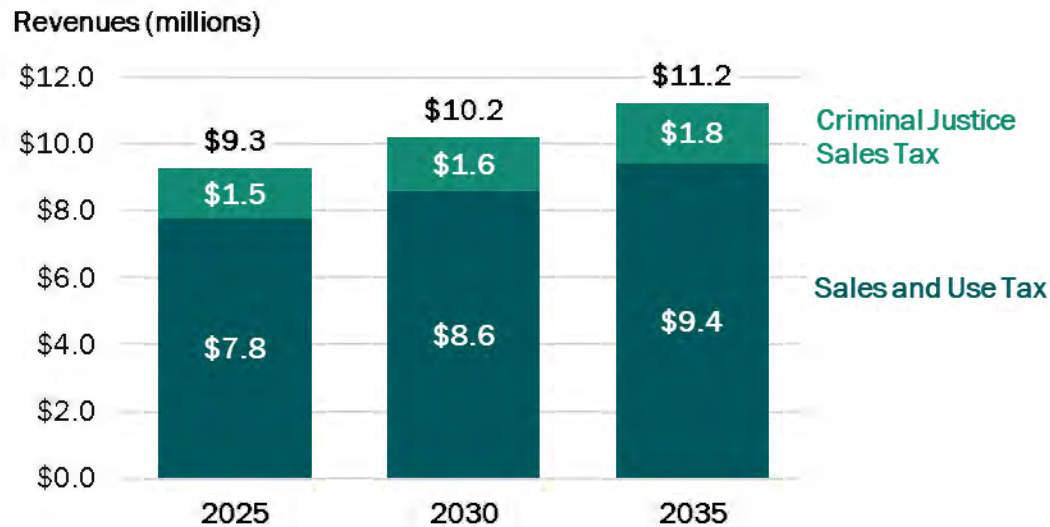
Incorporation analysis assumes that the new city would impose the full 1.0 percent total basic and optional sales tax in the Study Area. The estimated retail sales tax base uses 2022 taxable retail sales data sourced from the Washington State Department of Revenue for the Study Area. The 2022 retail sales tax generated within the Study Area is used to derive an estimate of taxable retail sales per capita. This taxable retail sales per capita combined with population growth projections and the assumed sales tax rate is used to derive estimated sales tax revenues between 2025 and 2035 for the Study Area under an incorporation scenario (see Figure 4-2).

The annexation analysis uses the same estimated taxable retail sales for the Study Area, as well as the same population projections combined with the current Puyallup sales tax rate to estimate sales tax revenue for the Study Area.

Criminal Justice Sales Tax

Pierce County has adopted a 0.1 percent additional sales tax, as allowed by Washington state law, for the purpose of funding criminal justice services. Only counties may impose this tax, but the revenues are shared with cities (MRSC 2022). Revenues from this tax are distributed to Pierce County cities based on a per capita (population) basis. The incorporation analysis uses the per capita revenue figure from the City of Lakewood in 2023 to estimate the revenues that would be distributed to the incorporated Study Area. The annexation analysis uses the per capita revenue figure from the Puyallup 2023 budget to estimate revenues that would be generated in the Study Area under the annexation scenario (see Figure 4-2).

Figure 4-2: Estimated Sales and Use Tax Revenues, Study Area Incorporated as City, 2025, 2030, and 2035



Sources: Inputs and data obtained from the Washington State Department of Revenue, Pierce County, and Puget Sound Regional Council.

4.3 Utility Tax

Utility taxes are a form of business and use tax and are imposed on the income of utility companies serving a city or town. Any city or town may impose a utility tax and there are no maximum rates on water, sewer, solid waste, or stormwater utilities. Rates for electric, gas, steam, cellular, and telephone utilities are limited to a maximum of 6 percent without voter approval. Cable TV utility taxes have special provisions. Utility taxes may be imposed on the income of public or private utilities serving customers within the city or town boundaries. They may also be imposed on any city-owned utility services. Utility taxes are applied to the gross revenues generated by utility companies, and they may not be passed on to the customer (MRSC 2022).

The incorporation analysis assumes the per capita revenues generated within the Study Area are consistent with the City of Lakewood’s revenue. The City of Lakewood has a proportion of utility services provided by public and private utilities that is similar to those in the Study Area. The analysis assumes that the existing utility providers would continue to serve the Study Area. Public and private utilities within the Study Area provide water, power, sewer, cable, and solid waste services.

Under the annexation scenario, Puyallup utility tax rates would apply to utility services within the Study Area. Puyallup currently serves as the sewer utility provider within the city, as well as a portion of the Study Area. Multiple water providers serve the existing City of Puyallup and the Study Area. Puyallup contracts with DM Disposal or Murrey’s Disposal for solid waste services, which also currently provide solid waste services to the Study Area. Electric, natural gas, cellular, cable, and telephone services are all served by private providers in both Puyallup and the Study Area.

Table 4-5 shows the current utility tax rates by utility type for both the City of Lakewood and Puyallup.

Table 4-5: Utility Tax Rates, City of Lakewood and City of Puyallup, 2023

| Revenue Source | Utility Tax Rates | |
|----------------|-------------------|----------|
| | Lakewood | Puyallup |
| Electric | 5.0% | 3.2% |
| Natural Gas | 5.0% | 3.2% |
| Cable | 6.0% | 3.2% |
| Cellular | 6.0% | 3.2% |
| Telephone | 6.0% | 3.2% |
| Solid Waste | 6.0% | 3.2% |
| Stormwater | 6.0% | 8.0% |

Sources: Data obtained from the City of Lakewood and City of Puyallup.

Brokered Natural Gas Use Tax

Cities that have a utility tax on natural gas may also impose a brokered natural gas tax. The brokered natural gas tax must represent an equivalent use tax on brokered natural gas sales that are otherwise not subject to the utility tax. These types of sales occur when large customers bypass utility providers and negotiate directly with independent natural gas brokers (MRSC 2022).

The incorporation analysis assumes a brokered natural gas tax revenue of \$2.32 per capita, matching the 2023 City of Lakewood’s per capita revenues. Estimated utility tax revenues range from \$5.9 million in 2025 to \$7.2 million in 2035 (Figure 4-3).

Figure 4-3: Estimated Utility Tax Revenue, Study Area Incorporated as City, 2025, 2030, and 2035



Sources: Inputs and data obtained from Pierce County, Puget Sound Regional Council, and City of Lakewood.

The annexation analysis assumes a \$0.42 per capital brokered natural gas tax revenue, in line with Puyallup’s current per capita brokered natural gas tax revenue.

4.4 State-Shared Revenues

State-shared revenues are revenues that are shared by the State of Washington with counties, cities, and towns. These revenues span a variety of tax sources and typically are distributed on a per capita basis. The incorporation analysis uses data provided by the MRSC on estimates of per capita revenues to be distributed to each city, town, and county for the purposes of helping local governments develop budget forecasts (MRSC 2023c). The incorporation and annexation analyses both use 2023 per capita estimates of state-shared revenue by source provided by MRSC (Table 4-6).

Table 4-6: Per Capita State-Shared Revenue Estimates, 2023

| Revenue Source | Per Capita Revenues |
|-------------------------------------|---------------------|
| Liquor Profits | \$7.7 |
| Liquor Excise | \$6.9 |
| Criminal Justice (population based) | \$0.4 |
| Criminal Justice (special programs) | \$1.3 |
| Gas Tax | \$18.2 |
| Increased Gas Tax | \$1.1 |
| Multi-Modal Distribution | \$1.3 |
| Total | \$36.8 |

Source: MRSC 2023c.

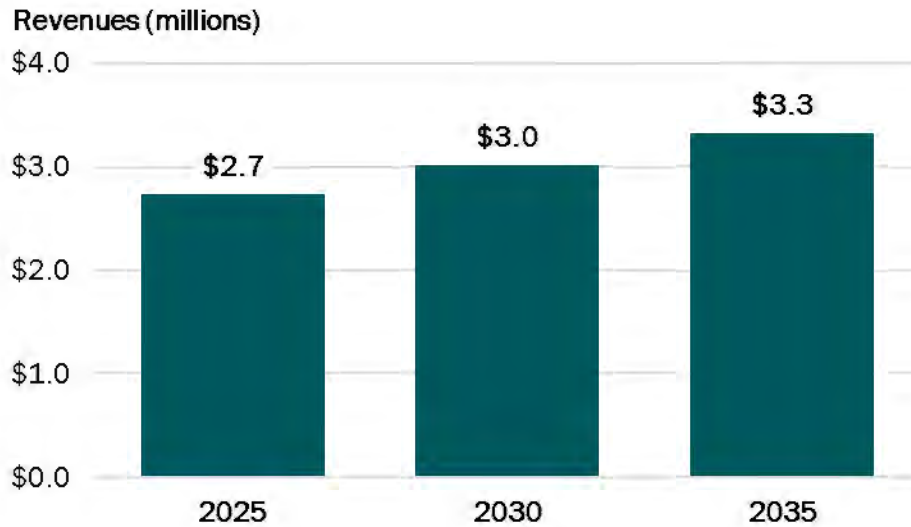
Cannabis Excise Tax

In addition to the state-shared revenues presented in Table 4-6, the Washington State Liquor and Cannabis Board collects and distributes the 37 percent excise tax on retail cannabis sales in Washington. These excise tax revenues are shared with cities, towns, and counties that do not prohibit cannabis producers, processors, or retailers. A portion of distributions are based on population and the remainder of distributions are based on actual cannabis retail sales.

The incorporation model assumes that the same per capita revenues currently received by Pierce County would be received by the Study Area. As of 2023, unincorporated Pierce County had 32 licensed cannabis businesses, which generated \$167.9 million in cannabis sales in 2022. The tax distribution for Pierce County during this period was \$1.35 million or \$3.06 per capita in local revenue distribution. The analysis uses the countywide per capita revenue distribution because the City of Lakewood prohibits cannabis businesses and therefore does not receive any revenue distribution. Including estimated cannabis excise tax shared revenues, the total per capita state-shared revenues are \$39.86.

The annexation model excludes cannabis excise tax state-shared revenues. Puyallup currently prohibits cannabis related businesses and does not receive any state-shared revenue from cannabis excise tax revenues (Puyallup Municipal Code 5.04.071). The analysis assumes that Puyallup will not change this policy and will not receive cannabis excise tax state-shared revenue distributions after annexation.

Figure 4-4: Estimated State-Shared Revenues, Study Area Incorporated as City, 2025, 2030, and 2035



Sources: Inputs and data obtained from MRSC, Pierce County, and Puget Sound Regional Council.

4.5 Other General Fund Revenues

Business and Occupation Tax

Business and occupation (B&O) taxes are another unrestricted revenue option available to Washington cities and towns. These taxes apply to businesses operating within the jurisdiction of cities and towns that have adopted B&O taxes and are based on the gross business income of businesses on which the tax has been imposed. Cities and towns may adopt B&O taxes without voter approval, but the tax may be subject to a referendum (MRSC 2022). Of Washington’s 281 cities and towns, 49 currently have adopted a B&O tax.

Neither the City of Lakewood nor Puyallup currently has a B&O tax. B&O taxes have not been included in either the incorporation or annexation analysis due to their limited use throughout the state and because the comparison city and annexing city do not currently have B&O taxes.

Gambling Tax

Gambling taxes can be applied to gambling activities within a jurisdiction. Washington State limits the tax rate on these activities and the activities are regulated by the state. Cities and towns have limited authority to regulate gambling, but they can prohibit any or all gambling activities for which licenses are required (MRSC 2022). Table 4-7 presents Washington’s maximum allowable gambling rates in 2023.

Table 4-7: Maximum Allowable Gambling Tax Rates, 2023

| Gambling Activity | Maximum Tax Rate |
|---|--|
| Amusement Games | Actual costs of enforcement, not to exceed 2 percent of net receipts |
| Bingo | 5 percent of net receipts |
| Punch boards or pull tabs (charitable or nonprofit) | 10 percent of net receipts |
| Punch boards or pull tabs (commercial) | 5 percent of gross receipts or 10 percent of net receipts |
| Raffles | 5 percent of net receipts |
| Social card games | 20 percent of gross receipts |

Source: Data obtained from MRSC.

The City of Lakewood does not make a good source for comparison to the Study Area for gambling activities, as the City of Lakewood has multiple casinos and high per capita gambling tax revenues (\$60.72 in 2022). The incorporation analysis instead uses an average of the per capita gambling tax revenues for the cities of Puyallup and University Place, at \$3.25 per capita. As in the South Hill area, neither Puyallup nor University Place has casinos.

The annexation analysis uses Puyallup’s per capita gambling tax revenues, under the assumption that the Study Area will generate similar rates of gambling activity per capita as those in Puyallup. The annexation analysis additionally assumes that the annexation area will be subject to the same gambling tax rates as are currently adopted in Puyallup.

Leasehold Excise Tax

The leasehold excise tax is applied to publicly owned real or personal property in lieu of property taxes. Cities may impose a local leasehold tax, credited against the state leasehold tax for the use or occupation of publicly owned real or personal property (MRSC 2022). Both the incorporation and annexation analyses assume that the Study Area will not generate leasehold excise tax revenue in the early years of cityhood, as the city will not own public facilities at the outset of incorporation or annexation. This provides a conservative approach to revenue generation. The City of Lakewood currently receives leasehold excise tax revenues of \$0.08 per capita. Puyallup reported a little more than \$18,000 in leasehold excise tax revenue in 2023, or \$0.42 per capita.

Franchise Fees

Cities may impose a franchise fee on utility providers within their jurisdictions to recover the administrative costs of administering a franchise. Franchise agreements are contracts between a public or private utility provider and a city that allow the providers to install, maintain, and repair utility infrastructure within the city’s rights-of-way. Franchise agreements typically last 10 to 20 years (MRSC 2022).

Pierce County currently charges franchise fees to cable companies, generating about \$11 per person in county revenues (Pierce County 2022c). The comparison city for the incorporation analysis currently charges franchise fees for electric, natural gas, and telephone utilities, covering the administrative expenses related to the receiving and approving of permits, licenses, or franchisees. Franchise fees generate about \$70 per capita in the City of Lakewood. The incorporation analysis

assumes that the Study Area will approach franchise agreements in a manner similar to that of the City of Lakewood.

Annexation analysis assumes that Puyallup would charge franchise fees in alignment with current policies to utility providers in the Study Area upon annexation. Puyallup currently receives franchise fee revenues of about \$17.41 per resident. While these estimates may be low, the analysis uses Puyallup's per capita revenues for franchise fees, due to the uncertain nature regarding the franchise fee agreements Puyallup may secure with utility providers in the Study Area.

Charges for Services and Fees

Charges for services include a range of revenue sources. These sources include but are not limited to concealed pistol license permits, parks and recreation use fees, public records copying charges and, in some cases, contracted work for nearby communities. The incorporation analysis assumes that Study Area revenues generated by charges for services will align with the City of Lakewood's per capita revenues. This will exclude revenues related to contracted work, which limits assumed revenues to charges for services for parks and recreation, towing impact fees, and extra duty fees. Charges for services excluded from the incorporation analysis exclude court transport fees from the City of University Place, the Town of Steilacoom, and Western State Hospital dispatch services (Lakewood 2022).

The annexation analysis assumes that the Study Area will generate a level of revenue from charges for services that is similar to revenues captured in Puyallup general fund currently. Unlike the City of Lakewood, Puyallup's budget captures some of these revenues in special revenue funds.⁶

Licenses and Permits

Licenses and permits capture a variety of revenue sources, including those generated through development permits, business licenses, and other miscellaneous license and permit fees. The incorporation analysis assumes that license and permit revenues per capita would be the same as those currently generated by the City of Lakewood. License and permit revenues for the City of Lakewood are currently \$36.59 per capita and include the following:

- Business license fees
- Alarm permits and fees
- Animal license fees
- Building permits
- Plan review fees
- Other zoning and development fees

The annexation analysis assumes the Study Area will generate the same revenue per capita as Puyallup does currently. License and permit revenues are spread across a variety of sources, including the following:

⁶ Special revenue funds are typically used by cities to differentiate types of revenues and expenses, as well as to create funds that hold restricted city revenues or revenues that must be used to serve a specific purpose.

- Development and permitting services, at \$54.72 per housing unit, that include building permits, fire prevention building permits, and development engineering services.
- Parks and recreation revenues, averaging \$36.19 per capita, calculated for each parks and recreation line item.

Public Safety Fines and Forfeitures

Cities receive fine and forfeiture revenues generated through civil and criminal penalties assessed through the city's municipal court. The incorporation analysis assumes that if the Study Area were to incorporate, it would operate a municipal court, similar to the City of Lakewood's municipal court created after the city's 1996 incorporation (Lakewood 2000). The incorporation analysis uses the per capita revenues of fines and forfeitures generated by the City of Lakewood.

Puyallup also operates a municipal court, which generates revenue for the city's general fund. The annexation analysis assumes that the Study Area would generate municipal court revenues in line with the city's current level of revenue, of \$19.17 per capita. Puyallup also provides municipal court services for the City of Milton, which are excluded from the revenue estimates for the Study Area. Additionally, Puyallup also operates a police department. Police department revenues include administration, roadways, and traffic control, which, together provide revenue for Puyallup's police department, totaling on average \$5.47 per capita. Street-related revenues for the Study Area are estimated based on the number of road miles and the average cost per road mile.

Intergovernmental Revenues

Intergovernmental revenues primarily come from grants provided by the federal, state, or county government, but can also include revenues generated from contracts to provide services to surrounding cities or towns (MRSC 2022). The incorporation and annexation analyses exclude intergovernmental revenues for the Study Area, due to the time frame of the analysis as well as to provide a conservative estimate of potential general fund revenues. The City of Lakewood and Puyallup have both been successful in recent years in securing grant revenues. Additionally, funds supporting recovery efforts after the COVID-19 pandemic have provided cities with funds that they otherwise would not have secured. Past performance is not a guarantee of future performance and established cities such as the City of Lakewood and Puyallup have the plans in place to secure grant funding. Therefore, the analyses exclude intergovernmental revenues for both the incorporation and annexation scenarios.

Interfund Transfers

Interfund transfers represent the exchange of revenues between a city's different revenue funds, not new or different revenue sources (SAO 2023). The analysis performed for this study assumes no interfund transfers through 2035.

Other Revenues

Other revenues typically include interest earnings from a city's allowable public fund investments. These revenues are typically small in comparison to the primary revenue sources documented above. The incorporation and annexation analyses exclude interest earnings for the Study Area. Though the Study Area would likely generate revenue through interest earnings either after establishing public fund investments as an incorporated city or by adding to public fund investments

as an area annexed to Puyallup, this analysis does not predict the level of public fund investments on which either city could earn interest.

Table 4-8 presents the estimated tax revenues generated by the other general fund sources discussed in Section 4.5, based on the assumptions and data for the incorporated Study Area.

Table 4-8: Estimated Other General Fund Tax Revenues, Study Area Incorporated as City, 2025, 2030, and 2035

| Revenue Source | Total Revenues (millions) | | |
|-------------------------------|---------------------------|---------------|---------------|
| | 2025 | 2030 | 2035 |
| Licenses and Permits | \$2.5 | \$2.8 | \$3.0 |
| Franchise Fees | \$4.8 | \$5.3 | \$5.9 |
| Fines and Forfeitures | \$1.2 | \$1.4 | \$1.5 |
| Charges for Services and Fees | \$0.2 | \$0.3 | \$0.3 |
| Gambling Tax | \$0.2 | \$0.2 | \$0.3 |
| Total | \$9.0 | \$10.0 | \$11.0 |

Sources: Inputs and data obtained from the Washington State Office of Financial Management, U.S Census Bureau, Pierce County, Puget Sound Regional Council, and City of Lakewood.

4.6 Special Revenue Funds

Special revenue funds are typically used by cities to differentiate types of revenues and expenses, as well as to create funds that hold restricted city revenues or revenues that must be used to serve a specific purpose. These types of funds function as separate bank accounts kept by a city to ensure revenues are allocated correctly. The incorporation analysis estimates the following special revenue funds sources, which are used specifically to fund capital improvements to transportation infrastructure, parks, surface water management or stormwater infrastructure, sidewalks, and public right of ways.

The annexation analysis does not include special revenue funds. The analysis assumes that capital revenue sources, such as those discussed here, are generated over time as needed to cover the capital costs incurred by the Study Area. However, each revenue type documented here will include a discussion of the comparison of potential revenues if the Study Area were to be annexed by Puyallup as compared to incorporating.

Transportation Capital Fund

Transportation impact fees and motor vehicle fuel tax revenues are both common sources of revenue for transportation-related capital funds. Motor vehicle fuel tax or gas tax is the largest source of state-shared revenues for cities and towns. Revenues are distributed as a percent of actual fuel tax revenues received and based on the gallons of fuel sold in a city or town (MRSC 2022). The incorporation analysis uses the City of Lakewood’s per capita revenue from the motor vehicle tax of \$12.49.

Impact fees are charged to developers to mitigate the impact of new development on specific types of infrastructure. Traffic impact fees are charged by cities to mitigate the impacts of growth on transportation infrastructure. Impact fees are one-time fees charged by a city, town, or county and do not require voter approval (MRSC 2022). The incorporation analysis uses the current adopted traffic

impact fee rate for Pierce County, at \$5,299 per new housing unit, and assumes that the Study Area could adopt the existing rate for traffic impact fees. Growth in these revenues are based on forecasts of new housing units within the Study Area between 2025 and 2035. A newly incorporated city would need to conduct an analysis of transportation impacts to update impact fee rates within the Study Area.

Puyallup currently receives \$10.42 per capita in motor vehicle fuels tax revenue. Annexation of the Study Area would increase Puyallup's revenue in line with the additional fuel sales occurring within the Study Area. Additionally, Puyallup has adopted traffic impact fees at a rate of \$4,500 per p.m. peak-hour vehicle trip (Puyallup Municipal Code 21.20.130) or \$4,230 per single-family dwelling unit (Puyallup n.d.b). Traffic impact fees per multifamily unit are based on estimated p.m. peak-hour vehicle trips for each development and calculated by Puyallup city staff. Additionally, Puyallup charges traffic impact fees for commercial and industrial uses as well. Projected growth within the Study Area would determine potential traffic impact fee revenues.

Parks Capital Fund

Parks are another type of capital infrastructure. Cities, towns, or counties have the authority to charge to fund “publicly owned parks, open space and recreation facilities” (MRSC 2022). Both the incorporation and annexation analyses assume that Pierce County would transfer ownership of county, special use, resource, linear, and other types of parks to the newly incorporated city or to Puyallup upon annexing the Study Area when the city can demonstrate the fiscal capacity to maintain the parks. Pierce County would retain ownership of regional parks. Overall, Pierce County has documented six non-regional parks covering 224 acres within the Study Area that would be transferred upon incorporation or annexation.

Park impact fees are an important source of funding dedicated to covering capital improvement projects that help parks meet the demands of a growing population. Impact fees may not be used for maintenance and operations costs; they may only be used for the capital costs of facilities needed to serve growth. Cities, towns, and counties often rely on grants to provide an additional funding source for the capital costs of parks and recreation for the community.

The incorporation analysis assumes that the Study Area, upon incorporation, would adopt park impact fees similar to Pierce County's current park impact fees, which total \$3,529 per new housing unit. An incorporated city would have to conduct a study on the needs for parks to serve growth within the Study Area to determine the maximum allowable park impact fee that the new city could charge. .

If the Study Area were annexed to Puyallup, then Puyallup could collect impact fees for parks in the Study Area. Currently, Puyallup charges park impact fees for both new housing units as well as new square footage for manufacturing uses within its boundaries. Impact fee rates for housing units depend on the size of the unit and range from \$1,560.05 per unit for units of less than 500 square feet to \$4,017.30 per unit for units of 2,000 square feet or more. Puyallup also uses a 1/10th of 1 percent dedicated sales tax as well as grants to pay for the capital costs of parks and recreation (Puyallup n.d.a).

Fire Impact Fees

Fire impact fees are used as a funding source for the capital costs of fire services created by the impact of growth. These fees are collected by cities and towns (MRSC 2022). The two districts

currently serving the Study Area, Central Pierce Fire and Rescue and Graham Fire and Rescue, do not currently charge impact fees. Therefore, unless one or both of these districts adopt impact fees, the Study Area would not adopt fire impact fees upon incorporation. Additionally, fire impact fees imposed by a fire district and collected by the city are transferred to the fire district and are not retained by the city.

School Impact Fees

As with fire impact fees, cities, towns, and counties are authorized to administer school impact fees, but the revenues are spent by school districts on school facilities (MRSC 2022). School impact fees typically only apply to residential construction or the residential portion of mixed-use development. Pierce County currently facilitates school impact fees for school districts adopting impact fees within unincorporated areas. A newly incorporated city would have to adopt and administer the school impact fees for each school district serving the Study Area that has adopted school districts. These school districts would continue to receive these revenues, supporting the capital costs of school facilities. Annexation of the Study Area by Puyallup would require the city to administer school impact fees for the districts serving the Study Area. School impact fees are not included in either the incorporation or annexation analysis because the revenues are not retained by the city and the administrative expenditures for these programs are captured in the general fund administrative expenditures.

Real Estate Excise Tax Fund

The REET is an important source of funding for the capital costs of cities and towns that perform planning under the GMA. A REET may be composed of two halves, REET 1 and REET 2. Cities fully planning under the GMA can adopt both halves, each totaling 0.25 percent imposed on all real estate sales within the jurisdiction's boundaries. REET revenues are restricted for specific purposes. REET 1, or the first 0.25 percent, can be used for certain capital purposes. REET 2, or the second 0.25 percent, must be used for certain transportation, water, storm, sewer, and parks capital projects. Passing a measure to impose either REET 1 and 2 does not require voter approval for cities required to plan under the GMA (MRSC 2022).

The incorporation analysis assumes a newly incorporated city for the Study Area would adopt the total allowable REET, totaling 0.5 percent on all real estate sales. The analysis uses an estimated resale value for the Study Area and the assumed rate to estimate REET revenues for the period between 2025 and 2035. REET revenues can be a volatile source of funding, dependent on the volume and sale value of real estate transactions, meaning that the revenues are dependent upon the conditions of the real estate market. While not quantified in special revenue funds, annexation of the Study Area to the City of Puyallup is assumed to generate the same REET revenues as for incorporation, as the City of Puyallup has adopted the full 0.5 percent allowable REET rate.

Analysis of sales data sourced from the Pierce County Assessor for the Study Area are used to inform assumptions and analysis of resale value. In 2022, more than 1,490 residential units were sold in the Study Area, totaling more than \$860 million. That same year, 31 commercial sales totaled more than \$29 million.

Historical real estate trends were used to inform the modeling of future tax revenues for these analyses. The 2022 residential turnover rate (7.0 percent) is used to estimate the number of residential sales per year, meaning 7.0 percent of units within the Study Area can be expected to sell

annually. This rate, combined with the average sale value of residential units (\$576,958) provides an estimate of the value of residential real estate transactions per year. A 20-year average ratio of commercial sale value to residential real estate value was used as an input to estimate the value of commercial real estate sales per year.

Surface Water Management Fund

Cities, towns, and counties in Washington may charge fees to fund the operations and capital improvements for surface water management or stormwater facilities and programs. Currently, these fees are collected by Pierce County on a per parcel basis and are included in the property tax bill for each parcel. These fees apply to residential parcels, transportation infrastructure, and agricultural land uses. The current Pierce County fee is \$145 per parcel for base plus Water Quality Services (Pierce County 2023b).

The incorporation analysis assumes that the Study Area will charge fees generating per-acre revenues in line with the City of Bonney Lake. Bonney Lake has soil conditions that are more similar to the Study Area than the soil conditions in the primary comparison city, City of Lakewood, or nearby Puyallup. Soil conditions are an important driver of the cost of surface water management within the Study Area. The City of Bonney Lake currently generates revenues of \$362.38 per acre.

The annexation analysis does not address special revenue funds. However, if the Study Area were annexed, Puyallup would be responsible for surface water management or stormwater facilities and programs. Surface water management fees would be determined based on the expenditures—including operations and capital improvements—for the Study Area. Soil conditions in Puyallup are different from soil conditions in the Study Area, which may increase Puyallup's per capita or per parcel costs associated with surface water management. Puyallup may adjust existing fees to cover the increased costs associated with the annexation area. The annexation analysis assumes that charges for services would be adjusted to cover the cost of providing those services.

