Lacey City Council Worksession Agenda

Refer to the bottom of the agenda for meeting information.

Tuesday, May 27, 2025	6:00 PM	Council Chambers and Online

1. **Call to Order**
2. **Roll Call**
3. **Land Acknowledgement**

   We, the City of Lacey, are on the ancestral land of the Tribal People of the Treaty of Medicine Creek, including the Nisqually Indian Tribe and Squaxin Island Tribe. We acknowledge and remember those Tribal People not recognized today who were absorbed or relocated into other tribes for survival. We recognize the ancestors and their descendants who are still here. We recognize and respect the Tribal People of the Treaty of Medicine Creek as the traditional stewards of this land since time immemorial and their role today in taking care of these lands in perpetuity. We recognize and have the responsibility to call attention to the histories of dispossession, forced removal, and abridged treaty rights that allowed our nation, state, and city to develop as they have today. We recommend that community members read the Medicine Creek Treaty of 1854.
4. **Approval of the Agenda**
5. **Public Comment**

   Refer to the bottom of the agenda for instructions on how to provide public comment.
6. **Agenda Items**

   A. **Five-Year Economic Development Strategy**
   Vanessa Dolbee, Community and Economic Development Director
   Sarah Schelling, Current Planning and Economic Development Manager
   Wesley Nguyen, Economic Development Coordinator
   Brittany Bagent, Project Director, ECOnorthwest
   James Kim, Project Manager, ECOnorthwest

   B. **Urban Growth Area Annexation Financial Study**
   Vanessa Dolbee, Community and Economic Development Director
   Sarah Schelling, Current Planning and Economic Development Manager
   Katherine Goetz, Senior Associate, Berk Consulting
   Andrew Bjorn, Senior Advisor - Urban Planning at Small Housing

7. Adjourn

Meeting Information:

Attendance (Remote or In-Person)

The public may attend the meeting in-person, or you may view or listen to the meeting using one of the following platforms:

In-Person:	Council Chambers at Lacey City Hall 420 College Street SE, Lacey, WA 98503
Zoom:	https://us02web.zoom.us/webinar/register/WN_MnK3lKHiRR6p9pndEsAckw
Website:	https://cityoflacey.org/government/public-meetings/
Facebook:	https://www.facebook.com/cityoflacey
YouTube:	https://www.youtube.com/watch?v=5oSlO9T4VTk
Phone:	(888) 788-0099 or (877) 853-5247 (Webinar ID 847 9947 6933)

Verbal Public Comment

Each speaker is limited to three minutes. Comments are welcome on matters connected to City business or specific agenda items. **Because state law (RCW 42.17A.555) prohibits the use of public facilities to promote or oppose any ballot measure, public comment for or against the Lacey Metropolitan Park District cannot be accepted at this meeting.**

Prior to starting your comments, please provide your:

a. Name
b. City of residence or connection to the City
c. Topic or subject matter of your comments

Those wishing to provide verbal public comment may do so in-person or by Zoom:

In-Person:	Use the sign-up sheet located in the Council Chambers.
Zoom:	Preregister using the following Zoom link no later than two hours prior to the meeting: https://us02web.zoom.us/webinar/register/WN_MnK3lKHiRR6p9pndEsAckw Instructions and access details will be provided once registration is complete.

Written Public Comment

Public comments may also be submitted by email to PublicComment@cityoflacey.org. The commenting period will close two hours before the meeting time. Written comments will be provided to the City Council electronically prior to the meeting. Comments will not be addressed during the Council meeting; however, comments received will be added to the official record.

LACEY CITY COUNCIL WORKSESSION
May 27, 2025

SUBJECT:	**5-Year Economic Development Strategy**
RECOMMENDATION:	No action required; project update
STAFF CONTACT:	Rick Walk, City Manager RW Vanessa Dolbee, Director of Community and Economic Development VD Sarah Schelling, Current Planning and Economic Development Manager SS Wesley Nguyen, Economic Development Coordinator WN
ORIGINATED BY:	Community and Economic Development Department
ATTACHMENTS:	1. Lacey Demographic and Economic Analysis, Draft
FISCAL NOTE:	N/A
WORK PLAN GOAL AND STRATEGY:	1. Vibrant Place to Live, Work, and Play 2. Vibrant and Diverse Economy
PRIOR REVIEW:	N/A

BACKGROUND:

In December 2024, the City of Lacey initiated work on a five-year Economic Development Strategy, designed to guide City council and City staff in its economic development efforts over the next five years. The plan will combine data analysis and economic trends with a robust stakeholder engagement and outreach to develop an actionable five-year strategy, complete with measurable goals and a robust implementation framework. This strategy will provide staff and stakeholders with tools necessary to begin implementation on day one. Rather than generating a long list of high-level recommendations, this plan will develop a detailed list of priorities and necessary implementation details to equip the city with tools necessary to execute the work ahead.

The strategy will identify short- and medium-term actions items that are implementable at the local level. The city has selected ECOnorthwest to support us in these efforts. This initiative is being conducted in parallel with the City's Comprehensive Plan update, ensuring alignment and integration between both efforts.

The City of Lacey contracted with ECOnorthwest to complete the study and began work in December 2024. ECOnorthwest has completed the Lacey Demographic and Economic Analysis, attachment 1. This study, contains five primary sections looking at the community context, economic context, retail development opportunities, commercial real estate inventory and trends, and implications of Quiemuth Village Development. The report identifies key findings and demographic trends that will influence the development of the strategic plan.

NEXT STEPS:

- Planning Commission presentation on Wednesday, May 28, 2025.

- Engage Lacey's stakeholders to ground the strategy in community insights, ensuring that recommendations reflect local priorities and realities. This will include both stakeholder interviews and an advisory community made of people from the local business community and the economic development eco-system.

- The final strategy will be presented to the City Council in fall 2025.

ECOnorthwest

Lacey Demographic and Economic Analysis

May 7, 2025

Executive Summary

This document presents a summary of current demographic and economic conditions that will shape Lacey's future growth and development. This analysis is the first step in a broader analysis of Lacey's economic landscape. Next steps involve interviews with business community members and the development of an economic development strategy. This work also aligns with the timeline and goals of Lacey's ongoing Comprehensive Plan update.

Key findings of this analysis are as follows:

Demographic and housing trends in Lacey reveal shifting community needs and opportunities for targeted policy responses. Lacey is becoming increasingly diverse with a growing share of Hispanic/Latino and foreign-born residents. Additionally, the city's aging population is expanding at a faster rate than the county's, suggesting a need for targeted senior services and amenities. The rental housing market also tells two stories: the housing stock is slightly more affordable compared to the rest of the county and attractive for workers in the region, and there are many senior living communities that meet a specific demand.

However, the city's workforce patterns demonstrate a heavy reliance on nearby employment centers, with most residents commuting outside Lacey for work, especially in health care and government sectors. Moreover, the largest employers in Lacey are in retail, government, and education industries, and there is a greater concentration of industrial space (i.e., warehousing and distribution) in Lacey. These economic patterns point to a continued need for transportation investments to support Lacey's economic growth. They also suggest a potential need to diversify the employment base by attracting higher-wage jobs.

Lacey's economy remains highly dependent on sales tax revenue, which has become more pronounced over the past decade and now comprises nearly half of the city's total tax revenue (general fund). However, retail leakage persists in key categories. Because other cities in Washington are also reliant on sales tax revenue, Lacey must continue to compete for more retail spaces and activities. This makes it difficult to prioritize attracting employers in higher-wage industries.

Resident surveys and other data show that many people frequently leave Lacey for specialty markets, higher-quality restaurants and cafés, clothing, entertainment (e.g., bookstores, theaters), and personal services (e.g., salons, medical), highlighting the need for a more diverse and attractive retail environment that reflects more closely the ongoing demographic shifts in Lacey. The city's commercial real estate market reflects similar dynamics. While retail demand is strong in areas like Hawks Prairie, vacancy issues remain in Lacey Midtown.

Still, because Lacey operates in a regional economy, many people living outside Lacey shop in Lacey's general merchandise stores. For example, about half of visitors to Lacey's shopping areas originate from Olympia, while around 20 percent originate from Lacey.

Lacey's economic profile is shaped by a high reliance on external employment centers, especially in health care and government sectors, with the majority of residents commuting outside the city for work. Sales tax remains the city's largest revenue source, driven partly by construction activity and partly by general merchandise, which generates many visits and sales from people living outside Lacey. But there are retail leakages in categories such as restaurants, auto dealerships, and apparel. The city's commercial real estate market reflects these dynamics: industrial space (in Hawks Prairie) is in strong demand, retail lease rates are comparatively high, and office and retail vacancies remain concentrated (in Lacey Midtown). These geographic variations provide context for further analysis of future development opportunities and inform considerations for strategic planning and investment.

The proposed Quiemuth Village development may be a part of the answer. The development could add retail spaces while improving retail diversity. Moreover, it could be a catalyst for other developments near it. There are ongoing constructions and development proposals for retail, hotel, and residential uses on surrounding properties. In the short-term, these developments could generate new sales tax revenues from construction and furnishing activities. In the long-term, they can add to the City's sales tax revenues from retail and lodging tax revenues. New housing would not only generate more property taxes but also create the demand to support the new retail spaces. When more information about the proposed Quiemuth Village development is available, the City should re-evaluate the mix of retail, residential, and non-residential uses and consider complementary land uses and economic opportunities that could locate around the Quiemuth Resort and Village projects.

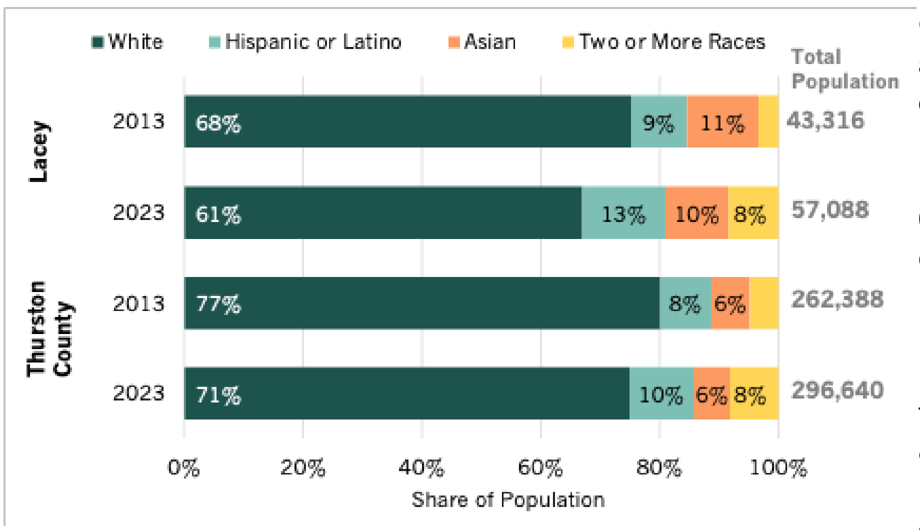
This document is organized into the following sections.

1. Community Context

Since 2013, Lacey has become more diverse, with a growing share of Hispanic or Latino residents and foreign-born residents. While household incomes have risen, they have not kept pace with the rest of Thurston County, suggesting economic growth has been somewhat slower in the city. This trend may be influenced by a rising senior population, a slight increase in single-person households, and a lack of notable increase in the share of people completing a bachelor's degree or higher compared to the county. Also, rental units are more prevalent, and housing prices are lower in Lacey. These factors indicate Lacey is a growing community that is experiencing demographic shifts while being positioned as more affordable and less cost-prohibitive compared to the rest of Thurston County.

Population Demographics

Exhibit 1. Race/Ethnicity by Geography, 2013-2023

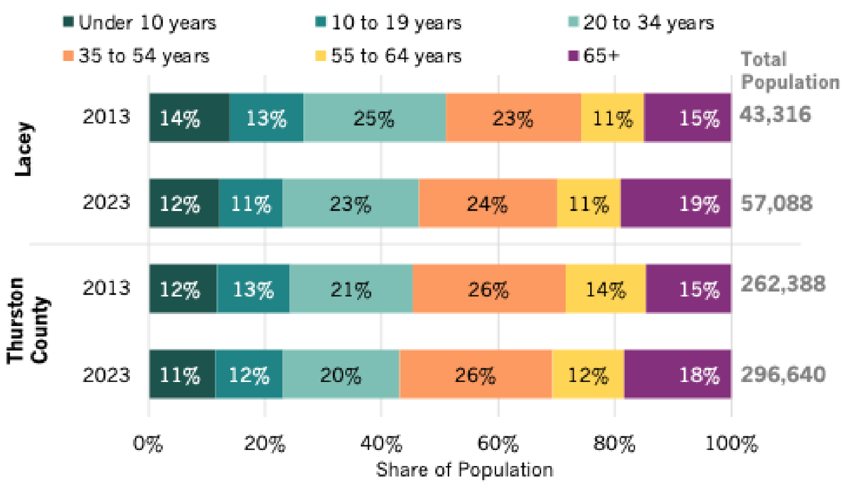


Source: ACS 5-year estimates, DP05.

Over the past 10 years Lacey and Thurston County saw a decline in the share of White population, decreasing 7 percentage points in Lacey and 6 percentage points in the county. During the same period, the Hispanic or Latino population grew more in Lacey (from 9 percent to 13 percent) than in Thurston County (from 8 percent to 10 percent), highlighting a faster rate of diversification in the city.

These trends suggest that both the city and county are becoming more racially and ethnically diverse, and Lacey experienced a slightly more pronounced demographic shift.

Exhibit 2. Age Distribution by Geography, 2013-2023



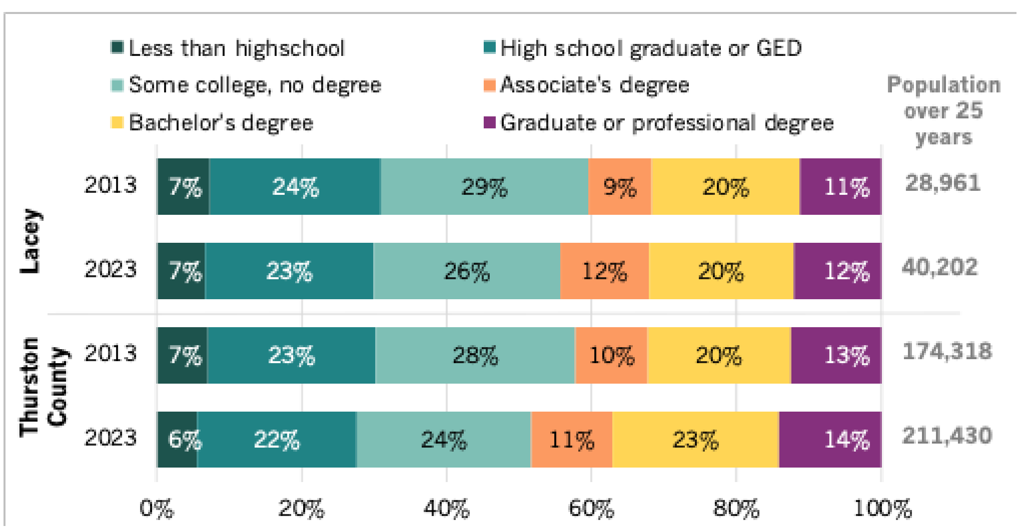
Source: ACS 5-year estimates, DP05.

Between 2013 and 2023, both Lacey and Thurston County experienced a slight decline in younger populations (those under 34 years). The senior (65+) population increased in both areas, indicating an aging trend. The senior population in Lacey is growing at a slightly faster pace. If current trends continue, seniors could account for 23 percent of Lacey's population by 2050, outnumbering residents under age 18.[1]

Educational Attainment

Educational attainment has stayed relatively stable since 2013. Thurston County showed a slight increase in higher education levels, particularly in bachelor's degrees. However, Lacey showed a slight increase in associate's degrees. This trend suggests that while educational attainment is slowly changing in the region, the educational profile is slightly different in Lacey. This may have implications for the types of jobs and skillsets that are growing.

Exhibit 3. Educational Attainment by Geography, 2013-2023

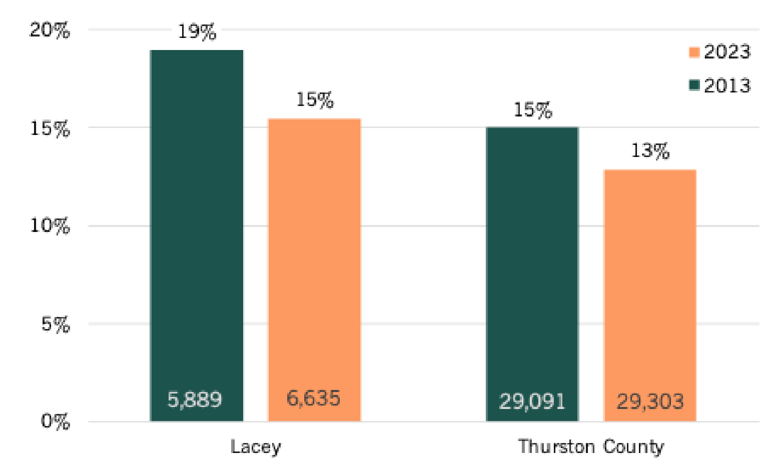


Source: ACS 5-year estimates, S1501

[1] ECOnorthwest's population projection tool using cohort change ratio.

Specific Population Characteristics

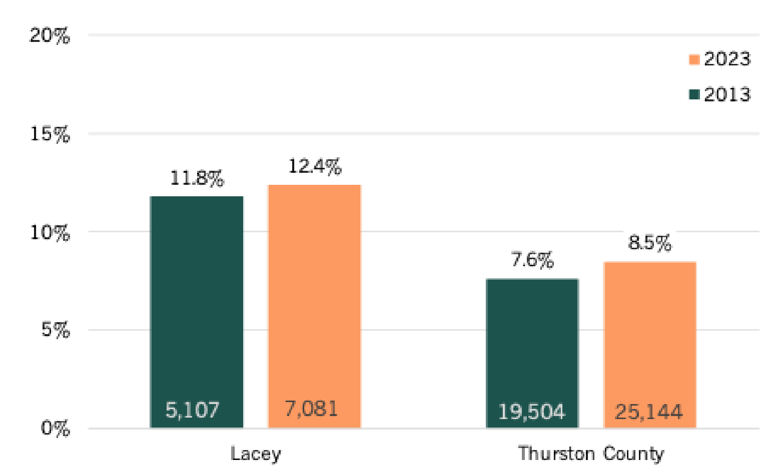
Exhibit 4. Veteran Share of Population over 18



Source: ACS 5-year estimates, DP02

Lacey and Thurston County both experienced a decline in the share of veterans between 2013 and 2023, with Lacey dropping from 19 to 15 percent and the county decreasing from 15 to 13 percent. Given Lacey's proximity to Joint Base Lewis-McChord (JBLM), the city has historically had a higher veteran population. However, the decline in veteran representation may reflect broader demographic shifts, including an aging veteran population and fewer transitioning service members settling in the area.

Exhibit 5. Foreign Born Share of Population over 18

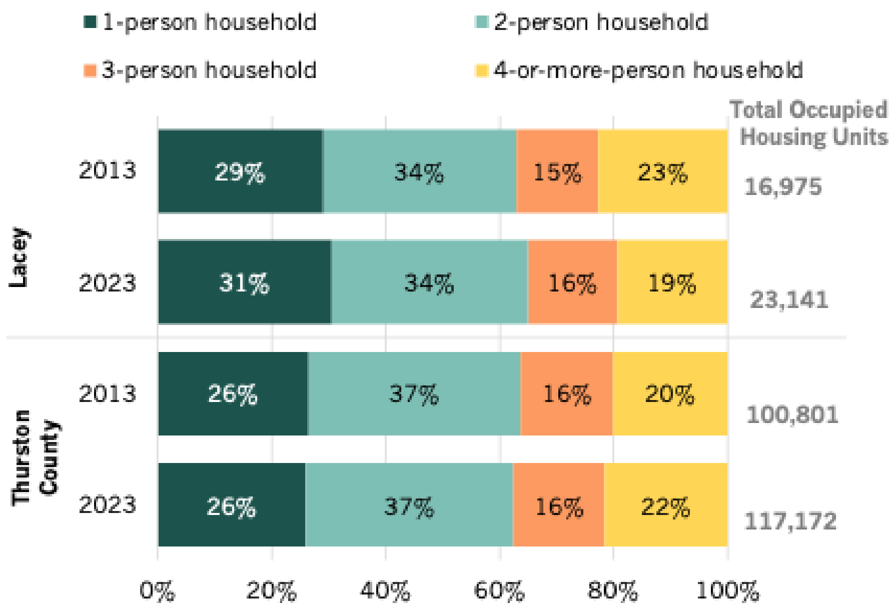


Source: ACS 5-year estimates, DP02

Between 2013 and 2023, the foreign-born population increased in both Lacey and Thurston County, with Lacey rising from 11.8 to 12.4 percent and the county from 7.6 to 8.5 percent. The increase in foreign-born residents suggests a growing diversity in the region, potentially contributing to shifts in local workforce and cultural dynamics.

Household Characteristics

Exhibit 6. Household Size by Geography, 2013-2023

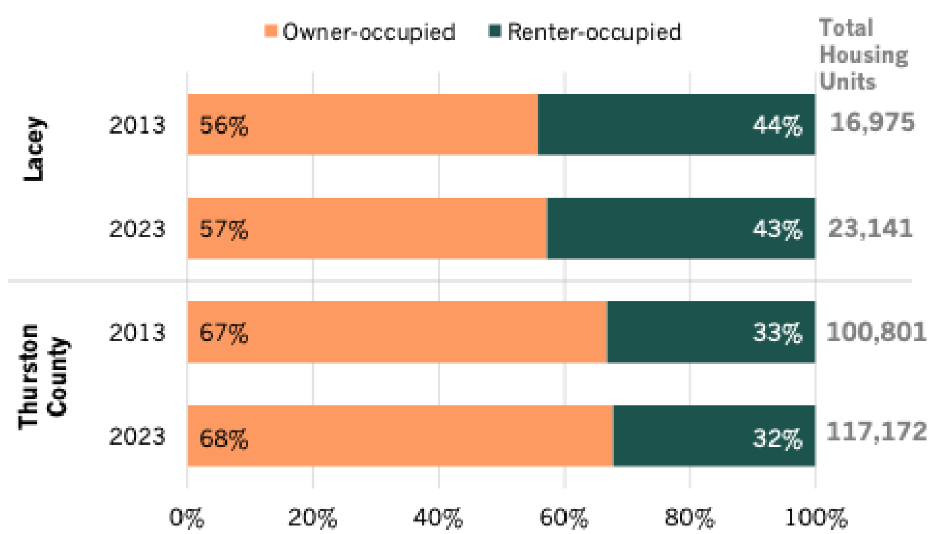


Household composition in both Lacey and Thurston County remained relatively stable between 2013 and 2023, with two-person households continuing to be the most common. Lacey saw a slight increase in one-person and three-person households, while the share of four-or-more-person households declined from 23 to 19 percent, indicating a small shift toward smaller households.

Source: ACS 5-year estimates, S2501

Despite these minor changes, overall household size distributions have remained consistent, even as the total number of occupied housing units grew in both the city and county.

Exhibit 7. Household Tenure by Geography, 2013-2023



Lacey has a higher proportion of renter-occupied housing (43 percent) compared to Thurston County (32 percent). The ratio of renters to owners has stayed consistent in both Lacey and Thurston County over the past 10 years.

Source: ACS 5-year estimates, DP04

Housing Prices

Mortgage payments and housing sales prices in Lacey are generally lower than in Thurston County.

Exhibit 8. Mortgage Payments and Home Sales Price, 2025

	AVERAGE MONTHLY MORTGAGE PAYMENT	MEDIAN SALES PRICE
Lacey	$2,075	$510,000
Thurston County	$2,200	$540,000

Source: ACS 5-year estimates, DP04; Redfin, March 2025

Typical rent payments also tend to be lower in Lacey than in Thurston County. As suggested by the numbers Exhibit 9, the rents of many units in Lacey are somewhat lower than similar units in Thurston County, on average. One-bedroom units tend to be much lower because there are many older, smaller units. But the average rents in Lacey's senior living communities are much higher. These units skew the average rent in Lacey upwards.

Exhibit 9. Average Asking Rent Per Unit

	STUDIO	1 BEDROOM	2 BEDROOMS	3 BEDROOMS
Lacey, Excluding Senior Living	$1,423	$1,182	$1,710	$1,963
Thurston County	$1,525	$1,552	$1,783	$2,057
Difference	-7%	-24%	-4%	-5%
Lacey, Senior Living Only	$3,285	$3,509	$3,823	N/A

Source: CoStar, March 2025

Household Income

Exhibit 10. Median Household Income and Compound Annual Growth Rate

	Median Houshold Income		
Geography	2013	2023	CAGR
Lacey	$ 58,800	$ 87,300	4.0%
Thurston County	$ 62,200	$ 94,000	4.2%

Source: ACS 5-year estimates, DP03.

Median household incomes in both Lacey and Thurston County have grown between 2013 and 2023. Thurston County retained a consistent higher median household income over the 10-year period.

The compound annual growth rate (CAGR) for household income in Lacey was 4.0 percent, slightly lower than Thurston County's 4.2 percent, indicating that while both areas experienced strong income growth, households in Lacey experienced a slightly slower pace.

2. Economic Context

Lacey operates in a regional economy where people cross jurisdictional borders for work. This is more pronounced in Lacey likely because there are large public sector and health care employers in Olympia, such as the state government, Providence St. Peter Hospital, and Kaiser Permanente.

Unemployment Rate

The unemployment rate is an indicator of the strength of the labor force. While a rate that is specific to Lacey is not available, regional figures can suggest the health of Lacey's workforce. The unemployment rate in Thurston County was 4.6 percent by the end of 2024. While this level is similar to the statewide average, it is noticeably higher than in the Seattle metropolitan area, which tracks with the national average.

Exhibit 11. Unemployment by Region, December 2024

REGION	UNEMPLOYMENT RATE
Thurston County	4.6%
Washington	4.5%
Seattle-Tacoma-Bellevue Metropolitan Area	4.0%

Data Source: Washington Employment Security Department

Employers and Employment

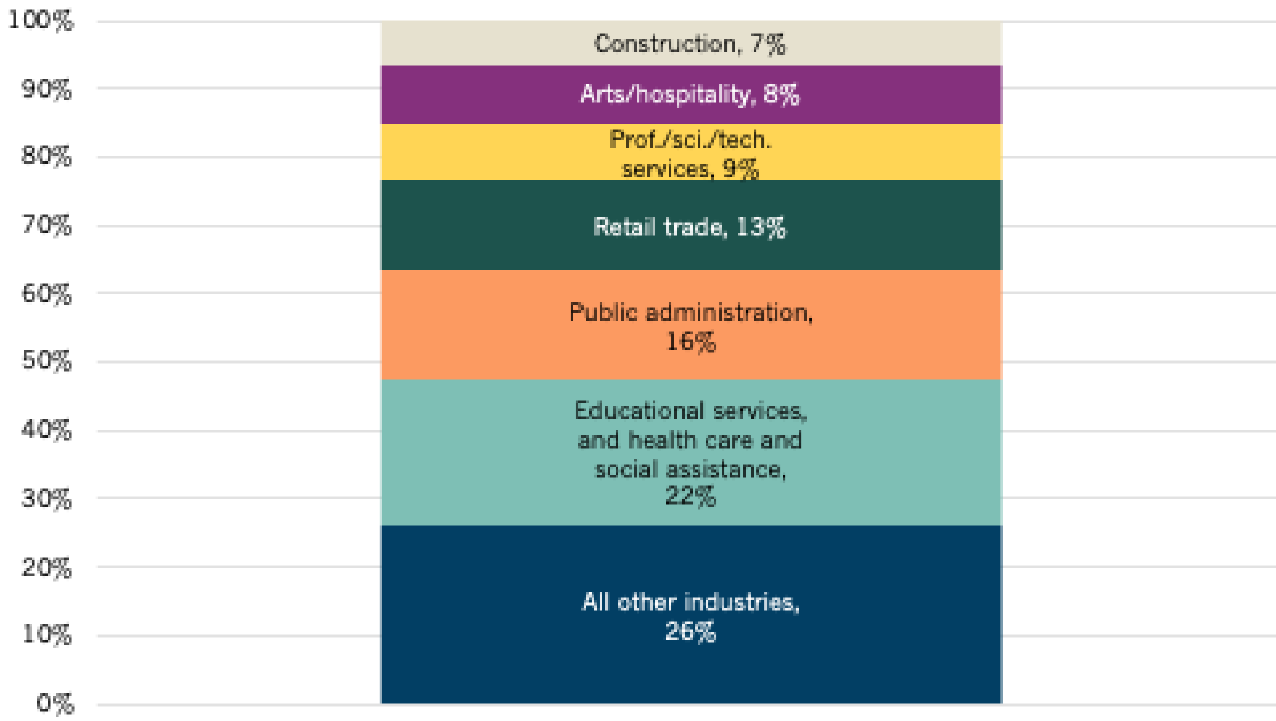
According to the City's latest annual financial report, the largest employers in Lacey are in the following industries[2]:

- Retail (12.1 percent of local employment): For example, Amazon, PetSmart, Harbor Wholesale, Medline Industries, and Walmart
- Government (8.4 percent): State of Washington and City of Lacey
- Education (7.7 percent): North Thurston Public Schools and St. Martin's University

However, Lacey residents work in a variety of industries as shown in Exhibit 12. About half work in retail, government (public administration), education, or health care industries, while the other half work in other industries like professional, scientific, and technical services or construction, for example.