Federal, State, and County Grants

Grants are an important source of funding for cities and towns and are necessary to complete certain capital projects. The incorporation analysis derives grant funding estimates from Lakewood's historical grant funding. Analysis assumes the newly incorporated city will not receive grant revenues for the first five years of incorporation. Starting in 2030 grant revenues are assumed at 50 percent of Lakewood's median grant revenues from 2016 to 2022, increasing to 75 percent in 2023, and 100 percent by 2035. No grant funding is estimated for the first five years, as a newly incorporated city would likely endure administrative capacity constraints for applying to grants in the early years of operation and likely will not have plans in place required to secure grant funding. This assumption provides a conservative estimate of potential funding for capital projects in the earliest years of the incorporated Study Area.

Grant funding has a critical revenue resource for the City of Lakewood to fund transportation and parks capital projects in recent years. From 2016 to 2022, The City of Lakewood secured anywhere from \$1.4 to \$12 million for transportation capital projects annually. During this period, the City of Lakewood also secured anywhere from \$25,000 to \$9.8 million in grant funding annually for parks capital projects.

The annexation analysis assumes that the City of Puyallup would determine revenue sources needed to cover the costs of capital and infrastructure projects prioritized for the Study Area after

annexation. Puyallup provided feedback indicating that its past performance in securing grant funding is not a guarantee of future performance.

Special revenue funds are conservatively estimated to yield revenues of approximately \$13 million in 2025 and \$24 million by 2035 (Table 4-9).

Table 4-9: Estimated Revenues for Special Revenue Funds, Study Area Incorporated as City, 2025, 2030, and 2035

| Revenue Source | Total Revenues (millions) | | |
|-------------------------------|---------------------------|---------------|---------------|
| | 2025 | 2030 | 2035 |
| Transportation Capital Fund | \$2.9 | \$6.7 | \$11.2 |
| Parks Capital Fund | \$1.4 | \$2.0 | \$2.6 |
| Real Estate Excise Tax | \$5.3 | \$5.8 | \$6.3 |
| Surface Water Management Fund | \$3.8 | \$3.8 | \$3.8 |
| Total | \$13.4 | \$18.2 | \$23.8 |

Sources: Inputs and data obtained from Pierce County, Puget Sound Regional Council, and City of Puyallup.

4.7 Capacity to Generate Revenue

Revenue estimates in this study follow, to the extent possible, revenue sources and rates for the comparable city (City of Lakewood) for the incorporation analysis and Puyallup for the annexation analysis. Specific adjustments are made throughout the analyses to create the most realistic estimate of the Study Area’s potential to generate revenue, should it be incorporated or annexed to Puyallup.

Cities have the capacity to generate additional revenues based on alternative approaches that can be adopted by a city council or with voter approval. For example, the newly incorporated Study Area may do the following:

- Adopt several additional sales taxes through voter approval, including a cultural access program sales tax, housing and related services sales tax, or public safety sales tax.
- Adopt additional property tax levies through voter approval, including a cultural access program levy.
- Adopt a B&O tax, which would impose a tax on all businesses within the jurisdiction.

Many of the revenue resources listed in this section are restricted resources and therefore limited in use to specific topics.

The City of Puyallup may have additional capacity to generate revenue as well. The City has not currently adopted a public safety sales tax or the cultural access sales tax. However, many of the potential revenue resources available to a newly incorporated city or to Puyallup require voter approval and are restricted revenue resources.

5 Expenditures

Cities are typically responsible for providing several basic services—such as police, streets, surface water, and stormwater management—to their communities. Many cities also provide parks and recreation programs and facilities. Other services may be provided either by cities or separate districts, including utilities, schools, and fire protection services.

The incorporation analysis assumes the following services will continue to be provided by the same districts and providers that currently serve the Study Area: fire and EMS, utilities, transit, and schools. In line with Pierce County adopted policies, this analysis assumes that Pierce County will transfer ownership of all park facilities within the Study Area, except regional parks, upon either incorporation or annexation when the city can demonstrate financial capacity to maintain and operate the parks and recreation facilities. The following services would be managed by a new city for the Study Area or by Puyallup in the case of annexation:

- Public safety
- Public works, including streets and storm and surface water management
- Community and economic development
- Parks and recreation
- Administration and finance
- Municipal court

Use of funds is a key aspect of incorporation analysis. Funds act like individual bank accounts for different sources and uses of revenue. The general fund, in the incorporation analysis, covers all expenditures except for the capital expenditures for streets, parks, and surface water management. Streets, parks, and surface water management are presented in the discussion of special revenue funds (see Section 5.2).

The annexation analysis focuses on the general fund for the City of Puyallup. The City of Puyallup uses its general fund to account for most operating and administrative costs, including expenditures for public safety, parks, public works, city manager, city council, and more. Puyallup has an additional 22 funds ranging from a facilities capital fund to motel tax fund to a storm and surface water fund. These special revenue funds are excluded from the annexation analysis because many of the expenditures accounted for in these funds are covered through service charges (see Section 5.2).

5.1 General Fund

Analysis of expenditures for the potential incorporation scenario use per capita estimates from the City of Lakewood adopted 2023–2024 budget, as the City of Lakewood was identified as a comparable city (see Section 2) with characteristics similar to those of the Study Area. The City of Lakewood offers municipal levels of service that are similar to, or higher than, the existing levels of service in the Study Area. Surface water management expenditures use estimates of cost per acre

from the City of Bonney Lake, which has soil conditions that better match the Study Area than the soil conditions for the City of Lakewood.

Expenditures in a general fund cover all the basic elements required to operate a city, including salaries, benefits, supplies, basic service costs, vehicles, facilities, and equipment (see Table 5-1).

Table 5-1: Estimated General Fund Expenditures, Study Area Incorporated as City, 2025, 2030, and 2035

| Expenditure | Total Expenditures (millions) | | |
|---|-------------------------------|---------------|---------------|
| | 2025 | 2030 | 2035 |
| City Council | \$0.2 | \$0.2 | \$0.2 |
| City Manager | \$0.9 | \$1.0 | \$1.1 |
| Administrative Services | \$1.7 | \$1.8 | \$2.0 |
| Community & Economic Development | \$3.1 | \$3.4 | \$3.8 |
| Parks, Recreation, & Community Services | \$1.6 | \$1.6 | \$1.6 |
| Public Works | \$5.2 | \$5.2 | \$5.2 |
| Municipal Court | \$2.3 | \$2.5 | \$2.8 |
| Legal | \$2.6 | \$2.8 | \$3.1 |
| Police & Public Safety | \$28.8 | \$31.7 | \$34.9 |
| Total | \$46.2 | \$50.2 | \$54.6 |

Sources: Inputs and data obtained from the Washington State Office of Financial Management, U.S. Census Bureau, Pierce County, Puget Sound Regional Council, and City of Lakewood, 2023.

Expenditures analyzed for the annexation of the Study Area to Puyallup use per capita estimates from the Puyallup 2023 budget, provided by Puyallup. Puyallup indicated that the per capita estimates for expenditures are likely an underestimate for the additional costs the city may incur with the annexation of the Study Area. The annexation analysis uses growth estimates for both the City of Puyallup and the Study Area to estimate the potential expenditures within Puyallup’s general fund based on Puyallup’s projected growth and the addition of the Study Area (see Table 5-2).

Table 5-2: Estimated General Fund Expenditures, Puyallup Annexation of South Hill Study Area, 2025, 2030, and 2035

| General Fund Expenditures | Expenditures Upon Annexation (millions) | | |
|-------------------------------------|---|--------|--------|
| | 2025 | 2030 | 2035 |
| City Clerk | \$1.1 | \$1.2 | \$1.3 |
| City Council | \$0.6 | \$0.6 | \$0.7 |
| City Manager | \$3.3 | \$3.6 | \$3.9 |
| Development and Permitting Services | \$7.6 | \$8.2 | \$8.8 |
| Finance | \$2.2 | \$2.4 | \$2.6 |
| Human Resources | \$1.3 | \$1.4 | \$1.5 |
| Legal | \$3.9 | \$4.3 | \$4.6 |
| Library | \$3.1 | \$3.3 | \$3.5 |
| Municipal Court | \$10.2 | \$11.1 | \$12.2 |
| Non-Department | \$10.0 | \$10.6 | \$11.3 |
| Parks and Recreation | \$11.2 | \$12.0 | \$12.7 |

| General Fund Expenditures | Expenditures Upon Annexation (millions) | | |
|---------------------------|---|----------------|----------------|
| | 2025 | 2030 | 2035 |
| Police | \$65.8 | \$71.4 | \$77.5 |
| Public Works | \$7.9 | \$8.4 | \$9.0 |
| Total Expenditures | \$128.3 | \$138.6 | \$149.5 |

Sources: Inputs and data obtained from Washington State Office of Financial Management, U.S. Census Bureau, Pierce County, Puget Sound Regional Council, and City of Puyallup.

City Manager and City Council

The City Manager and City Council expenditures capture the salaries, benefits, supplies, training, and other items associated with the operations of the city manager and city council. The expenditure analysis conducted for the incorporation study assumes that an incorporated Study Area would adopt a council-manager form of government. The mayor-council structure is the most common among code cities, with 147 out of 197 code cities in Washington currently under mayor-council structure.⁸ However, the City of Lakewood, the selected comparison city, currently operates with a council-manager form of government. Therefore, the comparison city method assumes the same structure for the potentially incorporated Study Area as for the comparison city. The City of Lakewood’s budget currently has per capita expenditures of \$2.32 for the city council and \$12.77 for the city manager.

Additionally, Puyallup operates with a council-manager form of government, with the senior member of the council serving as the mayor for a two-year term. Annexation analysis uses current Puyallup per capita expenses of \$5.02 for the city council and \$22.50 for the city manager. Puyallup includes several line items within the city manager expense category, such as the city manager’s office administration, economic development, and emergency management.

Administrative Services and Finance

The City of Lakewood groups a variety of facets of a city’s government into an administrative services category, including a range of personnel and services. These include oversight of programs, communication, financial reporting, budgeting, audit coordination, accounting, cash management, IT, and fleet and equipment administration. The City of Lakewood currently budgets \$24.20 per capita for administrative service expenses.

Puyallup has a variety of categories to capture the types of expenses that fall within the administrative services category. The annexation analysis assumes that the Study Area will generate the same per capita expenses for these categories as the city currently incurs.

- City clerk: \$9.35 per capita
- Finance: \$19.36 per capita
- Human resources: \$11.01 per capita

These three categories of expenses total \$39.72 per capita.

Community and Economic Development

Community and economic development captures a variety of costs of services provided by a city. The incorporation analysis assumes that the Study Area, if incorporated, would be similar to the City of Lakewood. The City of Lakewood's community and economic development budget captures expenditures such as housing, the Home Investment Partnership Program and Community Development Block Grant affordable housing programs, and the South Sound Military and Communities Partnership programs (Lakewood 2022). The City of Lakewood currently has community and economic development expenditures totaling \$45.54 per capita.

Community and economic development expenditures also capture fire coordination costs, which would be required for the Study Area if it were incorporated. The analysis assumes the two fire districts currently serving the Study Area will remain upon incorporation. Therefore, the Study Area would be responsible for fire coordination regarding building inspection and plan review services. This idea is modeled after Pierce County's method for its unincorporated areas, which are served by several fire districts and must have proper coordination across the districts. To estimate fire coordination expenditures, the analysis uses Pierce County's fire coordination expenditures per capita, which total roughly \$1.50.

Parks, Recreation, and Community Services

The costs incurred by incorporating the South Hill Study Area include preserving and maintaining parks, public buildings, and landscaped areas, as well as programs that fall within the parks and recreation department. The City of Lakewood has general fund expenditures of \$7,117 per acre of parks for operations and maintenance. The incorporation analysis assumes that the newly incorporated city will provide parks and recreation operation and maintenance at a level of service that is similar to that of the City of Lakewood.

The Study Area currently has about 225 acres of parks that would transfer to a newly incorporated city. In total, the Study Area has 305 acres of parks that are currently operated by Pierce County, providing a level of service of 4.7 acres per 1,000 population. The City of Lakewood provides a level of service of more than 7 acres per 1,000 population. The adopted level of service for the City of Lakewood is that "all addresses are to be within a 0.75-mile walking distance of a neighborhood park that is equipped with a playground facility" (Lakewood 2020). In contrast, Pierce County's adopted level of service is based on minimum investment per capita, varying by park and recreational facility type. The current rate of developed park acres per 1,000 residents across Pierce County's jurisdiction is 5.6, and the target rate is 6.7 acres, the anticipated amount required to accommodate the forecasted population growth through 2030 (Pierce County 2020). The City of University Place currently has about 3.6 park acres per 1,000 residents and had a per-acre expenditure of \$5,275 in 2022. That is slightly above Pierce County's per-acre expenditure of \$4,526.26 and below the City of Lakewood's per-acre expenditure of \$7,117. While the analysis for this study uses the City of Lakewood's level of service given the city's similarities to the Study Area, the City of University Place represents a jurisdiction providing an urban level of service for a lower per-acre cost than other nearby jurisdictions. Upon incorporation, residents and city staff could look to other jurisdictions to learn how to provide a desirable level of service while minimizing general fund expenditures.

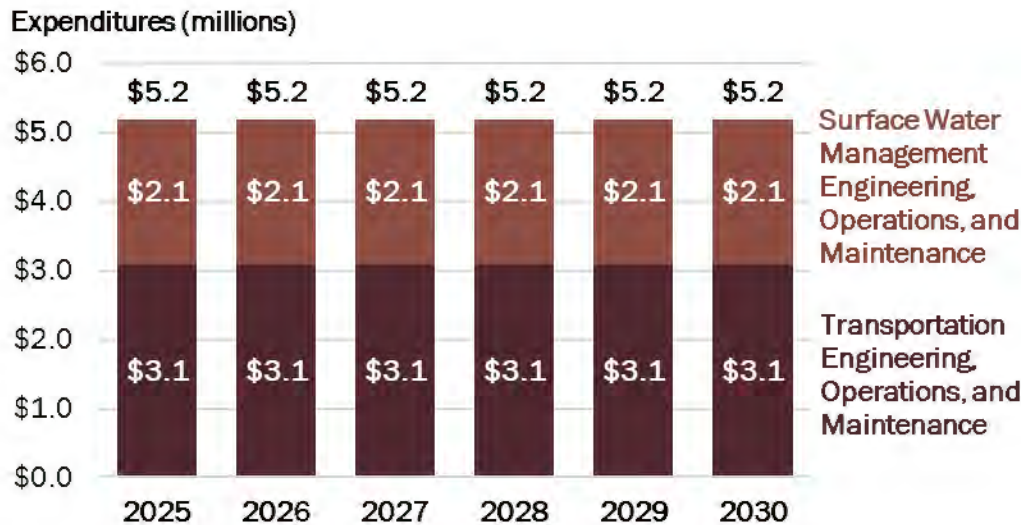
General fund parks and recreation expenditures for Puyallup currently include expenditures for administration, maintenance, youth and adult sports, community recreation, and day camps.

Together, these services cost \$40.06 per capita plus an additional \$7,875 per acre of parks. Puyallup has adopted level of service standards of 1 acre per 1,000 population for neighborhood parks and 5 acres per 1,000 population for community parks. Puyallup has 357 acres of parks, providing an overall level of service of nearly 8.3 acres per 1,000 population. Both the annexation and incorporation analysis assume Pierce County would transfer ownership of all parks except regional parks and resource conservancy land within the Study Area and both scenarios assume expenditures for a higher level of service than is currently provided in the Study Area.

Public Works

Public works expenditures in the general fund for the City of Lakewood and the incorporation analysis include engineering and operations and maintenance expenditures associated with the Study Area’s surface water management and transportation programs. Using the same assumptions for surface water management fees, the estimate of surface water management operations and maintenance expenditures is based on the per capita expenditures for the City of Bonney Lake, \$295.09 per acre. Transportation operations and maintenance expenditure estimates are informed by the City of Lakewood’s expenses, \$9,371 per road mile. Figure 5-1 presents estimated public works expenditures from 2025 to 2035 (see Figure 5-1).

Figure 5-1: Estimated Public Works Expenditures, Study Area Incorporated as City, 2025, 2030, and 2035



Sources: Inputs and data obtained from the Washington State Office of Financial Management, U.S. Census Bureau, Pierce County, Puget Sound Regional Council, City of Lakewood, and City of Bonney Lake.

General fund public works expenditures for Puyallup include administrative expenses (\$10.38 per capita); capital improvements engineering (\$34.82 per capita); roadways (\$3,892.20 per road mile); sidewalks (\$158.37 per road mile); street lighting (\$954.15 per road mile); and traffic control (\$1,208.78 per road mile). The annexation analysis assumes that the Study Area will require the same expenditures per capita or road mile to serve as are captured in the current Puyallup budget. Surface water operations and maintenance are captured in Puyallup’s storm and surface water fund and are therefore not captured in the annexation analysis.

Police

The unincorporated Study Area is currently served by the Pierce County Sheriff's Department. According to the Pierce County Sheriff's Department, 300 commissioned officers serve Pierce County's unincorporated areas (Pierce County 2023a). The last available annual report for the Pierce County Sheriff's Department, from 2018, reports 207 patrol deputies and an 11.1-minute average emergency response time in the areas served (Pierce County 2018). The statistics reported for all of unincorporated Pierce County include a large area with a diversity of populations, development densities, transportation infrastructures, and landforms; therefore, the average response time and the number of deputies serving the Study Area may be different than the averages reported across the entire county. As of 2021, Pierce County spent roughly \$286 per capita on police services for the County's unincorporated areas.

The City of Lakewood's police department, according to its 2019 annual report, consisted of 99 commissioned police officers and does not report an average response time (Lakewood 2019). The City of Lakewood general fund includes \$418.78 per capita for police and public safety, including the cost of contracting services for animal control to the town of Steilacoom and City of DuPont. The adopted levels of service for the City of Lakewood are broken into three priority levels (Lakewood 2022):

- **Priority level one** requires a three-minute response time for life-threatening emergencies.
- **Priority level two** requires a six-minute response time for crimes that are in progress or have just been committed.
- **Priority level three** adopts a maximum response time of 20 minutes for routine and non-emergency calls.

The annexation analysis assumes that Puyallup would expand police and public safety services to the Study Area after annexation at the same expenditure per person as is currently provided to the city. Puyallup reports that the Puyallup Police Department employs 57 sworn officers and Puyallup has an adopted maximum response time of 3 minutes and 51 seconds for police-related responses (Puyallup 2015). Currently, the expenditure per capita for police at the City of Puyallup is \$579.91.

The City of University Place, which contracts its police services from Pierce County, paid roughly \$128 per capita for its police services in 2022. According to the latest information available on University Place's city website, their police force consists of 14 deputies, one sergeant, and one chief. The 11.1-minute average emergency response time cited by the Pierce County Sheriff's Department applies to the City of University Place as well.

While this analysis assumes a higher level of service, on par with the City of Lakewood, the range of per capita expenditures and levels of service for each community discussed above would be available to the Study Area upon incorporation.

Municipal Court

Some cities contract the responsibilities of a municipal court to other cities with a municipal court system. Within Pierce County, the cities and towns of Carbonado, DuPont, Eatonville, Edgewood, Ruston, South Prairie, Steilacoom, Sumner, and University Place contract their municipal courts to other municipalities. The City of Lakewood operates its own municipal court system. Additionally, due to the current backlog in court systems within the County and due to the large size of the Study Area,

the expenditure analysis for the newly incorporated Study Area assumes the new city would create its own municipal court. The analysis uses the current cost of the municipal court in the City of Lakewood, at \$33.45 per capita. In comparison, the City of University Place currently contracts its municipal court services from the Pierce County District Court. As of 2022, the City of University Place paid about \$9 per capita for court services. While the City of University Place is smaller than the Study Area, this reflects the ability of a jurisdiction to contract services and potentially reduce expenditures. Upon incorporation, the residents and new city staff for the Study Area would determine whether the Study Area would like to create its own municipal court or contract the service.

Puyallup also operates its own municipal court. Analysis of the potential annexation of the Study Area into the City of Puyallup assumes that Puyallup would expand its existing municipal court to serve the Study Area. The current expenditure for the Puyallup municipal court is \$53.37 per capita.

Legal Services

Cities can employ prosecutors or contract out the work of prosecuting attorneys for municipal courts. Additionally, cities and towns require legal services for their work and employ city attorneys. The City of Lakewood does not contract prosecutors for its municipal court, and it does have a legal office that includes a city attorney, four assistant city attorneys, two public records and legal specialists, and three office assistants, as well as a city clerk. The current cost of the legal department for the City of Lakewood is \$37.30 per capita.

Puyallup also has a legal department. Currently, this department is staffed with a city attorney, deputy city attorney, domestic violence victim advocate, risk and safety coordinator, two paralegals, two associate city attorneys/prosecutors, one contract prosecutor, and one administrative clerk. Legal expenditures for Puyallup total \$33.87 per capita.

5.2 Special Revenue Funds

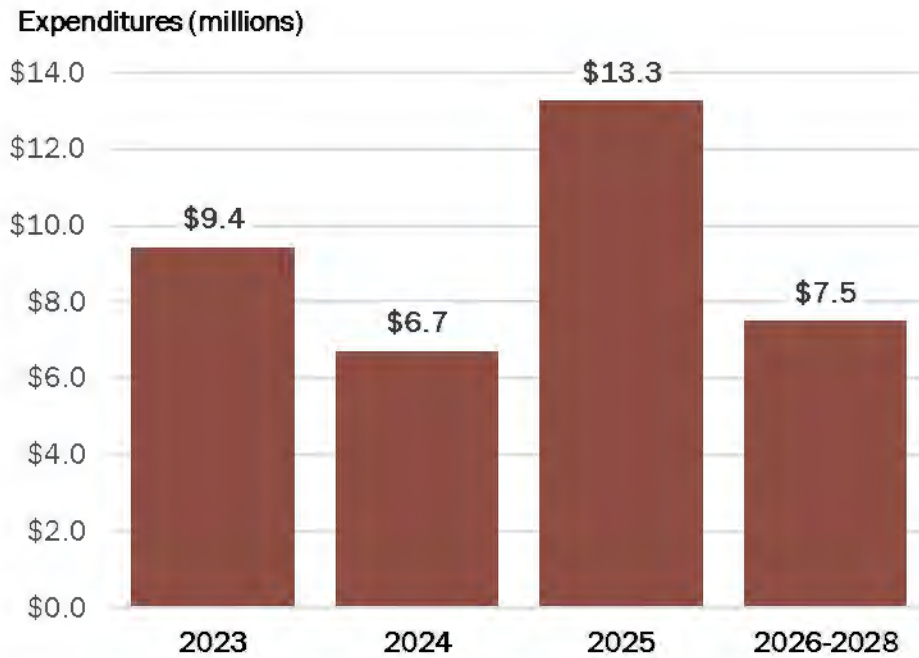
The only expenditures estimated for special revenue funds for the incorporation analysis pertain to capital projects, driven by the assumption that the general fund will cover all operation and maintenance costs. Estimates of potential capital expenditures incurred for each fund presented below use a simplified methodology. As discussed previously, capital expenditures are not estimated specifically for the annexation analysis. However, feedback from both Pierce County and Puyallup staff indicate that the current planned projects for the Study Area would be a starting point for potential capital expenditures but are likely an underestimate, as either a newly incorporated city or the City of Puyallup would have to implement additional capital projects and build infrastructure to provide urban services to the Study Area.

Transportation Capital Fund

Capital expenditures are the only costs included in the transportation capital fund. To simplify capital expenditures, which tend to be highly variable, the analysis uses Pierce County's 2022–2023 Biennial Budget Capital Improvements Program (CIP). The CIP identifies projects underway as well as planned priority projects. Combining all projects identified as within the Study Area and the duration and total cost for each of these projects, results in the average annual cost of transportation projects between 2025 and 2035 used to estimate transportation capital expenditures.

Figure 5-2 documents transportation capital projects planned by Pierce County within the Study Area.

Figure 5-2: Planned Transportation Capital Projects, Study Area Incorporated as City, 2023–2028

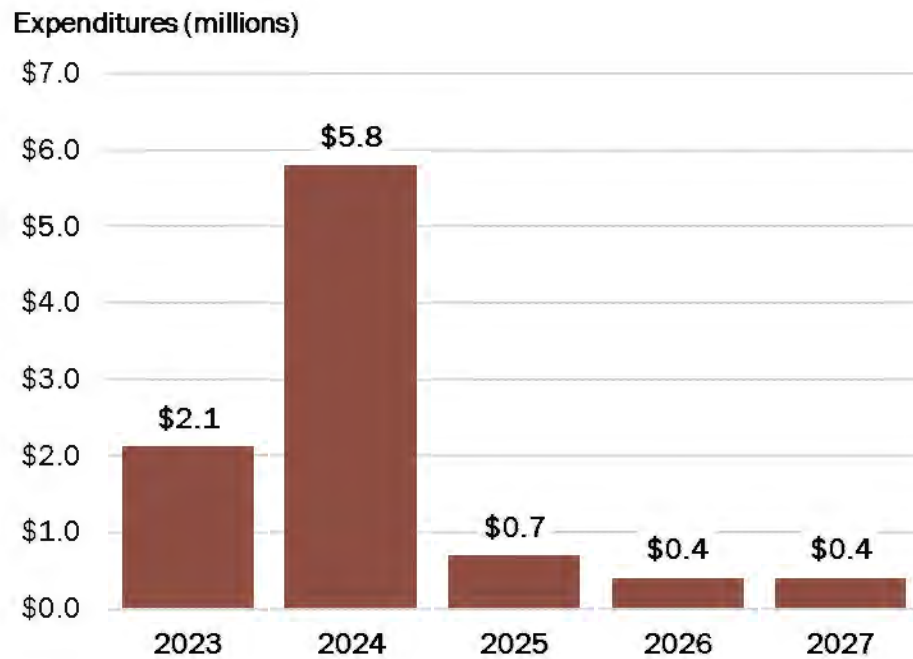


Source: Data obtained from Pierce County.

Parks Capital Fund

Similar to the transportation capital fund, the parks capital fund includes estimated capital expenditures for the Study Area. The analysis of parks capital expenditures uses the same methodology as the transportation capital expenditures. Planned projects within the Study Area are identified from the CIP. Figure 5-3 documents parks capital projects planned for 2023 through 2027.

Figure 5-3: Planned Parks Capital Projects, Study Area Incorporated as City, 2023–2027



Source: Data obtained from Pierce County.

Real Estate Excise Tax Fund

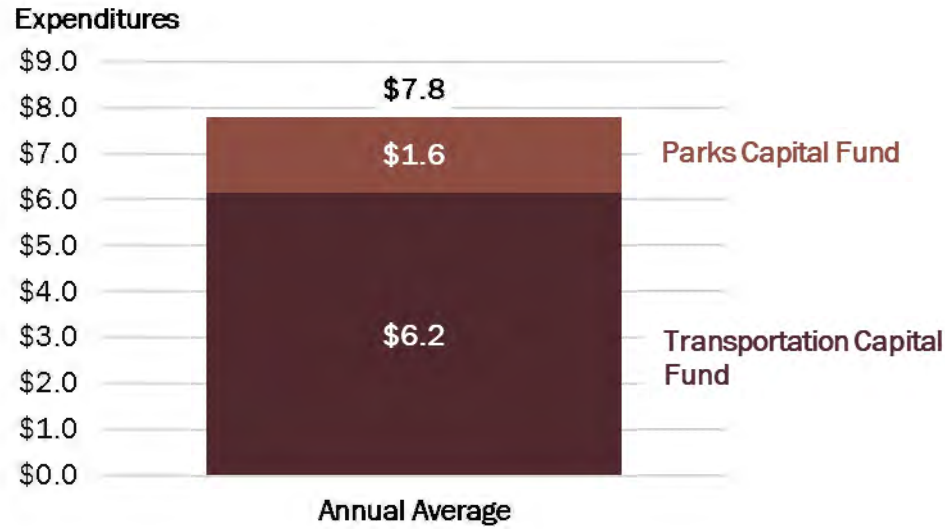
No expenditures are estimated within the REET fund. Administrative expenditures incurred by the program are included in the general fund. REET funds are restricted to capital expenditures; therefore, these funds can be used for a variety of capital funding needs and may be transferred to the appropriate fund. Analysis of either the incorporation or annexation of the Study Area does not speculate as to which projects may take priority within the Study Area and for which REET funds might be used. These funds may be used to support both parks and transportation capital expenditures estimated in the transportation capital fund and the parks capital fund.

Surface Water Management Fund

Surface water management fund expenditures are also derived from the planned projects in CIP. There currently no surface water or stormwater capital projects planned for the Study Area.

Figure 5-4 presents the average annual expenditures for each special revenue fund assuming incorporation of the Study Area.

Figure 5-4: Estimated Average Annual Capital Expenditures, Study Area Incorporated as City



Source: Data obtained from Pierce County.

5.3 Levels of Service Comparison

While cities are increasingly working towards key performance metrics that staff and residents can use to track and quantify government services, information regarding levels of service is still limited and varies by jurisdiction. Naturally, services with more tangible benefits—such as parks and recreation, police, sewer, and transportation and roads—are more easily tracked. Less tangible services—such as community and economic development, planning, and administrative services—are less straightforward to measure and monitor. Table 5-3 presents the existing levels of service and targeted levels of service for parks and recreation, police, sewer, and transportation services for the Study Area, unincorporated Pierce County, City of Lakewood, and City of Puyallup, given publicly available data.

Table 5-3: Levels of Service Comparison for Select Jurisdictions

| Levels of Service Comparison | Study Area Incorporated as City | Unincorporated Pierce County | City of Lakewood | City of Puyallup |
|------------------------------|---|--|---|---|
| Parks and Recreation | Current: 4.7 park acres per 1,000 residents. Target: Align with unincorporated Pierce County. | Current: 5.6 park acres per 1,000 residents. Target: 6.7 acres per 1,000 residents. | Current: 7 park acres per 1,000 residents. Target: All addresses to be within 0.75-mile walking distance of a neighborhood park equipped with a playground facility. | Current: 8.3 park acres per 1,000 residents. Target: 1 neighborhood park acre per 1,000 residents and 5 community park acres per 1,000 residents. |
| Police | No data specifically for Study Area, likely similar to average response time for unincorporated Pierce County, as unincorporated Pierce County currently provides police services. ^a | 11.1-minute average emergency response time. ^a | Service targets are broken out as follows: <ul style="list-style-type: none"> • Priority level one requires a three-minute response time for life-threatening emergencies. • Priority level two requires a six-minute response time for crimes that are in progress or have just been committed. • Priority level three adopts a maximum response time of 20 minutes for routine and non-emergency calls. | Puyallup has adopted a maximum response time target of 3 minutes and 51 seconds for police-related responses. |
| Sewer ^b | Levels should align with unincorporated Pierce County, as unincorporated Pierce County currently provides sewer services to the Study Area. | 220 gallons per day per residential equivalent plus a 15 percent reserve capacity meets current level of service requirements. | 220 gallons per day equals one residential equivalent. Flow projections assume 0.83 residential equivalent for multifamily units. Provided by Pierce County and therefore set by Pierce County. | Puyallup has established a level of service target that allows collection of peak wastewater discharge plus infiltration and inflow. Per Puyallup's comprehensive plan, the goal of the sanitary sewer utility is to preserve the value of the physical infrastructure components, and to ensure that all wastewater is conveyed and treated safely, efficiently, and reliably. |
| Transportation | There are no data specific to the Study Area's roadway levels of service. | Among unincorporated Pierce County's urban and rural roads, 1.29 | Roadway levels of service are currently deemed E (operating conditions at or near capacity of roadway) to F (forced flow | Roadway levels of service are currently deemed D (high density of motorists, but stable flow) to E (near-capacity operations, with significant |

| Levels of Service Comparison | Study Area Incorporated as City | Unincorporated Pierce County | City of Lakewood | City of Puyallup |
|------------------------------|---------------------------------|---|--|---|
| | | miles of county arterial roads exceed the County's service standard of a volume/service ratio of 1.0. | operations at very low speeds) for specific road segments. | delay and low speeds) for specific road segments. |

Notes

Study Area = South Hill Incorporation Area.

^aPierce County provides services to a range of rural and urban areas and the levels of service represent an average across all of these areas. Therefore, the average may not be reflective of service times in more urban areas served by Pierce County.

^bResidential equivalent is a form of standardization that assigns non-residential land uses a wastewater generation level in terms of a baseline residential use level. Sources: City of Puyallup PROS Plan, 2023; City of Puyallup, 2023; City of Lakewood Legacy Plan, 2020; Pierce County Sheriff's Office, 2023; Pierce County Comprehensive Plan, 2023; Pierce County TCMS, 2023; City of University Place, 2023; University Place Comprehensive Plan, 2023; City of Lakewood Comprehensive Plan, 2022; City of Puyallup Comprehensive Plan, 2015.

Table 5-4 presents the local property tax and sales tax rates for unincorporated Pierce County, the City of Lakewood, Puyallup, and the City of University Place. Though property tax and sales tax are two primary sources of revenues for cities, numerous other mechanisms are available for a city to generate revenues, as described in Section 4. Table 5-4 aims to provide context for the variability in levels of service in Table 5-3 relative to local property tax and sales tax rates.

Table 5-4: Local Tax Rate Comparisons

| City | Tax Code Area | Property Tax (per \$1,000 AV) | Local Sales Tax Rate |
|------------------------------|---------------|-------------------------------|----------------------|
| Unincorporated Pierce County | N/A | \$0.98 | 1.6% to 3.6% |
| City of Lakewood | 760 | \$0.71 | 3.6% |
| City of Puyallup | 960 | \$0.98 | 3.6% |
| City of University Place | 752 | \$0.66 | 3.6% |

Note

N/A = not available.

AV = assessed value

Sources: Pierce County Assessor, 2023; Municipal Research and Services Center, 2023.

6 Financial Feasibility

This study aims to provide the reader with as much information regarding the assumptions, data, and methodologies used for the financial analysis of incorporation and annexation of the Study Area so that readers can make well-informed decisions regarding the potential feasibility of each for the Study Area. As incorporation or annexation are ultimately decisions made by the residents of an area and an existing city, the study aims to let the reader decide whether incorporation or annexation would be feasible for the Study Area, and for Puyallup in the case of annexation. The reader should note that the results of this study are estimates and not guaranteed figures for revenues or expenditures. For example, if the Study Area were to incorporate and become more established, the new city would be able to expand certain departments by taking on a greater degree of capital projects and increasing funding through county, state, or federal grants. Additionally, city budgets can be significantly impacted by the general economic conditions and therefore include an inherent degree of uncertainty.

6.1 Incorporation Analysis

Table 6-1 presents the estimated general fund revenues and expenditures from 2025, 2030, and 2035 for an incorporated Study Area and includes itemized general fund revenues and expenditures for 2025, 2030, and 2035. Revenue and expenditure growth is driven by population, housing, and employment growth. Property taxes and sales and use taxes represent the largest sources of revenues, representing nearly 60 percent of total revenues. Meanwhile, police and public safety expenditures represent the largest share of expenditures (63 percent). Annually, the analysis suggests an incorporated Study Area's general fund would be near balanced, meaning estimated revenues and expenditures would be very nearly the same. See Appendix C for estimated property tax revenues and general fund balance for a property tax rate scenario in which property taxes remain at their current level following incorporation.

Table 6-2 presents the revenues and expenditures estimated for each of the special revenue funds modeled in the incorporation analysis. The transportation capital fund is the only special revenue fund with a large deficit, while the remaining funds are estimated to be near balanced or in a surplus. However, REET revenues can be used for transportation capital projects and could help balance the fund if an incorporated South Hill chose to use its REET revenues in that manner.

Table 6-1: Estimated General Fund Revenues and Expenditures, Study Area Incorporated as City, 2025, 2030, and 2035

| General Fund | Percent of Fund, 2030 | 2025 | 2030 | 2035 |
|---|-----------------------|----------------|----------------|----------------|
| Revenues | | | | |
| Property Tax | 40 | \$18.2 | \$19.7 | \$21.4 |
| Local Sales & Use Tax | 17 | \$7.8 | \$8.5 | \$9.4 |
| Brokered Natural Gas Use Tax | 0 | \$0.2 | \$0.2 | \$0.2 |
| Criminal Justice Sales Tax | 3 | \$1.5 | \$1.6 | \$1.8 |
| Utility Tax | 13 | \$5.8 | \$6.4 | \$7.0 |
| Gambling Tax | 0 | \$0.2 | \$0.2 | \$0.3 |
| Cannabis Tax Distribution | 0 | \$0.2 | \$0.2 | \$0.3 |
| Franchise Fees | 11 | \$4.8 | \$5.3 | \$5.9 |
| Licenses & Permits | 6 | \$2.5 | \$2.8 | \$3.0 |
| State-Shared Revenues | 6 | \$2.5 | \$2.8 | \$3.1 |
| Charges for Services & Fees | 1 | \$0.2 | \$0.3 | \$0.3 |
| Fines & Forfeitures | 3 | \$1.2 | \$1.4 | \$1.5 |
| Total Revenues | 100 | \$45.1 | \$49.4 | \$54.1 |
| Expenditures | | | | |
| City Council | 0 | \$0.2 | \$0.2 | \$0.2 |
| City Manager | 2 | \$0.9 | \$1.0 | \$1.1 |
| Administrative Services | 4 | \$1.7 | \$1.8 | \$2.0 |
| Community & Economic Development | 7 | \$3.1 | \$3.4 | \$3.8 |
| Parks, Recreation, & Community Services | 3 | \$1.6 | \$1.6 | \$1.6 |
| Public Works | 10 | \$5.2 | \$5.2 | \$5.2 |
| Municipal Court | 5 | \$2.3 | \$2.5 | \$2.8 |
| Legal | 6 | \$2.6 | \$2.8 | \$3.1 |
| Police & Public Safety | 63 | \$28.8 | \$31.7 | \$34.9 |
| Total Expenditures | 100 | \$46.2 | \$50.2 | \$54.6 |
| General Fund Balance | | (\$1.1) | (\$0.8) | (\$0.5) |

Sources: Inputs and data obtained from the Washington State Office of Financial Management, Pierce County, Puget Sound Regional Council, U.S. Census Bureau, City of Lakewood, and City of Bonney Lake.

Table 6-2: Estimated Special Revenue Funds Revenues and Expenditures, Study Area Incorporated as City, 2025, 2030, and 2035

| Fund | 2025 | 2030 | 2035 |
|--------------------------------------|-----------------|--------------|--------------|
| Transportation Capital Fund | | | |
| Fund Revenues | \$2.9 | \$6.7 | \$11.2 |
| Fund Expenditures | \$13.3 | \$6.2 | \$6.2 |
| Fund Balance | (\$10.3) | \$0.5 | \$5.0 |
| Parks Capital Fund | | | |
| Fund Revenues | \$1.4 | \$2.0 | \$2.6 |
| Fund Expenditures | \$0.7 | \$1.6 | \$1.6 |
| Fund Balance | \$0.7 | \$0.3 | \$1.0 |
| Real Estate Excise Tax Fund | | | |
| Fund Revenues | \$5.3 | \$5.8 | \$6.3 |
| Fund Expenditures | \$0.0 | \$0.0 | \$0.0 |
| Fund Balance | \$5.3 | \$5.8 | \$6.3 |
| Surface Water Management Fund | | | |
| Fund Revenues | \$3.8 | \$3.8 | \$3.8 |
| Fund Expenditures | \$0.0 | \$0.0 | \$0.0 |
| Fund Balance | \$3.8 | \$3.8 | \$3.8 |

Sources: Inputs and data obtained from the Washington State Office of Financial Management, Pierce County, Puget Sound Regional Council, U.S. Census Bureau, and City of Lakewood.

6.2 Annexation Analysis

Table 6-3 provides the estimated general fund expenditures for the City of Puyallup including the Study Area annexation for 2025, 2030, and 2035. Drivers of revenues and expenditures include population, housing units, and employment growth. The table presents itemized general fund revenues and expenditures in a manner similar to the incorporation analysis, which provides a comparison for readers between incorporation and annexation of the Study Area.

Table 6-3: Estimated General Fund Revenues and Expenditures, Puyallup Annexation of Study Area, 2025, 2030, and 2035

| General Fund | Revenues Upon Annexation (millions) | | |
|-------------------------------------|-------------------------------------|--------|--------|
| | 2025 | 2030 | 2035 |
| Revenues | | | |
| Property Tax | \$23.4 | \$26.0 | \$28.5 |
| Local Retail Sales and Use Tax | \$37.0 | \$39.7 | \$42.4 |
| City Manager | \$0.7 | \$0.7 | \$0.7 |
| Development and Permitting Services | \$5.6 | \$6.0 | \$6.5 |
| Legal | \$0.0 | \$0.0 | \$0.0 |
| Library | \$0.0 | \$0.0 | \$0.0 |

| General Fund | Revenues Upon Annexation (millions) | | |
|-------------------------------------|-------------------------------------|-----------------|-----------------|
| | 2025 | 2030 | 2035 |
| Revenues | | | |
| Municipal Court | \$2.5 | \$2.7 | \$2.9 |
| Parks and Recreation | \$2.9 | \$3.1 | \$3.4 |
| Police | \$8.7 | \$9.5 | \$10.2 |
| Public Works | \$0.0 | \$0.0 | \$0.0 |
| Non-Department | \$24.4 | \$26.1 | \$28.3 |
| Total Revenues | \$105.3 | \$113.9 | \$123.1 |
| Expenditures | | | |
| City Clerk | \$1.1 | \$1.2 | \$1.3 |
| City Council | \$0.6 | \$0.6 | \$0.7 |
| City Manager | \$3.3 | \$3.6 | \$3.9 |
| Development and Permitting Services | \$7.6 | \$8.2 | \$8.8 |
| Finance | \$2.2 | \$2.4 | \$2.6 |
| Human Resources | \$1.3 | \$1.4 | \$1.5 |
| Legal | \$3.9 | \$4.3 | \$4.6 |
| Library | \$3.1 | \$3.3 | \$3.5 |
| Municipal Court | \$10.2 | \$11.1 | \$12.2 |
| Non-Department | \$10.0 | \$10.6 | \$11.3 |
| Parks & Recreation | \$11.7 | \$12.5 | \$13.2 |
| Police | \$65.8 | \$71.4 | \$77.5 |
| Public Works | \$7.9 | \$8.4 | \$9.0 |
| Total Expenditures | \$128.8 | \$139.1 | \$150.0 |
| General Fund Balance | (\$23.5) | (\$25.2) | (\$27.0) |

Sources: Inputs and data obtained from the Washington State Office of Financial Management, Pierce County, Puget Sound Regional Council, U.S. Census Bureau, and City of Puyallup.

Table 6-4 presents the general fund balance estimates comparing two scenarios in which Puyallup chooses to annex or chooses not to annex the Study Area. Historically, Puyallup has had a general fund that remains near the balanced end of the spectrum, focusing on providing strong levels of services while remaining financially viable. This is reflected in the Puyallup without Annexation scenario balances. Puyallup staff have indicated that the same approach would be used with any annexation, prioritizing needs and budgeting core services to fit within available revenues.

Table 6-4: Estimated General Fund Revenues and Expenditures, Puyallup With and Without Annexation of Study Area, 2025, 2030, and 2035

| General Fund | Puyallup without Annexation | | | Puyallup with Annexation | | |
|--|-----------------------------|---------|---------|--------------------------|----------|----------|
| | 2025 | 2030 | 2035 | 2025 | 2030 | 2035 |
| Revenues | \$61.2 | \$61.7 | \$70.2 | \$105.3 | \$113.9 | \$123.1 |
| Expenditures | \$63.8 | \$64.6 | \$71.9 | \$128.8 | \$139.1 | \$150.0 |
| General Fund Balance | (\$2.6) | (\$2.9) | (\$1.7) | (\$23.5) | (\$25.2) | (\$27.0) |
| General Fund Balance as Percent of Revenues | (4.3%) | (4.6%) | (2.4%) | (22.4%) | (22.2%) | (21.9%) |

Sources: Inputs and data obtained from the Washington State Office of Financial Management; Pierce County, Puget Sound Regional Council, U.S. Census Bureau, and City of Puyallup.

7 Incorporation and Annexation Process

The State of Washington, through provisions of RCW 35 and 35A, outlines steps for the creation of new cities through a petition process initiated by residents who currently reside in the area proposed to be incorporated. RCW 35.02.030 requires that the petition do the following:

- Indicate whether the proposed city shall be a code city operating under RCW 35A, or a second-class city operating under RCW 35
- Indicate the form or plan of government the city or town is to have (mayor-council or council-manager)
- Set forth and particularly describe the proposed boundaries of the proposed city or town
- State the name of the proposed city or town
- State the number of inhabitants therein, as nearly as may be
- Pray the city or town be incorporated

Any contiguous area with at least 1,500 residents may propose incorporation (RCW 35.02.010 as amended by Substitute House Bill [SHB] 1620). Any area within a county that plans under the GMA may incorporate only if it lies within a designated UGA (RCW 36.93.150(2)). Effective June 30, 2028, if the proposed area of incorporation is within five (air) miles of the boundaries of a city with a population equal to or exceeding 15,000 residents, the proposed area must have a minimum of 3,000 inhabitants.

7.1 Incorporation Process

Incorporations must be within designated UGAs. In 1994, the legislature adopted SHB 2176 that changed the process for handling of petitions. The bill also established and outlined a priority procedure for competing annexations and incorporations, whereby annexations initiated within 90 days of the start of the incorporation process would have priority over the incorporation effort. Interested persons or groups determine the boundaries to be proposed for a new city or form of government proposed as prescribed in RCW 35.02.030. The process set out in the incorporation statutes for initiating incorporation follows:

- Proponents, who must be registered voter(s) residing in the proposed city, file notice of the proposed incorporation with the county legislative authority. The notice includes the information required to be included in the incorporation petition and requires a filing fee (RCW 35.02.015).
- The county legislative authority notifies the BRB of the incorporation notice.
- Within 30 days of the notice being filed, the BRB holds a preliminary public meeting regarding the incorporation notice, which gives the general public an opportunity to voice their feedback, whether in favor of or opposition to, the proposed incorporation (RCW 35.02.015).
- The county auditor assigns an identification number within one working day after the public meeting (RCW 35.02.017). Proponents must finalize the legal description to be used on the petition at that time.

- Proponents of incorporation seek signatures on the petition. The petition of incorporation must be signed by at least ten percent of the number of voters residing within the proposed city or town and filed with the auditors of the county no later than 180 days after the date of the public meeting on the proposed incorporation (RCW 35.02.020 as amended by SHB 2176).
- Once the auditor certifies the sufficiency of the petition, the petitioner files a formal notice of intention of the proposed incorporation with the BRB (RCW 35.02.037).
- If the Board invokes jurisdiction, it holds hearings, conducts studies and makes a recommendation about the proposal. The BRB may amend boundaries pursuant to statutory requirements and criteria as part of its approval (RCW 36.93.010 et seq., as amended by SHB 2176). The BRB must, within 40 days of the conclusion of the hearing, file its written decision (RCW 36.93.160(4)).
- The county legislative authority sets the election date at the next special election held at least 60 days after Board action (RCW 35.02.078 as amended by SHB 2176).

7.2 Annexation Process

The process of annexation involves the transferring of land from one jurisdiction to another, which involves merging a portion of a county's unincorporated area into adjacent incorporated areas (Pierce County 2023a). Currently, the Study Area is not part of Puyallup's PAA. As a result, the first step toward annexation by Puyallup is an update to its comprehensive plan to include the entire Study Area or portions of it as a PAA because the GMA limits the territory that a city may annex to what is within its adopted UGA (MRSC 2020). In order to be annexed, an area must also be contiguous to the city boundary at the time of annexation.

Most likely, annexation of the Study Area would be a piecemeal process, with multiple annexations of small areas, except in the case of the election method of annexation according to Pierce County staff. Annexation data for Pierce County demonstrate that most annexations in recent years have been small. Between 2013 and 2023, annexations within Pierce County have ranged from between less than one acre to 190 acres of land. During this period, the City of Puyallup has had four annexations, the largest of which represented an increase in population by 173 persons.

Annexation can only occur within identified UGAs, which have been delineated by a city in conjunction with the county. State law permits cities, whether they plan under the GMA or not, to adopt zoning regulations for anticipated areas of annexation that fall outside city limits, to facilitate a more seamless transition for when an area officially incorporates or is annexed. Adequate notice of public hearings for the proposed zoning regulation is required in both the annexing city and the area proposed to be annexed (RCW 35A.14.340). Additionally, a copy of the ordinance adopting the proposed comprehensive plan amendment for the corresponding PAA, must be filed with the county auditor (RCW 35A.14.340).

There are various annexation methods, which are outlined with distinctions in language on annexation by code cities (RCW 35A), and annexation by non-code cities (RCW 35.13). There are several methods by which unincorporated areas and cities can explore the possibility of annexation, including the following:

- **Sixty Percent Petition Method (Direct Petition Method):** The sixty percent petition method, or direct petition method, is the most popular method of annexation by cities and towns in the state of Washington. To successfully annex via this method, signatures are required from property

owners who represent at least 60 percent of the assessed property value in the area proposed for annexation (RCW 35A.14.120).

- **Alternative Petition Method:** The alternative petition method was adopted by the Washington State Legislature between 2002 and 2004, when the traditional sixty percent petition method had been declared unconstitutional by the Washington Supreme Court. This method requires both the support of property owners representing a majority of the area proposed for annexation and the support of a majority of the voters in the area (RCW 35A.14.120).
- **Election Method:** The election method requires approval of voters in the proposed annexation area, which can be initiated by either a signed petition by a percentage of the voters living in the area to be annexed who voted in the last election (10 percent if a code city, or 20 percent if a non-code city), or by city council resolution. Both election methods (initiated by petition or resolution) are nearly identical except for the first few steps. Due to the cumbersome and expensive nature of this method, petition methods are far more common (RCW 35A.61.270).
- **Unincorporated Islands Method:** This method allows for the annexation of territory that is wholly or mostly surrounded by incorporated territory. This process is substantially shorter than both the petition and election annexation methods, is available to cities planning under the GMA, and the territory must be within a designated UGA. The criteria for annexing these unincorporated islands differ slightly between code and non-code cities, and a city council may initiate annexation under this method by resolution (RCW 35A.13.182).
- **Unincorporated Island-Interlocal Agreement Method (RCW 35A.14.296):** This method provides an alternative method of annexing islands of unincorporated territory through the use of interlocal agreements. This annexation method is only available to cities and towns located in counties that are subject to the buildable lands review and evaluation program under the GMA (RCW 35A.14.296).
- **Interlocal Agreement Method:** A new annexation method for code cities was created in March 2020, through the passage of Senate Bill 5522, which amended RCW 35A.14. Under this method (RCW 35A.14.296), a code city may annex unincorporated territory pursuant to an interlocal agreement between the city and county. If opting to use this annexation method, code cities are required to provide written notice to governing authorities of fire protection districts, water-sewer districts, and transportation benefits districts within the proposed annexation area, as well as authority figures in any city adjacent to the proposed annexation area where the sole point of access and egress of the area is served by the infrastructural network of the impacted city (RCW 35A.14.470).

7.3 Role of the Boundary Review Board

The BRB was created by state statute RCW 36.93.030. The statute establishes local independent review agencies to facilitate and regulate municipal and special district boundary changes, either by annexation or incorporation, for counties with a population of 210,000 or more. The BRB may review any proposal pertaining to the creation, incorporation, or change in the boundary, other than a consolidation of any city town or special purpose district (RCW 36.93.090). The BRB comprises five voting members:

- Two persons appointed by the governor
- One person appointed by the county appointing authority
- One person appointed by the mayors of the cities and towns located within the county

- One person appointed by the board from nominees of special districts in the county

The BRB is tasked with reviewing certain annexations to cities and special purpose districts, incorporations of new cities, and the creation of new special purpose districts. The cases in which the BRB has jurisdiction are set out in RCW 36.93.090, as follows:

(1) The: (a) Creation, incorporation, or change in the boundary, other than a consolidation, of any city, town, or special purpose district; (b) consolidation of special purpose districts, but not including consolidation of cities and towns; or (c) dissolution or disincorporation of any city, town or special purpose district, except that a board may not review the dissolution or disincorporation of a special purpose district which was dissolved or disincorporated pursuant to the provisions of Chapter 36.96 RCW: PROVIDED, that the change in the boundary of a city or town arising from the annexation of contiguous city or town owned property held for a public purpose shall be exempted from the requirements of this section; or (2) The assumption by any city or town of all or part of the assets, facilities, or indebtedness of a special purpose district which lies partially within such city or town; or (3) The establishment of or change in the boundaries of a mutual water and sewer system or separate sewer system by a water district pursuant to Chapter 57.08.065 RCW or Chapter 57.40 RCW, as now or hereafter amended, or (4) The establishment of or change in the boundaries of a mutual sewer and water system or separate water system by a sewer district pursuant to Chapter 56.20.015 RCW or Chapter 56.36 RCW, as now or hereafter amended; or (5) The extension of permanent water or sewer service outside of its existing corporate boundaries by a city, town, or special purpose district.

The contents for the notice of intention to the board, per RCW 36.93.130, must include the following:

- The nature of the action sought
- A brief statement of the reasons for the proposed incorporation
- The legal description of the boundaries proposed to be created
- A county assessor's map that designates the proposed boundaries

While the BRB is required to review any proposed incorporation or other action as outlined above in the county in which it is located, it does not formally do so unless one of the following occurs within 45 days of the filing of a notice of intention by the jurisdiction proposing the action (RCW 36.93.130):

- Five board members request review (with significant exceptions).
- Any government unit affected requests review.
- A petition requesting review is filed and signed by 5 percent of the registered voters in the area or the owners of 5 percent of the assessed valuation in the area.
- A majority of the board members concur with a request from 5 percent of the registered voters residing within one-quarter mile of the proposed action.

For its final decision, the board is required to attempt the following objectives, as provided in the statute (RCW 36.93.180):

Preservation of natural neighborhoods and communities; Use of physical boundaries, including but not limited to bodies of water, highways, and land contours; Creation and preservation of logical service areas; Prevention of abnormally irregular boundaries; Discouragement of multiple incorporations of small cities and encouragement of incorporation of cities in excess of ten thousand population in heavily populated urban areas; Dissolution of inactive special districts; Adjustment of impractical boundaries; Incorporation as cities or towns or annexations to cities or towns of incorporated areas which are urban in character; and Protection of agricultural and rural lands which are designated for long-term productive agricultural and resource use by a comprehensive plan adopted by the county.

The BRB may do any of the following in response to an incorporation proposal (RCW 36.93.150):

- Approve, modify and approve by adding or deleting territory
- Disapprove a proposal of an area of less than 7,500 population
- Recommend against incorporation of an area with a population of 7,500 or more

In addition to carrying out statutory procedural requirements, each boundary review board adopts its own rules of practice and procedure. In accordance with RCW 35.02.015, the BRB has established procedures to make arrangements to hold a public meeting within 30 days after the PCRC receives a notification of proposed circulation of incorporation proceedings (BRB 2012). This includes coordinating with the advocate(s) on the schedule and publishing notice of the meeting. The primary purpose of the public meeting is to engage the proponent(s) who filed the notice of the incorporation and members of the proposed incorporation community by exchanging pertinent information and feedback. The meeting is required to be in the evening at a location proximal to the proposed new city incorporation and must include a quorum of the BRB.

Once the jurisdiction of the BRB has been invoked per RCW 36.943.160(1), the BRB schedules a public hearing (BRB 2012).

The BRB has outlined a format required for a notice of intention for incorporation proposals. The required documentation includes the following background information and maps (Pierce County 1999):

- A brief description of and reason for seeking the proposed action, to include a statement of the method used to initiate the proposed action (i.e., petition or election method), and the complete RCW designation
- The original petition calling for the incorporation/formation with a letter of certification from the Pierce County Elections Department
- A copy of the declaration and current State Environmental Policy Act checklist with adequate explanations for answers
- The legal description of the boundaries of the area involved in the proposed action
- Pierce County Assessor's quarter section map and a variety of required vicinity maps

Further, the intention documentation must describe how the proposal meets the objectives of RCW 36.93.180 (Pierce County 1999).