[2] *2023 Annual Comprehensive Financial Report.* City of Lacey, WA, 2023.

Exhibit 12. Employment Industries of Lacey Residents



Source: ACS 5-year estimates, DP03

A key contrasting point between the two datasets—who works in Lacey versus where Lacey residents work—is that a disproportionate share of Lacey's residents works in government (public administration), education, or health care industries. For example, about 8 percent of employment in the city is in government, but about 16 percent of Lacey residents work in government. This difference is likely due to the presence of large employers just across the border in Olympia, namely the State of Washington, Providence St. Peter Hospital, and Kaiser Permanente. A share of Lacey residents commute into Olympia to work at state government offices or health care service providers.

Commute Patterns

Lacey is similar to most cities in the region: most people live and work across jurisdictions. Most residents (83.5 percent) leave Lacey to work elsewhere, and most workers in Lacey (86.4 percent) come from elsewhere. This is a long-term, regional pattern, rather than a new phenomenon. The commuting pattern is mirrored in nearby cities, with an exception in Olympia, where a third of the employed residents work in the city.

Top origins and destinations are local population centers where there are greater employment options: Olympia, Tacoma, Tumwater, and Seattle.

Exhibit 13. Commute Patterns in Lacey and Nearby Cities

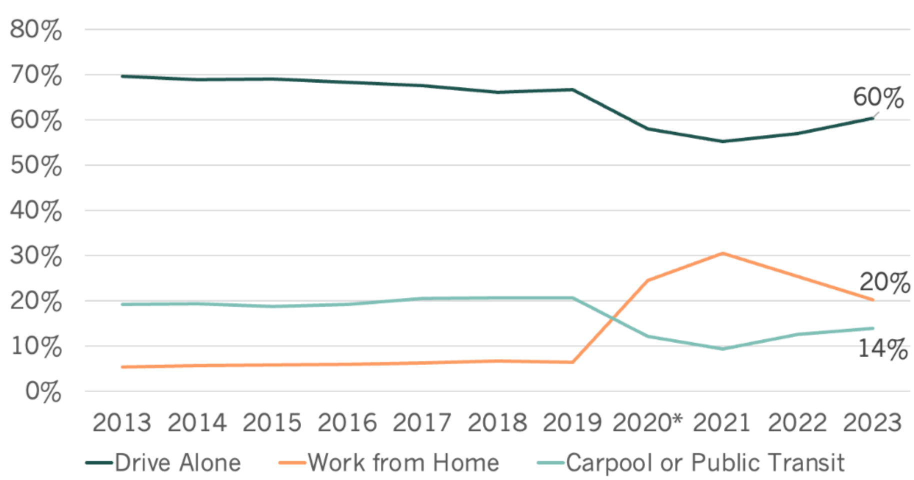
	RESIDENTS LEAVING FOR WORK		WORKERS FROM ELSEWHERE	
	2012	2022	2012	2022
Lacey (58,300 people)	83.1%	**83.5%**	85.4%	**86.4%**
Olympia (55,700 people)	64.4%	67.1%	83.7%	86.3%
Tumwater (27,200 people)	81.6%	83.0%	90.8%	92.3%
Lakewood (62,300 people)	80.4%	85.0%	86.5%	87.4%

Source: U.S. Census Bureau, LEHD Origin-Destination Employment Statistics and QuickFacts

A key policy implication for the City of Lacey is transportation needs. Because Lacey and the broader regional economy depend on connections between cities and markets, Lacey's residents and workers will continue to look for more efficient transportation options. Economic growth in Lacey will be closely tied to internal connections within the city as well as intercity connections.

Remote Work Trends

Exhibit 14. Commute Options, Puget Sound Region



*Data for 2020 is less reliable due to limitations in the ability to survey households during lockdowns and social distancing measures. The 2020 data in this exhibit is estimated based on 2021 data.
Source: ACS 5-year estimates, B08301

The COVID-19 pandemic accelerated the shift to remote and hybrid work. Although the share of remote jobs peaked in 2021 then declined, it appears to have stabilized at roughly 20 percent. While Exhibit 14 lacks 2024 data, anecdotal evidence supports that this trend has held steady.

At-Home Employment

According to business registration data, which includes self-reported information about business size, about 40 percent of businesses are home-operated businesses.[3] These small businesses are generally self-operated or employing one or two other people. About half of the businesses are in the following industries[4]:

- Health care and social assistance (16 percent)[5]
- Professional, scientific, technical services (15 percent)[6]
- Retail (13 percent)
- Construction (10 percent)

[3] Lacey endorsement data provided by the City of Lacey, March 2025.
[4] Lacey endorsement data provided by the City of Lacey, March 2025.
[5] Such as in-home care services and continuing care at retirement communities and assisted living facilities. This reported statistic may be inaccurate since the data is based on self-reported responses.
[6] Such as accounting, consulting, computer science, and photography.

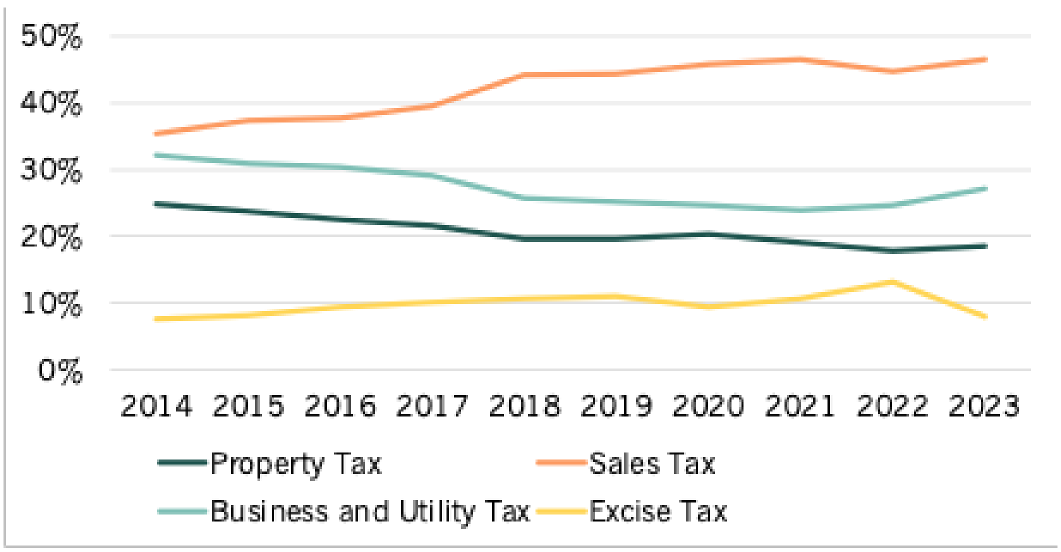
3. Retail Development Opportunities

Sales tax is the largest component of the City of Lacey's tax revenues. It is driven partly by retail activity, and nearby cities are competing for it. In order to determine how Lacey can become a local destination, we evaluated three data points: retail leakage, retail void, and community feedback on Neighborhood Commercial Districts.

Sales Tax Trends

The main source of government revenue is sales tax, and it is growing. Comparing Lacey's four types of taxes in Exhibit 15, sales tax was the largest component in 2014 (35 percent) and is still the largest component (46 percent by 2023).

Exhibit 15. Lacey Tax Revenues From Fiscal Years 2014 to 2023

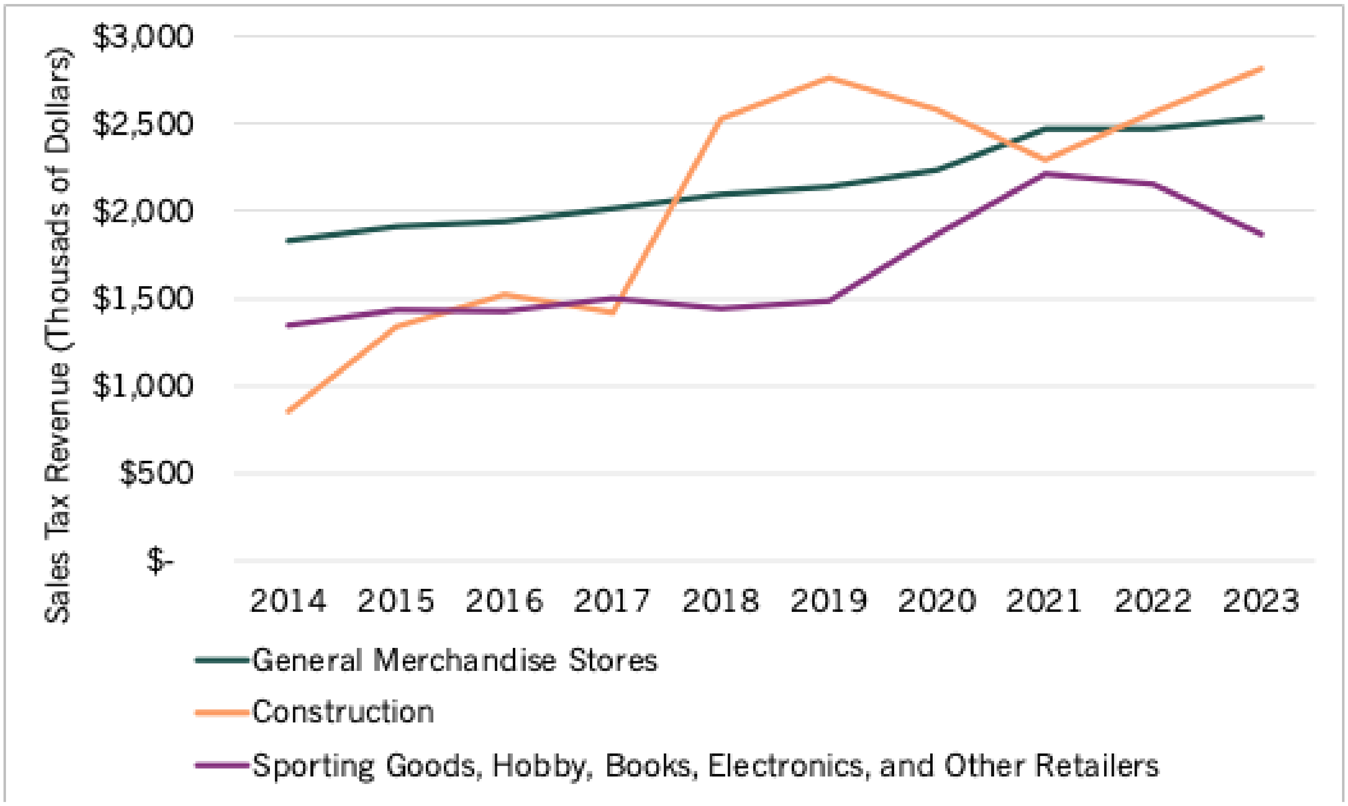


Source: *2023 Annual Comprehensive Financial Report.* City of Lacey, WA, 2023

Exhibit 16 shows the top three components of Lacey's sales tax revenue. It shows that the key drivers sales tax revenue are the following industry categories:

- General Merchandise Stores: This is usually the largest component, except when there is strong construction activity. This category includes wholesalers and large retailers—like Walmart and Target—but does not include grocery-only stores or department stores.
- Construction: This category of sales tax revenues is sensitive to economic cycles, rising when there is strong construction activity and falling during economic downturns. So, it provides a less steady source of sales tax revenues.
- Sporting Goods, Hobby, Books, Electronics, and Other Retailers: This category includes stores that sell specialized goods and occupy large building footprints, usually.

Exhibit 16. Lacey Sales Tax Revenue for Top Three Industry Categories



Source: *2023 Annual Comprehensive Financial Report.* City of Lacey, WA, 2023

Sales tax is also an important driver of local tax revenues in other cities in the region. Exhibit 17 compares Lacey to three other cities: Olympia, Lakewood, and Federal Way. In all of these cities, sales tax makes up between 39 and 46 percent of tax revenues.

Exhibit 18 also shows the size of each city's tax revenue compared to the population size.

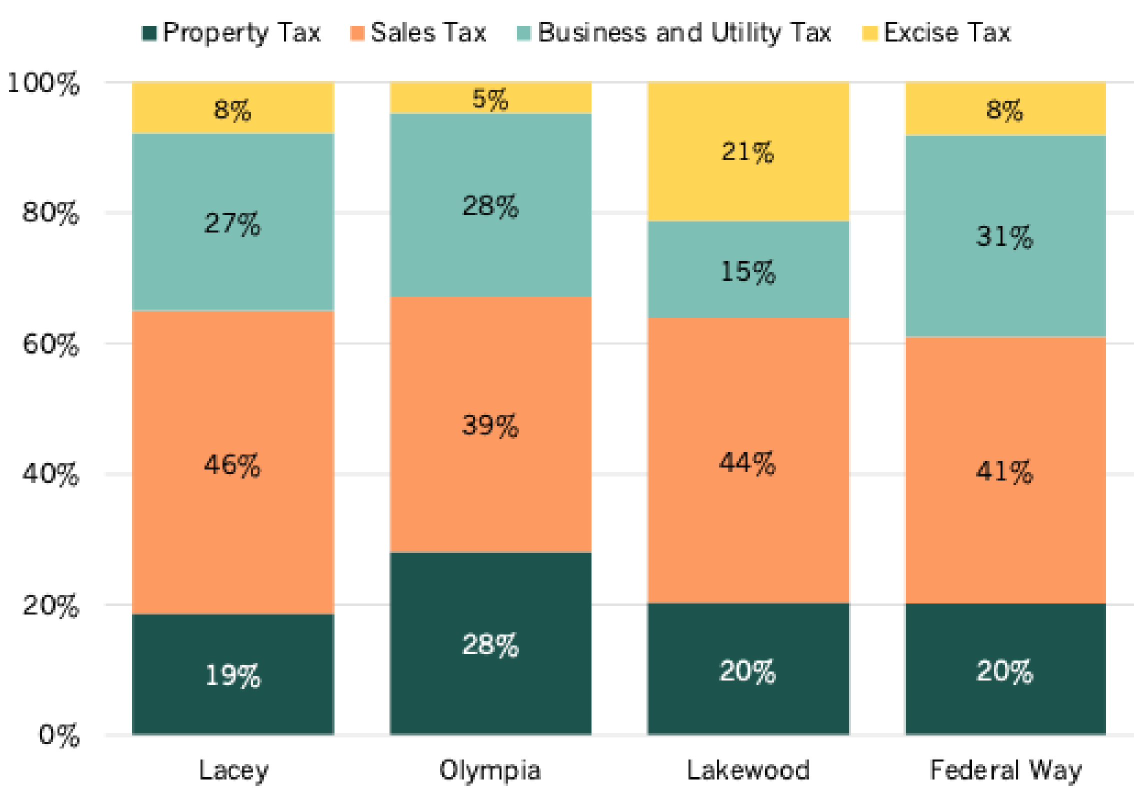
Comparing these two exhibits there are a few notable differences about the comparison cities when compared to Lacey:

- In Olympia, property tax revenues make up a greater share of the city's tax revenues. This is partly because property values are higher and partly because there are higher density developments.
- In Olympia, the tax revenue per capita is about twice as large. This is not just because property values are typically higher in Olympia. This is because there are much more taxable economic activities happening in Olympia (i.e., more properties, more retail and auto sales, more business revenues, etc.).
- About half of the excise tax revenues in Lakewood is attributable to gambling taxes. Lakewood's gambling tax rates vary from 2 percent of net receipts for amusement games to

5 percent of gross receipts for bingo games and 11 percent of gross receipts for card games.[7]

- While the tax revenue components are similar between Lacey and Federal Way, the per-capita tax revenue is lower in Federal Way.

Exhibit 17. Tax Revenues by Source in Lacey and Comparison Cities in 2023



Source: *2023 Annual Comprehensive Financial Report.* City of Lacey, WA, 2023; *2023 Annual Comprehensive Financial Report.* City of Olympia, WA, 2023; *2023 Annual Comprehensive Financial Report.* City of Lakewood, WA, 2023; *2023 Annual Comprehensive Financial Report.* City of Federal Way, WA, 2023.

Exhibit 18. Average Tax Revenues per Capita in Lacey and Comparison Cities in 2023

LACEY	OLYMPIA	LAKEWOOD	FEDERAL WAY
$834	$1,698	$613	$612

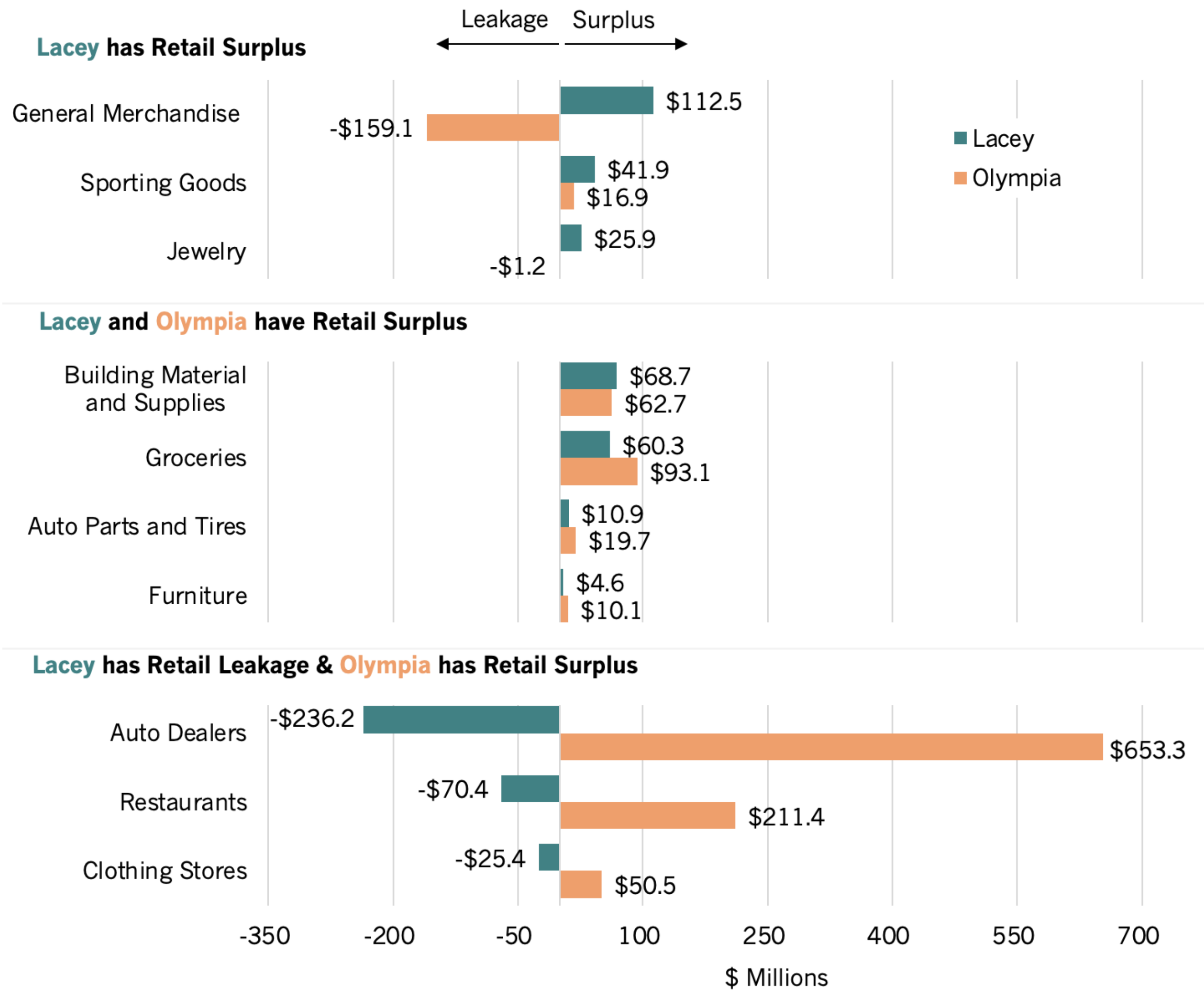
Source: *2023 Annual Comprehensive Financial Report.* City of Lacey, WA, 2023; *2023 Annual Comprehensive Financial Report.* City of Olympia, WA, 2023; *2023 Annual Comprehensive Financial Report.* City of Lakewood, WA, 2023; *2023 Annual Comprehensive Financial Report.* City of Federal Way, WA, 2023; U.S. Census Bureau Quick Facts

[7] City of Lakewood. "Taxes and Fees in Lakewood." https://cityoflakewood.us/finance/taxes-fees-in-lakewood/

Retail Leakage

Retail leakage[8] occurs when residents do not have competitive opportunities to purchase goods locally and must travel outside the primary market area (or purchase online) to find desired products. Exhibit 19 shows that there is an observed retail surplus across a few retail categories in Lacey. Olympia is offered as a comparison, but retail leakage from Lacey does not necessarily flow to Olympia.

Exhibit 19. Retail Surplus and Leakage by City



Data source: Claritas

[8] Retail leakage shows an existing gap, representing the difference between demand and supply within specific geographic boundaries. A **negative value** represents leakage of retail opportunity outside the market area, and potential for that demand to instead be met locally. A **positive value** represents a surplus of retail sales, a market where customers are drawn in from outside the market area.

Lacey outsells Olympia in general merchandise (which includes stores such as Target and Walmart and excludes general grocery stores and department stores), sporting goods, and jewelry. Lacey and Olympia perform similarly on retail sales in building materials, groceries, auto parts, and furniture. However, there is retail leakage from Lacey when it comes to auto dealers, restaurants, and clothing stores. While there may be a higher barrier to entry for auto dealers because of high capital costs and limited franchise opportunities, these data points suggest Lacey could focus on growing the diversity of its restaurant and apparel store options.

Foot Traffic and Visitors

There are several key retail areas in Lacey, including South Sound Center and Market Square (along Sleater Kinney Road SE), Hawks Prairie Village Mall (along Marvin Road NE), and Summerwalk Village (on College Street SE and Yelm Highway SE). Visits per year to these retail areas range from 5 to 12 million. Around 50 percent of visitors to these shopping areas originate from Olympia, and around 20 percent originate from Lacey. As a local destination for general merchandise, many people living outside Lacey shop in Lacey's stores. Most visitors are at home prior to visiting the retail area and return home post shopping.[9]

Place.ai's Void Analysis tool[10] suggests types of businesses that may be lacking in particular areas. In South Sound Center and Hawks Prairie Village Mall, the five most common types of businesses that seemed to be lacking are the following.

- Restaurants (e.g., American, Mexican, seafood)
- Groceries (e.g., ethnic/international, independent/local)
- Attractions (e.g., bowling, museum, etc.)
- Cannabis dispensaries
- Cafés/bakeries

While these data points alone do not lead to conclusive findings, they provide an additional perspective for identifying retail development opportunities in Lacey.

Neighborhood Commercial District Survey

At the end of 2022, the City of Lacey conducted a survey of its residents, workers, and visitors to gather community perspectives ahead of the next update to its Neighborhood Commercial Districts. A majority of the responses came from residents in Hawks Prairie Planning Area. About half of those who responded were born in 1970 or later (younger than 55 years), and the other half were born earlier than 1970 (55 years or older).

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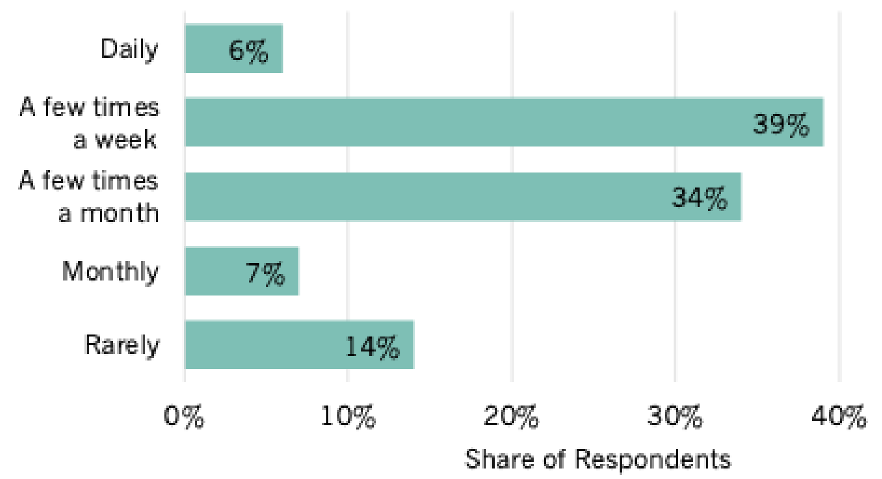
[9] These data points are from Placer.ai.

[10] Placer.ai assesses void by ranking retailers by their relative fit score (based on demographic fit, cannibalization risk, average monthly foot traffic and co-tenancy fit) to see what specific retailers or retail types fill that void.

One of the survey questions read: “How often do you travel outside the City of Lacey for your shopping and services-related needs (groceries, home goods, restaurants, gyms, barber, etc.)?” In response, about 45 percent said they traveled outside the city more than once a week, and 79 percent said they did so more than once a month. The responses suggest most people are frequently leaving Lacey to find specific goods or services.

Exhibit 20. Frequency of Shopping Outside Lacey



Source: City of Lacey. Neighborhood Commercial District Survey Results. 2023

Some of the most frequent retail or service-related businesses people sought out included the following.

- **Specialty Markets:** Respondents often travel to communities that offer a wider selection of fresh, organic, or international groceries. A large number of respondents shop at Trader Joe’s, Whole Foods, and specialty grocery stores like Asian markets.
- **Restaurants and Cafés:** Dining options are a key reason people visit other areas. Respondents seek out higher-quality restaurants, coffee shops, and unique dining experiences not available locally. Many prefer sit-down establishments over fast-food options.
- **Clothing and Department Stores:** Shoppers frequently visit stores such as Macy’s, Nordstrom, and REI for clothing and outdoor gear. Many noted that their local options are limited, and they travel to other areas for better selection and quality.
- **Entertainment, Leisure, and Personal Services:** People frequently visit bookstores, movie theaters, hair salons, medical services, and family-friendly attractions. Some noted a desire for more entertainment options and specialized providers, such as boutique gyms and holistic health services, closer to home.

4. Commercial Real Estate Inventory and Trends

Retail rents are typically higher in Lacey than in the rest of Thurston County, suggesting a relatively strong demand for retail spaces. Highest asking rents are observed in Hawks Prairie. Lacey's industrial (i.e., warehouse) spaces are larger, reflecting the presence of large logistics facilities in Hawks Prairie.

Weakness in Lacey's commercial real estate is concentrated in Lacey Midtown. There are retail vacancies, both small and large spaces. While Lacey has made a significant progress in reducing office vacancies over the last ten years, large vacancies remain in state government buildings. However, there are recent developments that suggest Lacey Midtown is in the early stages of ongoing enhancement.

Commercial Inventory

Exhibit 21 shows the supply of commercial real estate in Lacey and Thurston County. In both places, industrial spaces are the most common, followed by retail and office spaces. Proportionally speaking, there is a greater concentration of industrial space (i.e., warehousing and distribution) in Lacey. There are very few flex spaces, which are adaptable commercial spaces that can function as both office and warehouse/industrial areas.