Finally, a study of the proposed incorporation supports the BRB's review of factors affecting the proposal. It also can inform the voters regarding the proposed incorporation and may be useful to

the new city officials. The board must consider the following factors as outlined in RCW 36.93.170 (Pierce County 1999):

- **Overview:** population of proposal (what percentage is the population of proposal to unincorporated Pierce County); territory and number of acres; population density; assessed valuation
- **Land use:** existing uses and uses permitted under current plans and policies
- **Planning data:** revenues and expenditures through budgets and transition plans; information on providers for services (water, sewer, fire service, community)
- **General:** analysis and description of the effect of the proposal on adjacent areas and on the local government structure of the county or any service district; description of the topography and natural boundaries of the proposal; information on how much growth has been projected for this area during the next 10-year period.

The BRB statute also provides guidelines for the BRB to use in pursuing the State of Washington objectives as follows:

- Chapter 36.93.170 RCW: Factors to be considered by board—Incorporation proceedings exempt from the State Environmental Policy Act. In reaching a decision on a proposal or an alternative, the board shall consider the factors affecting such proposal, which shall include, but not be limited to the following:
 - Population and territory; population density; land area and land uses; comprehensive plans and zoning, as adopted under Chapter 35.63, 35A.63, or 36.70 RCW; comprehensive plans and development regulations adopted under Chapter 36.70A RCW; applicable service agreements entered into under Chapter 36.115 or 39.34 RCW; applicable interlocal annexation agreements between a county and its cities; per capita assessed valuation; topography, natural boundaries and drainage basins, proximity to other populated area; the existence and preservation of prime agricultural soils and productive agricultural uses; the likelihood of significant growth in the area and in adjacent incorporated and unincorporated areas during the next ten years; location and most desirable future location of community facilities.
 - Municipal services; need for municipal services; effect of ordinances, governmental codes, regulations and resolutions on existing uses; present cost and adequacy of governmental services and controls in area; prospects of governmental services from other sources; probable future needs for such services and controls; probable effect of proposal or alternative on cost and adequacy of services and controls in area and adjacent area; the effect on the finances, debt structure, and contractual obligations and rights of all affected governmental units.
 - The effect of the proposal or alternative on adjacent areas, on mutual economic and social interests, and on the local governmental structure of the county.
- The provisions of Chapter 43.21C RCW, State Environmental Policy, shall not apply to incorporation proceedings covered by Chapter 35.02 RCW.

The BRB is also to act in a manner consistent with the GMA, particularly with regard to the urban/rural line (RCW 36.93.157). In other words, the BRB cannot allow the annexation or incorporation of rural areas.

The BRB, then, has potential jurisdiction over the incorporation and annexation alternatives, and may also play a role in the status quo alternatives with regard to changes to any of the special purpose districts.

7.4 Key Differences between Incorporation and Annexation

Effectively, incorporation is the act of creating a new city and annexation is the process of a specific area becoming part of an existing city. Pursuant to state laws, cities and residents ultimately have final say on whether to approve an incorporation or annexation, and both processes can be initiated by residents of the area subject to incorporation or annexation (King County n.d.).

In the case of new city incorporations, the BRB oversees preparation of an impartial consultant study to assess the financial feasibility of the proposed new city (this study). Following completion of the study, the BRB holds a public hearing, establishes final boundaries, and makes a recommendation to the voters, who make the final decision in an election on the incorporation.

For annexations, the BRB notifies all potentially interested jurisdictions of the action but holds a hearing only if the action is contested. The request for a hearing and BRB review must come from an affected jurisdiction or from residents or property owners by petition. Following the hearing in contested cases, the BRB may approve, deny, or modify the boundaries of the proposed annexation, merger, or other boundary action.

8 Implementation Considerations for Incorporation

8.1 Classification Types

The proposal for incorporating a new city must convey what type of city will be created both in terms of the plan for the city classification designation and the form of government. Specifically, the petition for incorporation to the county governing body must distinguish (1) whether the proposed city or town will be a noncharter code city⁷ operating under RCW 35A or a second-class city operating under RCW 35 and (2) the proposed form or plan of government (RCW 35.02.030).⁸ The classification types depend in part on the size of the municipality at the time of incorporation or reorganization and include the following:

- First-class cities have a population greater than 10,000 at the time of organization and have adopted a charter.
- Second-class cities have a population greater than 1,500 at the time of organization and are not code cities operating under RCW 35A.
- Towns have a population less than 1,500 at the time of organization and are not code cities operating under RCW 35A. RCW 35.02.010 requires a minimum population of 1,500 to incorporate; therefore, new towns may not be incorporated.
- Code cities operate under RCW 35A. Cities or towns may reorganize as a code city (RCW 35A.02). According to MRSC, most cities in Washington are code cities (MRSC 2023e).

The classification of the city based on successful incorporation affects the authority of the municipality in general, as code cities enjoy more autonomy in matters of local concern while second-class cities have more limited powers, including only those expressly granted to them by statute (MRSC 2009). The city classification also impacts the framework of the statutory rules regarding the form of government, including the powers of the mayor, the size of the city council, and required appointed positions (MRSC 2009). Code cities and first-class cities are authorized to perform any function not specifically denied by state law, whereas second-class cities and towns have only those powers expressly granted to them by the state legislature (RCW 35A.01.010, 35A.11.020, 35A.11.050).

⁷ Any noncharter code city with population 10,000 or greater may adopt a charter and become a charter code city (RCW 35A.70.010). Code city as defined by RCW 35A.01.035 includes both noncharter code city and charter code city.

⁸ The Optional Municipal Code provides for the establishment of code cities to serve as an alternative to the statutory system of municipal government in Washington by creating broad statutory home rule authority in matters of local concern, under the establishment of code city classification (Chapter 119, Laws of 1967, Extraordinary Session).

8.2 Municipal Forms of Government

There are two forms of government provided to code cities under the Optional Municipal Code—the mayor-council plan (RCW 35A.12 for code cities and 35.23 for second-class cities) and the council-manager plan (RCW 35A.13 for code cities and 35.18 for second-class cities). The primary difference between these forms is the allocation of legislative powers between the legislative and executive officials.

The mayor-council form is the oldest and most widely used form of government in the state and is employed by a variety of community types (e.g., large, small, urban, and rural). The mayor and city council members are required elective city positions, who all must comply with requirements for residency and voter registration in the community. The mayor serves as the chief executive and administrative officer and ceremonial head of state while the city council adopts and enforces ordinances, provides services, and levies taxes. Appointments are required for the positions of city clerk and chief law enforcement officer in this government form. A hybrid version of this municipal form exists in which a chief administrator or city manager is hired to separate roles for political representation and professional administration of city operations. The form also provides for an elected, accountable city executive (MRSC 2023d).

Many medium-to-large sized cities in the state—including the majority of new cities that have formed since 1970—use the council-manager form of government. In this form, the city council members are the only elected positions, and they are responsible for policy making as well as appointing a professional city manager, who serves as the chief executive and administrative officer. The city council is not allowed to interfere with the city manager’s administration but may vote for their termination. The form was designed to enhance the professionalism and efficiency of the city’s administration. The city manager is required to be selected based on administrative and executive qualities (RCW 35A.13.050 for code cities, RCW 35.18.040 for second-class cities), as the foundation of the municipality’s structure is based on a business model, such as a corporate board of directors appointing a chief executive officer. Because there is no residency requirement by state statute, there is a larger recruitment pool for the position (MRSC 2023d).

8.3 Municipal Forms Adopted in Washington State and Pierce County

There are five second-class cities in Washington, all operating under the mayor-council form. Most new cities created by incorporation since 1970 (16 out of 17) have been formed under the council-manager system. Subsequent to their incorporation, three of the 16 incorporated under the council-manager form switched to the mayor-council form of government. According to MRSC, since 1970 about two-thirds of cities that have successfully switched forms of government have switched to the council-manager form (MRSC 2023d). According to MRSC, of the 20 municipalities in Pierce County, 14 (or 70 percent) use the mayor-council form of government and the remaining six operate under the council-manager form. The cities of Edgewood, Lakewood, and University Place were all incorporated in the 1990s and all three incorporated under the council-manager form of government. The City of Edgewood switched to the mayor-council form of government in 2014 after incorporating in 1996.

Among the largest cities in Washington, the class and forms of government are the following:

- Seattle: First, Mayor-Council
- Spokane: First, Mayor-Council
- Tacoma: First, Mayor-Council
- Vancouver: First, Council-Manager
- Bellevue: Code, Council-Manager
- Kent: Code, Mayor-Council

For the purpose of comparison to the Study Area, the City of Lakewood and Puyallup are both code cities with the council-manager form of government.

8.4 Considerations for the Incorporation Process

This section explores considerations for aligning the incorporation process with the chosen form of government for the potential new city. In the 1990s, the number of cities created through incorporation increased, fueled in part by increased growth and development in the state (particularly in the Puget Sound area), as well as by the passage of the GMA. The GMA equipped localities with more growth management tools and the ability to provide adequate services for development. Incorporation allows a community the autonomy to control its character and future (MRSC 2016).

The form of government a city chooses can affect the emerging city's ability to fulfill the purposes for incorporation. As noted, a common goal for incorporation is ensuring that services are provided at adequate levels and that there is local discretion and accountability over the government and community character.

The planned form of government can also affect how the incorporation petition communicates to the BRB on how incorporation will meet statutory objectives. The Boundary Review Board for Pierce County's Notice of Intention documentation requires the consideration of the following items in its decision-making of the incorporation proposal, as outlined in RCW 36.93.170 (Pierce County 1999):

- Population/density and percentage of proposal area to unincorporated Pierce County
- Land uses, including existing and permitted
- City, county, and fire district revenues and expenditures to be incurred, gained, lost, or reduced
- Water, sewer, and fire service, community service levels of service, providers, and capacity
- General impact on adjacent areas and local government structure of the county or service district
- Growth projected

Due to the emphasis on service provision and impact on coordinating and aligning government structures, the submitted information should highlight how the objectives will be implemented effectively through the planned form of government.

Past Studies

Upon incorporation, a jurisdiction gains greater autonomy over the function of the new government and the future of the city. Understanding the potential revenues and expenditures of a new city are important considerations for incorporation; however, budget analysis for such purposes should be considered estimates. Upon incorporation, a jurisdiction and its government will have the ability to right-size the government to ensure a balanced or surplus budget while ensuring that community priorities are recognized and addressed.

While past incorporation studies are sparse, given the limited number of incorporation efforts throughout Washington in the last 20 years, the incorporation study conducted for the City of Spokane Valley in 2001 was reviewed and compared to the City of Spokane Valley's actual budgets following incorporation. Ultimately, the incorporation analysis accurately depicted the budget balance for the early years of incorporation (with a deficit near 10 percent of general fund revenues), but the city staff were quickly able to adapt their budget to achieve balance. By year four of cityhood, the City of Spokane Valley's budget was hitting the revenue balance goals of 8 to 15 percent. Additionally, the incorporation analysis estimated slightly higher revenues and expenditures for the City of Spokane Valley; whereas actual revenues and expenditures fell about 10 percent below analysis estimates.

8.5 Incorporation Transition Period and Formation of New Government

During the interim or transition period, the new city must be organized, staffed, and funded. To do this, basic municipal functions are provided through a city council governing body per RCW 35.02.130, including the provision of local services. In the council-manager format, the municipal framework is established by the selection of a presiding officer. In the mayor-council format, the mayor is the formal presiding officer.

In the council-manager plan, a city manager is hired and given the authority to hire the administration staff. Under the mayor-council format, a chief administrator can be hired and duties clarified.

A salary schedule for the interim period can be established either through ordinance or application of the statutory compensation schedule in RCW 35A.12.070 and 35A.13.040, which sets a salary formula by size of community and type of position. In the council-manager form, a council directs the interim manager to prepare the preliminary first-year budget. In the mayor-council form, the mayor prepares and sets the preliminary first-year budget.

The *MRSC New City Guide: How to Start a City in Washington 2013* (New City Guide) provides a suggested schedule of activities during the interim period (MRSC 2013). A multitude of activities in the implementation of a newly incorporated city are outlined in the schedule. The council and mayor fulfill many of the same duties for the development of the governmental structure, especially for the initial activities to establish the administration's organization and procedures. As the implementation activities become more specialized (for example, in preparation for borrowing financial resources), the emerging community's city manager or administrator, finance director, city attorney, and other positions, become more involved than the executive stakeholders and policy makers.

8.6 Overview of Incorporation Transition Activities

The period between the election on the question of incorporation and the official date of incorporation is a critical time for the development of the emerging municipality's governmental, financial, and services framework. There are immediate and long-term activities and considerations, some of which are interrelated.

In addition to the referenced statutory requirements, the MRSC's New City Guide provides a valuable resource for emerging municipalities. The MRSC guidance outlines the major tasks and responsibilities for cities created through incorporation, in addition to discussing the timeline of incorporation and transition activities.

Timeline of Incorporation and Transition Activities

The major steps following the successful election on an incorporation proposal are the following:

- Before the election of the officials, the MRSC New City Guide recommends formation of an informal or transition group to begin the planning process. This working group can help facilitate the city's development, including organizing pre-officer election activities and workshops for candidates to discuss issues that will face the interim council. Resource partners, such as the Association of Washington Cities, MRSC, and neighboring cities can also provide information and assistance.
- Elections of officials:⁹
 - The primary election will be held at the next special election following the election for incorporation.
 - Following the primary election at the next special election date, an election is held to fill elective positions per statutory requirements (RCW 35.02.086, 29A.52.355, 35.02.110, 29A.04.330, RCW 35.02.125).
- The interim period is the time between when the newly elected officials are elected and the official date of incorporation. During this time, the interim city council has statutory authorizations and can work to plan and implement the community's transition to a city (RCW 35.02.130).
- The official date of incorporation is set and specified in a resolution adopted by the City Council and may be anywhere between 180 and 360 days after the date of the incorporation election (RCW 35.02.130).

Interim Period

During the interim period, the elected officials are authorized to do the following:

- Adopt ordinances, contracts, State Environmental Policy Act policies, property tax levies, development moratoria, and budgets

⁹ Per the requirements on scheduling special elections, the election on the question of incorporation may take place on one of four dates: the second Tuesday in February, fourth Tuesday in April, first Tuesday in August (primary election), first Tuesday after the first Monday in November (general election) (RCW 29A.04.330). This date impacts the official date of incorporation, which has a statutory deadline following the election, and also has implications on the availability of resources and services during the city's first year of incorporation.

- Borrow (based on issue tax or revenue anticipation notes) from federal, state, and other governments
- Acquire city facilities
- Hire staff
- Submit ballot propositions to authorize taxes
- Authorize an annexation of the city or town by a fire protection district or library district (RCW 35.02.130)

According to the MRSC New City Guide, recommended actions for the interim council include the following:

- The highest and most immediate priority given to ensuring the effective continuation of local public services.
- Deferring critical long-term decisions until competent, professional, legal, and administrative advice is obtained.

There are several laws to which the interim city council is subject (RCW 35.02.130), including, but not limited to immunity for discretionary decisions (RCW 4.24.470), open public meetings (RCW 42.30), and liability insurance (RCW 36.16.138).

Organizing City Government

To begin organizing the governmental framework, the newly elected interim city council identifies a presiding officer and rules of procedure. Staff critical to facilitating the city's transition are hired. In the council-manager form of government, this can include hiring the city manager, who (if provided hiring authority) can begin to fill out the city's administrative infrastructure. Other positions can be hired in this period, such as the city clerk, treasurer/financial officer, and city attorney. Related personnel policies—such as the salary schedule, which can be set by ordinance or follow RCW 35A.12.070; 35A.13.040—are addressed (MRSC 2013).

Financial Management

The city then starts to establish financial management policies and practices, including setting up an accounting system and funds to pay for expenses. The interim city council can borrow funds through tax or revenue anticipation notes and borrowing from other governmental entities as a way to help finance various city costs (MRSC 2013). Cities are authorized to levy various taxes, including retail sales and use tax (RCW 82.14.030), property tax (RCW 35A.33.135 and RCW 84.52.020) and REET (RCW 82.45.035 and RCW 82.46).

Budget Process

The interim council adopts a provisional budget for the interim period and a second provisional budget if the interim period extends into the next calendar year. The council must also adopt a first-year budget (RCW 35.02.132).

Municipal Services

The interim city council must determine the services, level of service, and service delivery methods for a variety of services to be provided initially, with some considerations for future service provision. For example, the newly incorporated community can continue contracts with the county for the provision of police protection or establish a city police department. For an overview of services and provider information before and after incorporation, see the MRSC New City Guide, pages 35–38 (MRSC 2013).

Formal Incorporation Date

The official date of incorporation is a critical decision that impacts a city’s first year of operations. The decision requires allowing adequate time for completing the interim period duties, in addition to considerations involving maximizing the revenue flow to the new city as soon as possible and taking advantage of county-provided services for as long as possible. For information on the timing of revenue sources available to new cities, see the MRSC New City Guide, page 60 (MRSC 2013).

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Limitations

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Opinions and recommendations contained in this report apply to conditions existing when services were performed and are intended only for the client, purposes, locations, time frames, and project parameters indicated. We are not responsible for the impacts of any changes in environmental standards, practices, or regulations subsequent to performance of services. We do not warrant the accuracy of information supplied by others, or the use of segregated portions of this report.

Figures

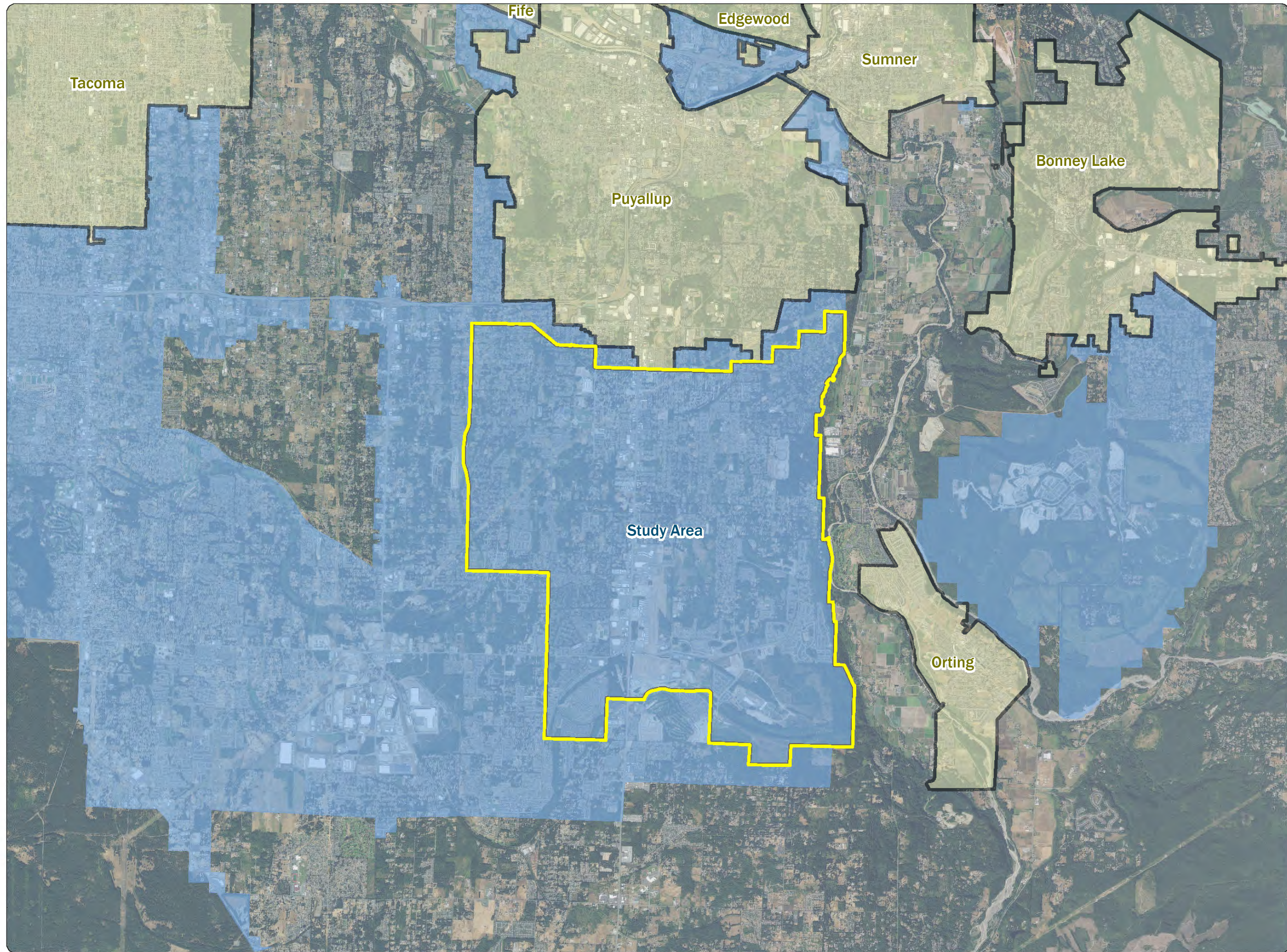





Figure 1-1 Study Area

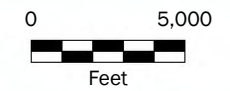
South Hill Incorporation Study
Washington

DRAFT

Legend

-  Study Area
-  Incorporated Urban Growth Area
-  Unincorporated Urban Growth Area

Location Inset



Data Sources
Aerial photograph obtained from U.S. Department of Agriculture; urban growth area boundaries obtained from Pierce County.



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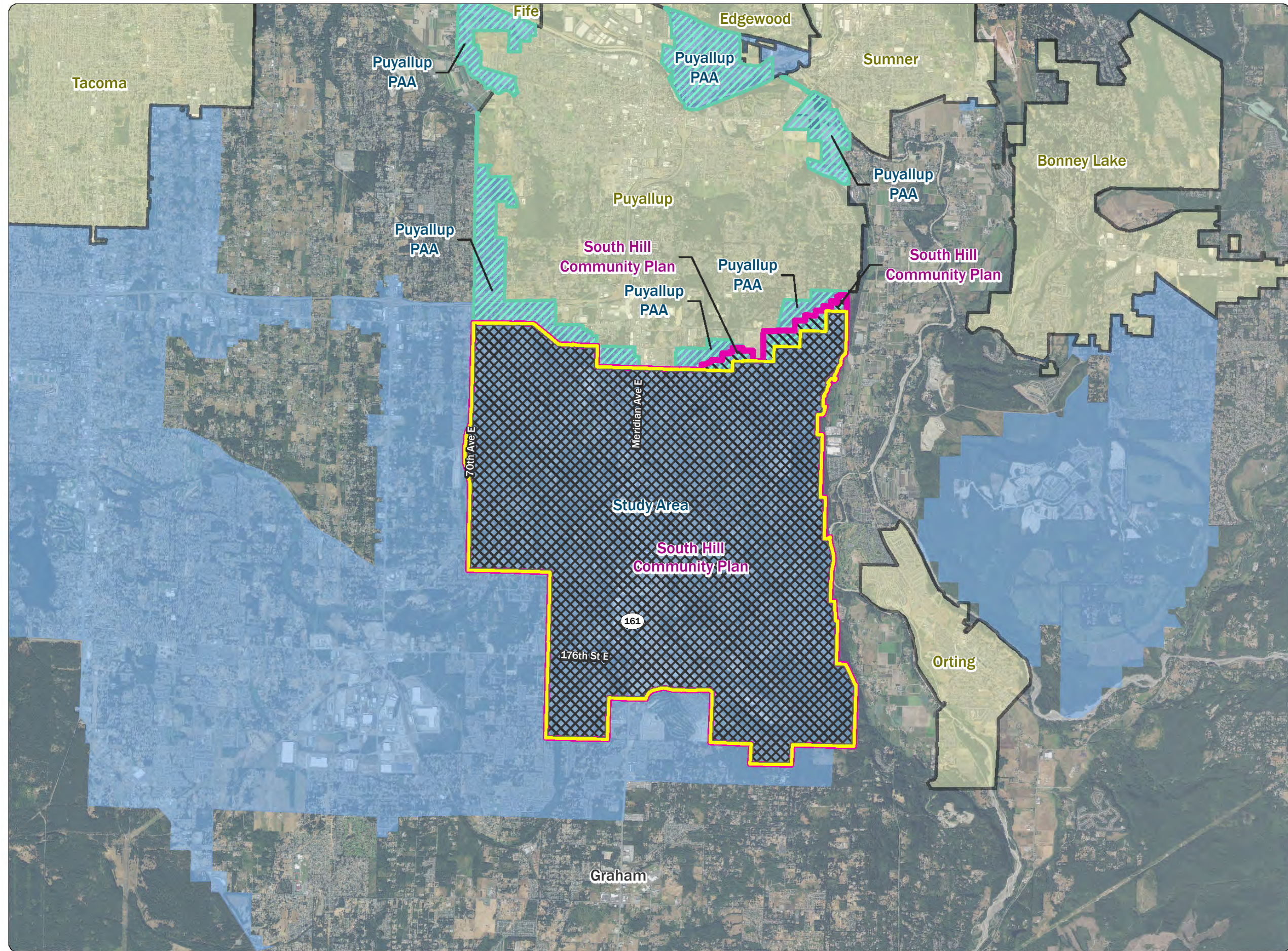







Figure 1-2
Study Area and
Community Plan
 South Hill Incorporation Study
 Washington

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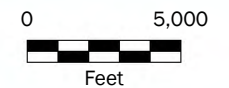
Legend

-  Study Area (South Hill Potential Incorporation Area)
-  South Hill Community Plan Area
-  Puyallup Potential Annexation Area
-  Incorporated Urban Growth Area
-  Unincorporated Urban Growth Area

Location Inset



Note
 PAA = potential annexation area.



Data Sources
 Aerial photograph obtained from U.S. Department of Agriculture; urban growth area and community plan boundaries obtained from Pierce County.

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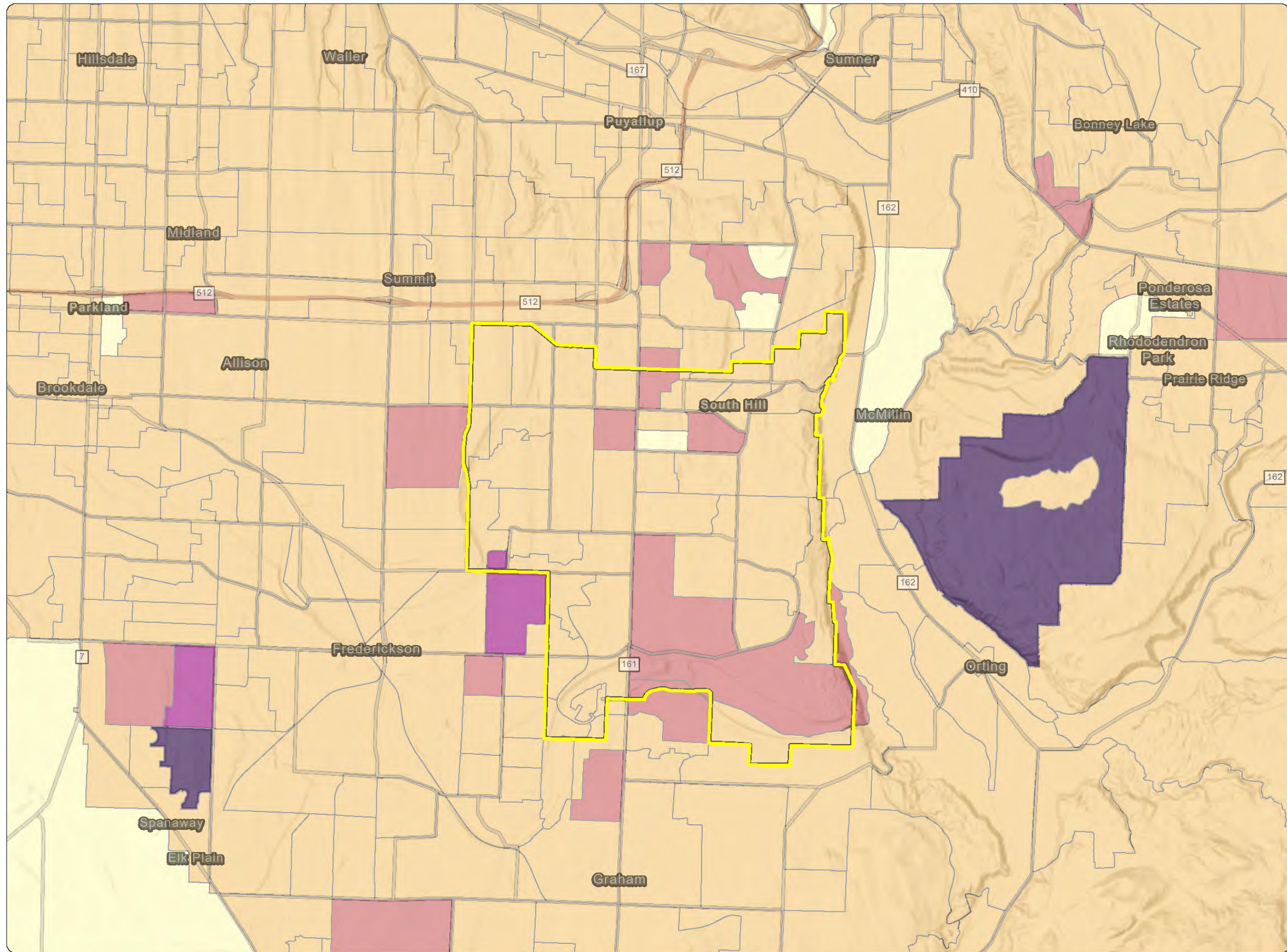


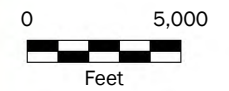
Figure 3-1
Population by
Census Block Group
South Hill Incorporation Study
Washington

DRAFT

Legend

- Study Area
- Population by Block Group**
- Less than 1,000
- 1,000 - 1,999
- 2,000 - 2,999
- 3,000 - 3,999
- Greater than 4,000

Location Inset



Data Sources
Topographic base map obtained from Esri; population data from the U.S. Census Bureau (2020).



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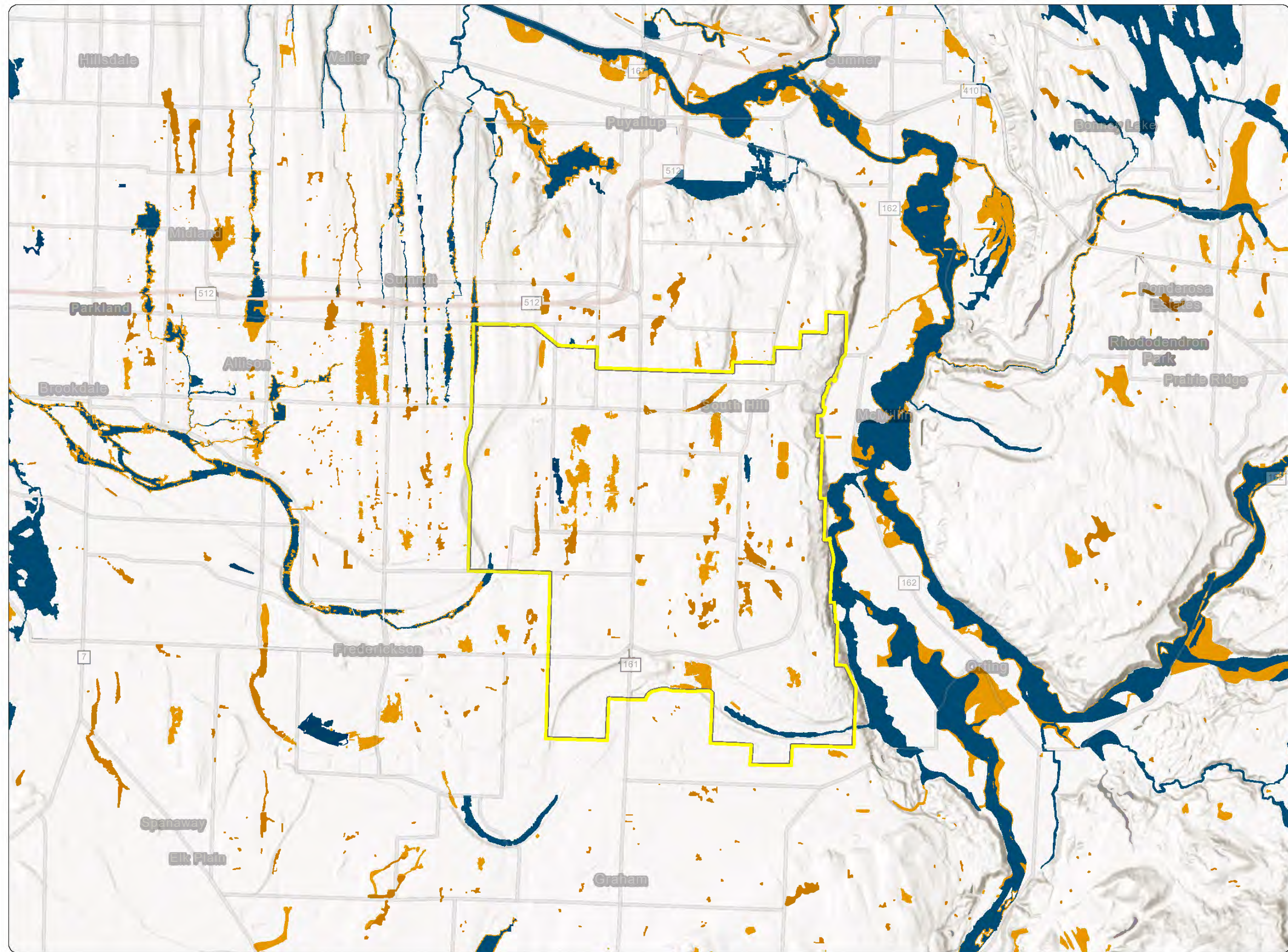





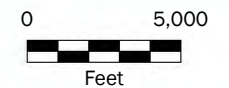
Figure 3-3
Flood Hazard Areas
South Hill Incorporation Study
Washington

DRAFT

Legend

-  Study Area
-  1% Annual Chance Flood Hazard
-  0.2% Annual Chance Flood Hazard

Location Inset



Data Sources
Topographic base map obtained from Esri; flood hazard areas obtained from the Federal Emergency Management Agency(2023).



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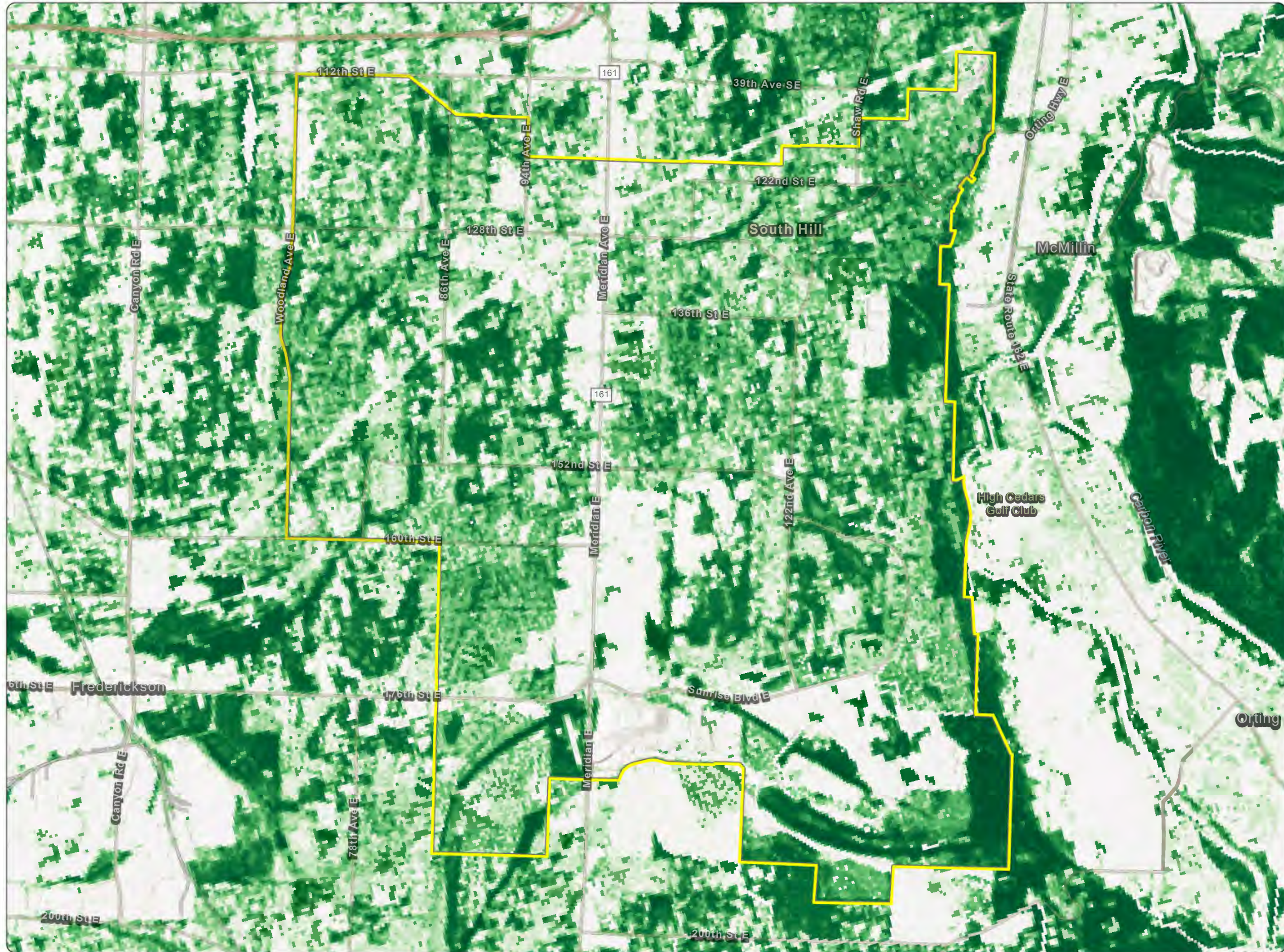
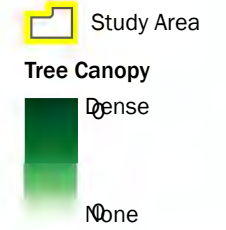


Figure 3-4
Tree Canopy

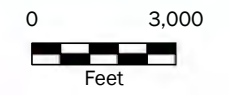
South Hill Incorporation Study
Washington

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Legend



Location Inset



Data Sources
Topographic base map obtained from Esri; tree canopy obtained from the National Land Cover Dataset (2021).



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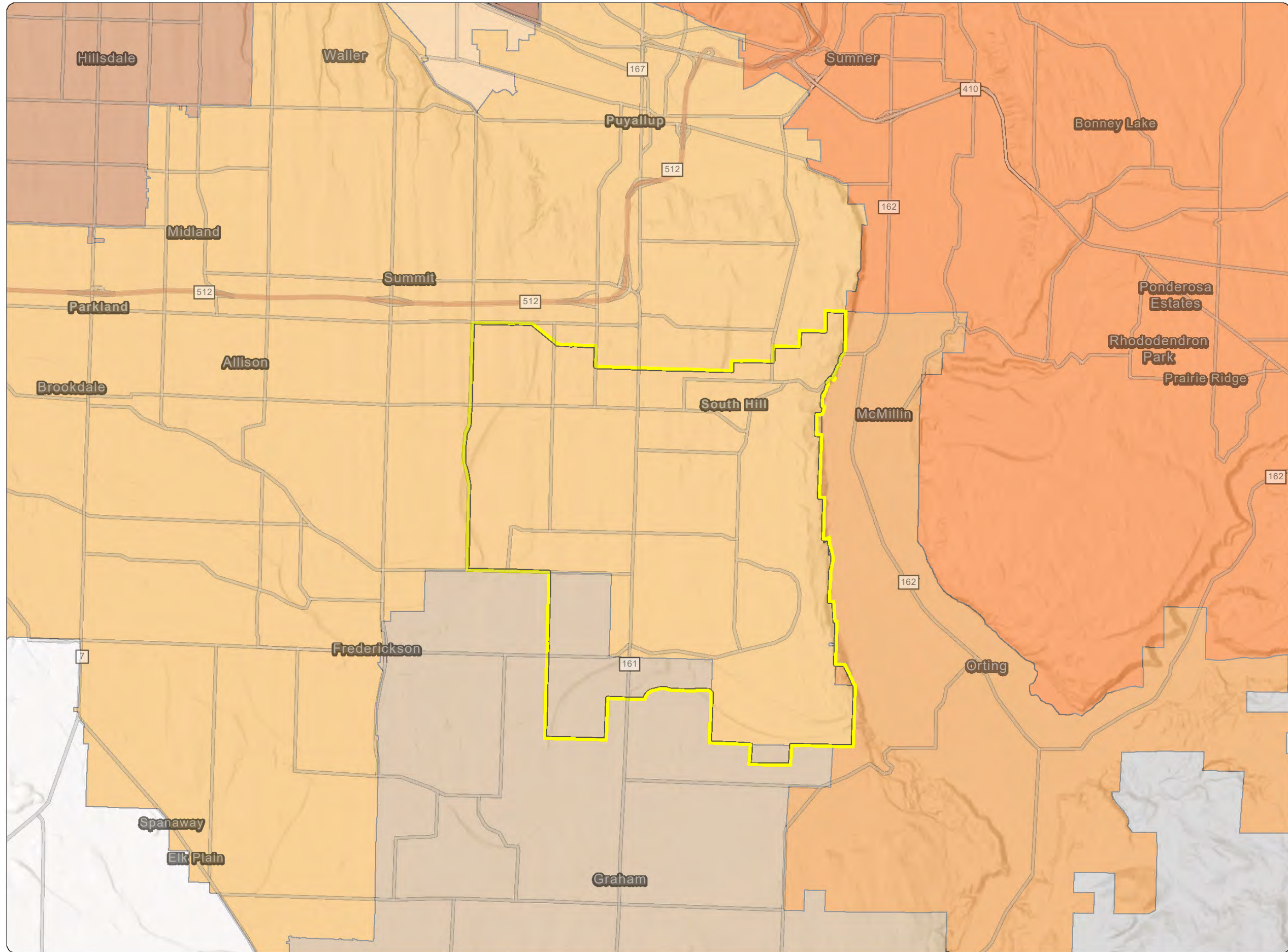


Figure 3-5 Fire Districts

South Hill Incorporation Study
Washington

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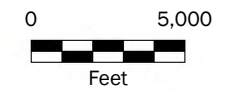
Legend

Study Area

Fire Districts

- Central Pierce
- East Pierce
- Fife
- Riverside
- Orting
- Graham
- Tacoma
- Unprotected

Location Inset



Data Sources
Topographic base map obtained from Esri; fire districts obtained from Pierce County (2023).



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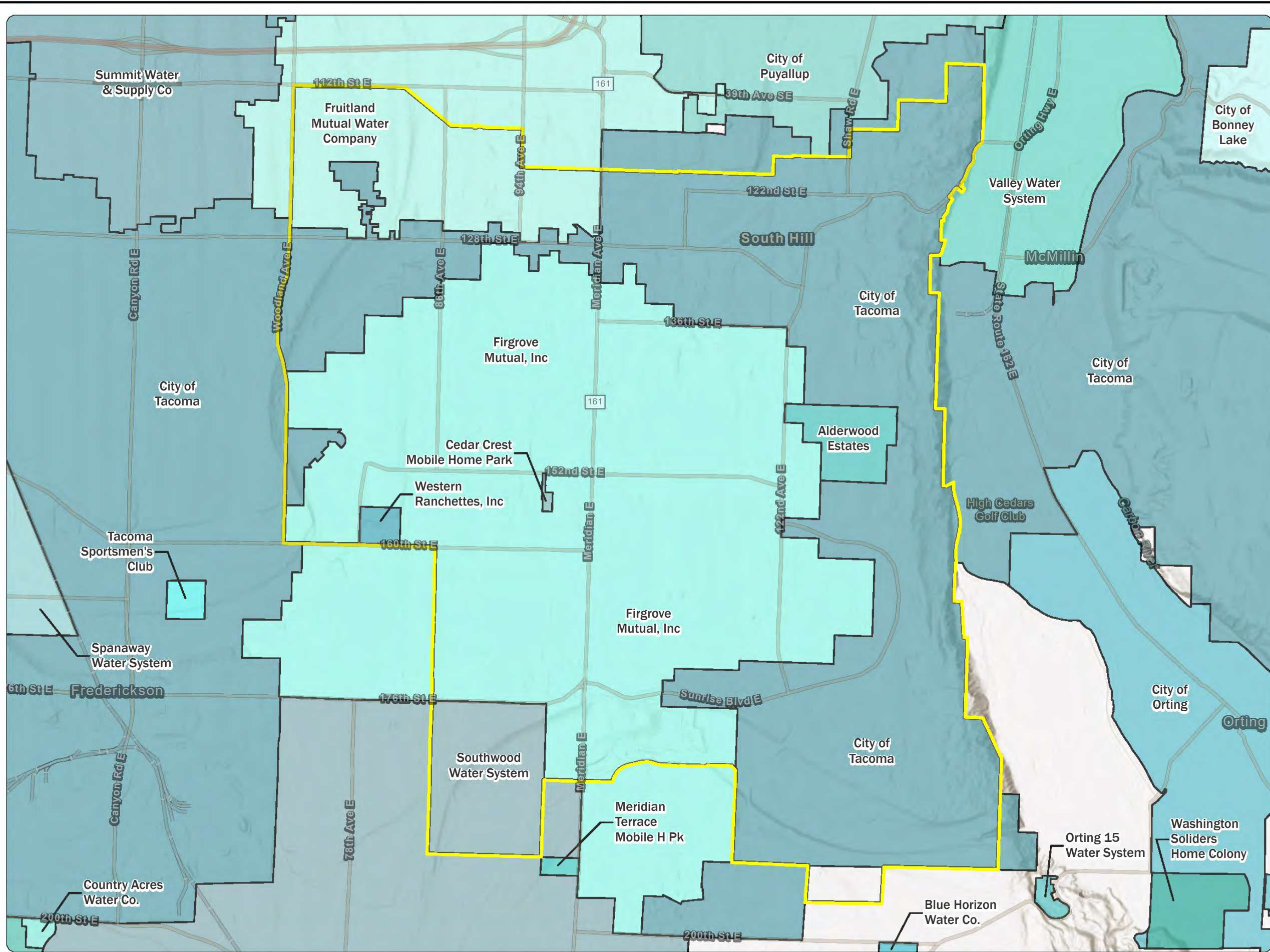




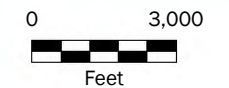
Figure 3-6
Water Providers
 South Hill Incorporation Study
 Washington

DRAFT

Legend

-  Study Area
-  Water Provider (Differentiated by Color)

Location Inset



Data Sources
 Topographic base map obtained from Esri; water providers obtained from Pierce County (2023).



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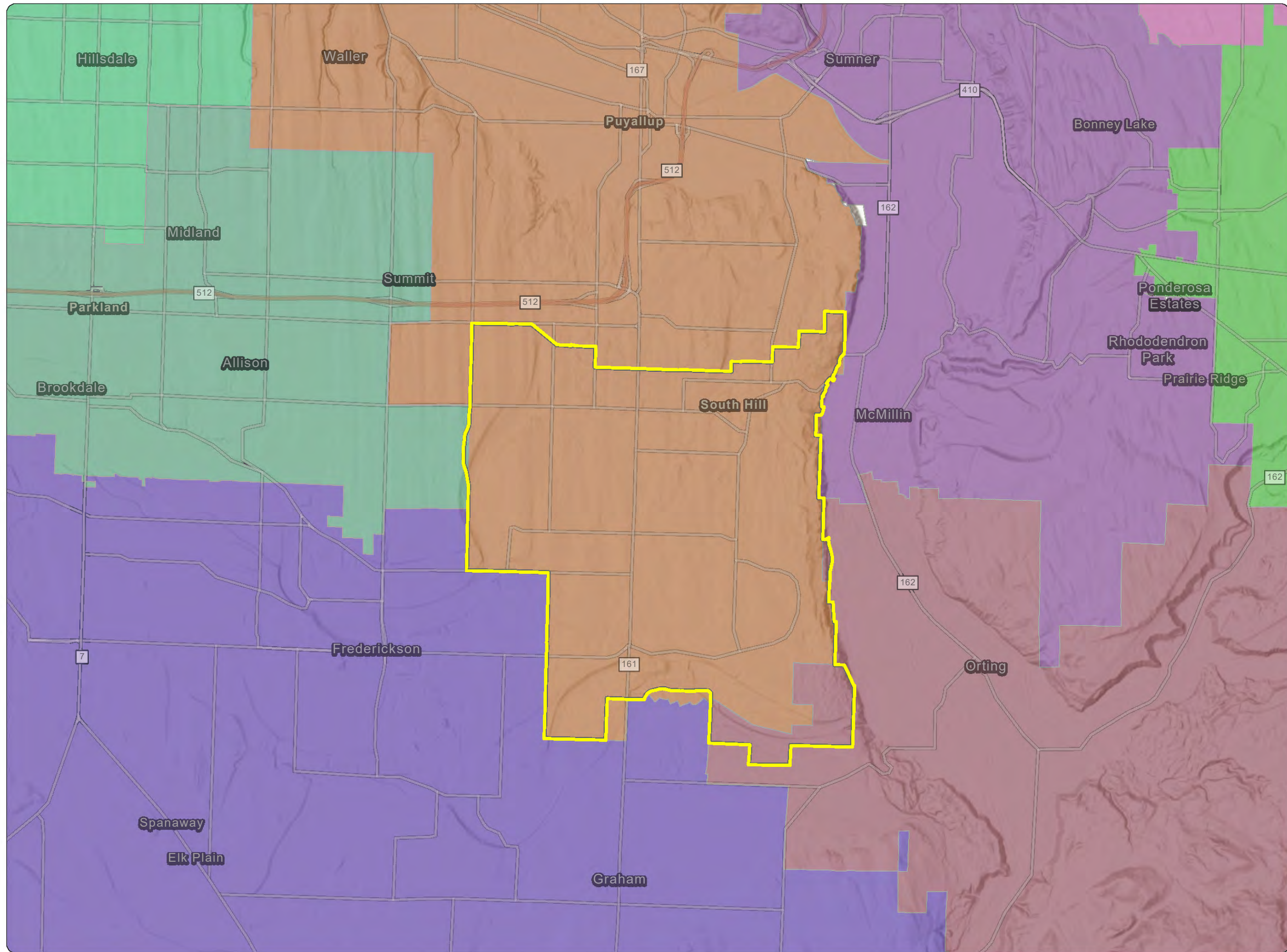











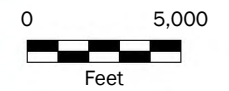
Figure 3-7
School Districts
 South Hill Incorporation Study
 Washington

DRAFT

Legend

-  Study Area
-  Bethel School District
-  Dieringer School District
-  Franklin Pierce School District
-  Orting School District
-  Puyallup School District
-  Sumner School District
-  Tacoma School District
-  White River School District

Location Inset



Data Sources
 Topographic base map obtained from Esri; school districts obtained from Pierce County (2023).



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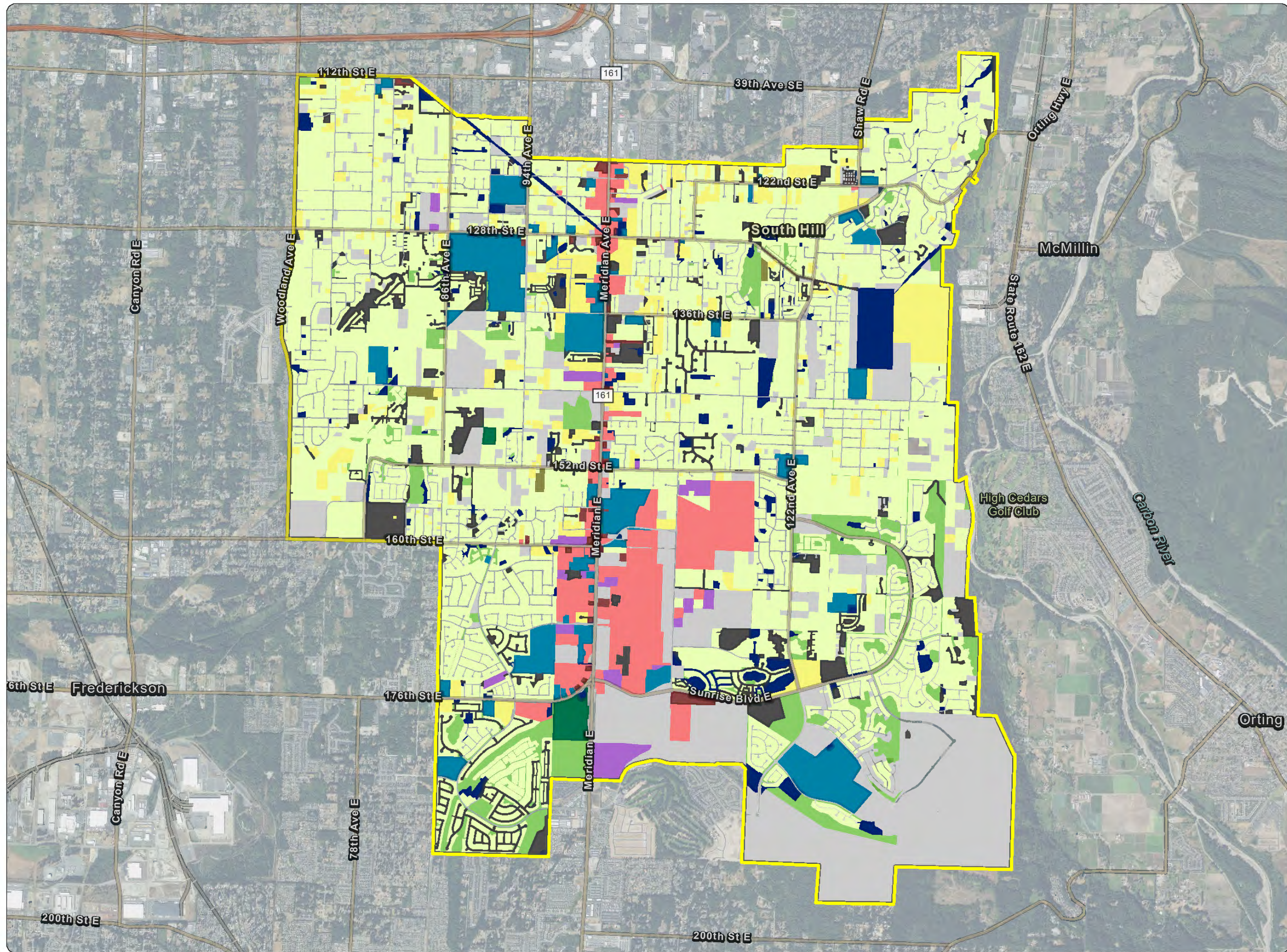















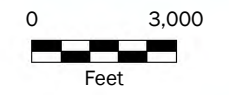
Figure 3-8 Land Use

South Hill Incorporation Study
Washington

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Legend

-  Study Area
- Land Use**
-  Single-Family Residential
-  Multi-Family Residential
-  Commercial
-  Office
-  Industrial
-  Institutions
-  Utilities
-  Agricultural
-  Parks and Open Space
-  Forest
-  Vacant
-  Unclassified



Data Sources
 Aerial photograph obtained from U.S. Department of Agriculture; land use obtained from Pierce County.