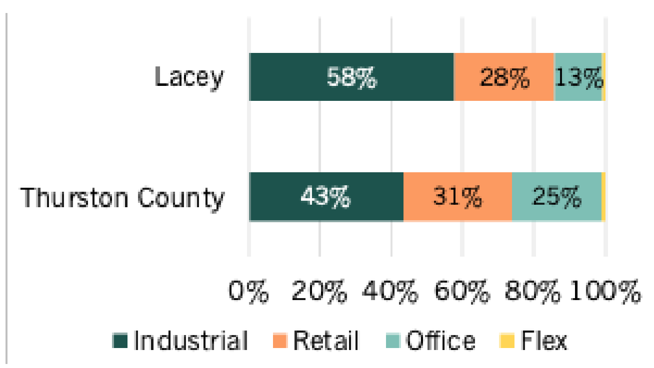
Exhibit 21. Commercial Real Estate Inventory (Square Feet)

	LACEY	REST OF THURSTON COUNTY	THURSTON COUNTY TOTAL
Industrial	10,300,000	10,900,000	21,200,000
Retail	5,000,000	10,000,000	15,000,000
Office	2,400,000	9,700,000	12,100,000
Flex	113,000	469,000	582,000
Total	17,813,000	31,069,000	48,882,000

Source: CoStar, March 2025

When looking at the makeup of the commercial real estate inventory in each place, Exhibit 22 shows that Lacey has proportionately greater amount of industrial and less amount of office space. This reflects the presence of logistics facilities in Hawks Prairie and office buildings in Olympia.

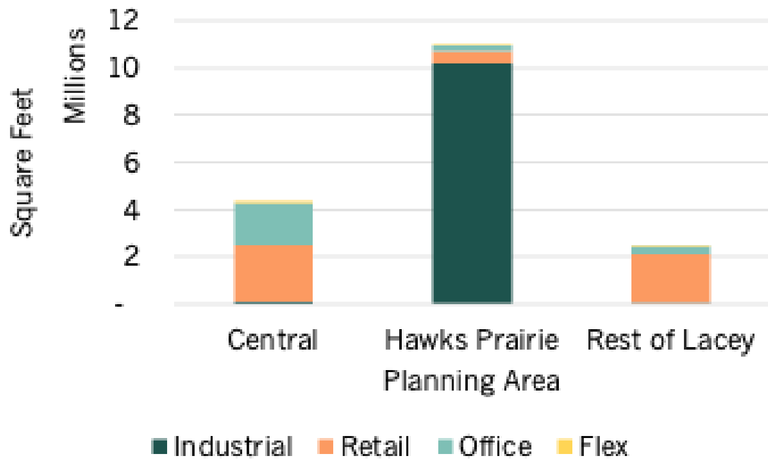
Exhibit 22. Commercial Real Estate Shares



Source: CoStar, March 2025

Commercial real estate looks different across Lacey. There is a mix of retail and office in Lacey Midtown and the Depot District areas of the central Lacey. Commercial real estate in northeast Lacey and Hawks Prairie areas is mostly industrial. While there are a couple of retail centers in other parts of Lacey, they are not as large as the retail businesses in Lacey Midtown and the Depot District areas in central Lacey.

Exhibit 23. Commercial Real Estate Inventory (Square Feet) By Planning Area



Source: CoStar, March 2025

Vacancy and Lease Rates

There are a few notable differences in the vacancy and average lease rates between Lacey and the county, which can be observed by comparing the data in Exhibit 24 and Exhibit 25.

- **Industrial:** The average lease rate is lower in Lacey. However, industrial buildings are typically at least twice as large. Since larger spaces tend to have lower per-square-foot lease rates, the lower rate in Lacey is not unexpected.
- **Retail:** The average lease rate is somewhat (7.5 percent) higher in Lacey. At the top end, for example, the asking rate for newest spaces in Hawks Prairie was $44 per sq. ft., as of early 2025. The average building size is slightly higher. This suggests there is a strong demand for retail space in Lacey. However, as shown in Exhibit 28, retail vacancy in Lacey ticked upwards during the second half of 2024. Many of the vacant spaces are in and near the South Sound Center (Lacey Midtown) where properties are older. As shown in Exhibit 29, vacant retail spaces vary widely in size.
- **Office:** The average lease rate is somewhat (7.0 percent) higher in Lacey. The vacancy rate used to be very high (above 10 percent until 2018), but it has come down to a healthy rate (below 4.0 percent) in recent years (see Exhibit 30). Still, about half of the vacant office properties and nearly 75 percent of the vacant office spaces are in state government buildings located in Lacey Midtown.

Exhibit 24. Commercial Real Estate in Lacey

	VACANCY	AVERAGE LEASE RATE ($ PER SQ. FT.)	AVERAGE SIZE (SQ. FT.)
Industrial	5.7%	$8.52	106,186
Retail	5.2%	$24.18	13,333
Office	4.0%	$26.30	15,686
Flex	0%	$15.11	9,417

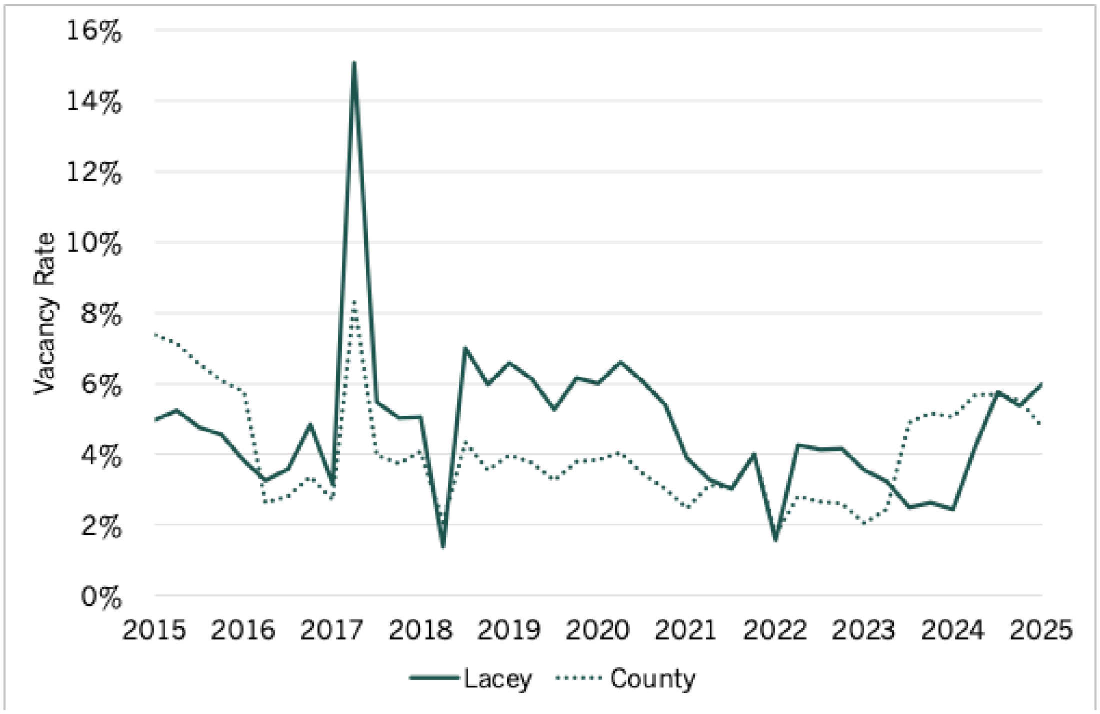
Source: CoStar, March 2025

Exhibit 25. Commercial Real Estate in Thurston County

	VACANCY	AVERAGE LEASE RATE ($ PER SQ. FT.)	AVERAGE SIZE (SQ. FT.)
Industrial	5.4%	$9.45	43,802
Retail	3.1%	$22.49	10,799
Office	2.8%	$24.58	13,067
Flex	1.1%	$15.00	13,857

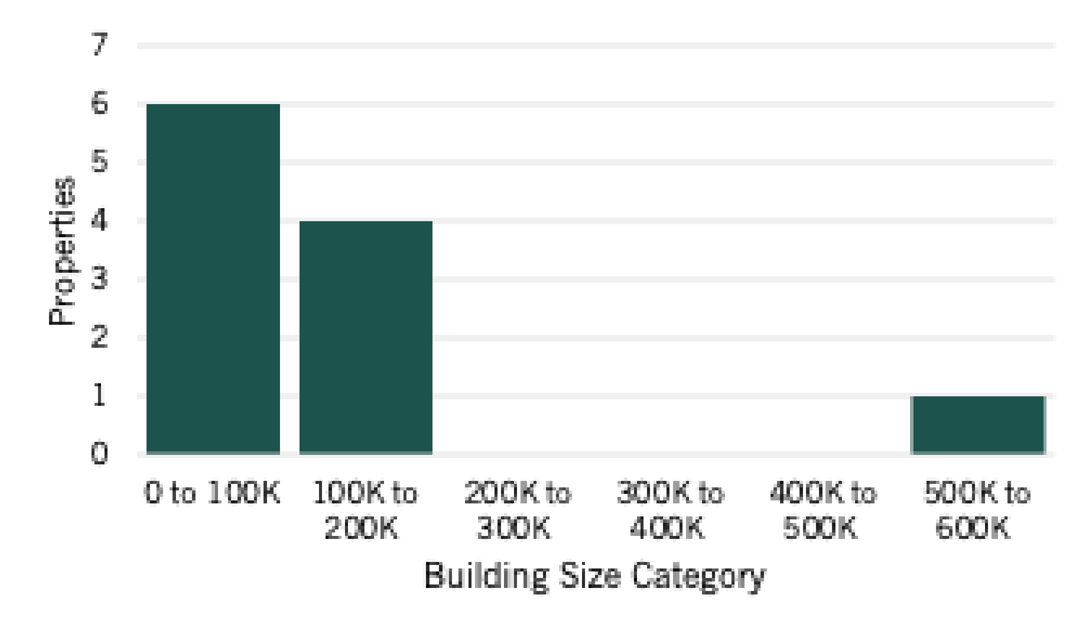
Source: CoStar, March 2025

Exhibit 26. Industrial Vacancy Rate in Lacey and Thurston County



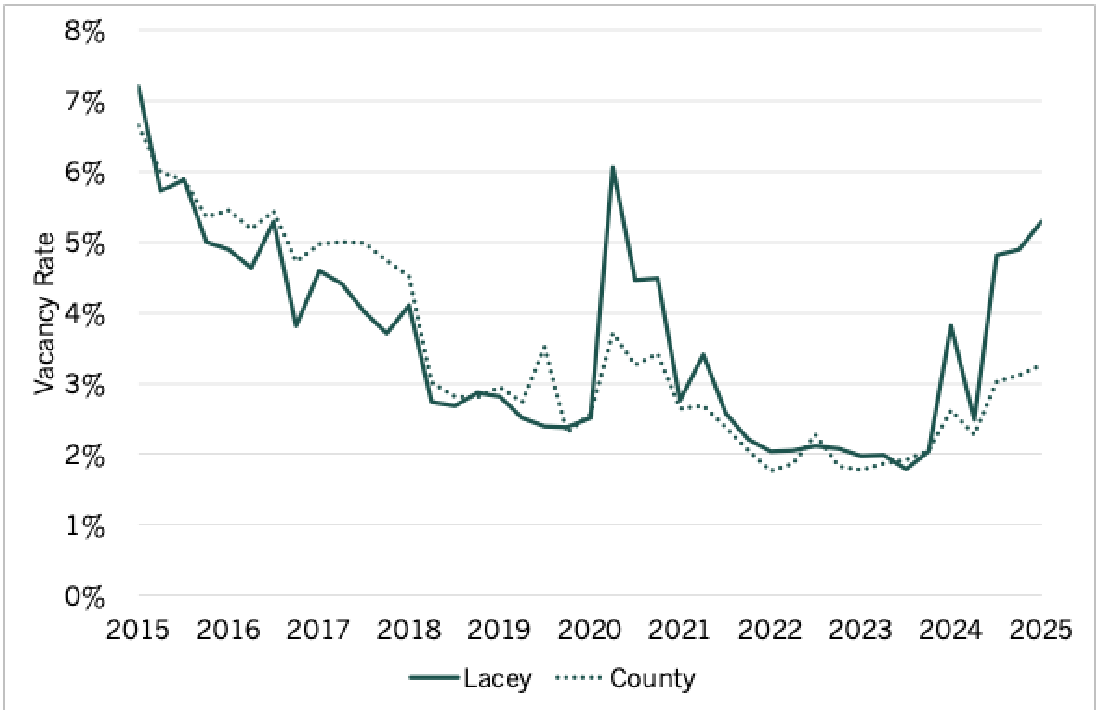
Source: CoStar, March 2025

Exhibit 27. Industrial Vacant Space (Sq. Ft.) by Building Size Category (Total: 11 Properties)



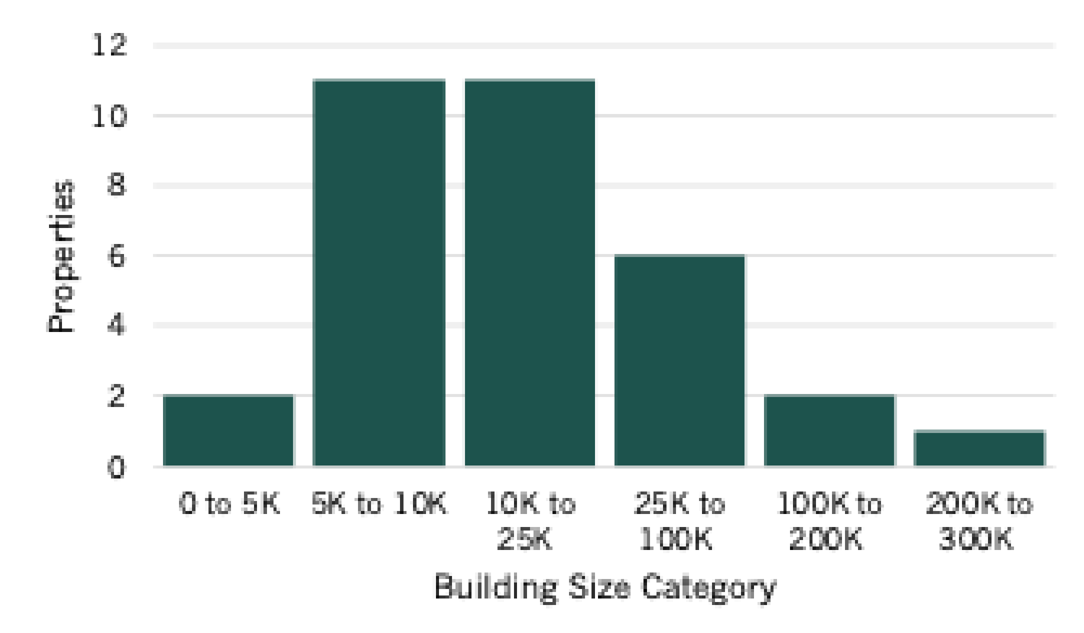
Source: CoStar, March 2025

Exhibit 28. Retail Vacancy Rate in Lacey and Thurston County



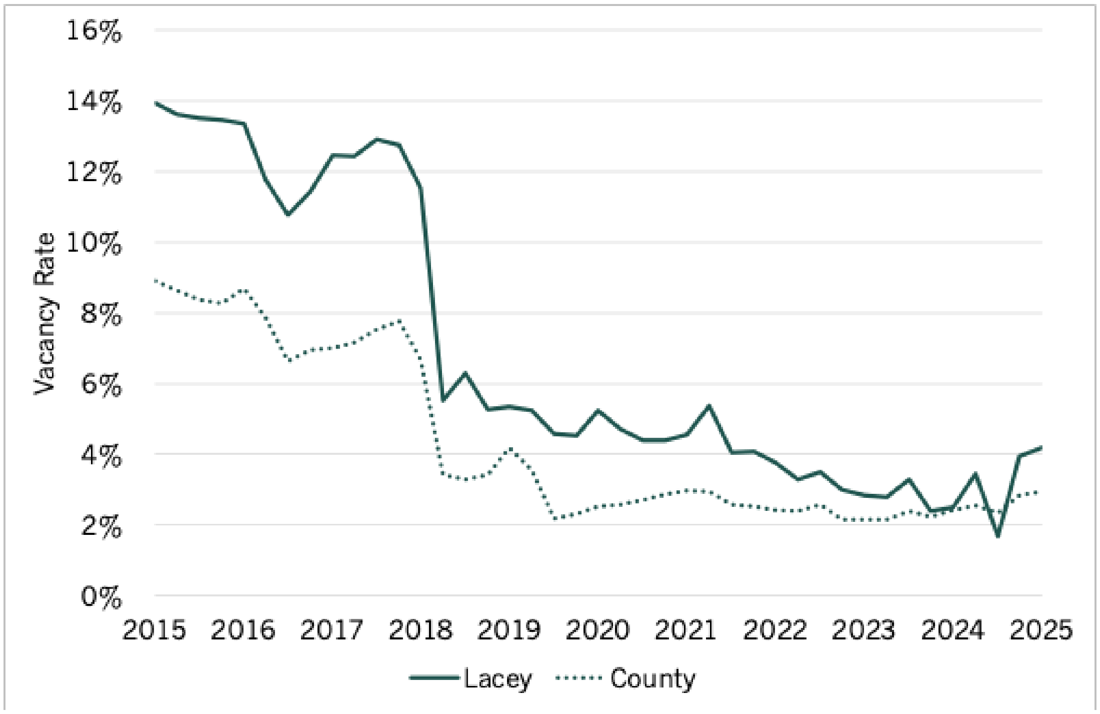
Source: CoStar, March 2025

Exhibit 29. Retail Vacant Space (Sq. Ft.) by Building Size Category (Total: 33 Properties)



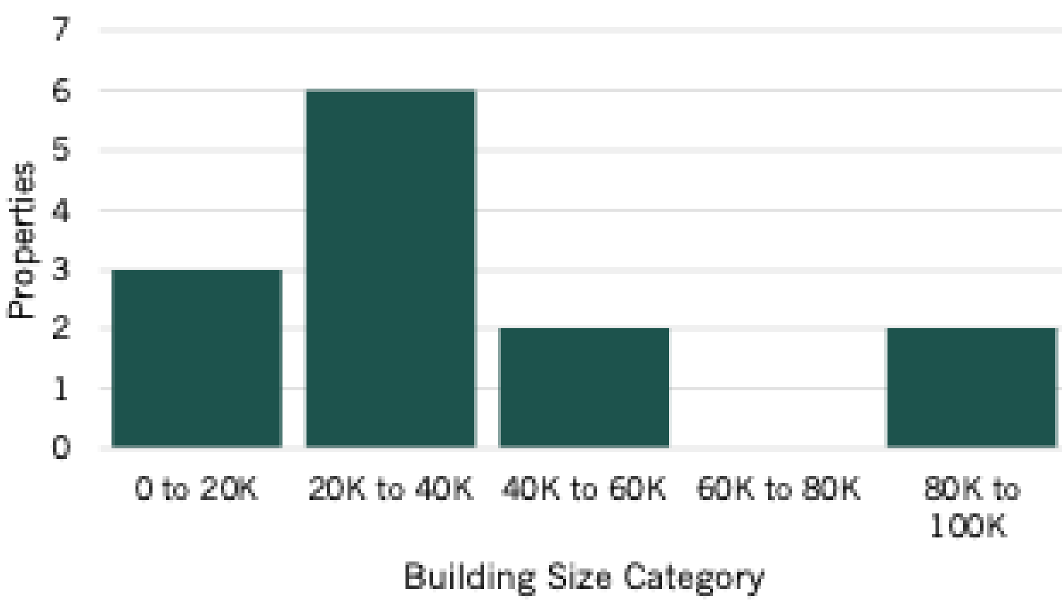
Source: CoStar, March 2025

Exhibit 30. Office Vacancy Rate in Lacey and Thurston County



Source: CoStar, March 2025

Exhibit 31. Office Vacant Space (Sq. Ft.) by Building Size Category (Total: 13 Properties)



Source: CoStar, March 2025

Recent Developments

LACEY MIDTOWN

Although there are notable retail and office vacancies in Lacey Midtown, new developments are slowly starting to replace underutilized buildings.

- New retail: Several buildings along Pacific Ave SE were demolished in 2021 and have been replaced with new retail, such as Banfield Pet Hospital, Chipotle (a fast-casual Mexican grill), Sharetea (a bubble tea shop), and 7-Eleven (a convenience store). There still remains about 1 acre of undeveloped land, which could see a couple of new retail establishments.
- New housing: A new apartment with 50 market-rate units is replacing an old office building on Woodland Square Loop SE. It is expected to open this year.

Exhibit 32. Pacific Avenue Developments

Source: CoStar

Exhibit 33. 629 Building in Lacey Midtown

Source: CoStar

HAWKS PRAIRIE

The southern portion of Hawks Prairie area near Marvin Road NE is filing up with neighborhood centers and new retail. There also are new retail developments near the Hawks Prairie area along Martin Way E. These new retail spaces are contributing to both higher retail lease rates and temporary increases in retail vacancies in Lacey.

Lacey is also beginning to see the development of a new hospitality sector. While many hotels exist next to Lacey Midtown along Interstate 5, new hotels are entering the market in anticipation of Quiemuth Resort and Quiemuth Village projects. There are two proposed developments for hotels along Marvin Rd NE. Residence Inn by Marriott would finish construction by 2026 and have 136 rooms. Homewood Suites by Hilton would finish construction by 2028 and have 142 units.[11]

[11] Information on development proposals are based on data in CoStar.

5. Implications of Quiemuth Village Development

The next, large wave of development in Lacey is expected to be the Quiemuth Resort and Quiemuth Village projects. The Nisqually Indian Tribe is planning to develop a casino it would own and operate in the Quiemuth Resort property. The Tribe also purchased a 174-acre property around the Quiemuth Resort property and is planning to develop a mixed-use community that includes a mix of multifamily housing, retail, grocery, and entertainment venues. If the proposed project successfully completes federal review processes and is financed, it could lead to a new economic development opportunity.

The analysis below does not include the Quiemuth Resort property because the fiscal implications for the City of Lacey are expected to be minimal. The analysis assumes the City would not be able to collect taxes, and municipal services would be provided by the Nisqually Indian Tribe.

Exhibit 34. Property Boundaries for Proposed Quiemuth Resort and Village Developments

Source: Nisqually Indian Tribe

According to the Environmental Assessment (EA) report submitted to the Bureau of Indian Affairs in August 2024, the proposed development of Quiemuth Village would include a mix of commercial, retail, recreational, lodging, and housing uses. The EA outlined two alternatives. Alternative 1 would have more retail uses and a travel center for fueling trucks. Alternative 2 would have less retail uses but have a school, more outdoor recreational facilities, and a neighborhood gas station.

Exhibit 35. Land Use Summary for Proposed Quiemuth Village Development

LAND USE	ALTERNATIVE 1 COMMERCIAL-HEAVY MIXED-USE	ALTERNATIVE 2 RECREATION-HEAVY MIXED-USE
Commercial and Retail	929,500 sq. ft.	588,500 sq. ft.
School	none	30,000 sq. ft.
Recreational Facilities	7.4 acres	53.1 acres
Lodging Facilities	200 rooms	200 rooms
Housing	320 units	320 units
Fuel Pumps	10 diesel / 16 gasoline (travel center/truck stop)	10 gasoline (gas station)
Total Parking	4,655 spaces	3,186 spaces

Source: Quiemuth Village Environmental Assessment, 2024

Implications for the City of Lacey

As presented above, sales tax is the largest component of the City of Lacey's tax revenues and a key driver of municipal revenues in the region. Therefore, cities are competing to establish local retail destinations that could generate local sales and reduce retail leakage. Moreover, it is important to attract types of retail that the residents want.

The proposed development can be one of the answers to Lacey's retail development needs. Alongside the resort property, the proposed mixed-use neighborhood is not only going to be a regional attraction but also aligned with the City's needs.

- New retail spaces would add opportunities for new retail activities. Alternative 1 would add about 18 percent and Alternative 2 would add about 11 percent compared to 5 million square feet of retail in the city.
- The proposed types of retail include those that residents want, namely retail and dining, upscale grocery, golf, and family entertainment (e.g., theater, bowling alley, arcade).

Additionally, lodging tax could become more important for the City of Lacey. The resort property would be supported by potentially up to 480 new lodging facilities. The Quiemuth Village development expects 200 rooms, and two adjacent hotels could add 278 rooms if the developments move forward as proposed. These new rooms would more than double the number of hotel rooms in Lacey.[12]

In addition to the retail and hotel developments discussed above, new housing developments near Quiemuth Village are currently under consideration. Ainsley at Lacey would be a 291-unit market-rate apartment located north of Britton Parkway NE and east of Shady Glen Court NE. Plans[13] suggest there would be a second phase of the development, which could add about 260 more units.[14] There are also proposals to build about 400 units along 15th Avenue NE.[15] These would be 3-story apartments[16] located about halfway between Quiemuth Village and Lacey Midtown.

Because the Nisqually Indian Tribe has not yet decided on either of the two proposed alternatives, the City of Lacey is assessing its options while waiting for more information. When a final development proposal is available, the City should re-evaluate the mix of retail, residential, and non-residential uses and consider complementary land uses that could locate around the Quiemuth Resort and Village projects.

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[12] According to CoStar, there are 381 hotel rooms in Lacey with an average daily rate of $117 and occupancy rate of 63.6 percent. These number do not include short-term rentals or vacation rentals.

[13] City of Lacey. #23-0058 – Britton Place Short Subdivision. https://cityoflacey.org/projects/britton-place-short-subdivision-23-0058/

[14] Boone, Rolf. “500-unit apartment proposal in NE Lacey is now official, city information shows.” November 27, 2021. https://www.theolympian.com/news/local/article256120642.html

[15] Data from CoStar

[16] CPH Consultants. Site Plan Review Application Canfield Apartments. August 2, 2024. https://cityoflacey.org/wp-content/uploads/sites/3/2024/10/3-Canfield-Project-Narrative.pdf

LACEY CITY COUNCIL WORKSESSION
DATE: MAY 27, 2025

SUBJECT: **Urban Growth Area Annexation Financial Study**

RECOMMENDATION: No action is to be taken, the goal is to review the findings and conclusions of the Urban Growth Area Annexation Financial Study prepared by Berk Consulting.

STAFF CONTACT: Rick Walk, City Manager RW
Vanessa Dolbee, Director of Community and Economic Development VD
Sarah Schelling, Current Planning and Economic Development Manager SS

ORIGINATED BY: Community and Economic Development

ATTACHMENTS: 1. City of Lacey Urban Growth Area Financial Study

FISCAL NOTE: N/A

WORK PLAN GOAL AND STRATEGY: Coordinated & Collaborative Planning - A. Craft a framework to strategically advance Annexations and UGA Permitting

PRIOR REVIEW: N/A

BACKGROUND:

In June 2024, the City of Lacey engaged Berk Consulting to evaluate the fiscal and operational impacts of annexing areas within the City's Urban Growth Area (UGA). This study represents the City's first comprehensive fiscal analysis covering the entire UGA and is intended to support informed decision-making for future annexations that align with the City's long-term goals of sustainable growth, effective service delivery, and financial health.

The primary objectives of the study were to:
- Assess the financial feasibility of annexing 15 defined UGA subareas.
- Evaluate infrastructure and service delivery impacts.
- Provide a data-driven framework to prioritize annexation areas.

The study modeled various growth scenarios to analyze long-term financial impacts, including general fund implications and staffing needs. It also assessed eligibility of each subarea for the sales and use tax credit authorized under HB 1425 (2023), which provides a 0.1% or 0.2% credit for annexation areas with populations over 2,000 or 10,000, respectively. These credits, subject to an interlocal agreement with Thurston County, can help offset municipal service costs.

Key findings of the fiscal analysis include:

- All 15 subareas would have a net negative impact on the City's General Fund absent financial offsets.
- Sales tax credits available under HB 1425 present opportunities to reduce the fiscal burden of annexation.
- Prioritization of annexation should be guided by a combination of development readiness, infrastructure needs, and financial feasibility.

At the worksession, Berk Consulting, represented by Katherine Goetz and Andrew Bjorn, will present the methodology and assumptions used in the fiscal analysis, provide a comparative evaluation of each UGA subarea based on financial impact, development capacity, and service needs, and provide considerations for short- and long-term annexation priorities.

NEXT STEPS:

After the presentation by Berk Consulting, the City Council will have the opportunity to ask questions and discuss the results of the study. Based on the discussion, if the City Council decides to move forward with an annexation proposal the following next steps will need to be considered:

- Meet with Thurston County to discuss the annexation study and interest in forming an ILA.
- Determine scope of annexation area, estimated budget and project timeline.
- Conduct an area specific financial and operational analysis using this UGA Annexation study as a foundation. Initiate discussions with Thurston County regarding ILA.
- Develop and implement a communication and engagement strategy and coordinate with other special districts within the proposed annexation area.
- After tentative agreement on ILA with Thurston County is achieved, both the City and County hold required public hearings. After which, City Council and Thurston County Board of Commissioners could take formal action on the ILA.
- If ILA is approved, submit annexation proposal to Thurston County Boundary Review Board (BRB) for 45-day review. BRB makes decision to either not to invoke jurisdiction or hold their own public hearing process.

- After completion of BRB process, the City Council may consider an ordinance to formally annex.

- After annexation, the City must conduct a census of the annexation area and complete annexation certification process with Office of Financial Management.

The above is a high-level summary of the next steps that will need to be taken if the city initiates the annexation process of sub-area(s) of the unincorporated UGA as identified in the attached study. Each step has a multitude of tasks and will take both financial resources and staff capacity. Consultants will need to be utilized for some of the analysis work, communications and public engagement strategy and census to decrease the burden on existing staff resources. Some of the above steps can occur concurrently meaning you do not have to complete one step to start the next.

It is currently estimated the process outlined above would take a minimum of eighteenth to twenty-four months to complete. This process could take more than twenty-four months depending on how quickly a draft ILA can be developed, the discovery new information and time to resolve unanticipated issues, and/or the time to address public sentiment.

City of Lacey

Urban Growth Area Annexation Financial Study

May 2025

BERK

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Seattle, Washington 98121
P (206) 324-8760
www.berkconsulting.com

"Helping Communities and Organizations Create Their Best Futures"

Founded in 1988, we are an interdisciplinary strategy and analysis firm providing integrated, creative and analytically rigorous approaches to complex policy and planning decisions. Our team of strategic planners, policy and financial analysts, economists, cartographers, information designers and facilitators work together to bring new ideas, clarity, and robust frameworks to the development of analytically-based and action-oriented plans.

Project Team

Katherine Goetz · Project Manager
Andrew Bjorn · Strategic Advisor
Madalina Calen · Analyst
Michelle Ellsworth · Analyst
Ariel Hsieh · Analyst
Casey Price - Analyst

Contents

Overview

Requirements under the Growth Management Act highlight that urban growth areas (UGAs) should accommodate new urban development and growth over the next two decades. The City of Lacey would like to understand the financial impacts of annexing the unincorporated portions of the City's UGA. The cost of extending municipal services such as police, fire protection, court services (prosecution, public defense, court services), animal care, utilities, and public works to new areas may exceed the tax revenue generated from those areas, particularly if significant infrastructure upgrades are needed. This can mean that annexation could represent a net cost to the rest of the city, and the potential for reductions in services.

There are potential benefits of annexation including:

- **Extensions of urban services.** Annexation extends urban services provided by a city that are unavailable in unincorporated areas, such as sewer, water, ambulance, transit, and drainage control.
- **Local government representation.** Annexation gives suburban residents representation in an existing local government of the larger community in which they live. Business, professional, and community leaders who live in the fringe area can have a more direct role in community affairs by being elected or appointed to public office in the city.
- **Urban land use regulation.** Annexation can provide city zoning and development regulations to buildable areas. By means of annexation, a city's zoning ordinances can be extended to adjacent areas in a logical manner, helping to ensure orderly growth.
- **Lower utility rates.** Annexation may bring about lower utility rates for residents, since city utility surcharges to unincorporated territory would be lifted.
- **Clear service boundaries.** City and county boundaries will be regularized for service areas, eliminating confusion as to whether a particular parcel should obtain services from the city or from the county.

In addition to financial considerations, there are also several challenges that may be faced in the future as areas of the UGA are annexed, including the following:

- **Infrastructure gaps.** Unincorporated areas may have outdated or insufficient infrastructure that does not meet City standards, requiring substantial investment in roads, utilities, and public facilities before annexation is feasible. In addition to the effects on financial sustainability, this can also occupy time and resources for planning, engineering, construction, and implementing necessary upgrades.
- **Community resistance.** Residents in unincorporated areas may oppose annexation due to different concerns. This may include worries about higher taxes, stricter regulations, or changes in service levels, which may or may not be realized. Objections to annexation could potentially delay or complicate the annexation process and prevent short-term growth and development in these areas

- **Negotiations with the County and other jurisdictions.** Coordination with Thurston County and other jurisdictions may be necessary to resolve overlaps in service responsibilities or existing agreements, potentially leading to legal or procedural obstacles.
- **Impact on service capacity:** Rapid annexation could strain the City's existing service capacity resulting in reduced service levels to existing Lacey businesses, residents, and customers, requiring Lacey to hire additional staff or invest in expanding its service infrastructure, which could take time and increase operational costs.

As the City works to balance growth while ensuring financial sustainability, the ongoing status of portions of the UGA will be a clear question. Plans for future expansion must carefully assess the fiscal impacts of incorporating these areas to avoid straining municipal resources and reducing levels of service.

Under the systems in Washington State, the City Council is the primary authority with respect to decision-making on annexation actions. As the key actor in this process, providing a clear strategy on how best to proceed with annexation planning can help to present an open and transparent framework for future urban expansion. Such a framework can help Council to coordinate several types of actions:

- Responses for petitions for annexation received from residents and landowners.
- Actions to carry out City-led annexations through elections or interlocal agreements.
- Efforts to pursue administrative annexations for specific policy reasons.

To this end, this Annexation Financial Study aims to analyze the costs and benefits of annexation, providing the City Council and staff with critical data to guide decision-making. The recommendations build on the City's existing annexation policies and align with state guidelines, ensuring a comprehensive and informed approach.

The content for this report includes the following:

- A review of **major considerations in the annexation process**, including key recommended principles for evaluating annexations.
- A **background profile** of the city and the UGA, with divisions of the UGA into subareas for a more detailed analysis.
- An assessment of **developable land** and **likely buildable capacity** for future growth in the UGA.
- An analysis of the **costs of providing municipal services**, including general government and utilities, at current City service levels.
- A discussion of **infrastructure needs** within the UGA.
- An evaluation of the **net fiscal impacts** of annexation, including expected short- and long-term effects on the City's budget.
- Recommendations for **strategies to manage annexation**, including a framework to evaluate potential fiscal impacts and considerations for future negotiations of interlocal agreements.

In addition to this document, this project also provides a user-friendly tool that can provide staff with the ability to evaluate the specific effects of annexing a particular area on municipal budgets.

Annexation Processes

Introduction

Under the *Growth Management Act* (GMA), Urban Growth Areas are areas designated by a county under RCW 36.70A.110. Under these provisions, UGAs are areas "within which urban growth shall be encouraged and outside of which growth can occur only if it is not urban in nature." UGAs must be capable of supporting growth over the next 20 years, with room for additional capacity to address market demand.

UGAs are created and adjusted based on growth forecasting. The state Office of Financial Management (OFM) prepares population forecasts for each county which counties and cities use to plan for future growth, and these projections inform how these UGAs are defined. Counties such as Thurston County are also required to submit Buildable Lands reports (per RCW 36.70A.215) to ensure they have designated enough land for future development.

Under this system, a city's associated UGA usually falls into one of three effective categories:

- **Banked land capacity for future growth.** In some portions of UGAs, development has been limited under the expectation that over the coming years these areas will be incorporated within the city and can accommodate growth at urban intensities. This aligns with the original intent of the GMA for these areas.
- **Urban service areas for new development.** In many communities, including in Thurston County, UGAs are seen as an opportunity to accommodate growth in the unincorporated county that can take advantage of urban services without the need to be located within a city's corporate boundaries. This may include areas that are already urbanized per pre-GMA actions and developed under county rules that do not necessarily meet city standards.
- **Administrative areas.** Finally, there are some locations which are either related to the provision of government services or have no significant function or taxable value and are included for different reasons. While this may include the need for urban services to be extended to schools, fire stations, etc. in unincorporated areas, there are also cases where annexations are pursued to make city boundaries more regular and simplify service delivery areas.

Note that annexations typically may only occur in locations that are contiguous to the current city boundary and within a UGA.

Regional and county planning efforts typically prioritize growth within UGAs and incorporated cities, while discouraging development in rural areas outside UGAs to limit urban sprawl. Thurston County's Countywide Planning Policies specifically guide new growth toward these designated areas.

Enabling Statutes

In Washington, the details of annexation of UGAs are largely covered under two different statutes:

- Chapter 35A.14 RCW is the primary source of information for annexation by code cities applicable to Lacey per Lacey Municipal Code Chapter 1.04 (with Chapter 35.13 RCW for non-code cities). These provisions outline the annexation process, including the different methods available and the necessary steps to take for each approach.
- The *Growth Management Act* (Chapter 36.70A RCW) provides specific requirements for the designation and planning of UGAs under RCW 36.70A.110. This presents the rationale for UGAs and highlights how they may be defined and expanded over time.

Annexation areas are usually managed as part of a city's long-range land use planning through the Comprehensive Plan.

Note that other details of annexation specified through state law include:

- The **management of special districts**, primarily related to whether annexation will add or remove areas from these districts and the transfer of assets, personnel, and debt related to a fire protection district.
- The **disposition of franchises**, such as the provision of water services in annexed areas by private companies. Note that existing franchises and permits are canceled, but the city must grant a new seven-year franchise except under certain conditions.
- The **transfer of county roads** to city management, including the allocation of county road district taxes levied against annexed properties.
- **Determining the population of the annexed areas** for the allocation of state funding in coordination with the state Office of Financial Management (OFM).
- **Coordination of new revenue**, including provisions related to property tax receipts, sales and use tax revenue, and state-shared revenues. Note that changes in state-shared tax revenues will be dependent on changes in the official state population estimates as noted above.
- **Assumption of city debt by annexed properties**, which may change the requirements for annexation under certain conditions, depending on the method used.
- **Comprehensive planning and zoning** for the annexed areas, which can be specified before annexation is complete. For code cities, zoning regulations can be developed for UGAs which would be put in force upon annexation. The City of Lacey and Thurston County have joint planning policies requiring that pre-annexation zoning remain after annexation.
- **Adoption of a sales tax credit** to offset the costs of annexation over a 10-year period, with a 0.1% sales tax credit permitted under RCW 82.14.415 if the annexed area has a population of 2,000 to 10,000, and a 0.2% credit permitted if an area with more than 10,000 residents is annexed.

Approaches to Annexation

State law provides several approaches by which annexation can occur. This section provides a summary of these methods to highlight some considerations for the development of an annexation strategy.

Direct Petition

Most annexations, and the likely format of the annexations to be managed through these guidelines, use a "**direct petition method.**" Under the statute, a direct petition requires the written consent of either:

- Owners of at least 60 percent of the property value in the area, based on assessed value, or
- Owners of a majority of the acreage and a majority of voters in the area to be annexed (considered the "**alternative direct petition method**").

Under both methods, the general process is:

- **Initial written notice.** For the process to begin, an initial written notice must be provided by representation from the areas to be annexed. This includes a proposal for the area to be annexed by a representation that includes owners of at least 10% of the assessed value (under a direct petition) or at least 10% of the acreage (alternative direct petition) of the area. Notification would also need to be provided to the Boundary Review Board within 180 days of the proposal.
- **Meeting with Council.** An initial meeting between the Council and the initiating parties is set to determine if the Council will approve or modify the proposed annexation, whether a proposed zoning regulation should be included, and if the annexed area should assume city debt.
- **Circulation and filing of petition.** Upon approval by the Council, a petition would be circulated describing the annexation, including a map of the proposed annexation and details of related conditions. This petition must be signed by property owners representing at least 60% of property value, or property owners representing at least 50% of acreage and at least 50% of resident voters.
- **Public hearing.** Upon receipt and certification of the petition, the City Council is required to hold a public hearing. The city would then pass an ordinance that would enact the annexation, which would include other elements of the annexation petition such as proposed zoning regulations.
- **Review by Boundary Review Board.** Note that the Thurston County Boundary Review Board may assume jurisdiction upon request of the county or other impacted government unit, a petition of 5% of registered voters or property owners representing 5% of property value, or potentially a petition by affected registered voters within ¼ mile of the annexation. This must be initiated within 45 days of receiving the notice of intention, and may result in the Board approving, disapproving, or modifying the proposal.
- **Notice of annexation.** After the ordinance is passed, certification must be provided to the OFM within 30 days, and notice provided to other agencies, including county departments and agencies, local franchises and permit-holders, the Department of Revenue, and city departments.

Election

An alternate approach is the **election method**, which relies on a special election of residents within an annexation area. This can be initiated either by:

- Council resolution, or
- A petition of 10% of the qualified voters that cast a vote in the last general election.

Typically, this is less common since it requires the additional costs of administering a special election for the targeted area, but up until recently this was the only approach available to cities to initiate the annexation process themselves. This did place cities in challenging positions, however, as cities cannot advocate for the results in their own elections under current electioneering restrictions.

Interlocal Agreements

Under statute, a code city may also annex areas from a county through an **interlocal agreement** negotiated between the two governments. This requires notification of all other impacted government districts and adjacent cities, which must consent and be a party to the agreement for it to proceed. The annexation process requires public hearings conducted by the city and county, either separate or joint, regarding the proposed interlocal agreement, as well as publication of the proposed interlocal agreement. A city ordinance would be needed to complete the annexation once the interlocal agreement is complete.

One notable advantage to the use of an interlocal agreement is that it can allow for the phased annexation of certain areas over time. In such a case, new annexation ordinances would be required over time to complete each phase of annexation. This may be useful for larger areas where consultation and review could examine a broader area, with clear statements about the order of annexation over time.

Although this does provide a stronger city-led alternative for annexation, the lack of fixed statutory requirements as with a petition or election may not provide the same clarity as other methods. This should be accompanied by a robust public engagement process, and annexation ordinances may still face review from the Boundary Review Board.

Additional Approaches

The statute provides additional annexation approaches in specific cases:

- **Annexation of an unincorporated island of territory** (RCW 35A.14.295) can occur for islands or pockets of land surrounded by the city. This process is more abbreviated given the nature of the annexation, but a petition signed by voters representing at least 10% of the votes cast in the last general state election can require a referendum on the issue. This may be applicable in certain areas, but the risk of an election from a petition may make this less desirable as an option.
- **Annexation of areas for municipal purposes** (RCW 35A.14.300) may occur for locations within the county that would be necessary for city uses, such as water or wastewater facilities. These annexations do not have to be contiguous and are not subject to review, but the territory must be city-owned.

- **Annexation of federally owned lands** (RCW 35A.14.310) can occur with the agreement of the federal government or an acceptance of a gift, grant, or lease. This land must be within 4 miles of the city. This is not a type of annexation that the City of Lacey is looking to pursue as there are no federally owned lands in the Lacey UGA.
- **Boundary line adjustments** (RCW 35.13.300) include cases where a portion of a parcel of land included within a city can be wholly included or excluded from the city. This has limited applications with minor effects and is largely not relevant to this discussion.

Potential Guidelines for Annexation

Although each annexation should be evaluated on its own, there are several common guidelines used to evaluate whether a potential annexation would be successful in meeting the goals of the community. Similar types of guidelines are commonly used by city councils and city staff to determine whether a potential annexation would help to benefit a city and the new potential residents identified in these areas.

Possible guidelines for annexation can include the following:

- **Consistency with the Comprehensive Plan.** A proposed annexation is consistent with the policies in the Comprehensive Plan and helps the City meet its goals under the Plan.
- **Fiscal sustainability.** The estimated revenue which accrues from the neighborhood after annexation is sufficient to support local service delivery and necessary infrastructure development.
- **Effective service delivery.** The annexation considers the ability of a city to provide services to the annexed area, both with respect to physical alignments and financial capacity.
- **Local support for annexation.** The annexation is generally supported by the residents of an annexed area, or urban service agreements ensure that residents on water and/or sewer service must consent to annexation.
- **Consideration of other jurisdictions.** The annexation is generally supported by other jurisdictions such as the County and special districts which may be impacted by changes in service delivery areas and revenues.
- **Regular boundaries.** Annexations should maintain consistent and logical boundaries by preventing or eliminating pockets, spurs, and islands of territory where possible, incorporating entire neighborhoods if practical, and acknowledging natural boundaries such as roads, rivers, or topological features.
- **Efficient size of annexation area.** As there is a fixed staff cost associated with annexation applications, multiple small annexations should be considered less preferable than larger combined annexation actions.
- **Management of incorporation by the city.** Conversely, the work necessary to incorporate a large area with significant population and plan for its needs into the future may be extremely challenging to carry out, and cities may want to pursue smaller annexations that can be easier to manage.

- **Benefits of city management of development.** Annexations may be important in cases where city planning and development regulations can result in more efficient and intensive development patterns than those of the county. Similarly, there may be cases where more consistent city management can provide benefits, such as with shoreline management programs.
- **Other benefits.** While this list presents common considerations for annexation, there may be individual site-specific reasons for annexation that should be explored by the City when coordinating actions related to annexation. There should be flexibility in any process that is sufficient to allow these to be identified and discussed.

Lacey's Annexation Policies

The City has an annexation policy that was adopted by the City Council in 2011 (see Appendix B: City of Lacey Annexation Policies). The guiding principles in this policy are:

1. The City will ensure that annexations are processed in accordance with State annexation laws in a timely and efficient manner.
2. The City will ensure that annexations include the participation of the annexation area residents through either the petition or election methods of annexation.
3. The City will collaborate on annexations with affected jurisdictions in order to accomplish an orderly transfer of contiguous lands within the urban growth area into the City (county wide policy).

The City evaluates annexation requests to consider if the City can provide and maintain services in the annexation area and that services can be made available in a manner cost effective to the City and are not detrimental to existing services provided to Lacey residents. In addition to assessing the service and financial impact, the City also evaluates proposed annexations to determine if they would follow logical boundaries or eliminate an irregularity in the City's boundaries.

City Profile

Introduction

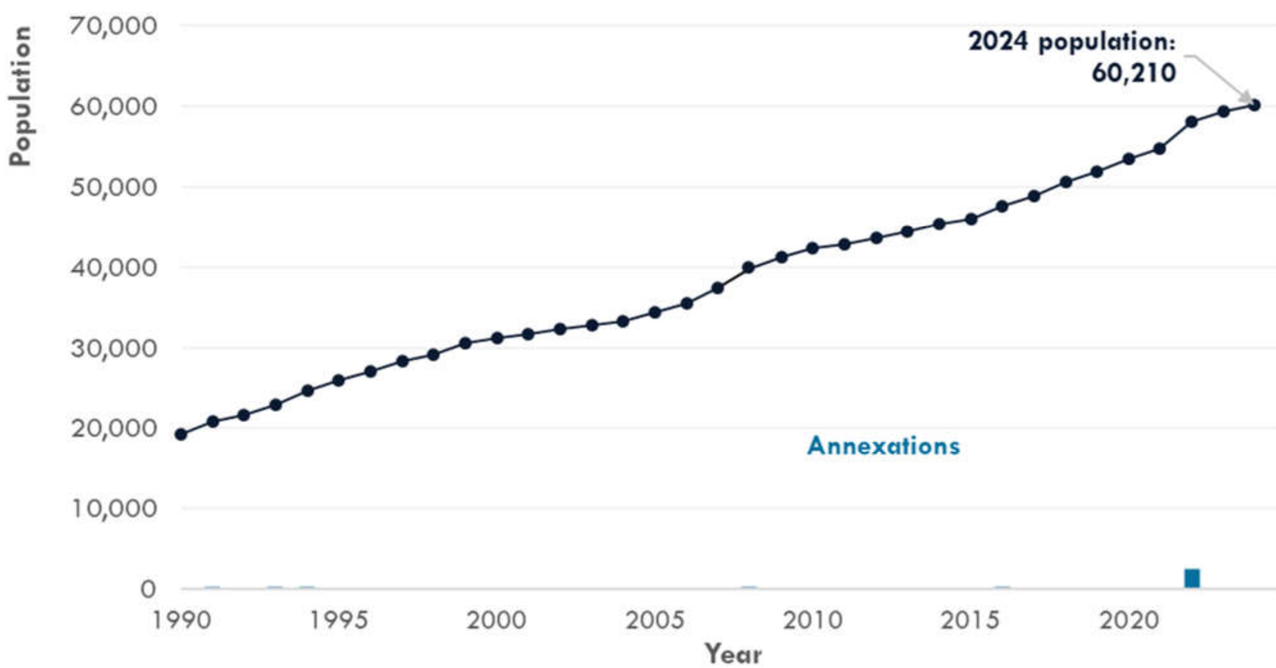
The City of Lacey is in Thurston County, near major job centers such as Tacoma, Olympia, and the Joint Base Lewis-McChord (JBLM). Since its incorporation in 1966, the City has grown from a low-density residential community into the largest and fastest growing city in the County.

The Lacey Urban Growth Area (UGA) is an area of more than 9,100 acres that is comprised of eight planning areas to manage growth that occurs in the City and the UGA. These planning areas frequently lie within both the city limits and the Urban Growth Areas that exceed city limits.

Population Characteristics

According to the Office of Financial Management (OFM), the estimated population of the City of Lacey was 60,210 people, approximately 20% of the total population of Thurston County. Since 1990, the City has grown steadily at an annual rate of 3.2%. Its population growth has been partially driven by the annexation of neighboring Urban Growth Areas, also known as UGAs, into its city limits. The annexations and resulting population growth are shown in Exhibit 1, with the annexation in 2022 contributing the most significant population growth of approximately 2,500 residents.

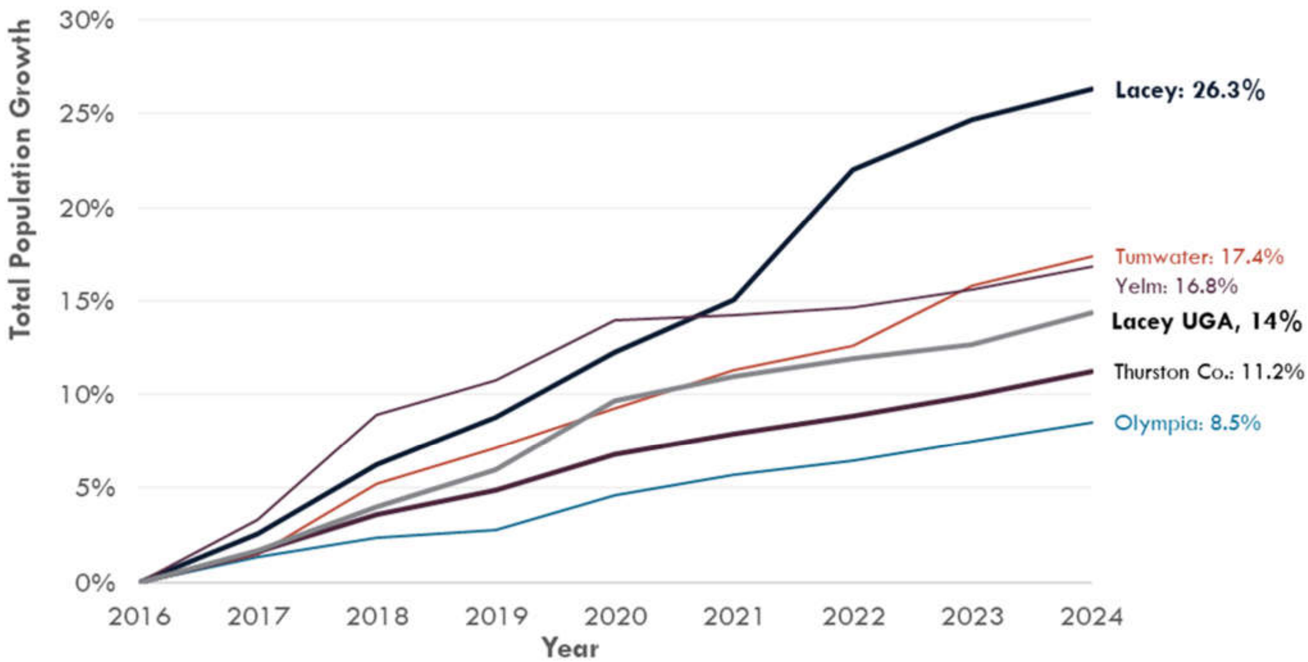
Exhibit 1. Historic Population with Annexations, 2024



Source: US Census Bureau, 2018-2022 American Community Survey 5-Year Estimates; BERK, 2024.

Exhibit 2 compares recent growth trends in Lacey to nearby jurisdictions, Thurston County, and the Lacey UGA. Since 2016, the total population of the City of Lacey has grown by 26.3%, which is more than twice the growth rate of Thurston County (11.2%). The Lacey UGA has grown 14% over this period. The City of Lacey is also growing much faster in recent years than neighboring jurisdictions such as the City of Tumwater (17.4%) and the City of Yelm (16.8%).

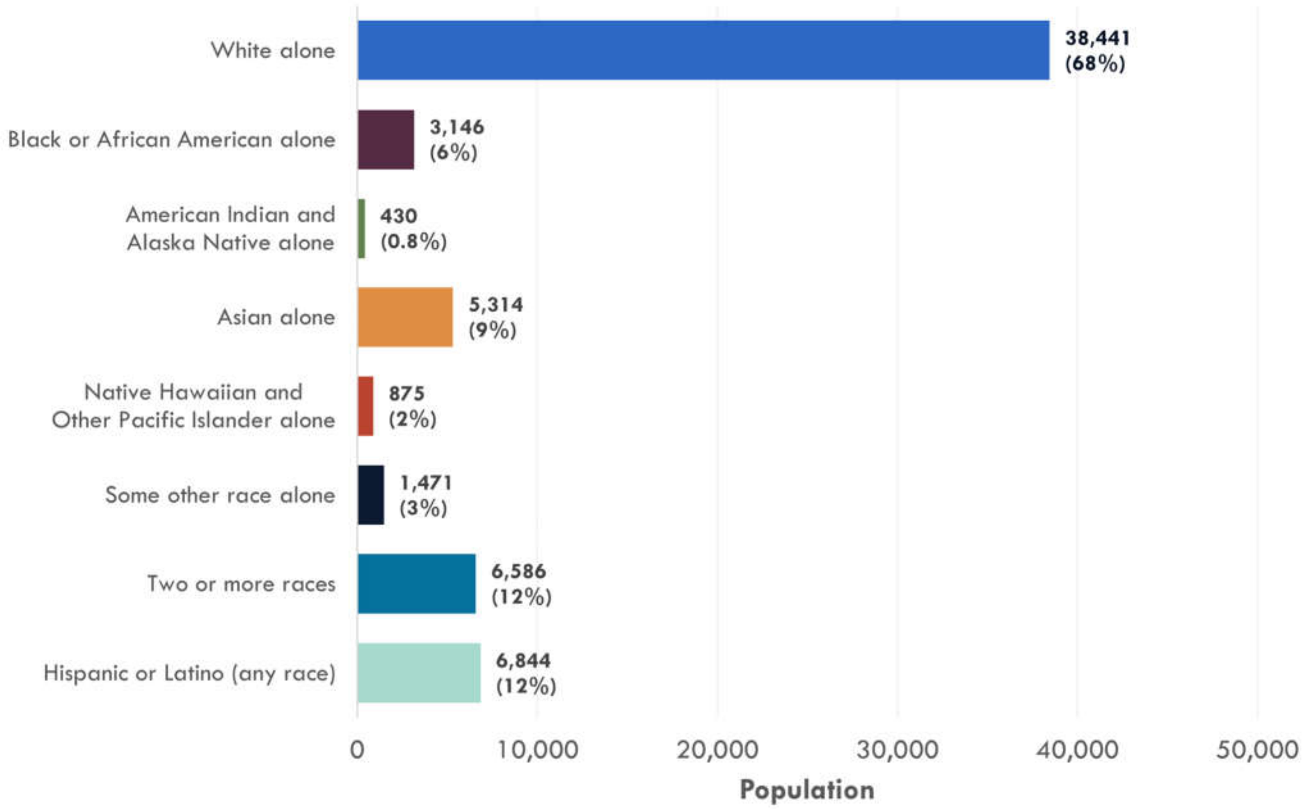
Exhibit 2. Population Growth (2016-2024) – City of Lacey and Comparison Jurisdictions



Sources: WA Office of Financial Management, 2024; BERK, 2024.