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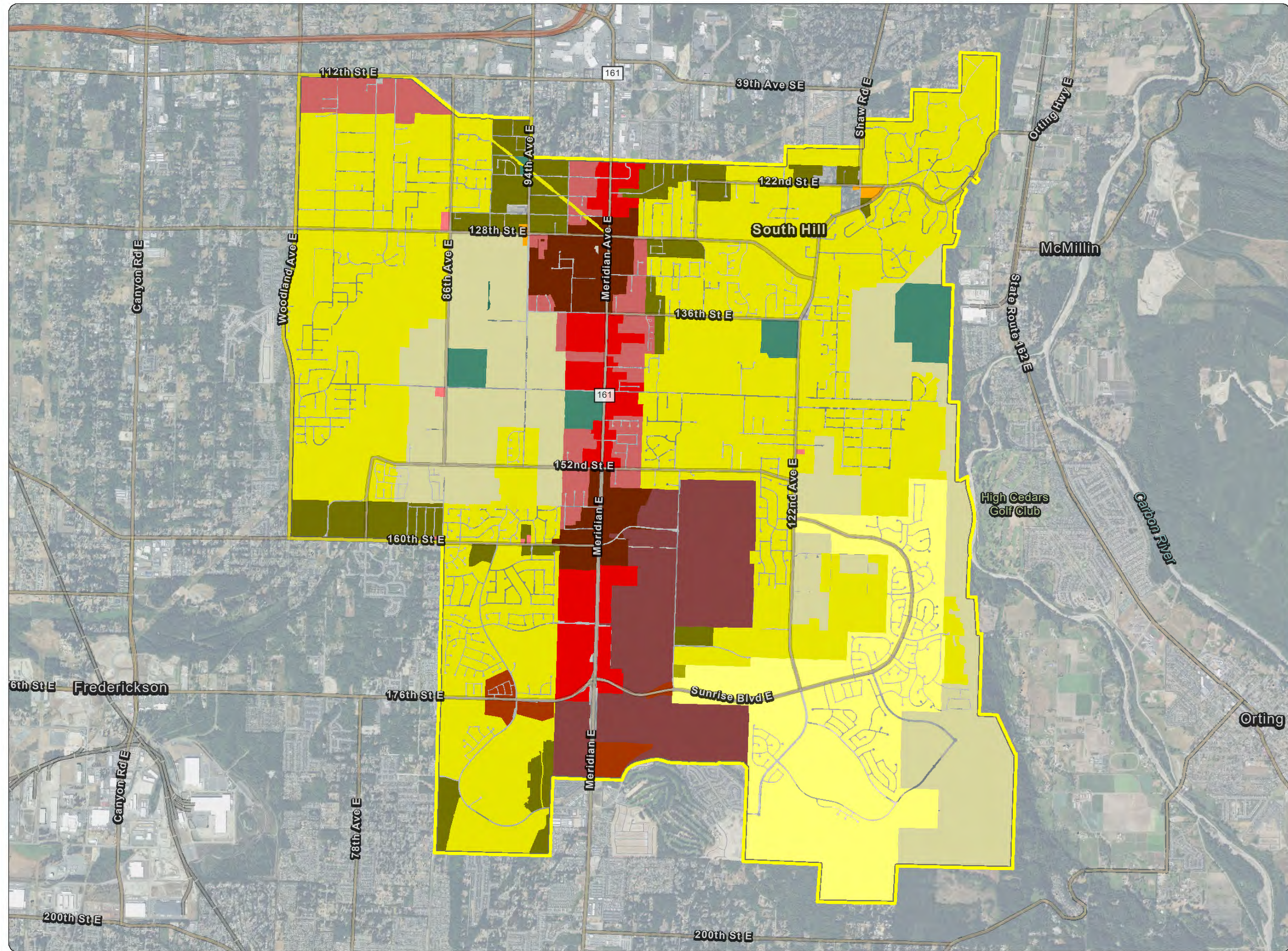

















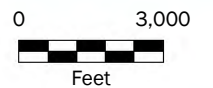
Figure 3-9 Zoning

South Hill Incorporation Study
Washington

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Legend

-  Study Area
- Zoning**
-  Master Planned Communities
-  Moderate Density Single Family
-  Moderate-High Density Residential
-  High Density Single Family
-  Residential Resource
-  Rural 10
-  Residential/Office- Civic
-  Neighborhood Center
-  Neighborhood Corridor
-  Employment Center
-  Community Center
-  Towne Center
-  Urban Corridor
-  Park & Recreation



Data Sources
Aerial photograph obtained from U.S. Department of Agriculture; zoning obtained from Pierce County.



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Appendix A

Public Comment

A preliminary draft of the study was shared online for public comment in September and October of 2023. The comments and responses are summarized in the table below.

Public Meeting Comments

The South Hill Advisory Committee (SHAC), Pierce County Council, and the Pierce County Planning Commission received presentations of the study’s preliminary findings. The following is a summary of the public comments and responses for each public meeting. Specific comments are included in the table that follows the summaries.

South Hill Advisory Committee

Preliminary results were presented to the SHAC on September 11, 2023. Following this presentation, SHAC members had the opportunity to ask questions and provide their feedback. For questions or feedback that were not able to be immediately answered, MFA, CAI, and Pierce County collaborated to address outstanding questions and add findings to the report draft. The following topics were addressed in the report per the SHACs request:

How would incorporation impact schools? Would a new school district be created?

As schools are run by the state and the local school districts, incorporation would have no major effects on the existing school services offered in the Study Area, including the school district boundaries. This comment was addressed in Section 2.6.

Are there any past studies we could compare to ours to see how similar the incorporation study results were to reality?

Section 8.4 now includes a discussion of a study conducted for Spokane Valley in the early 2000s and the realized budget upon incorporation.

What would status quo service look like if we wanted everything to stay the same?

This comment was addressed in multiple sections. A comparison of status quo (baseline) property tax levy rates is presented in Appendix C. Additionally, a discussion of current levels of service for surrounding cities and unincorporated Pierce County has been added to Section 5, which discusses expenditures.

The scope and data available for this project do not allow the study authors to provide a status quo scenario for services currently provided by Pierce County to the South Hill area. Pierce County serves a diverse set of communities and cities (through contracts), including rural areas, compared to which South Hill is denser and more urban. Therefore, the per capita costs and revenues that would be derived from the County's budget would not be appropriate for projecting revenues and expenditures of an incorporated South Hill that receives the current levels of service provided by Pierce County. Data available from the County are not specific to the South Hill area. Additionally, cities and counties have different requirements for planning, which could cause another level of inaccuracy in using per capita data for the entirety of unincorporated Pierce County to model a new city's expenditures.

Pierce County Regional Council

The Pierce County Regional Council (PCRC) also had the opportunity to review the preliminary draft and provide comments and questions. The following items provided by the PCRC have been addressed in the report:

A comparison of possible revenue scenarios compared to changes in levels of service.

This comment was addressed in multiple sections. A comparison of status quo (baseline) property tax levy rates is presented in Appendix C. Additionally, a discussion of current levels of service for surrounding cities and unincorporated Pierce County has been added to Section 5, which discusses expenditures. However, the response to this request was limited by the scope and timeline of this study.

Understanding what may be driving the low employment-to-housing ratio in the area and how this may be overcome.

Additional analysis was included in Appendix D to further investigate this.

Pierce County Planning Commission

Pierce County staff presented preliminary findings to the Pierce County Planning Commission on November 7, 2023. Members of the planning commission had the following comments:

They expressed **interest in exploring additional areas or updating the boundary updates to improve the tax base.**

The Study Area boundaries, known as the South Hill Incorporation Area, have been defined in the Pierce County Comprehensive Plan for a long time. These boundaries were not intended to pick and choose parcels based on existing conditions and the scope of this work does not allow for alternative boundaries to be analyzed.

The commission was interesting in looking at the practical implications of the differences in levels of service for unincorporated, new city, and annexation.

Additional levels of service information has been added to Section 5.

Table: Public Comments Received and Responses

| Received During | Comment Number | Commenter Name | Comment Topic | Response |
|-----------------------|----------------|-----------------|--|--|
| Public Comment Period | 1 | Nichole Weber | <p>I would request some polling to be done for a deeper dive to let the South Hill community know & get input. I believe it would help individuals become aware for a more well rounded study.</p> <p>For advertising, I would touch base with the Puyallup/Sumner Chamber of Commerce for sharing flyers or links to data. I would also recommend surveys for local school PTA’s, who work with a lot of families. Flyers also with links to the data would also be good.</p> <p>In addition, remapping to parts of industrial areas for Boeing (Fredrickson) & Canyon Rd/Spanaway would gain some more business communities. Also giving some buildable lands & growth spots to highlight possible additions for business & housing.</p> <p>These are my recommendations to enhance & for bringing greater PR for this study to our community. Thank you for the current data.</p> | <p>Comment noted. Our scope of work was limited to available funds and timeline to complete the work within the requirements of the County Council proviso language. The scope of this study was to assess the fiscal viability of incorporation or annexation using existing information and conditions. While it is not uncommon for cities or counties to assess different land use scenarios and capacities to accommodate housing or employment growth in Comprehensive Plan updates for example, this effort was not intended to evaluate different growth approaches. If annexed or incorporated, the new municipality would have the discretion to reassess employment lands as suggested.</p> |
| Public Comment Period | 2 | Wendy Wright | <p>I would like to learn more than just the fiscal aspect. What services is the County not providing or can't provide?</p> | <p>The services provided by the County and the Study Area, if it were to incorporate, are similar. However, after incorporation, the residents of the new city would have to opportunity to adopt local plans, policies, and development code to reflect their goals and vision for their community.</p> |
| Public Comment Period | 3 | Patty Daily | <p>No, no and more no. We don't have the infrastructure, tax base or businesses to support a new city.</p> | <p>Comment noted.</p> |
| Public Comment Period | 4 | Laurence Temple | <p>Just want it on record that I do not want to be annexed or incorporated. I prefer to remain county. I am not convinced that another layer of government will not increase my costs. If a vote were held right now, I would vote against either option.</p> | <p>Comment noted.</p> |

Appendix A—Public Comment

| Received During | Comment Number | Commenter Name | Comment Topic | Response |
|-----------------------|----------------|-----------------|---|--|
| Public Comment Period | 5 | Matt Hamilton | Since the Growth Management Act passed more than 30 years ago there is zero chance that South Hill could become a city. So it will be up to those South Hill residents to want to join Puyallup or not. If joining, Puyallup will then have a larger more affluent tax base than Tacoma. | Comment noted. The County is required to plan for all land in the urban growth area eventually being incorporated or annexed into a city. |
| Public Comment Period | 6 | Marjean Johnson | No to this idea, I want my house to remain within the county. | Comment noted. The County is required to plan for all land in the urban growth area eventually being incorporated or annexed into a city. |
| Public Comment Period | 7 | Walter Felice | I am recently retired. I am a member of the Fife Lions Club and have been for the past 30 years. I am looking at being more informed about my community and the possibility there might be I can be of some help if even in a small way. Where does the Pierce County Government meet? Where and when. I would like a chance to attend and learn about what goes on. Thank you. | Pierce County staff emailed the commenter on 10/10/2023 providing information on PCRC and Pierce County Planning Commission meetings as well as opportunities to volunteer for commissions. |
| Public Comment Period | 8 | Kay McLafferty | If the Study Area were to become a fully operating city, would it generate enough revenue to provide an equal or better level of service than if it remained unincorporated? NO. How would incorporation compare to annexation by a neighboring City (such as City of Puyallup in the case of this study)? Both would cost residents more money. The study area should NOT incorporate into a city and should NOT be annexed by the City of Puyallup. | Additional information has been added to Table C-4 and Figures C-3 and C-4 in Appendix C. Comment noted. The County is required to plan for all land in the urban growth area eventually being incorporated or annexed into a city. |

Appendix A—Public Comment

| Received During | Comment Number | Commenter Name | Comment Topic | Response |
|-----------------------|----------------|------------------|--|--|
| Public Comment Period | 9 | Marianne Lincoln | I see you gave them the dump. Pierce County should keep their disasters. No one in their right mind would take that potential disaster into a new city! | The study area boundaries, known as the South Hill Incorporation Area, have been defined in the Comprehensive Plan for a long time. These boundaries were not intended to pick and choose parcels based on existing conditions. |
| Public Comment Period | 10 | Kristina Miles | Stop trying to turn every area out here into urban living. Too many people and not enough infrastructure as it is. We do not need all of this area to be more 'city'. There is enough 'city' already. Leave the rural areas alone! | Comment noted. The Study Area is designated within an urban growth area. Per state law, only urban areas can be annexed or incorporate. |
| Public Comment Period | 11 | Elvin Lerew | I am not in favor of any annexation or incorporation of these areas. Either option is going to cost residents more in taxes and related expenses. | Comment noted. The report was updated to assess the impacts to residents under different taxation scenarios (Appendix C). The County is required to plan for all land in the urban growth area eventually being incorporated or annexed into a city. |
| Public Comment Period | 12 | Gerald Howard | If South Hill becomes a city or is annexed to the city of Puyallup it will just raise our taxes so more politicians can live off of the citizens tax dollars. Nothing will change and if it does it will be to the detriment of the population especially the elderly. | Comment noted. The report was updated to assess the impacts to residents under different taxation scenarios (Appendix C). The County is required to plan for all land in the urban growth area eventually being incorporated or annexed into a city. |
| Public Comment Period | 13 | Elvin Lerew | In the picture of where the borders would be for the incorporation of the new city it is hard to determine where my home is. I think I am in an undetermined area. My address is [REDACTED]. It looks like some of the properties around me may be incorporated into Puyallup while some might be incorporated into the new city. Can you tell me what the northern border is recommended to be. | Pierce County staff contacted the resident to advise them their property is located within the Study Area. |

Appendix A—Public Comment

| Received During | Comment Number | Commenter Name | Comment Topic | Response |
|-----------------------|----------------|-----------------|---|---|
| Public Comment Period | 14 | Kathryn Sheldon | <p>I attended the meeting last month. I would appreciate another meeting to discuss the figures that were provided and for the opportunity for more questions.</p> <p>I would like to see a household to household comparison between similar properties to better determine the validity of the perception that living in unincorporated community is less expensive than incorporation. I suspect that there is not that significant cost differences.</p> <p>Next, it seems that some of the cost for comparison are based on assumptions that for example fire and law enforcement, that Central Pierce will want to contact to provide services and Pierce County Sheriff's Department will also be willing to contact for service, thus the assumption that with incorporation we won't have the direct expense of starting a law enforcement department from new.</p> <p>Also, I am not sure that by incorporating we would have more control of our planning and building process as those seem to be mostly driven by what is in the Growth Management Act and the State Department of Ecology, is that correct? How much leeway would we have if incorporated of our planning processes? If I were Pierce County Sheriff's department, I think it would not be advantageous to contract for service for several reasons.</p> <p>What other meetings are taking place that we can participate in or be present at to learn more and get a better understanding</p> | <p>A follow up meeting with SHAC is scheduled on December 4th.</p> <p>The depth of analysis requested cannot be conducted at this time as it is outside the scope of work and budget. However, in response to feedback received at the September SHAC meeting, an alternative property tax rate scenario has been included in Appendix C.</p> <p>Additional information regarding police service was added to Section 5.1.</p> <p>State laws, such as the state Growth Management Act, and federal regulations, such as the National Pollutant Discharge Elimination Permit administered by the State Department of Ecology for stormwater compliance apply to the County, as well as all cities and towns within Pierce County. If annexed or incorporated, these requirements and others would still need to demonstrate compliance to the minimum requirements. However, if incorporated or annexed there is opportunity through local elected representation in a smaller geography to influence local plans, policies, and development codes.</p> <p>Additional meetings are posted on the Pierce County website: www.piercecountywa.gov/8126/South-Hill-Governance-Study</p> |

Appendix A—Public Comment

| Received During | Comment Number | Commenter Name | Comment Topic | Response |
|--|----------------|----------------|--|---|
| SHAC Presentation (9/11/2023) | 1 | | Can the RCW force to incorporate or annex? | No, incorporation or annexation can only be initiated and passed by the voters of the area being incorporated or annexed. See Section 1.4 for more information. |
| SHAC Presentation (9/11/2023) | 2 | | A comparison of services was requested given the different outcomes (incorporation and annexation). | Additional information has been included in Section 5. |
| SHAC Presentation (9/11/2023) | 3 | | Outreach to the public needs to be significantly higher, more people should be in the loop. | Comment noted. |
| Pierce County Council Presentation (11/7/2023) | 1 | | Request to keep Frederickson out of this study and the Parkland/Spanaway study. | Commented noted. The study area boundaries, known as the South Hill Incorporation Area, have been defined in the Comprehensive Plan for a long time. These boundaries were not intended to pick and choose parcels based on existing conditions. |
| Pierce County Council Presentation (11/7/2023) | 2 | | Would timber tax revenues from the state be shared with the City? | The Washington State Timber Excise Tax is distributed to the state and the County within which the timber was harvested. The Timber Excise Tax has not been factored into this analysis as a newly incorporated city would not receive a portion of these tax revenues. |
| Pierce County Council Presentation (11/7/2023) | 3 | | Additional request for ways to look at property tax revenue being sustainable or supportive of new City. | The scope and timing of this study does not allow for analysis showing a range of revenue and expenditure scenarios to achieve financial feasibility. However, pertinent information about current and comparison levels of service has been included in Section 5. Additionally, findings from a previous study and the alignment with the future city’s actual budget are presented in Section 8. |
| Pierce County Council Presentation (11/7/2023) | 4 | | Additional request for a general comparison table of annexation, incorporation, existing conditions. | Additional information about current levels and comparison levels of service have been included in Section 5. |

Notes

Comprehensive Plan = Pierce County Comprehensive Plan.
 County = Pierce County.
 PCRC = Pierce County Regional Council.

SHAC = South Hill Advisory Committee.
 Study Area = South Hill Incorporation Area.

Appendix B

Key Inputs and Assumptions

Table: Key Inputs and Assumptions

| Input | Value | Unit | Source |
|---|------------------|--------|--|
| Study Area Baseline Data | | | |
| Population (2022) | 64,823 | People | OFM |
| Housing Units (2022) | 22,785 | Units | OFM |
| Employment (2022) | 11,809 | Jobs | PSRC |
| Total Taxable Assessed Value (2023) | \$10,808,685,393 | -- | Pierce County Assessor, CAI |
| Total Taxable Assessed Value (2022) | \$8,895,809,158 | -- | Pierce County Assessor, CAI |
| Total Acreage | 10,492 | Acres | Pierce County Assessor |
| Total Park Acres | 305 | Acres | Pierce County Assessor |
| TRS Per Capita (2020) | \$13,329 | -- | Washington State Department of Revenue, PSRC |
| Road Miles | 223 | Miles | Pierce County |
| Development & Finance Assumptions | | | |
| City Property Tax Millage Rate | 1.60 | -- | MRSC |
| Assessed Value per Housing Unit | \$451,034 | -- | Pierce County Assessor, CAI |
| Sale Value per Housing Unit | \$576,958 | -- | Pierce County Assessor, CAI |
| Commercial Assessed Value per Employee | \$38,950 | -- | Pierce County Assessor, PSRC, CAI |
| Commercial AV to Sale Value (2022) | \$0.07 | -- | Pierce County Assessor, CAI |
| Assessed Value Revaluation Rate | 0% | -- | CAI |
| Construction Cost as a % AV | 80% | -- | CAI |
| Annual Residential Turnover Rate (% homes resold each year) | 6.96% | -- | Pierce County Assessor, CAI |
| Sales Tax Rate | 1% | -- | Washington State Department of Revenue |
| Sales Tax Revenue Retained by City | 85% | -- | MRSC |
| Puyallup Baseline Data | | | |
| Population (2022) | 43,260 | People | OFM |
| Total Acreage | 9,193 | Acres | OFM |
| Parks Acres | 357 | Acres | City of Puyallup |
| Road Miles | 193 | Miles | Pierce County |
| Lakewood Baseline Data | | | |
| Population (2022) | 63,800 | People | OFM |
| Total Acreage | 10,918 | Acres | OFM |
| Parks Acres | 471 | Acres | City of Lakewood |
| Road Miles | 262 | Miles | Pierce County |

Appendix B—Key Inputs and Assumptions

| Input | Value | Unit | Source |
|--|---------------|--------------|-----------------------------|
| Pierce County Baseline Data | | | |
| Incorporated Land Area | 95,795 | Acres | OFM |
| Total Land Area (Acres) | 1,067,496 | Acres | OFM |
| REET Inputs | | | |
| Residential Resale Count (2022) | 1,491 | Unique Sales | Pierce County Assessor, CAI |
| Residential Resale Value (2022) | \$860,245,023 | -- | Pierce County Assessor, CAI |
| Commercial Resale Value (2022) | \$29,420,800 | -- | Pierce County Assessor, CAI |
| Total Commercial Resale Value as Percent of Total Residential Resale Value (20-year average) | 9.99% | -- | Pierce County Assessor, CAI |
| REET Tax Rate | 0.50% | | MRSC |
| Other Inputs | | | |
| Transferred Park Acres | 224 | Acres | Pierce County, CAI |

Notes

-- = not available.

AV = Assessed Value

CAI = Community Attributes Inc.

MRSC = Municipal Research and Services Center of Washington.

OFM = Washington State Office of Financial Management.

PSRC = Puget Sound Regional Council.

REET = real estate excise tax.

Study Area = South Hill Incorporation Area.

Appendix C

Baseline and Alternative Scenarios

The body of this study comprises the baseline scenario. It reflects estimated revenue and expenditures that may be most likely given current and past conditions. This appendix presents two alternate scenarios of the financial feasibility of incorporation and the methodology to develop the two alternate scenarios. The two alternate scenarios are referred to as the “low growth” and “high growth” scenario. Each scenario is compared to the baseline scenario referred to in the body of the report. Additionally, comparisons are made only for findings from the incorporation analysis to discuss the sensitivity of revenues and expenditures to growth of population, housing units and employment.

The baseline scenario is not the median of the three scenarios for each variable. While the baseline scenario aims to capture the most realistic growth scenario for the South Hill Incorporation Area (Study Area), the low scenario is to examine the impacts of slowed population growth that meet planned growth targets but are not in line with continuing growth at historic rates. The high growth scenario aims to capture the impacts of ongoing population growth at the high rates seen in recent historic trends. Table C-1 shares the growth rates for each scenario and each growth variable.

Table C-1: Population, Housing and Employment Growth Rates by Scenario, 2023–2025

| | Low | Baseline | High |
|---------------|------|----------|------|
| Population | 1.3% | 2.0% | 2.5% |
| Housing Units | 1.4% | 1.7% | 2.1% |
| Employment | 0.7% | 1.2% | 2.9% |

Sources: Inputs and data obtained from the Washington State Office of Financial Management, Pierce County Countywide Planning Policies, Puget Sound Regional Council, U.S. Census Bureau.

Low Growth Scenario

The low growth scenario uses an alternative set of population, employment and housing unit growth assumptions compared to the baseline. For population and housing units, growth assumptions are aligned with the adopted Pierce Countywide Planning Policy growth targets. The adopted growth targets are the minimum growth the Study Area is required to plan for through 2044. In all cases but employment the adopted growth targets are less than alternative forecast scenarios. Employment growth is based on the Puget Sound Regional Council Land Use Vision Implemented Targets (LUV-IT) growth forecast for the Study Area.

Population targets are the most common input driving the feasibility analysis of both incorporation and annexation. Both housing unit and employment growth are drivers of and inputs to some sources of revenue and expenditures. The per capita comparable city approach is used for many of the sources of revenue and costs in both incorporation and annexation analysis. Therefore, population growth drives a significant portion of estimated revenues and costs. The purpose of the low growth scenario is to understand the potential impacts on potential municipal revenues and costs associated with reduced growth compared to the baseline.

High Growth Scenario

The high growth scenario provides an analysis of the sensitivity of revenues and costs under a growth scenario which factors in recent trends in population and housing unit growth (2015–2022) as well as pre-COVID employment growth (2010–2020). These growth rates align with historical

growth rates within the Study Area based on data from the Washington State Office of Financial Management and the Puget Sound Regional Council.

Comparison of Alternative Scenarios

Tables C-2 and C-3 present the comparison of general and special revenue fund estimates under each alternate scenario.

Table C-2: Alternative Scenarios General Fund Estimates, 2030

| General Fund | 2030 | | |
|---|----------------|----------------|----------------|
| | Baseline | Low Growth | High Growth |
| Revenues | | | |
| Property Tax | \$19.7 | \$19.3 | \$20.4 |
| Local Sales & Use Tax | \$8.5 | \$8.1 | \$8.9 |
| Brokered Natural Gas Use Tax | \$0.2 | \$0.2 | \$0.2 |
| Criminal Justice Sales Tax | \$1.6 | \$1.5 | \$1.7 |
| Utility Tax | \$6.4 | \$6.0 | \$6.7 |
| Gambling Tax | \$0.2 | \$0.2 | \$0.3 |
| Cannabis Tax Distribution | \$0.2 | \$0.2 | \$0.2 |
| Franchise Fees | \$5.3 | \$5.1 | \$5.6 |
| Licenses & Permits | \$2.8 | \$2.6 | \$2.9 |
| State-Shared Revenues | \$2.8 | \$2.6 | \$2.9 |
| Charges for Services & Fees | \$0.3 | \$0.2 | \$0.3 |
| Fines & Forfeitures | \$1.4 | \$1.3 | \$1.4 |
| Total Revenues | \$49.4 | \$47.5 | \$51.5 |
| Expenditures | | | |
| City Council | \$0.2 | \$0.2 | \$0.2 |
| City Manager | \$1.0 | \$0.9 | \$1.0 |
| Administrative Services | \$1.8 | \$1.7 | \$1.9 |
| Community & Economic Development | \$3.4 | \$3.4 | \$3.6 |
| Parks, Recreation, & Community Services | \$1.6 | \$1.6 | \$1.6 |
| Public Works | \$5.2 | \$5.2 | \$5.2 |
| Municipal Court | \$2.5 | \$2.4 | \$2.7 |
| Legal | \$2.8 | \$2.7 | \$3.0 |
| Police & Public Safety | \$31.7 | \$30.1 | \$33.2 |
| Total Expenditures | \$50.2 | \$48.1 | \$52.3 |
| General Fund Balance | (\$0.8) | (\$0.7) | (\$0.8) |

Sources: Inputs and data obtained from Washington State Office of Financial Management, Pierce County Countywide Planning Policies, Puget Sound Regional Council, U.S. Census Bureau, City of Lakewood, and City of Bonney Lake.

Table C-3: Alternative Scenarios Special Revenue Fund Estimates, 2030

| General Fund | 2030 | | |
|--------------------------------------|--------------|----------------|--------------|
| | Baseline | Low Growth | High Growth |
| Transportation Capital Fund | | | |
| Fund Revenues | \$6.7 | \$6.1 | \$7.1 |
| Fund Expenditures | \$6.2 | \$6.2 | \$6.2 |
| Fund Balance | \$0.5 | (\$0.1) | \$0.9 |
| Parks Capital Fund | | | |
| Fund Revenues | \$2.0 | \$1.7 | \$2.6 |
| Fund Expenditures | \$1.6 | \$1.6 | \$1.6 |
| Fund Balance | \$0.3 | \$0.0 | \$0.9 |
| Real Estate Excise Tax Fund | | | |
| Fund Revenues | \$5.8 | \$5.6 | \$5.9 |
| Fund Expenditures | \$0.0 | \$0.0 | \$0.0 |
| Fund Balance | \$5.8 | \$5.6 | \$5.9 |
| Surface Water Management Fund | | | |
| Fund Revenues | \$3.8 | \$3.8 | \$3.8 |
| Fund Expenditures | \$0.0 | \$0.0 | \$0.0 |
| Fund Balance | \$3.8 | \$3.8 | \$3.8 |

Sources: Inputs and data obtained from the Washington State Office of Financial Management, Pierce County Countywide Planning Policies, Puget Sound Regional Council, U.S. Census Bureau, City of Lakewood, and City of Bonney Lake.

Generally, the high and low growth scenarios had minimal impacts to the financial analysis results. While revenues decreased due to the low growth scenarios, expenditures also decreased, causing an offsetting effect. The same was true with the high growth scenario. Although expenditures increased, revenues increased in a sufficient manner to offset expenditure increases.

Baseline and Forecast Methodology

The remainder of this appendix presents the methodologies used to estimate baseline population and demographic data for the Study Area and estimate future population, employment and housing unit growth scenarios.