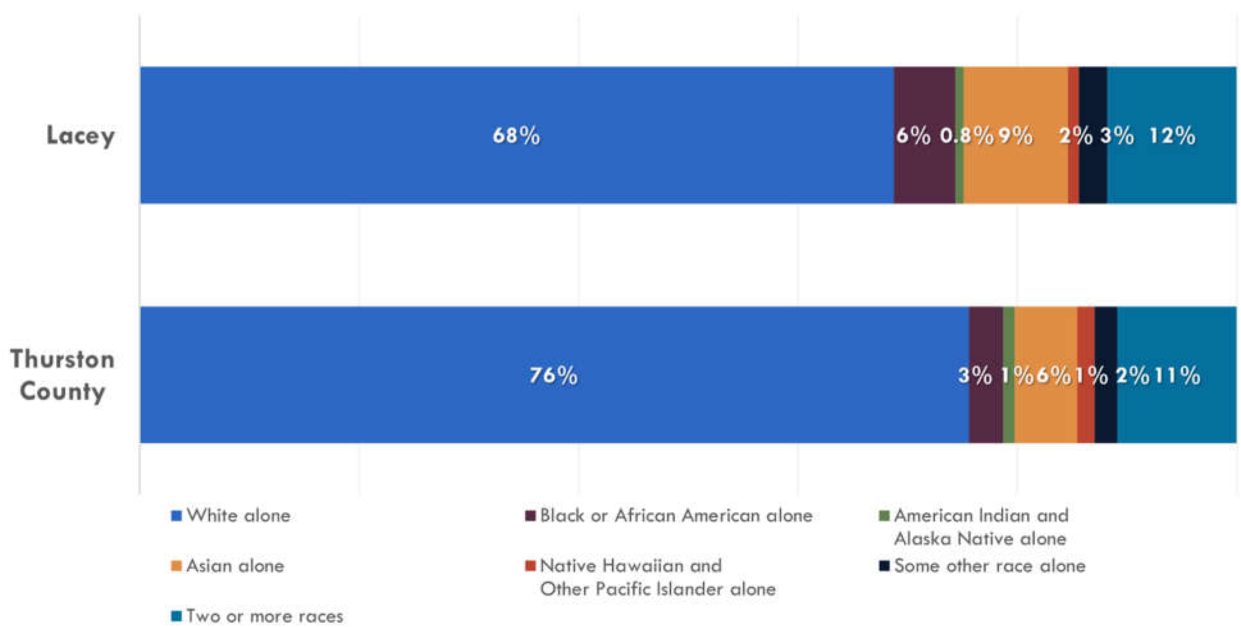
Exhibit 3 shows the breakdown of population by race and ethnicity in the City of Lacey. By race, Black, Indigenous, and People of Color (BIPOC) represent about 32% of the population, with 12% identifying as Hispanic/Latino. Those who identify as White alone represent more than two-thirds of the City population. Compared to the surrounding area, the City of Lacey is more diverse than Thurston County. See Exhibit 4.

Exhibit 3. Race and Ethnicity of Lacey, 2022



Notes: With the exception of Hispanic or Latino, all groups are exclusive of people who identify as Hispanic or Latino.
Source: ACS 5-Year Estimates, 2018-2022; BERK, 2024.

Exhibit 4. Population by Race (2022) - Lacey Compared to Thurston County

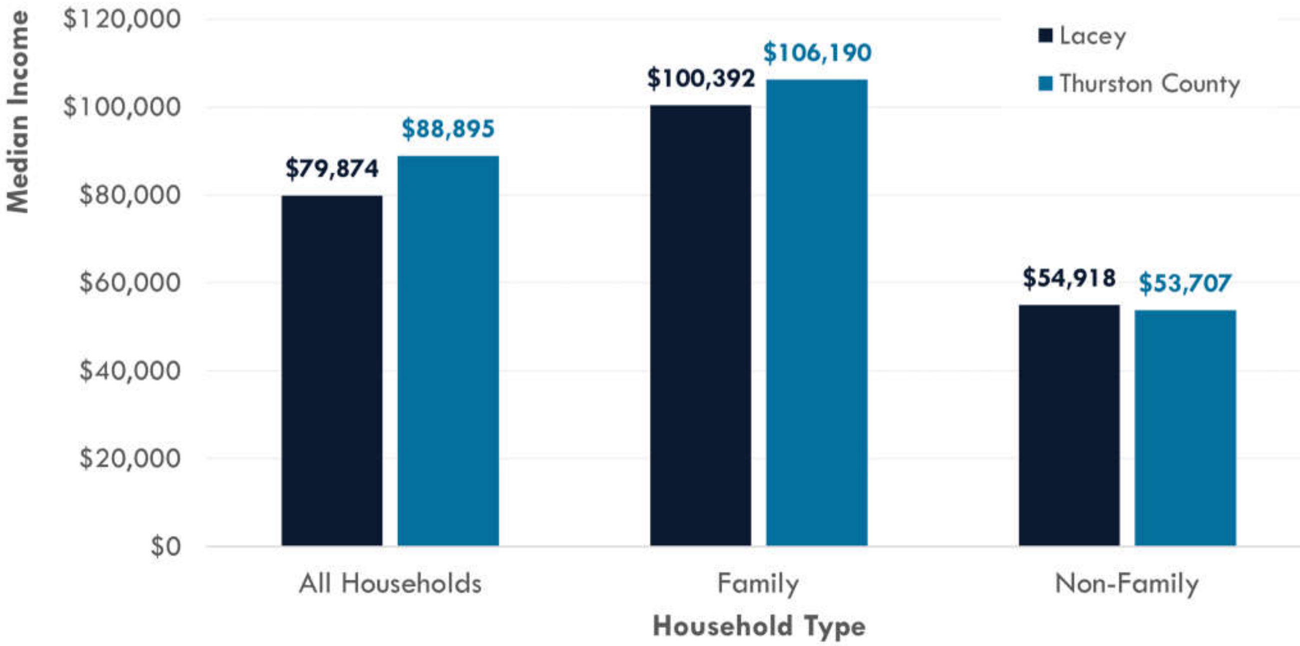


Source: ACS 5-Year Estimates, 2018-2022; BERK, 2024.

Income and Economic Factors

As of 2022, the ACS median household income in the City of Lacey was estimated to be $100,392 for family households, $54,918 for non-family households, and $79,874 across all households (11% lower than Thurston County). See Exhibit 5.

Exhibit 5. Median Household Income (2022) - City of Lacey and Thurston County



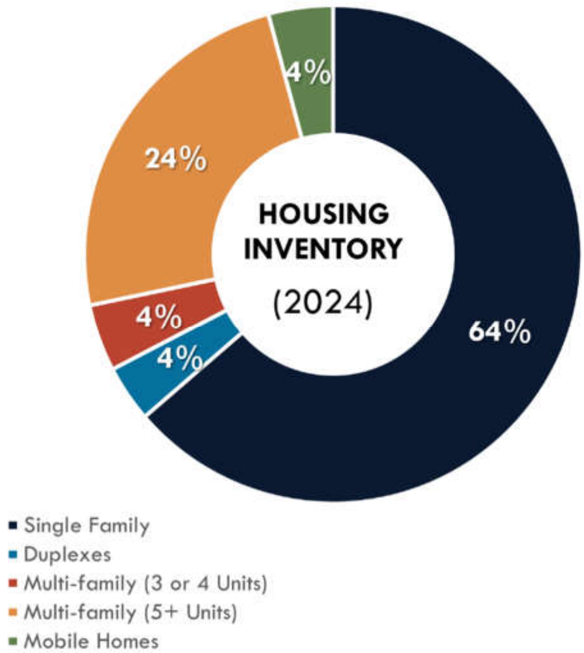
Source: ACS 5-Year Estimates, 2018-2022; BERK, 2024.

Housing and Housing Types

While Lacey has traditionally been a community of single-family homes, it has begun to develop and offer a diverse range of housing options in response to rising housing costs and the needs of its growing and varied population. As of 2024, there were an estimated 25,462 housing units in the City of Lacey. Exhibit 6 breaks down the housing inventory by housing type. Around two-thirds (65%) of all housing units are single family homes. Over one-quarter (28%) of housing units are multi-family units. The remaining housing units (less than 10% of the overall housing stock) are comprised of duplexes and manufactured homes.

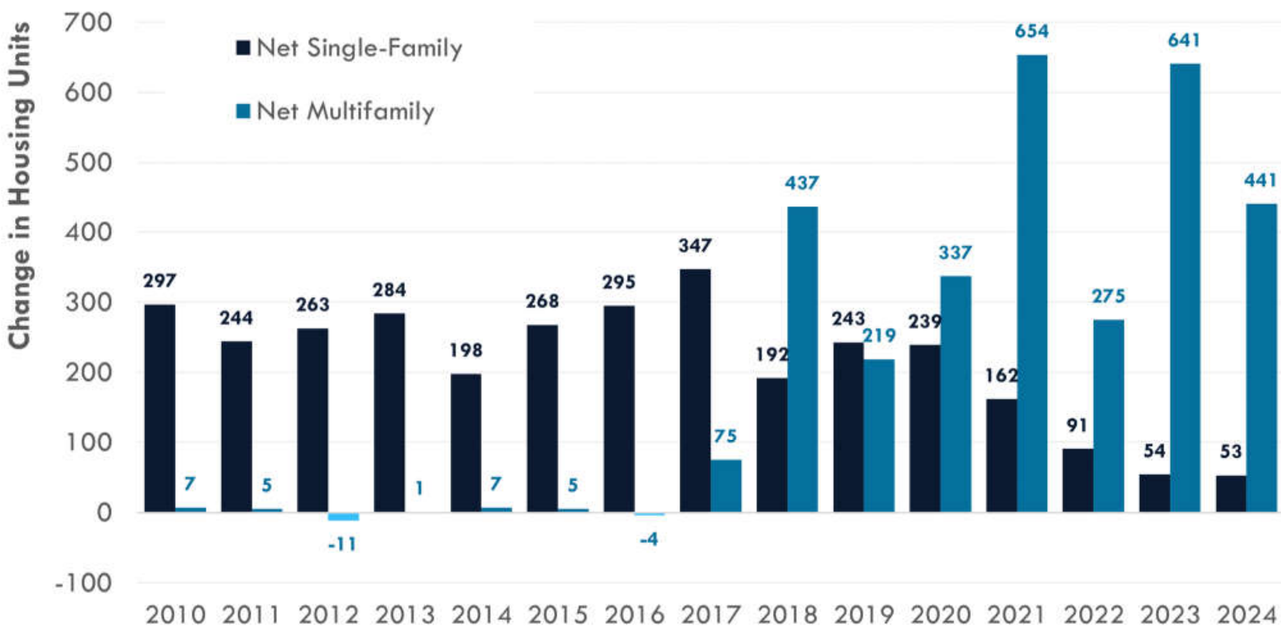
While single-family homes remain the dominant housing type in Lacey, recent development trends shown in Exhibit 7 indicate a significant rise in multi-family housing production. This trend is likely to continue, reflecting statewide initiatives promoting denser housing options to cater to a wider range of housing needs.

Exhibit 6. Housing Stock, 2024



Source: Office of Financial Management, 2024

Exhibit 7. Housing Change by Unit Types, 2010 – 2024



Source: Office of Financial Management, 2024

Urban Growth Area Review

Introduction

The Lacey UGA encompasses an area of 9,122 acres (14.3 square miles) and extends north to the Puget Sound and as far south as Yelm Highway. It is bound by the Nisqually River Valley to the east and the City of Olympia to the west.

The dominant land use within the Lacey UGA is residential at 81.4%. The second most dominant land use is lakes, comprised of Long Lake and Pattison Lake, which represent 6.4% of the area. Open Space (Institutional, Park, and School) represent 3.4% of the land use within the UGA. See Exhibit 8 for the land use map for the Lacey UGA.

In 2021, approximately 35,038 people reside within the Lacey UGA (ESRI 2021). In comparison, incorporated Lacey had an estimated population of 54,850 in 2021, more than 50% higher than the population within the UGA. The City population has since grown to 60,210 as of 2024 (Exhibit 1).

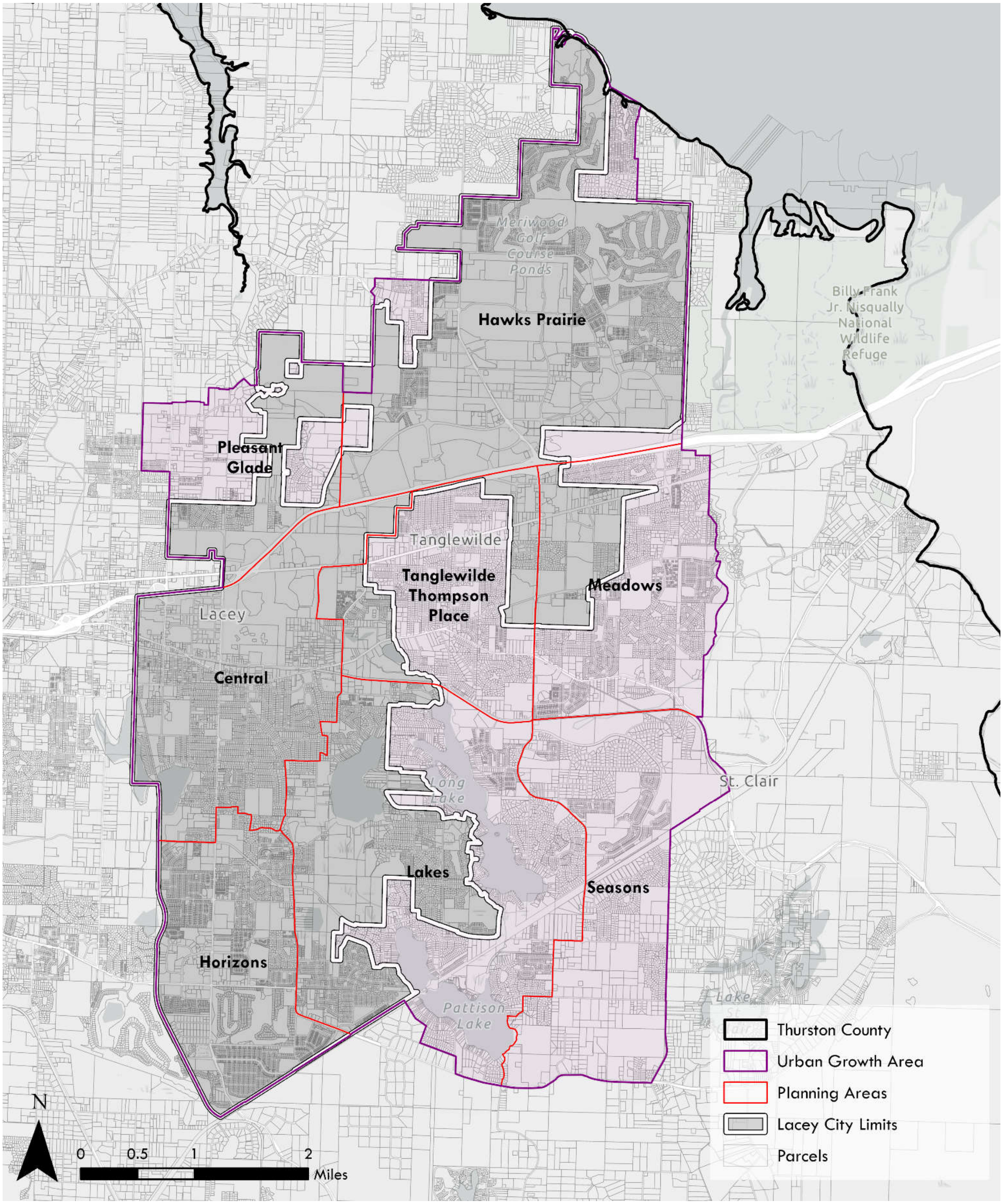
The Lacey UGA is split into eight planning areas. These planning areas include:

- Central
- Hawks Prairie
- Horizons
- Meadows
- Lakes
- Pleasant Glade
- Seasons
- Tanglewilde / Thompson Place

These planning areas are used as one basis for splitting the UGA into 15 subareas used to aggregate the results of the annexation analysis at each stage. The boundaries for these subareas are provided in Exhibit 9.

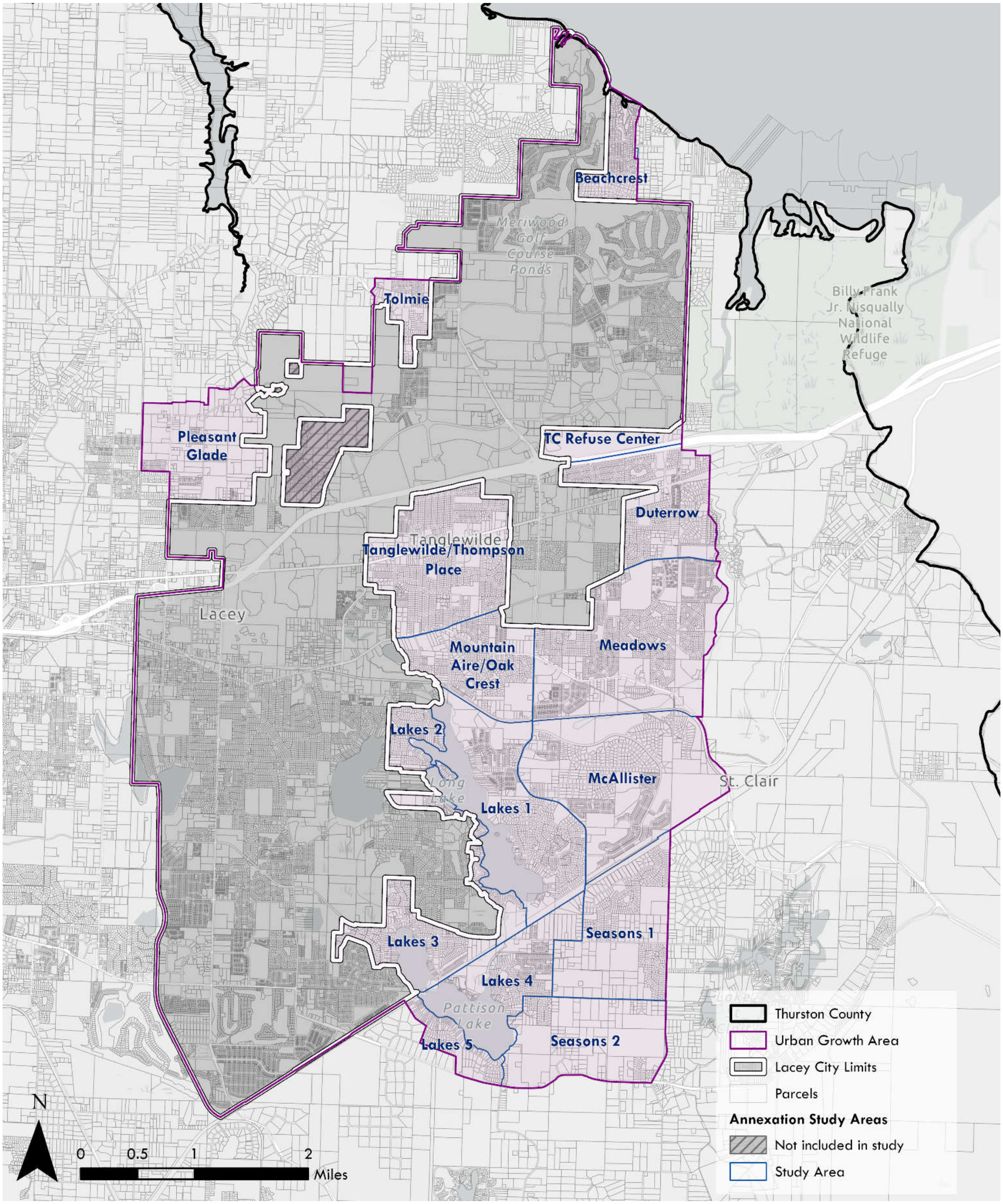
The subareas have been presented to provide some spatial resolution to the analysis by considering locations which could partially or wholly come into the City as a single annexation or a smaller number of annexations. Where possible, these subareas are given distinct names based on their neighborhoods; however, these areas are only aggregated for convenience and recommended strategies for annexation may only consider part of these areas.

Exhibit 8. Lacey Urban Growth Area.



Source: Thurston County, 2024; City of Lacey, 2024.

Exhibit 9. Study Subareas for UGA Analysis.



Source: Thurston County, 2024; City of Lacey, 2024.

The study subareas include the following:

- **Hawks Prairie**
  - Tolmie
  - Beachcrest
  - Thurston County Refuse Center*
  - Northeast Area*
- **Lakes**
  - Lakes 1
  - Lakes 2
  - Lakes 3
  - Lakes 4
  - Lakes 5
- **Meadows**
  - Duterrow
  - Meadows
- **Pleasant Glade**
  - Pleasant Glade
- **Seasons**
  - McAllister
  - Seasons 1
  - Seasons 2
- **Tanglewilde / Thompson Place**
  - Tanglewilde / Thompson Place Subarea
  - Mountain Aire / Oak Crest
  - Martin Way Subarea*

Descriptions of each of these subareas are provided below for review. Note that these assessments highlight major elements of the context for these subareas that should be considered as part of future development and strategic growth planning.

Additionally, note that descriptions of the Thurston County Refuse Center, Northeast Area, and Martin Way Subarea are provided to present context for current planning in these areas.

Subarea Descriptions

Hawks Prairie

The Hawks Prairie Planning Area encompasses the northeastern portion of the Lacey UGA. It is delineated by the Puget Sound to the north, Meridian Road to the east, Interstate 5 to the south, and Carpenter and Marvin Roads to the west. The Hawks Prairie Planning Area is contiguous with the Pleasant Glade Planning Area to the west and the Tanglewilde/Thompson Place and Meadows Planning Areas to the south. The majority of the Hawks Prairie Planning Area falls within the Lacey city limits.

The current population of Hawks Prairie is 15,688. The neighborhood comprises 7.33 square miles, with a diverse mix of land-use designations that include residential, commercial, and light industrial. It has four subareas – Tolmie, Beachcrest, Thurston County Refuse, and Northeast Area.

The Hawks Prairie Planning Area has a higher household median income and a higher rate of homeownership compared to the City of Lacey. Its approximate median income is $104,000, approximately 19% higher than the median household income in incorporated Lacey ($87,571). Nearly two-thirds of residents in Hawks Prairie are homeowners compared to 56% homeowners in incorporated Lacey.

Regarding demographics, the Hawks Prairie Planning Area has more families with younger children and a higher percentage of residents who are over the age of 75. In 2020, approximately two-thirds of the households were married couple households, which is higher than incorporated Lacey (50%). The population by race and ethnicity is similar to incorporated Lacey.

Roughly 660 acres are allocated for residential development, with a breakdown of 410 acres dedicated to lower-density housing (Low Density Residential 0-4 and Low Density Residential 3-6). Additionally, 250 acres are designated for higher-density residential development (Moderate or High Density Residential).

Furthermore, 970 acres are zoned for commercial and industrial uses. This includes 670 acres designated for light industrial development (Light Industrial and Light Industrial/Commercial) and 300 acres for various commercial uses (Hawks Prairie Business District, Community Commercial, Neighborhood Commercial, Business Park).

Tolmie

Within the Hawks Prairie Planning Area is the Tolmie subarea, located in the UGA, northwest of the city limits. It is immediately west and adjacent to the distribution center located in the northern part of the City. The area is predominantly residential development. Significant intersections in Tolmie include Hawks Prairie Road NE and Eagle Drive NE.

Beachcrest

The Beachcrest subarea is located in the northern part of the UGA, with Puget Sound forming its northern boundary. It is bordered by Hilton Road NE to the east and the Hawks Prairie Golf Course to the west and south. It is predominantly residential development. Within the subarea is a private community association with the same name; it has more than 260 homes in close proximity to a private beach.

Thurston County Refuse Center

The Thurston County Refuse Center is in the central-eastern section of the Lacey UGA and the southern part of the Hawks Prairie Planning Area. Its borders include Interstate 5 to the south, Hogum Bay Road NE to the west, Willamette Drive NE to the north, and Meridian Road NE and the Nisqually Wildlife Refuge to the east. Its current uses include solid waste management services for Thurston County, the Hawks Prairie Park N Ride, and an off-leash dog park.

Northeast Subarea

The Northeast Area subarea is approximately 970 acres in northeast Lacey. As the City's first subarea adopted in 1992, its extension of utilities and proximity to Interstate 5 positioned it as a subarea with a high growth rate at that time. It has a mixture of land uses and key transportation corridors, including Britton Parkway, Gateway Boulevard, and Galaxy Drive. Key developments include the Hawks Prairie Business District. Its development patterns are shaped by the *Northeast Area Planning Element*, which has a design framework built around arterial and gateway design.

Lakes

The Lakes Planning Area comprises residential districts prominently influenced by Hicks Lake, Long Lake, Pattison Lake, and Southwick Lake. Its boundaries are defined by the BNSF right-of-way to the north, Marvin Road to the east, Alanna Drive and Ruddell Road to the west, and Yelm Highway and Cate Farm to the south. In the Lakes Planning area within the City limits is McAllister Springs Geologically Sensitive area along the eastern shores of Hicks Lake, which sees low development due to its environmental sensitivities. Nearly half of the Lakes Planning Area falls within the jurisdictional limits of the City of Lacey; the rest is part of the UGA. Within the UGA in the Lakes Planning Area are five subareas -- Lakes 1, Lakes 2, Lakes 3, Lakes 4, and Lakes 5.

The Lakes Planning Area has approximately 18,250 residents and 7,000 households. These households have a higher household median income and a higher rate of homeownership compared to the City of Lacey. The Lakes Planning Area approximate median income is $103,000, approximately 18% higher than the median household income in incorporated Lacey ($87,571). Nearly 70% of residents in Lakes are homeowners compared to 56% homeowners in incorporated Lacey. Houses in Lakes median value are also much higher in comparison to incorporated Lacey. The median home value is approximately $560,000, approximately 15% higher than the median home value in incorporated Lacey ($490,800). Approximately three-quarters of the housing units in the Lakes Planning Area are owner-occupied. It also has a higher percentage of residents who identify as White Alone (67%) compared to incorporated Lacey (61%).

Encompassing approximately 6.72 square miles, of which approximately half lie within the city limits, the planning area reserves about 285 acres for future development. These areas are primarily situated along the eastern segment and east of Long Lake yet are largely devoid of sewer infrastructure.

Lakes 1

Lakes 1 is located in the UGA, southeast of the city limits. Long Lake forms its western boundary, with its other boundaries formed by Union Mill Roads to the north, Marvin Road Southeast to the east, and the BNSF Railway train tracks to the south. Land use is primarily residential, with higher-density residential housing located on the north side. There are two elementary schools within Lakes 1 – Seven Oaks Elementary School and Evergreen Forest Elementary School. Significant intersections include the roundabout at Marvin Road SE and Lake Forest Drive SE. There is also an intersection at Marvin Road SE and Union Mills Road SE, and an intersection at 19th Ave SE and Marvin Road SE. It is adjacent to the McAllister subarea.

Lakes 2

Lakes 2 is the subarea located between the western bank of Long Lake and the southeast border of the Lacey city limits. It is characterized by low-density residential development located along the lake. Carpenter Road SE runs partially through the subarea. Within the subarea is the Thurston County Fairgrounds.

Lakes 3

Located within the Lacey UGA and southeast of the city limits, Lakes 3 encompasses the north section of Pattinson Lake. Its southern border is formed by the BNSF right-of-way. Mullen Road SE form sections of its western, eastern, and northern boundary. The Mullen Road Habitat Reserve is also the north. The western border of Lakes 3 is adjacent to Lakes Elementary School and Timberline High School. Land use development is primarily low-density residential. Significant intersections include Mullen Road SE and Carpenter Road SE, which is on its northern border.

Lakes 4

Lakes 4 is located south of Lakes 1-3 and west of the Seasons Planning Area. It encompasses the lower section of Pattison Lake, which forms its southwestern border. The BNSF right-of-way forms its northwestern border. 58th Avenue SE, Kagy Street SE, and Marvin Road SE form parts of its southeastern border. Significant intersections include Mullen Road SE and Marvin Road SE, as well as Mullen Road SE and Kagy Street SE. Its land use development is primarily low-density residential and rural farmland.

Lakes 5

Lakes 5 is located just in the southwest section of the UGA, south of Lakes 3 and 4 and west of the Seasons 2 subarea. It is bordered by the shores of Pattison Lake, Yelm Highway SE, and the BNSF right-of-way. Its land use is primarily low-density residential, with much larger lots located in the northwestern section of the subarea. There is a mobile park located in the middle of the subarea. Centennial Amtrak Train Station is located in the northwest border of Lakes 5. Significant intersections include Fair Oak Road SE and Yelm Highway SE, as well as Cate Farm Drive SE and Yelm Highway SE.

Meadows

The Meadows Planning Area is defined by Interstate 5 to the north. The eastern boundary is delineated by the Nisqually Bluffs, which serve as the UGA boundary. To the south, the planning area borders the Burlington Northern Santa Fe (BNSF) Railroad right-of-way. Finally, Marvin Road marks the western boundary.

The Meadows Planning Area borders the Tanglewilde/Thompson Place Planning Area to the west and the Seasons Planning Area to the south. With a few exceptions, the Meadows Planning Area falls within unincorporated Thurston County. These exceptions include:

- A portion of commercial areas located east of and adjacent to Marvin Road.
- A section of the Martin Way Mixed Use Corridor.
- River Ridge High School in the northwest portion of the planning area.

The population of this planning area is 15,900. The Meadows Planning Area encompasses approximately 3.5 square miles, or 2,256 acres. Of this area, 365 acres fall within the Lacey city limits. Currently, approximately 400 acres are available for development.

Compared to the City of Lacey, the Meadows Planning Area has a slightly higher percentage of renters, a slightly higher household median income, and a slightly higher median home value. 44% of Meadows residents are renters, higher compared to 39% of renters in incorporated Lacey. Meadows' approximate median income is $91,616, approximately 5% higher than the median household income in incorporated Lacey ($87,571). Its median home value is also slightly higher at $512,553, 4% higher than the median home value in Lacey ($490,800).

Regarding demographics, the Meadows Planning Area has a higher BIPOC community percentage compared to incorporated Lacey. In 2024, approximately 49% of its residents identify as BIPOC, higher compared to incorporated Lacey (38.7%). The Meadows Planning Area has a higher percentage of those who identify as Asian (11.4%) compared to incorporated Lacey (8.7%), those who identify as two more races (16.8%) compared to incorporated Lacey (8.3%), and those who have a Hispanic origin (18.7%) compared to incorporated Lacey (13.9%).

Duterrow

Located east of the central section of the Lacey city limits, Duterrow is bordered by I-5 to the north, farmland to the east, and Steilacoom Road SE to the south. The western boundary is adjacent to River Ridge High School and Costco Wholesale; it is formed by River Ridge Drive SE and Skokomish Way NE. Major arterials include Martin Way E and Meridian Road NE, as well as Duterrow Road SE and Steilacoom Road SE. Its land uses are a mixture of low-density and moderate-density residential, as well as commercial uses. It has moderate-density residential and commercial businesses along Martin Way E, as well as Meridian Road NE.

Meadows

Meadows is located between the Duterrow and McAllister subareas. Its boundaries are formed by Steilacoom Road SE to the north, State Route 510 and Marvin Road SE to the west, the BNSF right-of-way to the south, and farmland to the east. State Route 510 cuts through the southern section of the subarea. It contains Meadows Elementary School and is adjacent to the Lacey Regional Athletic Complex.

Pleasant Glade

The Pleasant Glade Planning Area (and subarea) is located in the northwestern portion of the Lacey UGA, contiguous with the Hawks Prairie Planning Area to the east and Central Planning Area to the south. Pleasant Glade is defined by Interstate 5 to the south, Carpenter Road and Draham Road to the east, and Sleater Kinney Road to the west. Two-thirds of the Pleasant Glade Planning Area is within the Lacey UGA.

The Pleasant Glade Planning Area is predominantly residential development, primarily Low Density Residential 0-4 and Low Density Residential 3-6. It has 110 acres designated for Moderate or High Density Residential, primarily along 15th Ave NE. The southwest portion of the Planning Area is primarily commercial (Mixed Use Moderate Density, Central Business District). There are also 68 acres of open space (Open Space Institutional, Open Space School).

The Pleasant Glade Planning Area has approximately 2,630 residents and 1,065 households across 2.51 square miles. Projections indicate substantial growth, with an anticipated population of 3,523 residents by 2029, an annual growth rate of 2.80%, higher than the growth rate in incorporated Lacey (1.16%).

The households in the Pleasant Glade Planning Area have a higher household median income and a higher rate of homeownership compared to the City of Lacey. Its approximate median income is $98,749, approximately 13% higher than the median household income in incorporated Lacey ($87,571). Nearly 71% of residents in Pleasant Glade are homeowners compared to 56% homeowners in incorporated Lacey. The median value of houses in Pleasant Glade are also much higher in comparison to incorporated Lacey. The median home value is approximately $588,000, approximately 20% higher than the median home value in incorporated Lacey ($490,800). Pleasant Glade also has a higher percentage of residents who identify as Asian Alone (20.4%) compared to incorporated Lacey (9.6%). It also has a higher percentage of those aged 65+, at 22% compared to 17.8% in incorporated Lacey.

Seasons

The Seasons Planning Area is bounded by the Tacoma Rails Capital Line and the Meadows Planning Area to the north, Old Pacific Highway (510) and Meridian Road to the east, Yelm Highway to the south, and Marvin Road and the Lakes Planning Area to the west. Currently, the entire Seasons Planning Area is situated within the unincorporated UGA. Spanning approximately 3.76 square miles, or 2,371 acres, the planning area reserves an estimated 1,022 acres for future development. It has three subareas – McAllister, Seasons 1, and Seasons 2.

As of 2024, the population of this planning area was estimated at 5,078 residents and 1,917 households. Households in Seasons have a higher median household income, higher rate of home ownership, and a higher median home value. They also skew older.

The median household income in Seasons ($108,691) is 24% higher than incorporated Lacey (87,571). Approximately 86% of housing units in Seasons are owner-occupied, higher than incorporated Lacey (56%). The median home value in Seasons in 2024 was approximately $629,263, 28% higher than the median home value in incorporated Lacey ($490,800). Its population also skews older, with 26.5% as age

65+; in comparison, incorporated Lacey has 18% who are age 65+. As Seasons completes developments, such as its 55+ community, Ovation, the population in the planning area will continue to skew older than the City of Lacey.

McAllister

The McAllister subarea is located in the southeast section of the Lacey UGA, south of the Meadows Planning Area and east of the Lakes Planning Area. Its boundaries include the BNSF rights-of-way to the north and south, State Route 510 to the east, and Marvin Road SE to the west. Notable arterials include 19th Ave SE and Marvin Road SE, and the roundabout at Oakwood Street SE and Marvin Road SE in the southwest corner of the subarea.

Development is primarily low-density residential, with large open space such as the Oak Tree Preserve. Notable landmarks include the McAllister Grove Community Park in the northwest corner of the subarea and water storage facilities in the northeast section of the subarea. In the southeastern corner of the McAllister subarea is Ovation, a master planned community currently in progress. When completed, it will have more than 850 single-family homes for those aged 55+.

Seasons 1

The Seasons 1 subarea is located in the southeast section of the Lacey UGA, south of the McAllister subarea and east of the Lakes 4 subarea. Its boundaries include the BNSF right-of-way to the north, Meridian Road SE and farmland to the east, and 58th Avenue SE to the south. Kagy Street SE and Marvin Road SE form the western boundary of the subarea. Development is characterized by low-density residential primarily in the northern part of the subarea, farmland, and open space.

Seasons 2

The Seasons 2 subarea is located in the southern section of the Lacey UGA, south of the Seasons 1 subarea and east of the Lakes 4 and 5 subareas. Its boundaries include 58th Avenue SE to the north, Meridian Road SE to the east, Yelm Highway SE to the south, and Pattison Lake to the west. Development is largely open space and farmland. There is low-density residential in the northwest corner of the subarea near 58th Avenue SE and in the southeast corner of the subarea near Yelm Highway SE and Meridian Road SE.

Tanglewilde /Thompson Place

The Tanglewilde / Thompson Place Planning Area occupies a location immediately east of the Central Planning Area. Its boundaries are delineated by Interstate 5 to the north, Marvin Road to the east, the BNSF Railroad and Union Mills Road to the south, and Carpenter Road forming a general western border. The planning area is contiguous with the Hawks Prairie Planning Area to the north, the Meadows Planning Area to the east, the Lakes Planning Area to the south, and the Central Planning Area to the west. Most of the Tanglewilde / Thompson Place Planning Area falls outside the incorporated city limits of Lacey, hence it being mainly made up of the current UGA. It has two subareas – the Tanglewilde / Thompson Place subarea and the Mountain Aire / Oak Crest subarea.

As of 2024, the population of this planning area was estimated at 10,114 residents and 3,915 households. This Planning Area has a lower household median income and lower home value compared to the City of Lacey. Its approximate median income is $78,475, approximately 12% lower than the median household income in incorporated Lacey ($87,571). Its median home value is approximately $450,000, 9% lower than the median home value in incorporated Lacey. Nearly 50% of housing units in Tanglewilde / Thompson Place are owner-occupied, lower than incorporated Lacey (56%). Tanglewilde / Thompson Place also has a higher percentage of vacant housing units at 10.6% compared to 5.4% in incorporated Lacey.

Tanglewilde / Thompson Place Subarea

The Tanglewilde / Thompson Place subarea is adjacent to the Central Planning area. Its boundaries are Interstate 5 to the north, Steillacoom Road SE and Pacific Ave SE to the south, and Carpenter Road to the west. The Martin Way Corridor cuts east-west through the subarea, with major arterials like Martin Way East and Carpenter Road NE on the western boundary of Tanglewilde / Thompson Place.

Its land uses are a mixture of low- and moderate-density residential, as well as commercial uses. The subarea has commercial businesses along Martin Way E and along Carpenter Road East. These commercial businesses are primarily automobile-oriented with surface parking lots. There is moderate residential density, with apartments along Carpenter Road East, and a few blocks north and south of Marvin Way E. Within the subarea are Olympic View Elementary School and Lydia Hawk Elementary School.

Mountain Aire / Oak Crest

South of the Tanglewilde / Thompson Place Subarea is the Mountain Aire / Oak Crest subarea. Its boundaries are Steilacoom Road SE and Pacific Ave SE to the north, State Route 510 to the east, Union Mills Road SE to the south, and Woodland Creek Park to the west.

Its development is characterized by low-density and moderate-density residential subdivisions, with light commercial along Pacific Avenue SE. There are also various community churches and a mosque. It has undeveloped land in the northeast corner, adjacent to the Lacey Athletic Complex, and farmland in the southeastern section of the subarea. Significant intersections include Pacific Ave SE and Steillacoom Road SE in the northern boundary of the subarea, and Pacific Ave SE and Marvin Road SE located on the eastern boundary of the subarea.

Martin Way Subarea

The Martin Way corridor is being studied as a development priority. With parts of the subarea overlapping with residential neighborhoods including Tanglewilde and Thompson Place, the Martin Way Corridor is a joint planning effort among the Thurston Regional Planning Council, Thurston County, Intercity Transit, and the Cities of Olympia and Lacey in order to develop a coordinated planning vision for this corridor. As of 2021, the Martin Way Corridor has more than 9,000 residents and more than 13,000 jobs. Residents are more diverse and more likely to experience poverty and higher levels of cost burden than the overall population of the Cities of Lacey and Olympia, and Thurston County. More than half of the residents live in multifamily units, which is expected to increase to nearly two-thirds of all residents by 2045.

Buildable Lands Analysis

The following figures highlight the results of a land capacity analysis coordinated for the UGA. This effort is intended to indicate what properties could be developed over the 20-year planning horizon, and the status of existing development on these sites. Our methodology follows the procedure outlined by the Thurston Regional Planning Council in its Buildable Lands Report.

The results are represented in the following Exhibits:

- Exhibit 10 includes the current **vacant** parcels available for development in the UGA, where there are no significant on-site improvements that may limit new development. Additionally, this map shows the extent of critical areas identified for this analysis, which will impact the ability for these sites to be developed.
- Exhibit 11 presents sites that are indicated as **partially-used**, where existing sites could support development in addition to current on-site improvements. In these cases, this additional capacity could be used without the need for demolition on the site.
- Exhibit 12 indicates **redevelopable** parcels, where on-site improvements are likely to be depreciated and new development that would take place on these sites would likely replace existing dwelling units and floor area.

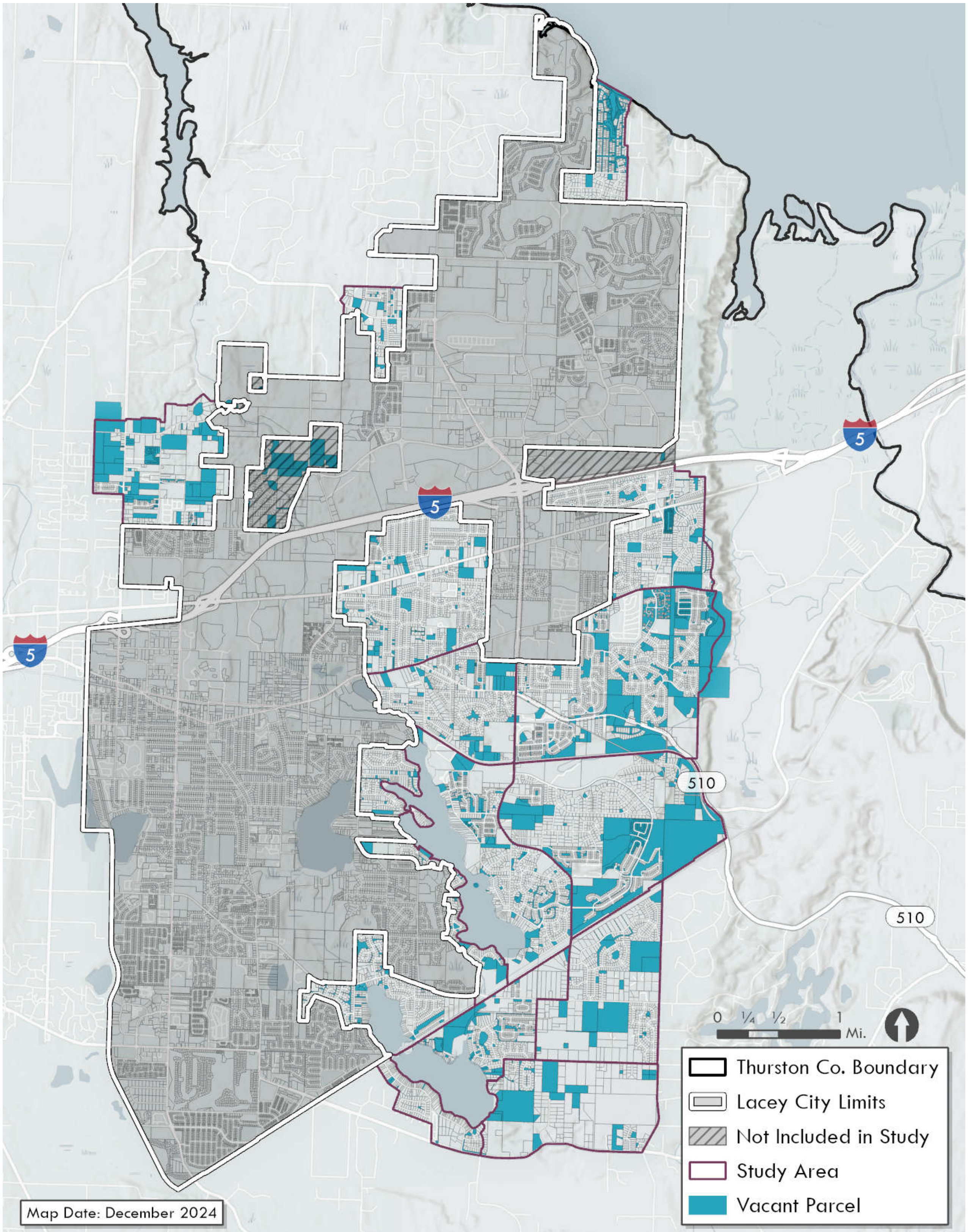
The remaining parcels not included under these three categories can be divided into two remaining categories:

- Parcels that are currently **built out**, where development capacity has been expended and it is unlikely that these sites will be available for redevelopment in the near future.
- Parcels that are **undevelopable**, where site conditions and/or current uses limit the long-term potential for these sites to be used for new development.

For the analysis conducted in this report, properties with remaining development capacity will be evaluated to consider the effects of long-term build out over a 20-year planning period. These sites will be able to accommodate additional growth and development, with new housing units and employment square footage assumed over the long term. Additionally, greater revenue will be associated with new development activity, including both the one-time sales taxes from construction and the increase in property taxes from new improvement value.

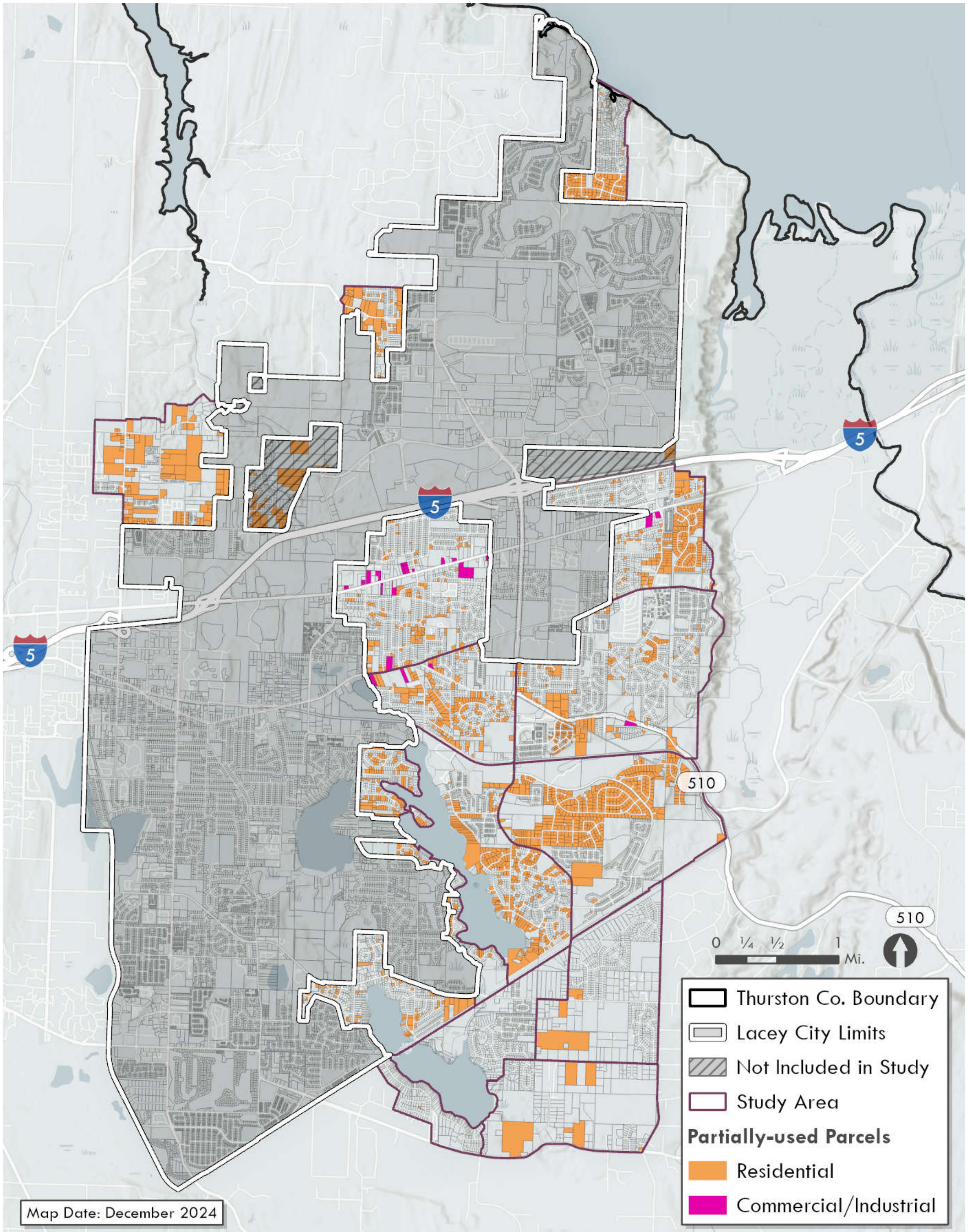
Another important consideration here is that the development capacity and status of these lands are calculated based on the current planning for these areas. The conclusions of the report will be based on the base conditions, but this can present opportunities for identifying future needs for planning efforts to improve fiscal sustainability in targeted areas.

Exhibit 10. Lacey Urban Growth Area: Vacant Parcels and Identified Critical Areas.



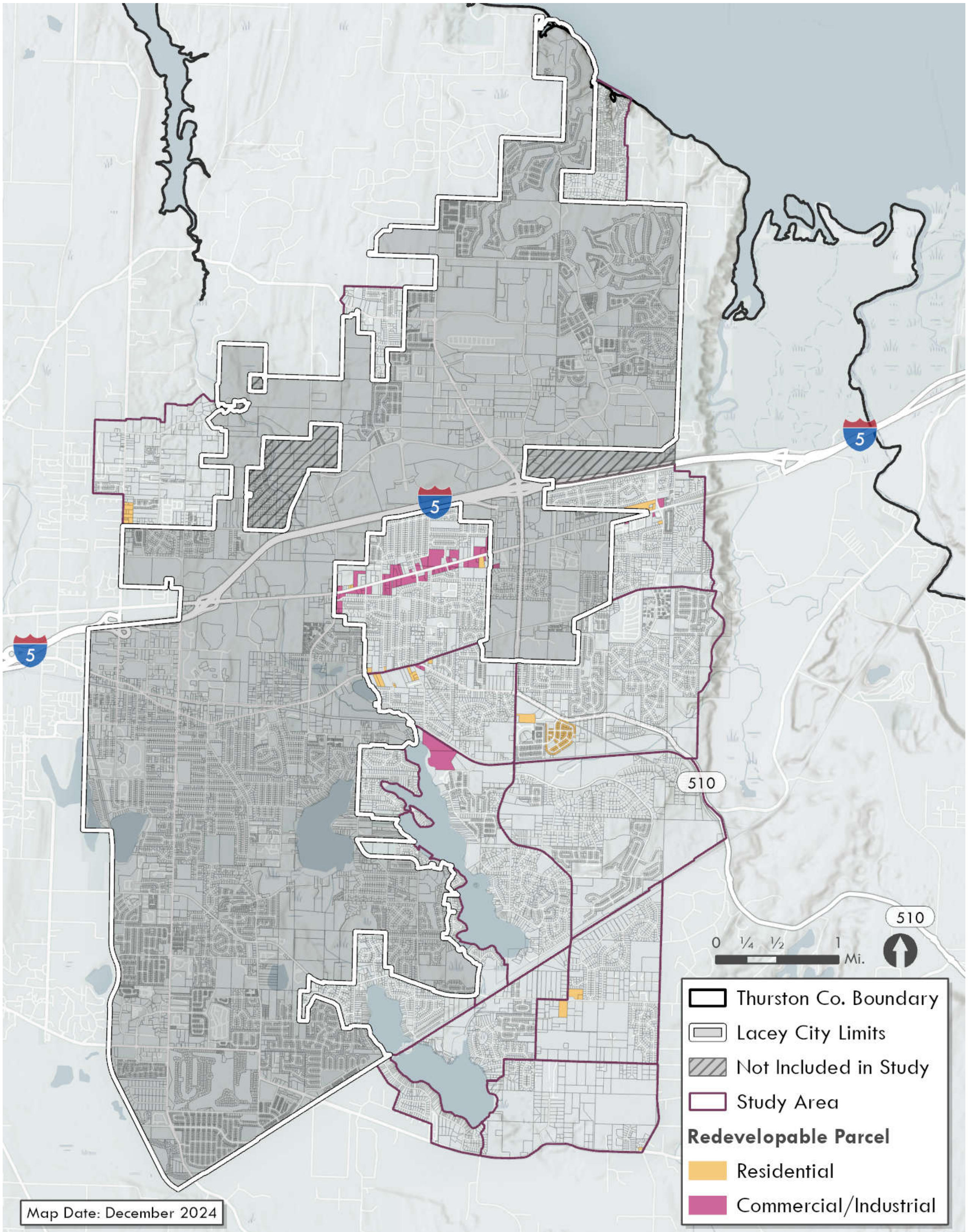
Source: Thurston County, 2024; City of Lacey, 2024; BERK, 2024.

Exhibit 11. Lacey Urban Growth Area: Partially-Used Parcels.



Note: Commercial/Industrial includes parcels with commercial land use designation and does not include exempt property such as churches, schools, or government property.
Source: Thurston County, 2024; City of Lacey, 2024; BERK, 2024.

Exhibit 12. Lacey Urban Growth Area: Redevelopable Parcels.



Notes: Commercial/Industrial includes parcels zoned as mixed-use, commercial, or industrial, and the land use designation is commercial or industrial.
Source: Thurston County, 2024; City of Lacey, 2024; BERK, 2024.

Study Area Summary

Exhibit 13 provides a summary of the current development and development capacity based on our analysis for each subarea in the study area. Included are general notes about the type of development in each subarea. There are currently **14,400** residential units and **3.5 million** non-residential square feet in the study area made up of the 15 individual subareas. Residential development is spread throughout the UGA, but subareas 4, 6, 7, 8, and 11 have the highest number of housing units. Most of the non-residential development is concentrated in subareas 4, 6, 7, and 11. The UGA includes residential capacity for an additional **2,651** housing units and **594,175** non-residential square feet. Subareas 4 and 7 have the largest capacity for non-residential development. Capacity for housing units is spread throughout the UGA, though subareas 9, 10, 14, 15 only have minimal capacity for new units. Subarea 8 has the highest capacity for new housing units.

Exhibit 13. Characteristics and Notes for Subareas

	Current Development		Development Net Capacity		General Notes
Subarea	Housing Units	Non-Res. S.F.	Housing Units	Non-Res. S.F.	
1. Tolmie	220	7,040	109	-	The area is predominantly residential development. Significant intersections in Tolmie include Hawks Prairie Road NE and Eagle Drive NE.
2. Beachcrest	398	-	105	-	It is predominantly residential development. Within the subarea is a private community association with more than 260 homes in close proximity to a private beach.
3. Pleasant Glade	483	79,919	313	15,062	It is predominantly residential development, primarily Low Density Residential 0-4 and Low Density Residential 3-6. The median value of houses in Pleasant Glade are much higher in comparison to incorporated Lacey.

	Current Development		Development Net Capacity		General Notes
Subarea	Housing Units	Non-Res. S.F.	Housing Units	Non-Res. S.F.	
4. Tanglewilde /Thompson Place	2,327	1,433,817	280	183,954	Its land uses are a mixture of low- and moderate-density residential, as well as commercial uses. The subarea has commercial businesses along Martin Way E and along Carpenter Road East.
5. Mountain Aire/Oak Crest	829	132,434	214	29,922	Its development is characterized by low-density and moderate-density residential subdivisions, with light commercial along Pacific Avenue SE. There are also various community churches and a mosque.
6. Duterrow	1,967	798,381	229	17,001	Its land uses are a mixture of low-density and moderate-density residential, as well as commercial uses. It has moderate-density residential and commercial businesses along Martin Way E, as well as Meridian Road NE.
7. Meadows	2,947	469,035	280	237,664	Meadows is located between the Duterrow and McAllister subareas. State Route 510 cuts through the southern section of the subarea.
8. McAllister	1,077	26,683	672	(606)	Development is primarily low-density residential, with large open space such as the Oak Tree Preserve. The non-residential development net capacity is negative because the analysis assumes redevelopable property becomes housing.
9. Seasons 1	582	3,576	19	30,801	Development is characterized by low-density residential primarily in the northern part of the subarea, farmland, and open space.
10. Seasons 2	243	7,816	8	1,214	Development is largely open space and farmland. There is low-density residential in the northwest corner of the subarea.

Subarea	Current Development		Development Net Capacity		General Notes
	Housing Units	Non-Res. S.F.	Housing Units	Non-Res. S.F.	
11. Lakes 1	1,328	447,721	249	79,163	Land use is primarily residential, with higher-density residential housing located on the north side. Significant intersections include the roundabout at Marvin Road SE and Lake Forest Drive SE.
12. Lakes 2	584	107,214	105	-	It is characterized by low-density residential development located along Long Lake. Carpenter Road SE runs partially through the subarea.
13. Lakes 3	615	-	66	-	Land use development is primarily low-density residential.
14. Lakes 4	548	-	1	-	Land use development is primarily low-density residential. Significant intersections include Mullen Road SE and Carpenter Road SE, which is on its northern border.
15. Lakes 5	251	13,393	1	-	Its land use is primarily low-density residential, with much larger lots located in the northwestern section of the subarea.
Total	**14,400**	**3,527,029**	**2,651**	**594,175**	

Source: Thurston County, 2024; City of Lacey, 2024; BERK, 2024.