The Study Area boundary aligns with the South Hill Potential Incorporation Area. Population and housing unit figures are available from the 2022 Office of Financial Management’s Small Area Estimates Program (OFM SAEP). Total population for the Study Area grew from 51,408 population in 2010 to 64,823 in 2022, representing an average annual growth rate of 2.0 percent. Housing units grew from 18,639 in 2010 to 22,786 in 2022 for an average annual growth of 1.7 percent. Employment, based on data from the Puget Sound Regional Council, grew from nearly 8,700 in 2010 to nearly 12,000 in 2021 or an average annual growth rate of 3.0 percent. Analysis of multiple data sources, forecasted and historic, provides a series of growth forecasts for population, housing units, and employment within the Study Area.

Population Forecasts

Data from the Washington State Office of Financial Management and the Pierce County Countywide Planning Policies (CPPs) inform the population forecasts presented in Figure 3-2 in the main report.

The low growth population scenario is based on analysis of the adopted Pierce County CPPs population growth target for 2044. Pierce County's CPPs adopt an overall growth target of 196,663 population for the HCT Communities, or a 0.9 percent average annual growth rate between 2020 and 2044 (Pierce County 202b). HCT Communities are the combined total of the urban areas within Mid-County, Parkland-Spanaway-Midland and South Hill. The Study Area represents only a portion of the total HCT Communities geography.

Historical data, 2010 through 2022, for the UGAs from the OFM SAEP is used to estimate the 2010 to 2022 compound annual growth rate (CAGR) for the UGA within the HCT Communities geography and project estimated 2044 population based on this CAGR. This estimated 2044 population by UGA is used to estimate the proportion of adopted CPP growth attributable to each jurisdiction and specifically the Study Area. Projected population growth for the Study Area based on the CPPs is estimated at 1.3 percent annually between 2020 and 2044.¹⁰

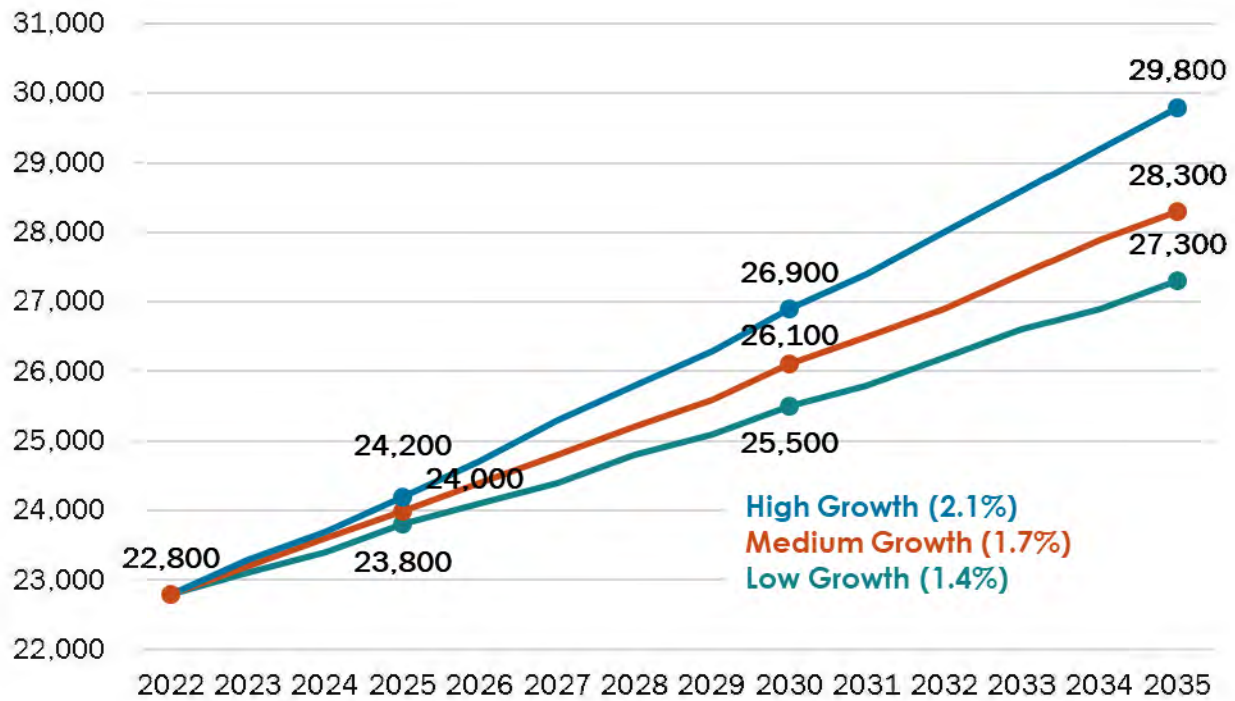
Both the medium and high growth scenarios are based on historic trends in population growth. Analysis of historic population for the Study Area, using OFM SAEP estimates, reveals that between 2010 and 2022 population grew at an average annual growth rate of 2.0 percent. The baseline growth scenario assumes that population growth within the Study Area between 2023 and 2044 will follow a trend that matches the previous 12 years of growth. In more recent years, growth within the Study Area has increased. Between 2015 and 2022 population within the Study Area has grown at an average annual rate of 2.5 percent. The high scenario assumes that growth will continue at the higher growth rate observed between 2015 and 2022.

Housing Forecasts

Housing unit data informing forecasts of housing units includes Washington State Office of Financial Management Small Area Estimates Program and the Pierce County CPPs. The methods used to develop low, baseline (medium), and high growth forecasts in Figure C-1 follow the methods used to develop the population forecasts. The low scenario is based on historical growth in housing units between 2010 and 2022 controlled to the total adopted housing unit growth targets in the CPPs, estimating a growth rate of 1.4 percent annually. Baseline growth for housing units assumes growth will continue at observed growth rates between 2010 and 2022, or at a CAGR of 1.7 percent annually. The high scenario assumes growth in housing units within the Study Area will continue to grow at the increased rate observed between 2015 and 2022 or a growth rate of 2.1 percent annually.

¹⁰ Population growth rates for the Study Area based on the adopted CPP population targets are estimated based on historic growth rates for each UGA falling within the HCT Communities boundaries, sourced from OFM SAEP. These historic growth rates are used to estimate the 2044 distribution of population by area, which is controlled to the total adopted HCT Community 2044 growth target.

Figure C-1: Housing Unit Growth Forecasts by Scenario, Study Area Incorporated as City, 2022-2035

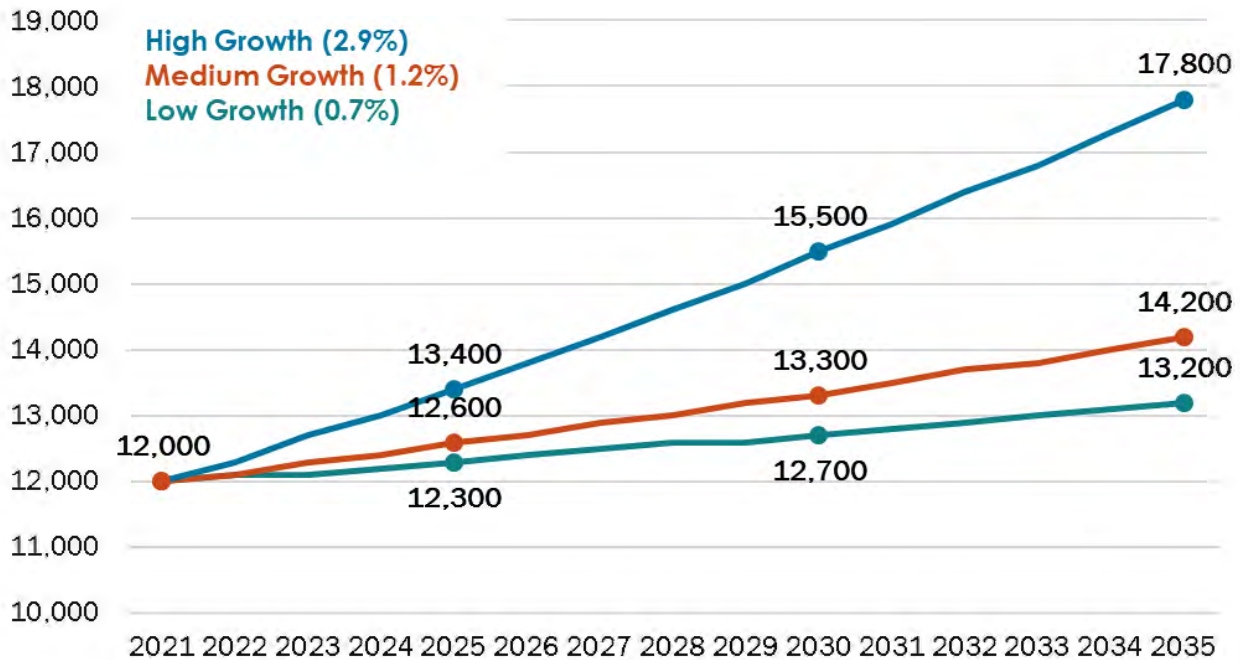


Sources: Inputs and data obtained from the Washington State Office of Financial Management and Pierce County Countywide Planning Policies.

Employment Forecasts

Forecasts for the employment growth forecasts shown in Figure C-2 leverage historical employment data for the Study Area from the Puget Sound Regional Council (PSRC), as well as the PSRC LUV-IT forecast and the adopted Pierce County CPP growth target. The low growth scenario is based on the forecasted 2020–2044 growth rate provided by the PSRC LUV-IT forecast for the Study Area, estimated at 0.7 percent annually. Baseline (medium) forecasted employment uses the adopted employment growth target of 1.2 percent annually between 2020 and 2044 for HCT Communities from the Pierce County CPPs. The high growth scenario leverages historical employment data, assuming that employment in the Study Area will continue to grow at rates seen before the COVID-19 pandemic, or 2.9 percent annually between 2010 and 2020.

Figure C-2: Employment Growth Forecasts by Scenario, Study Area Incorporated as City, 2021-2035



Sources: Inputs and data obtained from the Puget Sound Regional Council and Pierce County Countywide Planning Policies.

Property Tax Alternative Scenario

While the primary analysis for this report assumes a city property tax levy millage rate of \$1.60 per \$1,000 of assessed value (baseline), the following tables and figures present an alternative scenario. The alternative scenario assumes that the city property tax levy rate would align with the current county roads tax rate (\$0.98 per \$1,000 assessed value) in the Study Area, thus keeping property taxes at their existing rate upon incorporation. The only assumption that changed between the baseline and alternative scenario is the assumed city property tax rate; all other variables and inputs remain unchanged. Table C-4 presents the total property tax levy rates used for the baseline and alternative scenario property tax revenue estimates. In total, the property tax levy differs by \$0.63 per \$1,000 of assessed value, which represents the difference between the maximum \$1.60 per \$1,000 of assessed value able to be levied by cities and the \$0.98 per \$1,000 currently levied for the county road tax.

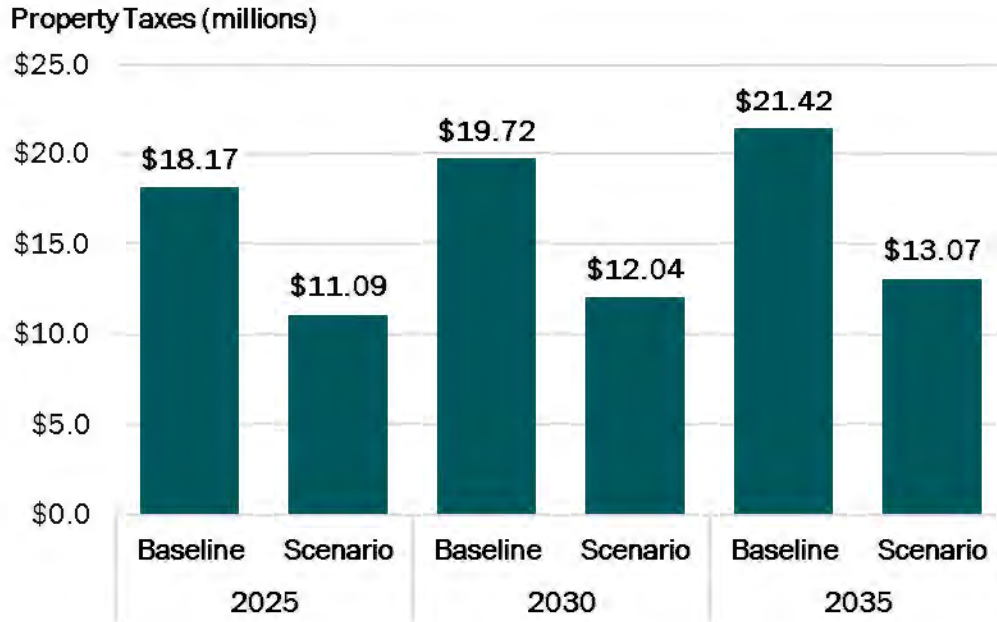
Table C-4. Property Tax Levy Rate, Study Area Incorporated as City, 2025, 2030, and 2035

| Levy | Tax Area | | | |
|---|----------|--------|---------|--------|
| | 195 | 196 | 220 | 401 |
| Baseline Property Tax Levy Rate | \$9.93 | \$9.93 | \$10.05 | \$8.38 |
| Alternative Scenario Property Tax Levy Rate | \$9.30 | \$9.30 | \$9.43 | \$7.75 |

Sources: Inputs and data obtained from Pierce County.

Figure C-3 presents the estimated property tax for the baseline and alternative scenario estimates. The alternative scenario, which assumes the same property tax charged in the study area before and after incorporation, reduces the annual property tax revenues compared to the baseline by roughly \$7 to \$8 million from 2025 to 2035. This represents a decrease in property tax revenues of about 40 percent.

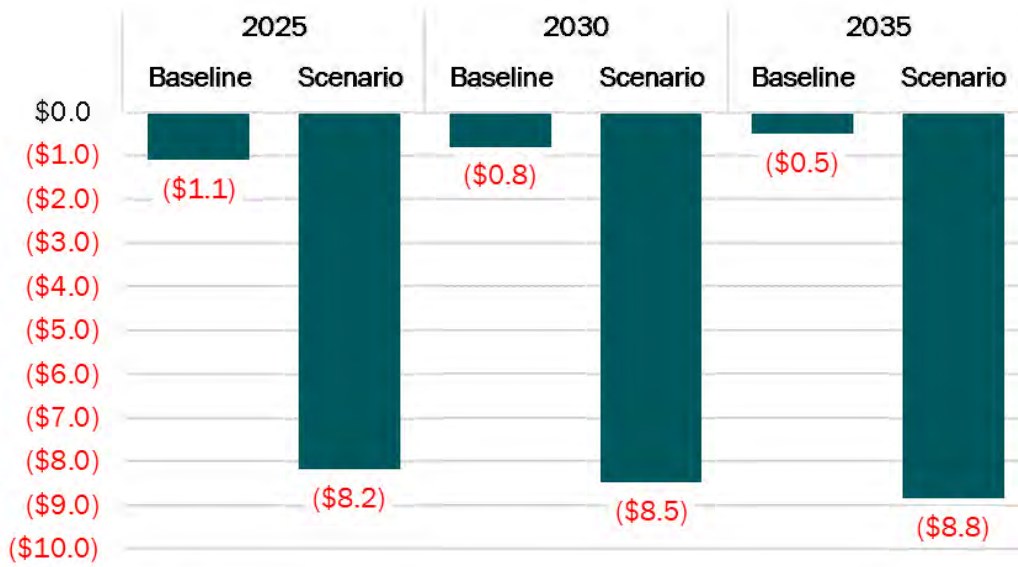
Figure C-3: Estimated Property Tax Revenues, Study Area Incorporated as City, 2025, 2030, and 2035



Sources: Inputs and data obtained from Pierce County and Puget Sound Regional Council.

Figure C-4 presents the estimated general fund balances between the property tax baseline and alternative scenario alternatives. The alternative scenario results in a general fund deficit near \$8.5 million, compared to deficits in the baseline scenario of \$1.1 million or less.

Figure C-4. Estimate General Fund Balance, South Hill Incorporation Study Area, 2025, 2030, and 2035



General Fund Balance (millions)

Sources: Inputs and data obtained from the Washington State Office of Financial Management, Pierce County, Puget Sound Regional Council, U.S. Census Bureau, City of Lakewood, and City of Bonney Lake.

Appendix D

Identification of Comparable Cities

Appendix D— Identification of Comparable Cities

As discussed in the body of this report, analysis of the potential incorporation of the Study Area uses a comparable city method to develop estimates for most costs and revenues. The premise of this method is that another city, comparable to the Study Area, can provide revenue and expenditure data that is a reliable indicator of the Study Area’s potential revenues and expenditures.

The City of Lakewood was selected as the most comparable city to the Study Area, based on data and analysis presented below as well as feedback from Pierce County staff. This appendix outlines the data and analysis conducted to select the comparable city. Data was collected for all cities and towns in Pierce County. Analysis was limited to Pierce County cities and towns because the plans and policies within each county are different and influence available revenues, use of revenues and required expenditures. Cities and towns outside of Pierce County are dissimilar enough that they are excluded from analysis. The exhibits below present data only for cities which have a population greater than 10,000 as of 2022. The remaining cities in Pierce County are dissimilar from the Study Area, with significantly lower population, housing unit, and employment levels.

Table D-1 documents basic characteristics of the Study Area, bolded in the table, and selected cities in Pierce County for comparison. The 2021 population of the Study Area is more than 64,820 in 2022 compared to 63,800 in Lakewood, the nearest comparison in terms of population. The Study Area has nearly 22,790 housing units in 2022, less than the 27,150 housing units in Lakewood, but closer than other cities in Pierce County. The Study Area has a slightly higher persons to housing unit ratio compared to Lakewood, more closely resembling Bonney Lake. Median Income in the U.S. Census South Hill Census Designated Place (CDP), at \$95,000 is higher than the next closest city, University Place, with a median income of nearly \$85,000. Employment in the Study Area is less than Lakewood, closer to employment in the City of Gig Harbor. The jobs to housing unit ratio is also less than Lakewood and most closely resembles that of University Place.

While the City of Lakewood is different from South Hill for some basic characteristics, Pierce County staff cited the City as the best comparison for the incorporation analysis. As discussed in previous sections of the report, data from other comparison cities are used when appropriate.

Table D-1: Comparable City Characteristics, 2021 and 2022

| Jurisdiction | 2022 Population* | 2022 Housing Units | Persons per HU | Median Income | 2021 Employment | Employment to HU |
|-------------------|------------------|--------------------|----------------|-----------------|-----------------|------------------|
| Tacoma | 220,800 | 93,658 | 2.36 | \$69,956 | 105,000 | 1.12 |
| Auburn | 88,750 | 32,599 | 2.72 | \$79,415 | 43,000 | 1.32 |
| South Hill | 64,820 | 22,785 | 2.84 | \$95,000 | 12,000 | 0.53 |
| Lakewood | 63,800 | 27,147 | 2.35 | \$60,534 | 26,600 | 0.98 |
| Puyallup | 43,260 | 18,270 | 2.37 | \$81,224 | 26,700 | 1.46 |
| University Place | 35,420 | 14,764 | 2.40 | \$84,673 | 6,200 | 0.42 |
| Bonney Lake | 22,990 | 8,178 | 2.81 | \$108,705 | 6,100 | 0.75 |
| Edgewood | 13,520 | 5,770 | 2.34 | \$108,492 | 1,700 | 0.29 |
| Gig Harbor | 12,540 | 5,916 | 2.12 | \$96,192 | 11,100 | 1.88 |

Appendix D— Identification of Comparable Cities

| Jurisdiction | 2022 Population* | 2022 Housing Units | Persons per HU | Median Income | 2021 Employment | Employment to HU |
|--------------|------------------|--------------------|----------------|---------------|-----------------|------------------|
| Fife | 11,130 | 4,393 | 2.53 | \$75,557 | 14,600 | 3.32 |
| Sumner | 10,800 | 4,575 | 2.36 | \$77,601 | 19,900 | 4.35 |
| DuPont | 10,180 | 3,803 | 2.68 | \$98,409 | 5,100 | 1.34 |

Notes

HU = housing unit.

* indicates the table is sorted based on data in the applicable column.

Sources: Inputs and data obtained from the Washington State Office of Financial Management; U.S. Census Bureau, and Puget Sound Regional Council.

Table D-2 provides a comparison of development characteristics among the comparison cities. The Study Area is similar to Lakewood in terms of land area as well as population density. The Study Area has more vacant and re-developable land to accommodate future growth compared to the City of Lakewood, consistent with planning policies required by GMA for planning urban growth within incorporated areas. Total assessed value in the Study Area is \$11.5 billion, close to Lakewood’s \$11.0 billion.

Table D-2: Comparable City Development Characteristics

| Jurisdiction | Gross Land Area (acres) | Population Density (per gross acre) | Density (units/gross acre) | Development Capacity (acres) | 2023 Assessed Value (billions)* | 2023 AV/Person | 2023 AV/Acre |
|-------------------|-------------------------|-------------------------------------|----------------------------|------------------------------|---------------------------------|------------------|--------------------|
| Tacoma | 31,817 | 6.94 | 2.94 | 4,261 | \$43.2 | \$195,477 | \$1,356,539 |
| South Hill | 10,492 | 6.18 | 3.11 | 3,315 | \$11.5 | \$177,795 | \$1,098,428 |
| Lakewood | 10,918 | 5.84 | 2.09 | 1,321 | \$11.0 | \$171,672 | \$1,003,163 |
| Puyallup | 9,193 | 4.71 | 2.95 | 2,241 | \$10.0 | \$231,193 | \$1,087,959 |
| University Place | 5,337 | 6.64 | 3.42 | 495 | \$7.1 | \$199,920 | \$1,326,729 |
| Sumner | 4,820 | 2.24 | 3.06 | 1,027 | \$5.0 | \$460,273 | \$1,031,255 |
| Bonney Lake | 5,260 | 4.37 | 1.55 | 1,196 | \$4.9 | \$211,422 | \$924,131 |
| Gig Harbor | 3,778 | 3.32 | 1.53 | 988 | \$4.8 | \$379,537 | \$1,259,823 |
| Fife | 3,685 | 3.02 | 1.61 | 951 | \$3.8 | \$340,742 | \$1,029,132 |
| Edgewood | 5,366 | 2.52 | 0.82 | 2,322 | \$3.3 | \$240,405 | \$605,679 |
| DuPont | 3,725 | 2.73 | 1.23 | 646 | \$2.5 | \$247,219 | \$675,559 |
| Auburn | 18,929 | 4.69 | 0.20 | 60 | \$1.9 | \$21,373 | \$100,207 |

Note

* indicates the table is sorted based on data in the applicable column.

Sources: Inputs and data obtained from the Washington State Office of Financial Management, U.S. Census Bureau, Pierce County Buildable Lands Report, and Pierce County Assessor.

Table D-3 breaks out residential and commercial taxable assessed value metrics for selected jurisdictions, as well as the jobs to housing ratio for each jurisdiction. Among these jurisdictions, commercial and industrial taxable assessed value represents 19 percent of total assessed value, the highest proportion among the comparison jurisdictions. Puyallup also has the highest jobs to housing ratio among the comparison jurisdictions, as well as the highest commercial and industrial taxable assessed value per person and per acre. The cities of Lakewood and Bonney Lake each have higher commercial and industrial taxable assessed value per employee compared to Puyallup. South Hill has the lowest commercial and industrial taxable assessed value per acre, but has comparable residential taxable assessed value per residential acre and per acre overall with the comparison jurisdictions.

Property taxes are charged per \$1,000 in taxable assessed value, for all types of property. Among all the comparison jurisdictions, residential taxable assessed value represents at least 69 percent of total taxable assessed value. Residential and commercial properties are both assessed based on their full market value both for land and improvements. According to WAC 458-07-030 the assessor may use a market data approach, the cost approach, the income approach or a combination when determining the true and fair value. Complex properties will typically use the cost or income approaches, which may consider the cost of construction or the income generated by use of the property.

Table D-3. Select Comparable Cities Assessed Value Characteristics, 2023

| Jurisdiction | Jobs to Housing | Commercial and Industrial Taxable Assessed Value per | | | % of Total AV |
|-------------------|-----------------|--|----------------|----------------------------|---------------|
| | | Employee | Person | Commercial/Industrial Acre | |
| Puyallup | 1.46 | \$67,000 | \$41,400 | \$1,774,300 | 19 |
| Lakewood | 0.98 | \$69,200 | \$28,900 | \$1,590,600 | 17 |
| Bonney Lake | 0.75 | \$69,700 | \$18,500 | \$1,429,100 | 9 |
| South Hill | 0.53 | \$46,300 | \$8,600 | \$178,600 | 5 |
| University Place | 0.42 | \$43,700 | \$7,700 | \$722,600 | 4 |
| Auburn (Pierce) | 0.29 | \$26,800 | \$3,100 | \$766,300 | 2 |
| Edgewood | 0.29 | \$38,400 | \$4,800 | \$639,700 | 2 |

| Jurisdiction | Jobs to Housing | Residential Taxable Assessed Value per | | | % of Total AV |
|-------------------|-----------------|--|------------------|--------------------|---------------|
| | | Employee | Person | Residential Acre | |
| Puyallup | 1.46 | \$249,800 | \$154,200 | \$1,775,600 | 69 |
| Lakewood | 0.98 | \$311,300 | \$129,800 | \$1,749,000 | 76 |
| Bonney Lake | 0.75 | \$649,900 | \$172,400 | \$1,762,500 | 83 |
| South Hill | 0.53 | \$805,200 | \$149,100 | \$1,629,600 | 89 |
| University Place | 0.42 | \$1,007,200 | \$176,300 | \$2,367,000 | 92 |
| Auburn (Pierce) | 0.29 | \$1,499,100 | \$170,900 | \$3,839,900 | 92 |
| Edgewood | 0.29 | \$1,753,300 | \$220,500 | \$892,000 | 92 |

| Jurisdiction | Jobs to Housing | Total Taxable Assessed Value per | | |
|--------------|-----------------|----------------------------------|-----------|-------------|
| | | Employee | Person | Acre |
| Puyallup | 1.46 | \$361,400 | \$223,000 | \$1,049,600 |
| Lakewood | 0.98 | \$408,300 | \$170,200 | \$994,800 |

Appendix D— Identification of Comparable Cities

| Jurisdiction | Jobs to Housing | Total Taxable Assessed Value per | | |
|-------------------|-----------------|----------------------------------|------------------|--------------------|
| | | Employee | Person | Acre |
| Bonney Lake | 0.75 | \$778,800 | \$206,600 | \$903,300 |
| South Hill | 0.53 | \$900,700 | \$166,700 | \$1,030,200 |

| Jurisdiction | Jobs to Housing | Total Taxable Assessed Value per | | |
|------------------|-----------------|----------------------------------|-----------|-------------|
| | | Employee | Person | Acre |
| University Place | 0.42p | \$1,098,800 | \$192,300 | \$1,276,400 |
| Auburn (Pierce) | 0.29 | \$1,620,900 | \$184,800 | \$2,115,700 |
| Edgewood | 0.29 | \$1,904,900 | \$239,500 | \$603,400 |

Sources: Inputs and data obtained from the Washington State Office of Financial Management, U.S. Census Bureau, Pierce County Buildable Lands Report, and Pierce County Assessor.

Tables D-4 through D-6 present demographic characteristics for the Study Area and comparable cities. The population of the South Hill CDP is slightly younger than the Lakewood population, although the two areas are relatively close in terms of the sex and age of the population. The Study Area has a significantly larger white population (70 percent) compared to the City of Lakewood (55 percent) The cities of University Place, DuPont, Tacoma and Puyallup are more similar to the Study Area in terms of the proportion of the population represented by people of color. The Study Area and the City of Lakewood are similar in terms of the educational attainment of their population. Overall, 59 percent of the Study Area population has a high school diploma or less than a high school diploma. Approximately 64 percent of the population in the City of Lakewood has a high school diploma or less. Tacoma, Fife and Auburn all have similar characteristics in terms of educational attainment.