Financial Sustainability Analysis

Introduction

Financial sustainability is one consideration when determining whether to annex portions of the City's UGA. To illustrate the estimated annual financial impact of annexation, we show the estimated revenues generated by each annexation area and the costs to provide services to each area under scenarios that differ in the assumed growth in population and development. This section summarizes our methodology and findings from the analysis.

Methodology

Our estimates are based on the City's historical revenue and expenditure information, information on assessed value and taxable retail sales in the UGA, and assumptions about how future revenues and expenditures will be impacted by adding residents, employees, housing, and non-residential development in each area over 20 years. We assume that revenues (apart from property tax and motor vehicle fuel tax, discussed further below) and costs increase at the same inflation rate each year.

While forecasting revenues and costs over a long period has limitations, it is important to consider the net financial impact beyond the time of annexation for two reasons: 1) how an area develops over time will change the fiscal impact, and 2) limitations in the annual growth of the property tax levy will influence the net impact of annexation over time. Actual future revenues and costs will be impacted by changing economic conditions, local policy direction, changes in tax or fee rates, changes in levels of service, and the pace and type of growth.

Scenario Overview

In this analysis, we estimate the annual financial impact of annexation under three development scenarios:

1. **Scenario 1 (No Growth)** assumes the annexation areas do not add population, housing units, or non-residential (commercial and industrial) square footage over the 20-year period.
2. **Scenario 2 (Capacity Analysis Build-out)** assumes the annexation areas add housing units and non-residential square footage over 20 years to full build-out of available capacity, which is informed by our land capacity analysis (see Buildable Lands Analysis). Under this scenario, population grows in line with housing units, and employment grows in line with non-residential square footage.
3. **Scenario 3 (Historic Growth)** assumes that housing units, population, and employment in the annexation areas grow over 20 years in line with historical growth rates in the UGA between 2010

and 2024, using data from the Thurston Regional Planning Council (TRPC).[1] Under this scenario, non-residential square footage grows in line with employment.

We use different scenarios to test the impact that development may have on long-term revenues and costs. Exhibit 14 summarizes the assumptions for population growth, employment growth, housing unit development capacity, and non-residential development capacity used in our analysis scenarios.

Exhibit 14: Scenario Growth and Development Capacity Assumptions

Assumption	Scenario 1	Scenario 2	Scenario 3
Population Annual Growth Rate	0%	0.9%	0.6%
Employment Annual Growth Rate	0%	1.1%	0.9%
Housing Units Net Capacity	0 units	2,651 units	1,818 units
Non-Residential Square Footage (SF) Net Capacity	0 SF	594,175 SF	441,219 SF

Sources: TRPC, 2024; BERK, 2024.

City Budget Overview

In the 2024 Adopted Budget, the City had 29 separate funds grouped into five categories (General Fund, Enterprise Funds, Capital & Special Funds, Internal Service Funds, and Debt Funds) in addition to a joint-venture fund for animal control services and an agency fund for the Capital Area Regional Public Facilities District. In the 2025 Budget, the City added a Public Safety fund to the General Fund and a Capital Project Revenue fund to the Capital & Special Funds.

We focus on the financial impacts of annexation on revenues and costs for the following funds, based on the City's fund structure in the 2024 Adopted Budget:

- **General Fund.** In 2024, the General Fund was comprised of the Current Expense Fund, Criminal Justice Fund, Community Buildings Fund, Regional Athletic Complex, City Street Fund, and Capital Equipment Fund. The General Fund is the City's primary operating fund that supports general government, public safety, parks, and public works. Revenue sources for the General Fund include property taxes, sales taxes, business and occupation taxes, utility taxes, licenses and permits, intergovernmental revenues, and fees and charges.
- **Arterial Street Fund.** The Arterial Street Fund is a Capital & Special Fund that supports the City's transportation capital improvement projects. Revenue sources for this fund include REET, impact fees, and intergovernmental revenues such as MVFT.
- **Transportation Improvement Fund.** The Transportation Improvement Fund is also a Capital & Special Fund that supports transportation capital improvement projects. This fund was created to

[1] We also reviewed projected growth in housing units, population, and employment based on data from TRPC, but are not using those projected growth rates in this analysis. The projected annual growth in housing units (2.1% for the Lacey UGA from 2024-2045), population (1.8% for the Lacey UGA from 2024-2045), and employment (1.7% for Lacey & the UGA from 2017-2045) are higher than the annual growth rates estimated from historical data and our land capacity analysis.

account for the voter-approved 0.2% Transportation Benefit District (TBD) sales and use tax effective July 1, 2017.

- **Stormwater Utility Funds.** The Stormwater Utility Fund is an Enterprise Fund that supports operations and maintenance of the City's storm drain facilities. Revenue for this fund primarily comes from monthly utility rates charged to residential and commercial customers. The City also has the Water Utility Fund that supports water services and the Wastewater Utility Fund that supports wastewater collection. Our analysis focuses on revenues and costs for providing stormwater services, as water and wastewater services are already extended into the UGA.

Revenues

Revenues included in our analysis can be categorized as one-time or ongoing revenues. Our approaches to estimate these revenues are described below, as well as a discussion of other revenue considerations.

One-Time Revenues

The primary one-time revenue source the City would receive from annexation is sales tax on new construction, which is collected on the cost of services and materials associated with construction. We estimated sales tax revenue from new construction based on the estimated assessed value of housing and non-residential development in each scenario.

Ongoing Revenues

Our analysis also includes the following ongoing revenues:

- **General Fund revenues** incorporated in this analysis are based on the City's historical budget information and grouped into the following categories: property taxes, sales taxes, business and occupation (B&O) taxes, utility taxes, licenses and permits, intergovernmental revenues, fees and charges, and other revenues. Property tax revenue is estimated based on assessed value in the subareas. Other revenues are estimated based on an inflation-adjusted historical average revenue per capita amount for the City.

Sales Tax Revenue Estimates

Sales tax is collected at the point of sale, so residents and businesses in the subareas would generate sales tax revenue for Lacey upon annexation through online sales and in-store purchases at local stores in the subareas. We assume existing households in the UGA are currently contributing to Lacey's sales tax revenue as they shop at businesses in Lacey. In primarily residential subareas that do not have local retail, we estimate sales tax revenue from online purchases, using the City's historical sales tax revenue per capita and the estimated share of online sales[2]. The Tanglewilde/Thompson Place area has a commercial corridor which would generate a higher amount of sales tax revenue from in-person purchases. In this subarea, we estimate sales tax revenue based on current taxable retail sales per capita in the unincorporated county and the daytime population in the subarea.

- **Other fund revenues** are revenues from the motor vehicle fuel tax (MVFT), Real Estate Excise Tax (REET), and Transportation Benefit District (TBD) sales tax. Future MVFT revenues are assumed to remain flat due to the shift toward more fuel efficient and alternative fuel vehicles. The current per capita MVFT revenue is assumed going forward.[3] TBD sales tax revenue is estimated based on current taxable retail sales per capita in the UGA. REET revenue is estimated as a percent of assessed value based on historical averages.
- **Stormwater Utility revenues** are estimated based on the current monthly fee per housing unit and commercial acre.

Other Revenue Considerations

An additional source of revenue that is possible for some areas is a **sales tax credit** provided under HB 1425 to help offset the costs of annexation for areas with a population of at least 2,000. The City may impose a 0.1% credit for each area with a population of at least 2,000 and a 0.2% credit for each area with a population of at least 10,000. Only some subareas would qualify for this tax and the City may impose a credit for each annexed area for no more than 10 years from the date the tax is first imposed. As a point of reference, the City collects a 0.2% Transportation Benefit District Sales Tax, which provides approximately $3.74 million in 2024. A city may not begin to impose the tax authorized by this section after July 1, 2028.

All revenue collected from the sales tax credit may be used solely to provide, maintain, and operate municipal services for the annexation areas. The City would need to determine the total revenue from the annexation area and the total costs to serve the area on an annual basis to determine if there is an operating deficit. The maximum amount the City could receive is the total operating deficit. The intent of the tax credit is to support operations and is not intended to support capital investments. In the Study Area Financial Summary, we note which areas would be eligible for the tax credit based on the current

[2] The U.S. Census Bureau estimates that e-commerce sales in 2024 accounted for 16.1 percent of total retail sales, https://www.census.gov/retail/ecommerce.html.

[3] The State of Washington is evaluating alternatives to the Motor Vehicle Fuel Tax. If an alternative is implemented, jurisdictions may receive more revenue than they currently receive from MVFT. Assuming a constant amount of MVFT revenue is a conservative approach.

population. In this analysis we have divided the UGA into many subareas, but the City could annex more than one and the total population may exceed the population threshold for the tax credit.

Beginning April 1, 2024, Thurston County imposes a $0.20 public safety sales tax. Sixty percent of this sales tax goes to the County. The remaining 40% is distributed to the cities based on population. The City of Lacey will receive a share of this tax and is using it to fund nine positions, maintenance and operations of the new police station and training facility, and a Mobile Outreach Team. The first full year of collections and costs is 2025, so 2025 budgeted revenues and expenditures are included in the analysis for future year estimates.

Costs

Costs included in our analysis can be categorized as one-time or ongoing costs. Our approaches to estimate these costs are described below, as well as a qualitative discussion of costs not included in our analysis and other cost considerations.

One-Time Costs

One-time costs include new facilities, new capital purchases or upgrades of existing infrastructure to meet City standards and levels of service. Examples include a new park to meet level of service standards or upgrades to arterial streets to meet City standards. We assume that additional development of roads will be coordinated only through private roads developed for subdivisions, therefore costs related to the expansion of roads are not included in our analysis.

The City has capital facility improvements already planned to meet space or service level requirements. Existing projects are not included in this analysis, as our focus is on one-time costs that will be necessary as a result of serving an additional area. These needs are discussed qualitatively in the box below, based on discussions with City staff. Potential capital investments may be implemented over several years and the City will collect revenues over time, such as stormwater revenues, to fund these investments. More detailed analysis for individual annexation areas would be necessary to estimate the costs of these potential investments.

Potential Capital Investments from Annexation

General Government and Police

If the City were to add staff to maintain service levels to a larger population, it may need additional facility space. The Police Department stated that it would be practical to establish a new substation to serve the UGA to ensure timely response to calls.

Public Works

The City may need to make capital improvements to bring infrastructure up to City standard or to address deferred maintenance in the UGA. Staff has noted that recent annexations have required improvements to make the stormwater infrastructure functional.

Parks

The 2023 LPCR Comprehensive Plan established the measurement for parks distribution level of service as a .5 mile travelshed or "10-minute travel." The Parks Comprehensive Plan has ten parks planning areas, and all the planning areas incorporate the entire UGA. Based on the current level of service in each planning area, additional investment may be needed in the following planning areas:

- **Pattison Parks Planning Area:** 11.7% of the population is within a .5-mile travelshed of a neighborhood park. This entire planning area is in the UGA. Due to the environmental sensitivity of this area for critical groundwater resources, the extension of sewer lines is necessary for further development in this area to occur at projected population levels. The Land Use Element of the Comprehensive Plan identifies this area needing further study to determine if it would be more appropriately designated as a potential "urban reserve" area or removed from the urban growth boundary. The acquisition of additional park land or improvements in this area should not proceed until further study occurs.
- **McAllister Parks Planning Area:** 9.9% of the population is within a .5-mile travelshed of a neighborhood park. This entire planning area is in the UGA. This area needs potential acquisition and development at existing sites has also been identified.
- **Meadow Parks Planning Area:** 32.8% of the population is within a .5-mile travelshed of a neighborhood park. This planning area includes areas of the UGA. This area needs potential acquisition and development at existing sites has also been identified.
- **Tanglewilde/Thompson Place Parks Planning Area:** 58.6% of the population is within a .5-mile travelshed of a neighborhood park. This planning area includes areas of the UGA. This area needs for potential acquisition and development at existing sites has also been identified.
- **Hawks Prairie Planning Area:** 48.5% of the population is within a .5-mile travelshed of a neighborhood park. This planning area includes areas of the UGA. This area needs potential acquisition and development at existing sites has also been identified.

There are other one-time costs regarding the annexation process that may impact the City's budget, such as **legal fees and staff time managing the process**. These one-time costs are not included in our analysis, as these are related to the receipt of individual applications, not the costs and revenue from the individual subareas. While these overhead costs for annexation are not a part of the analysis, they can be minimized by the City by reducing the number of annexation petitions and ensuring that annexations encompass larger areas.

Ongoing Costs

Our analysis includes the following ongoing costs:

- **General Fund costs** incorporated in this analysis are based on the City's 2024 budget and were grouped into the following categories: general government[4], public safety, community and economic development, parks and recreation, public works, and capital equipment. These costs include personnel expenditures, non-personnel expenditures, and other recurring costs such as transfers to other funds. These costs are estimated on a per serviced person basis based on the current per capita cost for the City. Serviced persons includes residents and a share of employment to reflect the demands additional employment puts on City services.
- **Capital costs for the Arterial Street Fund and TBD Fund** are not included because they would be dependent on project needs. More detailed analysis would be necessary to determine the costs of capital needs in the subareas.

Other Cost Considerations

The current per serviced person cost has been adjusted for each category to account for positions and their associated costs that will likely not increase as a result of annexation. For example, the City will continue to have one City Manager and one Police Chief regardless of its size. These types of leadership or unique positions – department directors and specific positions such as the City Engineer – have been taken out of the assumed share of costs that would increase. The City would likely need to add support positions such as police officers, planners, or financial analysts to serve a larger city.

We use the number of FTEs in the 2024 budget, including additional police positions added mid-year in 2024, as a baseline for estimating additional positions. The City has noted that this staffing level is not sufficient to maintain current service levels. In development of the 2025 budget, City staff identified a need for 10 additional positions. The total FTE estimates associated with annexation represent a continuation of current staffing levels, but not necessarily bringing staffing up to the desired level.

The City currently provides some services to the UGA and some services would be extended if subareas were to become part of the City. As staffing increases, the City will also need additional capital equipment such as computers and vehicles. Department levels of service will also be impacted with annexation. Based on discussions with City staff, these impacts include:

- **General Government.** Services such as city management and finance will likely be impacted as staffing in other departments grows.
- **Public Safety.** The Police Department noted that it provides a different service model and level of service than the Thurston County Sheriff's Office, which means additional staffing would be needed. The Department estimated needing an additional 23 FTEs plus two contracted positions to serve the UGA.

[4] The category of "General Government" includes the following departments/functions: City Council, Contract Services, City Manager, Human Resources, Social Services, Public Affairs/City Clerk, Finance, City Attorney, and Common Facilities.

- **Community and Economic Development.** Services such as code enforcement, permitting, and building inspection will be extended to the subareas.
- **Parks.** The Parks, Culture and Recreation Department (LPCR) currently serves community members within City limits and the UGA. Staff has noted that as annexation occurs, there will be minimal impact on parks and programs because the UGA community is already using the City's parks, programs, and facilities. General population growth within the City and the UGA will create a need for increased staff, budget resources, parks, facilities, events, and programs. The future parks and recreation costs are assumed to be less than the current per capita cost as the population is currently being served.
- **Public Works.** The Public Works Department noted it would need to bring certain elements of the transportation system, such as signage and sidewalks, and the stormwater system to City standard. The Department would be maintaining more road and stormwater infrastructure so would need additional staffing.

Estimated Financial Impact

To illustrate the financial impact of annexation, we show the estimated net impact to the General Fund and the estimated impact of the following additional revenues: MVFT revenue, REET revenue, TBD sales tax revenue, and stormwater fees. As discussed above, the capital costs that would be supported by these revenues are not included in our financial impact estimates and further analysis would be necessary to quantify these costs.

Summary of Scenarios

Exhibit 15 shows the estimated financial impact under Scenarios 1, 2, and 3 at the time of annexation (Year 1) and beyond the initial time of annexation (Year 20) for the General Fund and Additional Revenues.

In all scenarios, the net financial impact to the General Fund is negative in Year 1. This result aligns with the City's 2024 General Fund budget, which has ongoing expenditures exceeding ongoing revenues by approximately $4 million. In the 2025 General Fund budget, $1.8 million in reserves is used to balance the budget and there are some ongoing expenses being funded out of reserves.

In Year 1, the net impact is more negative in Scenario 1 because Scenarios 2 and 3 assume some growth and development from the start. By Year 20, the financial impact to the General Fund remains negative overall in all scenarios.

In Scenario 1 (No Growth), the net impact gets more negative over time because revenues grow slower than costs primarily due to the 1% cap on property tax. In Scenarios 2 and 3, revenues still grow slower than costs but as growth increases for both population and housing, the negative net impact becomes smaller primarily due to the impact of sales tax on new construction. Scenario 3, based on historical growth, results in a marginally more favorable net financial impact over the long term. The impact to each subarea under each scenario in Year 1 compared to Year 20 are shown on the pages that follow.

The additional revenues received from MVFT, REET, TBD sales tax, and stormwater fees may support capital needs and other operational needs from annexation. These revenues increase from Year 1 compared to Year 20 as population and development in the annexed areas grow.

Exhibit 15: Estimated Financial Impact of Annexation by Scenario

	Scenario 1: No Growth		Scenario 2: Capacity Analysis Build-out		Scenario 3: Historical Growth	
	Year 1	Year 20	Year 1	Year 20	Year 1	Year 20
General Fund						
Total Revenues	$23,355,000	$35,631,000	$24,000,000	$43,839,000	$23,802,000	$40,960,000
Total Expenditures	$26,821,000	$42,878,000	$27,051,000	$50,846,000	$26,971,000	$47,934,000
Net Impact	-$3,466,000	-$7,247,000	-$3,051,000	-$7,007,000	-$3,169,000	-$6,974,000
Additional Revenues						
MVFT Revenue	$700,000	$700,000	$706,000	$830,000	$704,000	$782,000
REET Revenue	$1,328,000	$6,371,000	$1,339,000	$6,431,000	$1,336,000	$6,411,000
TBD Revenue	$107,000	$172,000	$108,000	$205,000	$108,000	$194,000
Stormwater Fees	$2,506,000	$4,007,000	$2,597,000	$4,873,000	$2,521,000	$4,512,000

Note: Amounts have been rounded to the nearest thousand.
Sources: City of Lacey, 2024; TRPC, 2024; Washington State Department of Revenue, 2024; BERK, 2024.

Scenario 1 General Fund Impact by Subarea

Exhibit 16 shows the estimated General Fund net financial impact at the time of annexation and in year 20 of the annexations for the No Growth scenario for each subarea within the UGA. The impact in every area is negative in Year 1 and Year 20. The negative impact is largest in Duterrow and Meadows, which have large numbers of existing housing units and jobs. The larger serviced population leads to higher costs. Tanglewilde/Thompson Place also has a comparatively large number of housing units and jobs, though the assumed higher level of sales tax revenue generated in this subarea helps offset the service costs.

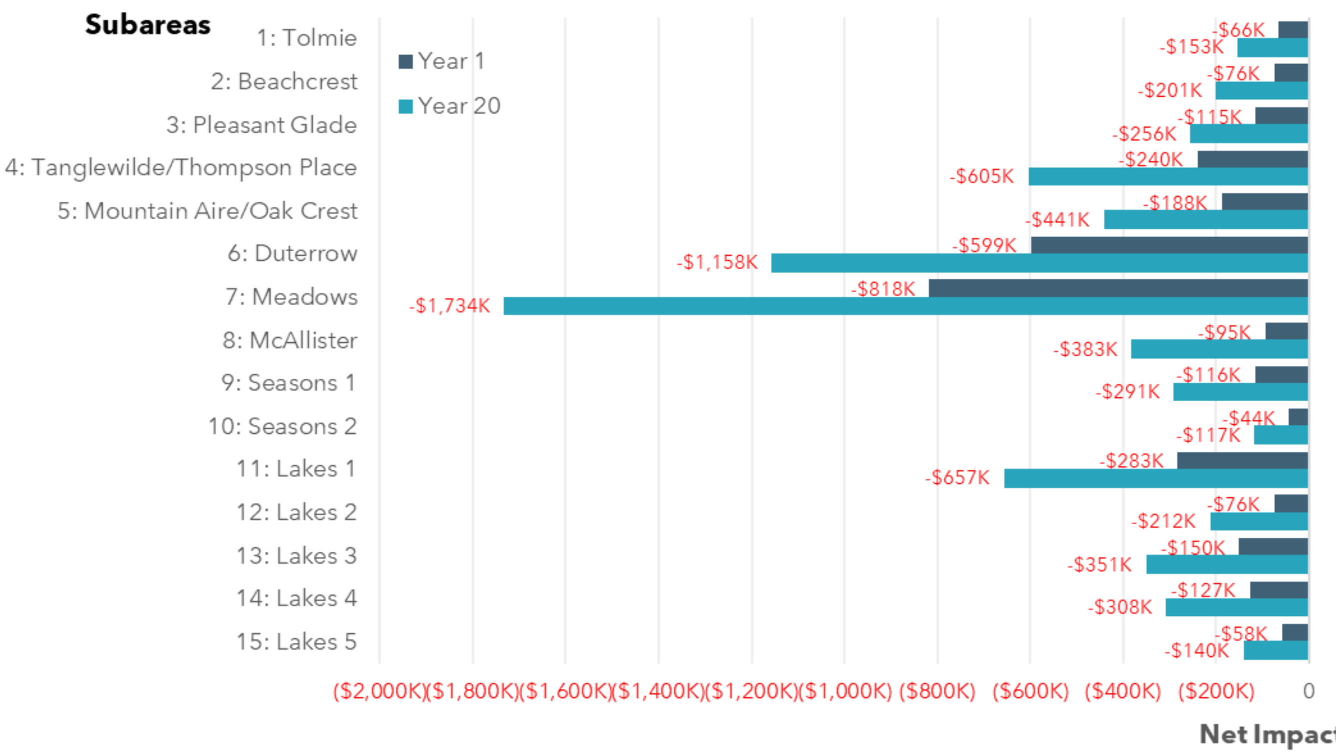
Exhibit 16: Scenario 1 Estimated General Fund Net Financial Impact of Annexation by Subarea

Sources: City of Lacey, 2024; TRPC, 2024; Washington State Department of Revenue, 2024; BERK, 2024.

Scenario 2 General Fund Impact by Subarea

Exhibit 17 shows the estimated General Fund net financial impact at the time of annexation and in year 20 of the annexations for the Capacity Analysis Build-out scenario for each subarea within the UGA. The impact in every area is negative in Year 1 and Year 20. Like Scenario 1, the negative impact is largest in Duterrow and Meadows, which have capacity to add housing units and non-residential square feet and increase the serviced population. Tanglewilde/Thompson Place also has capacity to add housing units and non-residential square feet, which would increase the serviced population, but the assumed higher level of sales tax revenue generated in this subarea helps offset the service costs.

Exhibit 17: Scenario 2 Estimated General Fund Net Financial Impact of Annexation by Subarea

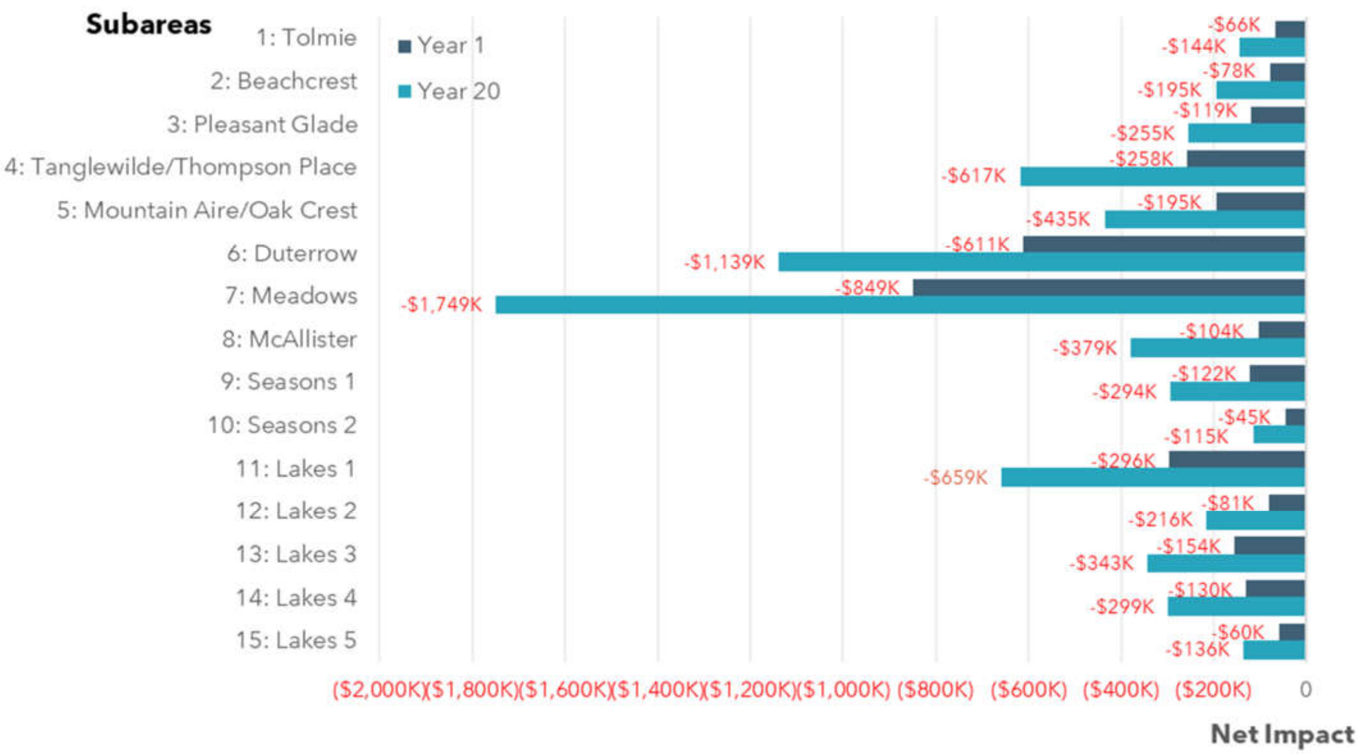


Sources: City of Lacey, 2024; TRPC, 2024; Washington State Department of Revenue, 2024; BERK, 2024.

Scenario 3 General Fund Impact by Subarea

Exhibit 18 shows the estimated General Fund and City Street Fund net financial impact at the time of annexation and in Year 20 of the annexations for the Historical Growth scenario for each subarea within the UGA. The results of this scenario are similar to the results of Scenario 2. The impact in every area is negative in Year 1 and Year 20.

Exhibit 18: Scenario 3 Estimated General Fund Net Financial Impact of Annexation by Subarea



Sources: City of Lacey, 2024; TRPC, 2024; Washington State Department of Revenue, 2024; BERK, 2024.

Staffing Estimates

The total number of positions needed to serve the annexation areas is estimated on a per serviced person basis based on the current per capita FTE count for each City function. As with cost estimates, we have excluded some positions from future estimates, such as department directors or unique positions such as the City Engineer. We assume the current per capita FTE count remains constant, and as the City adds residents and employees in the annexation areas, it adds staff at the same rate. We provide year 1 estimates for each scenario. In these scenarios, the City would add approximately 118 new positions to serve over 35,000 residents (see Exhibit 19).

Exhibit 19: Current City Staffing and Estimates for Annexation Areas

City Function	City of Lacey	Scenario 2	Scenario 2 Total	Scenario 3	Scenario 3 Total
General Government	46.0	16.6	62.6	16.5	62.5
Community & Economic Development	21.0	7.0	28.0	7.0	28.0
Parks & Recreation	37.5	16.0	53.5	16.0	53.5
Police	91.0	47.7	138.7	47.6	138.5
Public Works/Engineering	60.0	18.2	78.2	18.2	78.2
City Streets	14.5	8.4	22.9	8.3	22.8
Total General Fund	**270.0**	**114.0**	**383.9**	**113.6**	**383.6**
Water Utility	26.5	--	26.5	--	26.5
Wastewater Utility	20.5	--	20.5	--	20.5
Stormwater Utility	8.5	4.3	8.5	4.3	8.5
Finance – Enterprise Funds	12.0	--	16.3	--	16.3
Total FTEs	**337.5**	**118.3**	**455.7**	**117.9**	**455.3**
Total Population	**60,210**	**36,171**		**36,055**	

Note: Parks & Recreation includes positions in Parks & Recreation and Parks Maintenance. The population in Scenarios 2 and 3 is slightly higher than the current population because some growth in housing units and population is assumed in year 1.
Sources: City of Lacey, 2024; BERK, 2024.