Table D-4: Comparable City Demographic Characteristics, 2021

| Jurisdiction | Sex | | Age | | | |
|-------------------|------------|------------|------------|------------|------------|------------|
| | Male | Female | 0–17 | 18–34 | 35–64* | 65+ |
| Edgewood | 50% | 50% | 23% | 18% | 44% | 15% |
| Bonney Lake | 50% | 50% | 26% | 22% | 41% | 11% |
| DuPont | 48% | 52% | 27% | 25% | 40% | 8% |
| Auburn | 51% | 49% | 26% | 23% | 40% | 11% |
| Tacoma | 50% | 50% | 21% | 26% | 39% | 14% |
| South Hill | 50% | 50% | 28% | 23% | 39% | 10% |
| Puyallup | 48% | 52% | 23% | 25% | 38% | 14% |
| Sumner | 49% | 51% | 22% | 27% | 36% | 15% |
| Lakewood | 49% | 51% | 21% | 28% | 35% | 16% |
| University Place | 48% | 52% | 24% | 23% | 35% | 18% |
| Fife | 52% | 48% | 26% | 32% | 35% | 8% |
| Gig Harbor | 46% | 54% | 24% | 18% | 33% | 25% |

Note

* Indicates the table is sorted based on data in the applicable column.

Sources: Inputs and data obtained from the Washington State Office of Financial Management and U.S. Census Bureau.

Table D-5: Comparable City Demographic Characteristics, 2021

| Jurisdiction | Race | | | | | | |
|-------------------|------------|-------------------|-----------|-----------|-----------|------------------------------------|-----------|
| | White* | Two or More Races | Black | Other | Asian | Native Hawaiian / Pacific Islander | AIAN |
| Fife | 50% | 12% | 12% | 3% | 15% | 6% | 2% |
| Lakewood | 55% | 14% | 14% | 5% | 8% | 4% | 1% |
| Auburn | 58% | 11% | 7% | 8% | 12% | 3% | 2% |
| Tacoma | 62% | 12% | 11% | 4% | 9% | 1% | 2% |
| DuPont | 66% | 11% | 7% | 2% | 9% | 2% | 2% |
| University Place | 67% | 10% | 7% | 3% | 10% | 1% | 2% |
| South Hill | 70% | 14% | 4% | 4% | 6% | 1% | 1% |
| Puyallup | 78% | 9% | 4% | 1% | 6% | 1% | 1% |
| Gig Harbor | 81% | 12% | 0% | 1% | 5% | 0% | 1% |
| Bonney Lake | 84% | 7% | 1% | 2% | 4% | 0% | 1% |
| Edgewood | 85% | 5% | 1% | 1% | 8% | 0% | 1% |
| Sumner | 85% | 8% | 1% | 2% | 1% | 1% | 2% |

Notes

AIAN = American Indian or Alaska Native

* Indicates the table is sorted based on data in the applicable column.

Sources: Washington State Office of Financial Management and U.S. Census Bureau, 2023.

Table D-6: Comparable City Demographic Characteristics, 2021

| Jurisdiction | Educational Attainment | | | | |
|-------------------|------------------------|--------------|--------------------|-------------------|--------------------------------|
| | Less than High School | High School* | Associate's Degree | Bachelor's Degree | Greater than Bachelor's Degree |
| Bonney Lake | 5% | 55% | 12% | 19% | 9% |
| Puyallup | 7% | 55% | 13% | 17% | 8% |
| Sumner | 9% | 54% | 11% | 19% | 7% |
| Edgewood | 3% | 54% | 14% | 19% | 10% |
| Lakewood | 11% | 53% | 12% | 16% | 7% |
| Auburn | 11% | 52% | 11% | 19% | 8% |
| South Hill | 8% | 51% | 13% | 19% | 9% |
| Fife | 12% | 49% | 13% | 19% | 7% |
| Tacoma | 10% | 49% | 10% | 20% | 12% |
| University Place | 4% | 42% | 11% | 27% | 17% |
| Gig Harbor | 4% | 34% | 13% | 25% | 23% |
| DuPont | 3% | 29% | 12% | 31% | 25% |

Note

* Indicates the table is sorted based on data in the applicable column.

Sources: Inputs and data obtained from the Washington State Office of Financial Management and U.S. Census Bureau.

Appendix D— Identification of Comparable Cities

Demographic statistics for the Study Area are based on data from the U.S. Census South Hill CDP. The boundary for the South Hill CDP is not an exact match to the Study Area, however, the boundary is very close and is similar enough to provide the best available estimates of demographics within the Study Area. Demographic data uses the following tables from the American Community Survey 2017–2021 5-Year Estimates:

- Median Household Income: U.S. Census Bureau 2021 American Community Survey 5-Year Estimates Table B19013
- Sex and Age: U.S. Census Bureau 2021 American Community Survey 5-Year Estimates Table B01001
- Race: U.S. Census Bureau 2021 American Community Survey 5-Year Estimates Table C02003
- Educational Attainment: U.S. Census Bureau American Community Survey 5-Year Estimates Table B15003

Appendix E

Environmental Characteristics

Slopes and Topography

The Study Area is characterized as upland with gentle to moderately steep slopes. Three areas have slopes greater than 30 percent: 1. The eastern side of the Study Area has a steep hill that drops 300 feet into the Orting Valley. 2. South of 176th Street East, a creek descends steep slopes down to Orting Valley. 3. South of 144th Street East along 78th Avenue, a drainage contains slopes in excess of 30 percent (Pierce County 2023a).

Water Resources

Water resources in the Study Area include one stream, flood hazard areas, wetlands, and groundwater.

Streams and Basins

One stream, Horsehaven Creek, flows through the Study Area south of 176th Street East and east of Meridian Avenue East. One species of native Coho salmon has a known presence within the creek. Three basins are located in the Study Area, Clover Creek, Mid-Puyallup, and Clear/Clarks Creek. The headwaters of Clover Creek are located to the southeast just outside the Study Area. Flooding, wetlands, and groundwater recharge associated with Clover Creek and Clover Creek Basin within the Study Area.

Flood Hazard Area

Special flood hazard areas are defined by the Federal Emergency Management Agency (FEMA) as areas having special flood, mudflow, or flood-related erosion hazards, and shown on a flood hazard boundary map or flood insurance rate map. Flood hazard areas are also referred to as the 100-year floodplain, or the area that will be inundated by the flood event having a one-percent chance of being equaled or exceeded in any given year. The FEMA maps for Pierce County indicate there are several flood hazard areas (100-year floodplains) within the community. Approximately 223 acres, 2 percent of the Study Area, are designated as 1 percent annual chance flood hazard area. These flood hazard areas range in size and are typically associated with wetlands, areas of low elevation, Horsehaven Creek, and Clover Creek (see Figure 3-3 in the main report).

FEMA also maps areas prone to inundation by the flood event having a 0.2-percent chance of being equaled or exceeded in any given year. This area is mapped by FEMA as Zone C or Zone X (unshaded) and is sometimes called the 500-year floodplain. Approximately 981 acres, 8 percent of the Study Area, are classified as 0.2 percent annual chance flood hazard areas. (See Figure 3-3 in the main report).

Wetlands

Wetlands are common throughout the Study Area and total about 47 acres. The wetlands are primarily concentrated in open space corridors located between 78th Avenue and Meridian Avenue East, along 122nd Avenue, and south of 176th Street (Pierce County 2023a).

Groundwater

Groundwater within the Study Area is primarily recharged by rainwater. Groundwater levels fluctuate over time, both seasonally and long term, in response to changes in recharge to and discharge from aquifers.

Open Space

Areas designated as open space are found west of Meridian Avenue East between 152nd Street East and 136th Street East as well as several spots along 122nd Avenue East. Clover Creek, outside the plan area to the southwest, is also identified as a major open space corridor.

Fish and Wildlife Habitat

The Washington State Department of Fish and Wildlife's Priority Habitat and Species Database indicates that there are several priority wildlife habitats within the Study Area, such as habitat for bald eagles associated with wetlands. Significant areas of urban natural open space are located in the Sunrise area and in the wetlands located in the western end of the plan area.

Air

Sources of air pollution in the Study Area include motor vehicles, industrial emissions, residential woodstoves and fireplaces, outdoor burning, and other sources. The greatest concern for air quality within the Study Area is carbon monoxide discharge from automobiles especially along Meridian Avenue East.

Urban Forest

Growth in population and development of the South Hill community has led to a dramatic loss of trees over the years. Clearing landscapes completely for development without retaining stands of trees or understory was common practice until residential design standards were adopted in 1998 that require some retention and replanting of trees (Pierce County 2023a). Meridian Avenue East and many other arterials are lacking street trees and vegetative buffers. The urban tree canopy coverage in Pierce County is 28 percent (Davey Tree 2020); South Hill similarly has approximately 29 percent coverage (see Figure 3-4 in the main report).

Appendix F

South Hill Study Area Demographics, Commute Trends, and Existing Districts

Path: X:\O_MFA_Projects\M1266\06\003\Pro\M1266_06_003.aprx [Fig Worker Residence]
Print Date: 8/7/2023
Reviewed By: mjohnston
Produced By: jroberts
Project: M1266_06_003

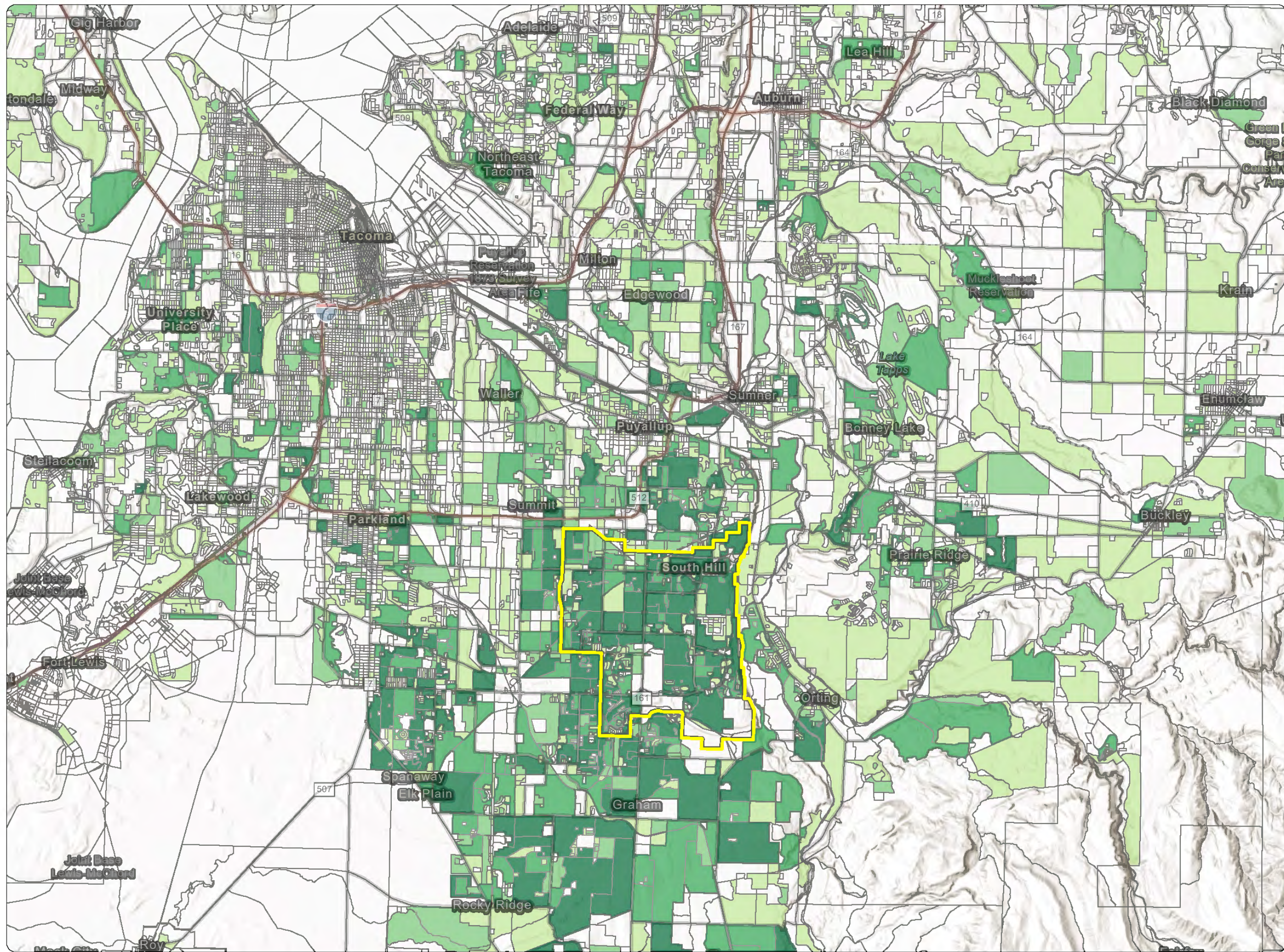






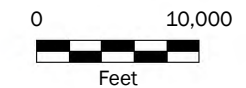


Figure F-1
Study Area Worker Residence
by Census Block
South Hill Incorporation Study
Washington
DRAFT

Legend

-  Study Area
- Study Area Worker Residence**
- Number of Workers (Quantile)
-  None
-  1
-  2
-  2 - 4
-  5 or more

Location Inset



Data Sources
Topographic base map obtained from Esri; worker residence data from the U.S. Census Bureau American Community Survey (2020).



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Path: X:\0_MFA_Projects\M1266\06\003-Pro\M1266-06-003.aprx V:\Resident Worker Destinations
Reviewed By: mjohnston Print Date: 8/7/2023
Produced By: jroberts Project: M1266-06-003

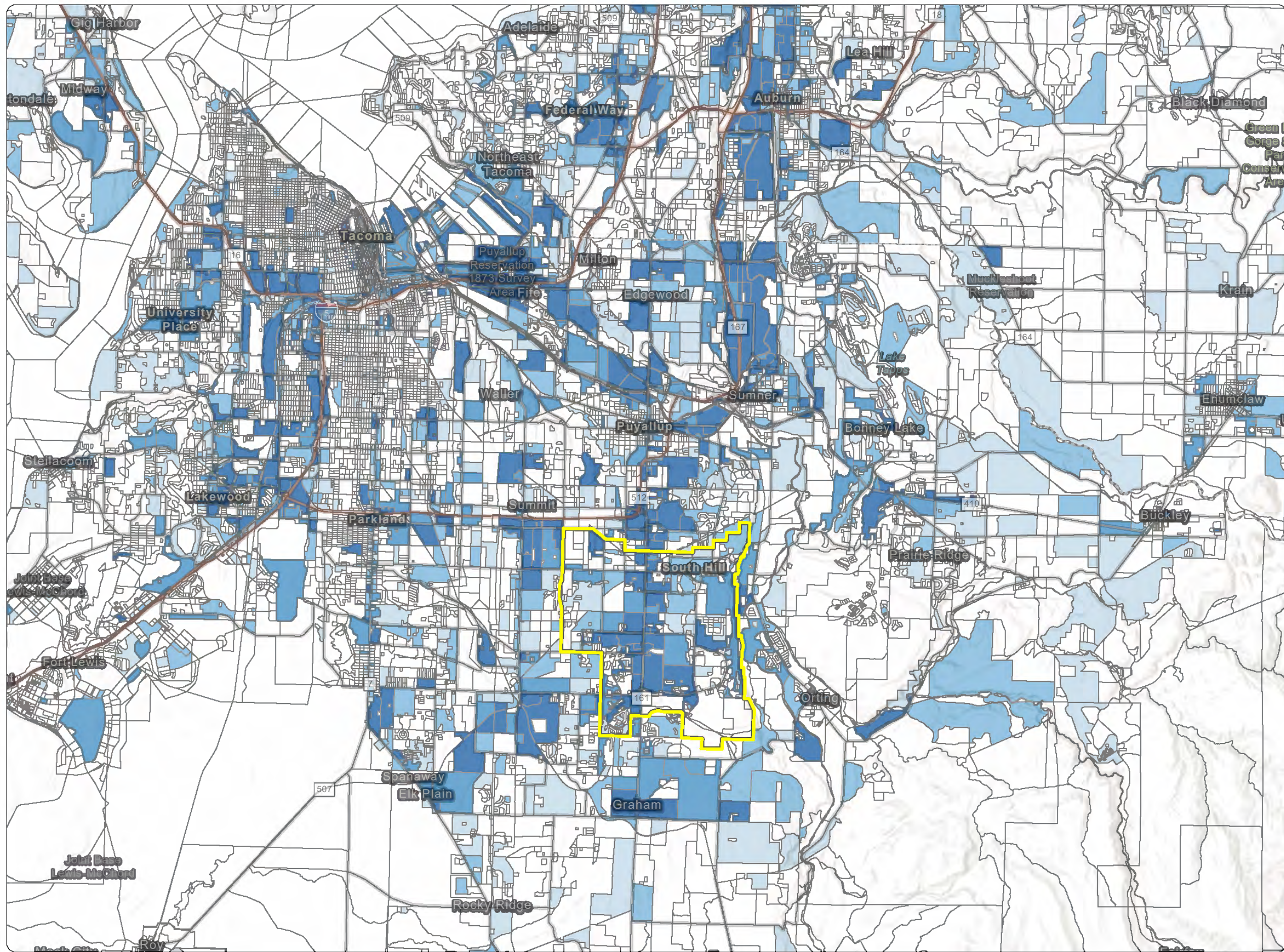
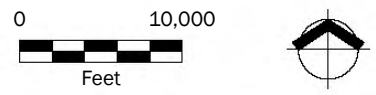


Figure F-2
Study Area Resident
Worker Destination
by Census Block
South Hill Incorporation Study
Washington
DRAFT

Legend

- Study Area
- Study Area Resident Worker Destinations**
- Number of Workers (Quantile)
- None
- 1
- 2 - 3
- 4 - 8
- 9 or more

Location Inset



Data Sources
Topographic base map obtained from Esri; worker destination data from the U.S. Census Bureau American Community Survey (2020).



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Project: M1266.06.003 Produced By: jroberts
Reviewed By: mjohnston Print Date: 8/7/2023
Path: X:\10_MFA_Projects\M1266.06.003\Pro\M1266_06_003.aprx [Fig. Transit]

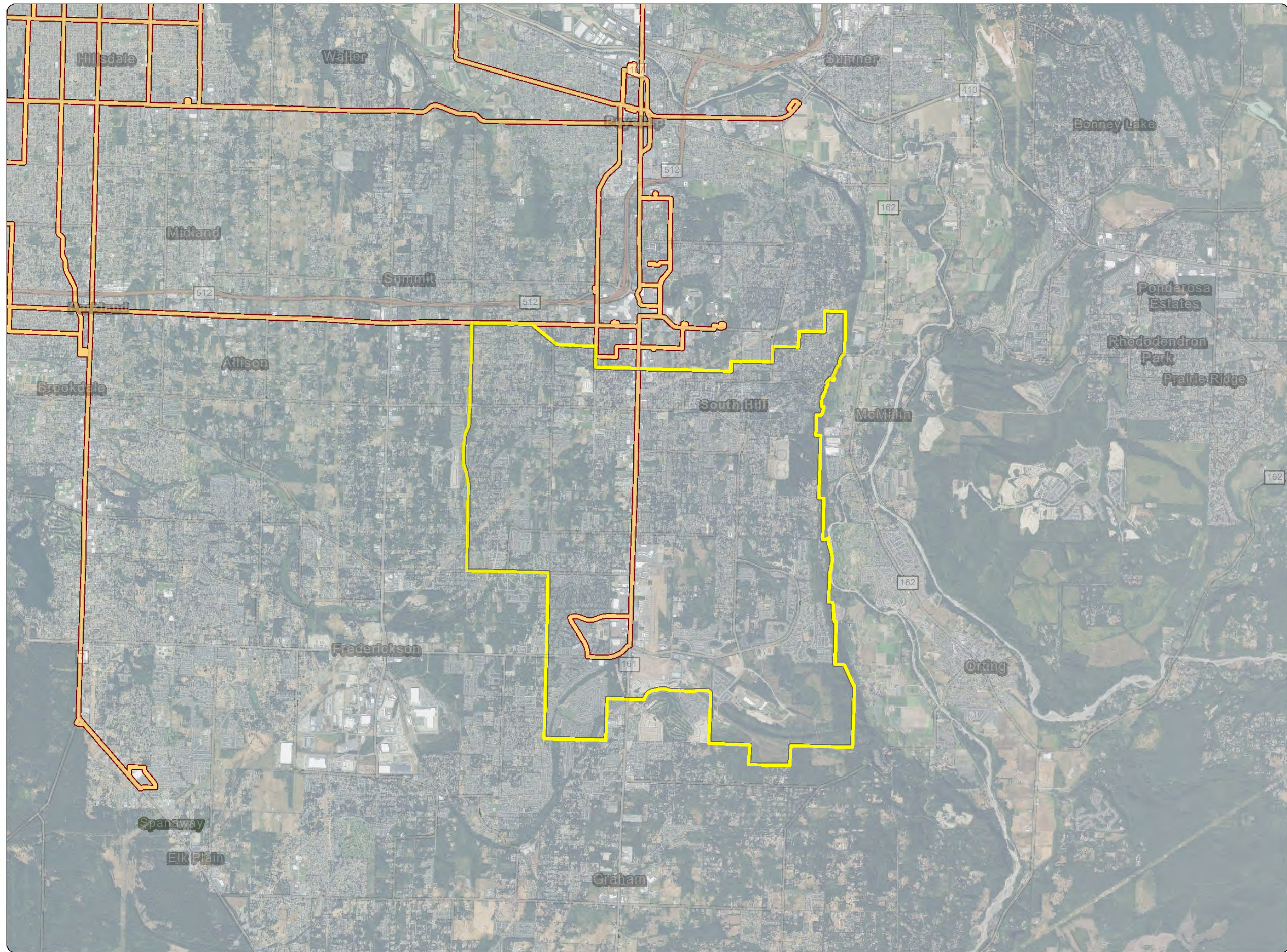




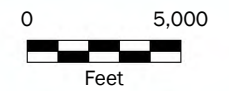
Figure F-3
Public Transit
South Hill Incorporation Study
Washington

DRAFT

Legend

-  Study Area
-  Bus Route

Location Inset



Data Sources
Topographic base map obtained from Esri; bus routes obtained from Pierce County (2023).



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Appendix G

Pierce County's Countywide Planning Policies and Other Policies and Programs Related to Annexation and Incorporation

Pierce County Comprehensive Plan

The Pierce County Comprehensive Plan (Comprehensive Plan) is a 20-year policy document that addresses growth in the unincorporated areas of Pierce County. The current Comprehensive Plan was adopted in 2015 and the most recent amendment took effect on July 1, 2023.

The Pierce County Comprehensive Plan includes the following land use (LU) goals related to annexation and urban growth area (UGA) expansion.

Annexation and UGA Expansion (2-20)

Goal Land Use-2: All unincorporated urban areas within the UGA shall either be affiliated with neighboring cities and towns as Potential Annexation Areas (PAAs) or identified as Potential Incorporation Areas (PIAs).

Goal Land Use 2.3: The general preference is for unincorporated urban areas to be affiliated with neighboring cities or towns rather than being identified as a PIA. However, a PIA designation can be established where incorporation of an area is appropriate based on logical geographic boundaries; size; population; a potential tax base to support a City; a variety of uses needed for a City, including residential, businesses, civic and recreational; urban services and facilities provided other than by adjacent cities; a community identity; and other appropriate factors.

Goal Land Use-3: Pierce County should establish a program that explores the possibility of incorporation of identified areas.

Goal Land Use-3.1 Pierce County should establish stakeholder groups of local residents, service providers, businesses, and other interested parties to identify opportunities and challenges associated with the incorporation of identified areas.

Goal Land Use 3.2: Pierce County should explore the economic viability of incorporation through completion of incorporation feasibility studies. An incorporation study should include at a minimum the area proposed to be included (LU 3.2.1); current estimates and future projections of population (LU 3.2.2); existing land uses and housing (LU 3.2.3); per capita assessed valuation (LU 3.2.4); current services provided to the community by the County, special purpose districts, school districts, other countywide authorities, and the state (LU 3.2.5); analysis of tax and revenue options for the operations of a new city (LU 3.2.6); revenue estimates (LU 3.2.7); expenditures – proposed city budget including operating expenditures, capital facilities, and equipment expenditures (LU 3.2.8); land use policy (LU 3.2.9); provision of services by new city and impacts upon current service providers (LU 3.2.10); and analysis of alternatives (LU 3.2.11).

Goal Land Use-4: Facilitate the transformation of unincorporated urban areas into cities and towns through annexation.

Goal Land Use-4.3: Encourage the annexation or incorporation of unincorporated urban areas through improving the local economic market (Pierce County 2023).

Countywide and Multi-County Planning Policies

Pierce County Countywide Planning Policies

The Pierce County Regional Council (PCRC) was created to ensure planning between Pierce County and its cities and towns was accomplished in a coordinated, consistent manner. The PCRC is

comprised of elected officials from Pierce County, each of its 23 cities and towns, and the Port of Tacoma (Pierce 2023b). The PCRC is responsible for coordinating planning efforts among jurisdictions, agencies, federally recognized tribes, ports and adjacent regions, where there are common borders or related regional issues to facilitate a common vision (Pierce County 2022b).

The primary responsibility of the PCRC is to ensure that the GMA requirements are coordinated within the County and the region. The County wide coordination is accomplished through the implementation of the Pierce County CPPs, adopted on May 17, 2022, and ratified on November 14, 2022. The policies also establish processes and mechanisms designed to foster open communication and feedback among the jurisdictions (Pierce County 2022b).

Annexation Policies

As required by the GMA, Pierce County CPPs establish UGAs in consultation with cities, with each city identifying land needed to accommodate 20-year growth. While the Growth Management Act does not explicitly equate UGAs with municipal annexation areas, the UGAs around cities may be considered potential annexation areas for cities. Pierce County Countywide Policy UGA-4 states "Potential Annexation Areas shall be designated through the Pierce County Comprehensive Plan in consultation with cities and towns."

The County recognizes that the unincorporated lands within UGAs are often Potential Annexation Areas (PAA) for cities. Although annexation is preferred, there are also areas where incorporation could occur. The County will work with existing municipalities and emerging communities to ensure efficient transitions (Pierce County 2022b).

Annexations and incorporations have direct and significant impacts on the revenue of county government, and therefore, may affect the ability of the County to fulfill its role as a provider of certain regional services. The municipalities will work closely with the County to develop appropriate revenue sharing and contractual service arrangements that facilitate the goals of GMA (Pierce County 2022b).

VISION 2050: A Plan for the Central Puget Sound Region

Members of the Puget Sound Regional Council adopted VISION 2050: A Plan for the Central Puget Sound Region (VISION 2050) in October 2020. VISION 2050 is a plan for the region’s growth, capturing a vision for the region’s environmental, economic and transportation future.² VISION 2050 also includes a regional growth strategy for how and where the central Puget Sound region can grow to a forecast of 5.8 million people and 3.4 million jobs by the year 2050 (PSRC 2020).³ The Multicounty Planning Policies (MPPs) contained within VISION 2050 support and implement the regional growth strategy, the Regional Transportation Strategy and the Regional Economic Strategy. Cities and counties use MPPs as a guide when updating local comprehensive plans. Relevant goals and implementation strategies for VISION 2050 include the following.

Annexation and Incorporation Policies

MPP-DP-28: Support joint planning between cities, counties, and service providers to work cooperatively in planning for urban unincorporated areas to ensure an orderly transition to city governance, including efforts such as: (a) establishing urban development standards, (b) addressing service and infrastructure financing, and (c) transferring permitting authority.⁴

MPP-DP-29: Support annexation and incorporation in urban unincorporated areas by planning for phased growth of communities to be economically viable, supported by the urban infrastructure, and served by public transit.⁵

Rural Areas and Natural Resource Lands

MPP-DP-35: In the event that a proposal is made for creating a new, fully contained community, the county shall make the proposal available to other counties and to the Regional Council for advance review and comment on regional impacts.⁶

Regional Growth Strategy

MPP-RGS-16: Identify strategies, incentives, and approaches to facilitate the annexation or incorporation of unincorporated areas within urban growth areas into cities.