Study Area Financial Summary

Exhibit 20 provides a summary of the estimated financial impacts for each planning area in the study area.

Exhibit 20: General and Financial Impact Notes for Planning Areas

Planning Area	Subareas	General Notes
Hawks Prairie	Tolmie, Beachcrest	▪ These subareas have a modest net financial impact, though it is negative. ▪ The parks plan notes that the Hawks Prairie planning area needs potential acquisition to achieve the desired level of service.
Pleasant Glade	Pleasant Glade	▪ This subarea has a modest net financial impact, though it is negative.
Tanglewilde/ Thompson Place	Tanglewilde/Thompson Place, Mountain Aire/Oak Crest	▪ These subareas have a more significant negative net financial impact compared to other subareas. Tanglewilde/Thompson Place has a more negative net financial impact compared to Mountain Aire/Oak Crest. These subareas have a high number of housing units and population compared to other subareas. Tanglewilde/Thompson Place has the highest number of jobs. This area is assumed to generate more sales tax revenue than other subareas, which partially offsets the demand on costs driven by the additional population and jobs. Tanglewilde/Thompson Place has capacity to add over 183,000 non-residential square feet, so the potential construction sales tax would be a benefit. As development occurred, the City would serve a larger employment population, which would continue to drive costs. ▪ The parks plan notes that the Tanglewilde/Thompson Place planning area needs potential acquisition to achieve the desired level of service. ▪ Each of these subareas would be eligible for the 0.1% sales tax credit based on the current population.

Planning Area	Subareas	General Notes
Meadows	Duterrow, Meadows	▪ These subareas have the most significant negative net financial impact compared to other subareas. These subareas have the highest number of existing housing units and population. Duterrow also has a high number of existing jobs. The demand on costs driven by this additional population and jobs is greater than the expected initial revenue. Meadows has capacity to add over 230,000 non-residential square feet, so the potential construction sales tax would be a benefit. As development occurred, the City would serve a larger employment population, which would continue to drive costs. ▪ The parks plan notes that the Meadow planning area needs potential acquisition to achieve the desired level of service. ▪ Each of these subareas would be eligible for the 0.1% sales tax credit based on the current population. The combined population would be eligible for the 0.2% sales tax credit.
Seasons	McAllister, Seasons 1, Seasons 2	▪ The net financial impact in McAllister is positive in Year 1 of Scenario 2, likely due to the higher assessed values compared to the population. The McAllister subarea would be eligible for the 0.1% sales tax credit based on the current population.
Lakes	Lakes 1, Lakes 2, Lakes 3, Lakes 4, Lakes 5	▪ These subareas have a negative net financial impact. ▪ Lakes 2 has over 500 jobs and capacity to add an additional 120 jobs. The capacity to add non-residential square feet would provide construction sales tax. As development occurred, the City would serve a larger employment population, which would continue to drive costs. ▪ The Lakes 1 subarea would be eligible for the 0.1% sales tax credit based on the current population.

Considerations and Next Steps

The City's current annexation policy provides guiding principles and a process for managing an annexation, including an evaluation of the short and long-term community impact. The goal is to ensure an annexation best meets the service delivery, health and safety, quality of life, and financial goals and policies of the City. The analysis in this study provides a high-level evaluation of the short and long-term financial impact to the City. With this information and the City's existing policy, the City can develop a strategic approach to annexation. The City's UGA is large, with approximately half the population of the City, so developing a strategy to approach annexation will ensure the City can sustainably provide services to annexed areas.

Decision Criteria

The following criteria are recommended when deciding whether to move forward with annexing one of the subareas described in this study:

- **Adjacency to city limits**, which can help with continuity or consolidation of service delivery.
- **Development capacity**, which can help the City meet its goals for housing unit and employment growth.
- **Current commercial development**, which can generate sales tax revenue for the City and help offset additional costs.
- **Estimated net financial impact**, which will help ensure annexation is financially sustainable. This includes consideration of infrastructure needs and potential upgrades to meet City standards, which will have a cost. In addition, the City may want to add staff in advance of an annexation to ensure service levels can be maintained, so there may be costs that come before additional revenues.
- Qualification for the **state sales tax credit**, which can help offset operating deficits. A city may not begin to impose the tax authorized by this section after July 1, 2028, so this would be part of a short-term strategy.

The City will need to evaluate the tradeoffs between the estimated financial impact and the ability to meet other development goals. For example, the Tanglewilde/Thompson Place subarea has a more negative net financial impact than some other subareas but has more capacity to add non-residential development, which could help the City meet other goals. The Martin Way corridor is being studied as a development priority. This corridor may be a good candidate for development of denser housing development.

Evaluation of Subareas

These criteria are applied to the subareas in Exhibit 21. The eligibility for the state sales tax credit is based on the current estimated population in each subarea. Subareas within a larger planning area could be combined to reach the necessary population threshold.

Exhibit 21: Subareas and Decision Criteria

Subarea	Adjacency	Development Capacity	Current Commercial Development	Net General Fund Financial Impact (Scenario 3, Year 1)	Sales Tax Credit
1. Tolmie	Yes	Capacity for 100 new housing units	Under 100K non-residential SF	Negative net impact	Not eligible
2. Beachcrest	Yes	Capacity for 100 new housing units	No non-residential SF	Negative net impact	Not eligible
3. Pleasant Glade	Yes	Capacity for 300 new housing units and 15K non-residential SF	Under 100K non-residential SF	Negative net impact	Not eligible
4. Tanglewilde /Thompson Place	Yes	Capacity to add over 200 new housing units and 183K non-residential SF	1.4M non-residential SF	Negative net impact	Eligible for 0.1%
5. Mountain Aire/Oak Crest	Yes. Should be considered with or after Tanglewilde / Thompson Place	Capacity for 200 new housing units and 30K non-residential SF	130K non-residential SF	Negative net impact	Eligible for 0.1%
6. Duterrow	Yes	Capacity for 200 new housing units and 17K non-residential SF	800K non-residential SF	Second largest negative net impact	Eligible for 0.1%

Subarea	Adjacency	Development Capacity	Current Commercial Development	Net General Fund Financial Impact (Scenario 3, Year 1)	Sales Tax Credit
7. Meadows	Yes	Capacity to add over 200 new housing units and 230K non-residential SF	470K non-residential SF	Largest negative net impact	Eligible for 0.1%
8. McAllister	No	Capacity for over 600 new housing units	Under 100K non-residential SF	Negative net impact	Eligible for 0.1%
9. Seasons 1	No	Capacity for under 100 new housing units and 31K non-residential SF	Under 100K non-residential SF	Negative net impact	Not eligible
10. Seasons 2	No	Capacity for under 100 new housing units and 1K non-residential SF	Under 100K non-residential SF	Second smallest negative net impact	Not eligible
11. Lakes 1	Yes	Capacity for 250 new housing units and 79K non-residential SF	450K non-residential SF	Negative net impact	Eligible for 0.1%
12. Lakes 2	Yes	Capacity for 100 new housing units	100K non-residential SF	Negative net impact	Not eligible
13. Lakes 3	Yes	Capacity for under 100 new housing units	No non-residential SF	Negative net impact	Not eligible
14. Lakes 4	No	Capacity for under 100 new housing units	No non-residential SF	Negative net impact	Not eligible
15. Lakes 5	No	Capacity for under 100 new housing units	Under 100K non-residential SF	Second smallest negative net impact	Not eligible

Source: BERK, 2024.

Annexation Considerations

Based on the current subarea evaluation in Exhibit 21, the following are considerations for annexation:

- **Consider annexing subareas that are currently eligible for the state sales tax credit**. These subareas are Tanglewilde/Thompson Place, Mountain Aire/Oak Crest, Duterrow, Meadows, McAllister, and Lakes 1. Individually, each area has an estimated population over 2,000, which makes it eligible for the 0.1% tax credit (see Exhibit 22). The estimated operating deficit in each area is less than the estimated revenue from a 0.1% sales tax, or approximately $1.87 million. The total population of these subareas is 26,074, which would make the entire area eligible for the 0.2% tax credit.

Exhibit 22: Subareas, Current Population and Net General Fund impact in year 1

Subarea	Current Population	Net General Fund Financial Impact
1. Tolmie	548	($66K)
2. Beachcrest	990	($78K)
3. Pleasant Glade	1,202	($119K)
4. Tanglewilde /Thompson Place	**5,793**	($258K)
5. Mountain Aire/Oak Crest	**2,063**	($195K)
6. Duterrow	**4,897**	($611K)
7. Meadows	**7,335**	($849K)
8. McAllister	**2,680**	($104K)
9. Seasons 1	1,449	($122K)
10. Seasons 2	605	($45K)
11. Lakes 1	**3,305**	($296K)
12. Lakes 2	1,454	($81K)
13. Lakes 3	1,530	($154K)
14. Lakes 4	1,365	($130K)
15. Lakes 5	624	($60K)

Notes: Subareas in bold have a current population that exceeds the minimum threshold for sales tax credit eligibility. The net financial impact represents year 1 in Scenario 3. Financial impact estimates have been rounded to the nearest $1,000.
Source: BERK, 2024.

- **Develop a plan for maintaining service levels at the end of the tax credit period.** The impact of the revenue loss would be a challenge, but the City could plan for how to align expenditures or add additional revenue once the credit period ends.
- **Consider annexing subareas that provide for additional development capacity**. Tanglewilde/Thompson Place and Meadows each have capacity to add roughly 200,000 square feet of non-residential capacity. McAllister has capacity to add more than 600 housing units. Pleasant Glade, Tanglewilde/Thompson Place, Mountain Aire/Oak Crest, Duterrow, Meadows, and Lakes 1 each have capacity to add more than 200 housing units. Annexing one or more of these areas could help the City meet its growth targets for housing units and jobs.
- **Develop detailed staffing needs including the timing of bringing on additional staff**. The analysis in this study assumes additional staff will be needed to serve additional residents and employees in each subarea. However, each subarea has unique characteristics that will impact staffing needs, such as police calls for service or distance from City facilities.
- **Add an evaluation of staffing needs to the City's annexation policy**. The City's policy includes an evaluation of the financial impact and the ability of the City to provide services to the annexed area. This evaluation should include a specific evaluation of staffing needs to ensure the City can have adequate staffing in place at the time of annexation.
- **Conduct further engineering studies to provide an understanding of capital costs.** Although this study presents a picture of the costs involved with annexation, detailed costing of long-term infrastructure investments is not explored in this work. Detailed engineering design studies would be necessary to identify more specific costs and provide clear estimates of the capital investments needed in these areas if annexations were to move forward.
- **Conduct further analysis to refine estimates of staffing needs.** This study assumes the same staffing ratios across each subarea, but they may differ in terms of service level demands. City departments could develop estimates of staffing need based on workload and outcome measures, in addition to the added population and employment.
- **Consider how changes to future zoning could benefit the City.** The analysis in this study is based on current zoning. The City could potentially rezone an annexed area to meet GMA requirements like increased housing density.
- **Consider boundaries of existing communities if taking a phased approach.** Any phasing should respect the boundaries of existing communities wherever possible. This can reduce friction and improve clarity on jurisdiction within these neighborhoods.
- **Include updated UGA policies in the Comprehensive Plan.** Policies regarding the integration of UGAs into the city should be included in the 2025 periodic update to the Comprehensive Plan. While the guidelines are provided to the Council as a framework to evaluate individual proposals, clarifying the city's intentions for these areas can reduce confusion and concern among potentially impacted residents, businesses, and landowners.
- **Maintain a process to provide a regular review of impacts of annexations on the city.** City officials should produce a regular update one year after an annexation has occurred to identify actual impacts to the city and any concerns with variances from the anticipated impacts to ensure the

city's annexation strategy is delivering the expected outcomes. This evaluation will assist the city in improving its annexation management strategy so that the final processes are appropriate for the community and do not create capacity issues or other challenges. If the City were to apply for the sales tax credit, it would be already comparing actual revenues and costs.

Appendix A: Comparable City Information

This section provides staffing and revenue information on comparable cities to the City of Lacey. The comparable cities have been recommended by City staff based on their similar population size, proximity to Lacey, and magnitude of revenue collection. There are some significant differences in how the comparable cities operate which impact the staffing and revenue comparisons. These differences in service delivery are described in Exhibit 23, along with select characteristics of each city. The staffing information in this section was collected from each city's current adopted budget.

Exhibit 23: Comparable City Characteristics

City	Total Population	Total FTEs, 2024	Total General Fund Revenue, 2023	Service Delivery Differences
Bothell	50,670	382.36	$73,745,843	Fire Department and Municipal Court
Bremerton	45,390	401.43	$51,535,000	Fire Department and Municipal Court
Burien	53,000	114.66	$39,136,745	No Fire or Police Department
Lacey	**60,240**	**337.50**	**$64,049,951**	**No Fire Department or Solid Waste Utility**
Lakewood	64,150	223.05	$47,388,854	Municipal Court, no city utilities
Marysville	73,780	382.75	$68,807,337	Municipal Court and Solid Waste
Olympia	56,900	653.69	$94,885,855	Fire Department, Municipal Court, Solid Waste
Puyallup	43,420	327.35	$60,356,770	Municipal Court and Library
Richland	64,190	584.40	$78,732,356	No Fire Department
Shoreline	61,910	215.92	$70,129,141	No Fire or Police Department

Sources: WA Office of Financial Management, 2024; State Auditor's Office Financial Intelligence Tool, 2023; BERK, 2024.

Staffing Comparisons

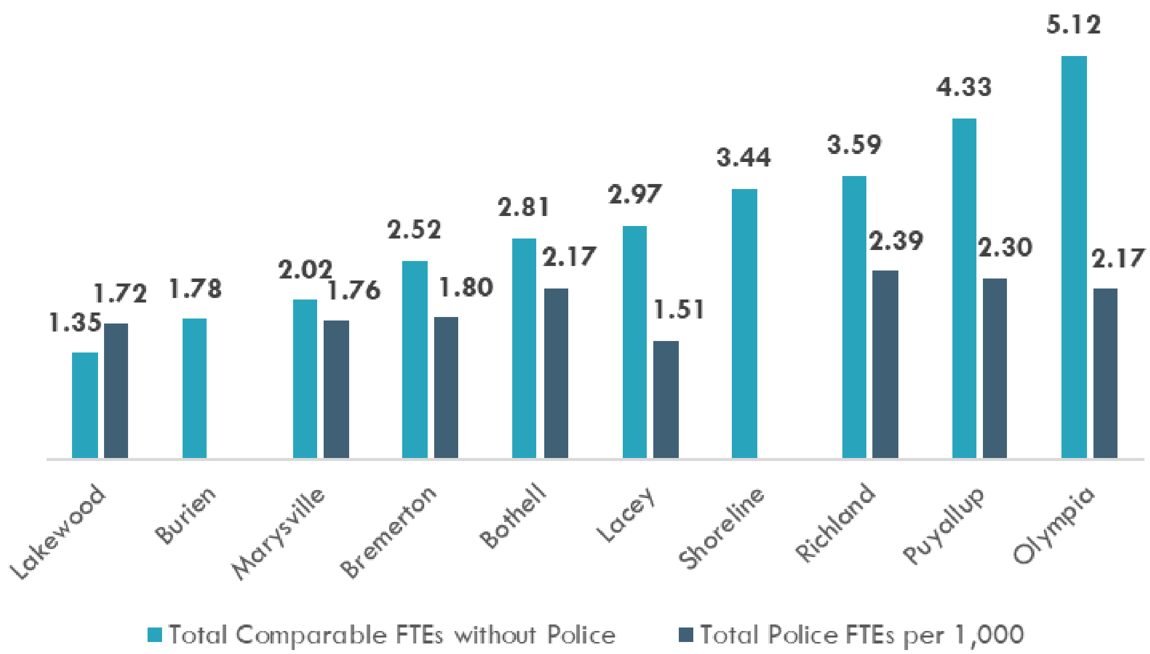
Each city operates differently and provides different services, but data on staffing is presented in several ways to allow for a reasonable comparison. Exhibit 24 provides the total full-time equivalent (FTE) positions per 1,000 residents, comparable FTEs, police FTEs, and comparable FTEs without police positions. Comparable FTEs are positions in departments that almost all cities have in common: City Management/Central Services, Community & Economic Development, Parks & Recreation, Police, and Public Works/Engineering. Burien and Shoreline do not have a police department so the comparable FTEs without police is provided as well. Lacey is below the median when looking at total FTEs and at the median when looking at total comparable FTEs per 1,000 residents. Lacey is just above the median when looking at total comparable FTEs without Police. Exhibit 25 shows comparable FTEs without police and police FTEs for all cities.

Exhibit 24: FTEs per 1,000 population, 2024

City	Total Population	Total FTEs, 2024	Total FTEs per 1,000 Population	Total Comparable FTEs per 1,000	Total Comparable FTEs without Police	Total Police FTEs per 1,000 Population
Bothell	50,670	382.36	7.55	4.98	2.81	2.17
Bremerton	45,390	401.43	8.84	4.32	2.52	1.80
Burien	53,000	114.66	2.16	1.78	1.78	0.00
Lacey	**60,240**	**337.50**	**5.51**	**4.48**	**2.97**	**1.51**
Lakewood	64,150	223.05	3.45	3.07	1.35	1.72
Marysville	73,780	382.75	5.15	3.78	2.02	1.76
Olympia	56,900	653.69	11.38	7.29	5.12	2.17
Puyallup	43,420	327.35	7.54	6.63	4.33	2.30
Richland	64,190	584.40	9.1	5.98	3.59	2.39
Shoreline	61,910	215.92	3.49	3.44	3.44	0.00
Median			**6.53**	**4.40**	**2.89**	**1.78**

Sources: WA Office of Financial Management, 2024; BERK, 2024.

Exhibit 25: FTE Comparison, 2024



Sources: Comparable City budgets, 2024; BERK, 2024.

Revenues

Exhibit 26 provides the property and sales tax per capita and total General Fund revenue per capita for Lacey and the comparable cities. Lacey generates a relatively low amount of property tax per capita compared to this peer group. This is partly a function of the property tax levy rates in these cities. Lacey's levy rate is the lowest of the comparable cities. Without a levy lid lift, it would be unlikely that Lacey's property tax revenue per capita would reach the median amount. Lacey's sales tax per capita is just below the median of the peer city group. Exhibit 27 shows General Fund revenue per capita for Lacey and the comparable cities. Lacey is below the median, with $1,064 per capita.

Exhibit 26: Comparison of Revenue Per Capita, 2023

City	Property Tax Revenue per Capita	Sales Tax Revenue per Capita	General Fund Revenue per Capita	Levy Rate
Bothell	$508	$355	$1,455	$1.408
Bremerton	$193	$262	$1,135	$1.469
Burien	$161	$193	$738	$0.824
Lacey	**$141**	**$272**	**$1,064**	**$0.677**

City	Property Tax Revenue per Capita	Sales Tax Revenue per Capita	General Fund Revenue per Capita	Levy Rate
Lakewood	$120	$219	$733	$0.710
Marysville	$150	$235	$925	$0.814
Olympia	$354	$456	$1,652	$1.742
Puyallup	$226	$603	$1,390	$0.983
Richland	$313	$280	$1,227	$2.018
Shoreline	$357	$229	$1,133	$1.390
Tumwater	$403	$379	$1,316	$1.774
Median	**$313**	**$280**	**$1,135**	**$1.390**

Notes: Revenues are from 2023. Property tax and sales tax revenue is taken from MRSC and General Fund revenue is taken from each city's published 2023 or 2023-2024 budget. Revenues for Lacey Annexation are based on the analysis done for this study.

Sources: MRSC, 2024; State Auditor's Office Financial Intelligence Tool, 2024; BERK, 2024.

Exhibit 27: Comparative General Fund Revenue Per Capita, 2023

Notes: Revenues are from 2023. Property tax and sales tax revenue is taken from MRSC and General Fund revenue is taken from each city's published 2023 or 2023-2024 budget. Revenues for Lacey Annexation are based on the analysis done for this study.

Sources: City budgets, 2023; BERK, 2024.

Annexation Scenario

If the City of Lacey were to annex its UGA, it would have a significantly larger population. This section provides staffing and revenue information for cities of comparable size to the City of Lacey under an annexation scenario. Exhibit 28 provides the estimated FTE numbers for the Lacey annexation scenario compared to some cities that have a similar population. These represent the estimated FTEs in year one of annexation for Scenario 3, which has a more conservative growth estimate than Scenario 2.

The analysis uses the current number of FTEs per serviced person, which is population plus a share of jobs, and applies that to the increase in population and jobs. The FTEs per 1,000 population are therefore slightly lower, as this ratio only uses population numbers. In addition, the ratios are lower in the annexation scenario as some functions already serve the UGA and are not assumed to add positions. We have also excluded some position from future estimates, such as department directors or unique positions.

Compared to these comparable cities, Lacey would be slightly above the median when looking at comparable FTEs per 1,000 residents. The City of Bellingham's number of comparable FTEs per 1,000 is higher than others because the City groups all public works and utilities positions together. Lacey would be below the median when looking at Police FTEs per 1,000.

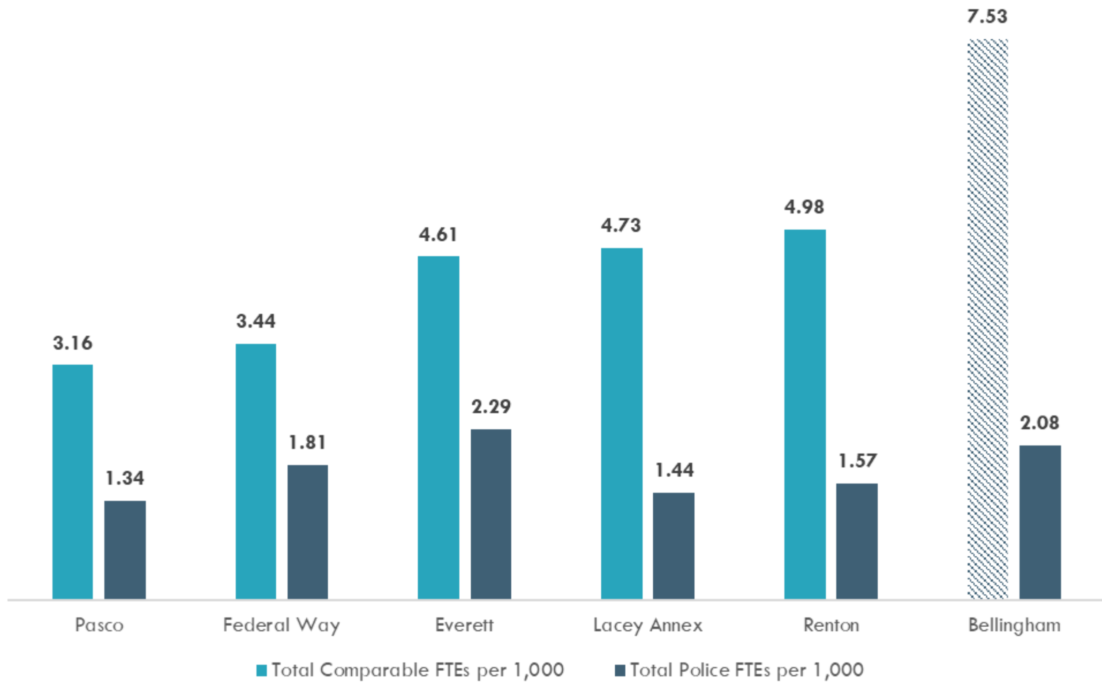
These comparable cities have a higher number of total FTEs per 1,000 residents except for the City of Federal Way. Were the City of Lacey to become significantly larger, as in this scenario, City leadership may evaluate the costs and benefits of providing more services with staff.

Exhibit 28: FTEs per 1,000 Population, Annexation Scenario

City	Total Population	Total FTEs, 2024	Total FTEs per 1,000 Population	Total Comparable FTEs per 1,000	Total Police FTEs per 1,000 Population	Total Comparable FTEs without Police
Bellingham	97,270	1,035.70	10.65	7.53	2.08	5.46
Everett	114,800	1,257.80	10.96	4.61	2.29	2.32
Federal Way	102,500	397.80	3.88	3.44	1.81	1.63
Lacey Annexation	**96,265**	**455.50**	**4.73**	**4.73**	**1.44**	**3.29**
Pasco	82,220	506.30	6.16	3.16	1.34	1.82
Renton	108,800	649.50	5.97	4.98	1.57	3.41
Median			**5.97**	**4.61**	**1.57**	**2.32**

Notes: The total population for Lacey Annexation represents the City and the UGA. FTEs for Lacey Annexation are based on the analysis done for this study. The City of Bellingham groups all public works and utilities positions together.
Sources: WA Office of Financial Management, 2024; BERK, 2024.

Exhibit 29: Annexation Scenario FTE Comparison, 2024



Note: The City of Bellingham groups all public works and utilities positions together.
Sources: City of Bellingham, 2024; City of Everett, 2024; City of Kirkland, 2024; City of Lacey, 2024; City of Pasco, 2024; BERK, 2024.

The numbers provided for the Lacey annexation scenario in Exhibit 30 represent the estimated revenues in year one of annexation for Scenario 3. Lacey is estimated to have a comparably low amount of property tax revenue per capita and a similar amount of sales tax revenue per capita as Federal Way. Lacey's property tax levy rate is similar to the City of Federal Way's rate, but below all the comparable cities.

Exhibit 30: Annexation Scenario Comparison of Revenue Per Capita, 2023

City	Property Tax Revenue per Capita	Sales Tax Revenue per Capita	General Fund Revenue per Capita	Levy Rate
Bellingham	$276	$361	$1,488	$1.336
Everett	$353	$341	$1,393	$1.512
Federal Way	$115	$203	$651	$0.687
Lacey Annexation	**$134**	**$200**	**$919**	**$0.677**
Pasco	$153	$243	$1,118	$1.288
Renton	$232	$350	$1,339	$0.883
Median	**$193**	**$292**	**$1,229**	**$1.085**

Notes: Revenues and the property tax levy rate are from 2023. Revenues for Lacey Annexation are based on the analysis done for this study.

Sources: MRSC, 2024; State Auditor's Office Financial Intelligence Tool, 2024; BERK, 2024.

Findings

- Having adequate staffing to deliver services is important to the City. A look at staffing per capita in comparable cities shows that Lacey is near the median when looking at total comparable FTEs per 1,000 residents. This comparison is one input when considering whether the City is appropriately staffed because each community may provide services at a different level.
- Maintaining adequate staffing is also important to the City as it considers annexation. If the City adds positions in line with population and employment growth, Lacey's staffing per capita will be comparable to cities of similar population size when including the entire UGA. If the City annexes areas of the UGA and becomes significantly larger, City leadership may choose to evaluate the costs and benefits of different service delivery models, such as providing services through a contract or with staff.
- Lacey generates a relatively low amount of property tax per capita compared to comparable cities. Lacey's levy rate is the lowest of the comparable cities. A levy lid lift is a strategy the City could consider in the future to increase total property tax revenues.

Appendix B: City of Lacey Annexation Policies

Adopted by City Council, June 9, 2011

General Purpose:

To objectives and policies that will serve as the framework from which specific annexation requests can be reviewed and evaluated.

Guiding Principles:

1. The City will ensure that annexations are processed in accordance with State annexation laws in a timely and efficient manner.
2. The City will ensure that annexations will include the participation of the annexation area residents through either the petition or election methods of annexation.
3. The City will collaborate on annexations with affected jurisdictions in order to accomplish an orderly transfer of contiguous lands within the urban growth area into the City (county wide policy).

Process and Review Criteria:

The City of Lacey will utilize standard criteria, empirical data, and best practices to evaluate annexation requests to ensure they best meet the service delivery, health and safety, quality of life, and financial goals and policies of the City.

<u>Policies:</u>

1. The City will evaluate all annexations on the basis of their short and long-term community impact. Prior to annexation, the City will perform a study of the annexation area as suggested in the MRSC annexation handbook, which at a minimum, includes the following information:
    - A. Statistical data
    - B. Maps
    - C. Existing public services, level of service, and cost
    - D. Crime statistics
    - E. Roadway condition analysis
    - F. Traffic management deficiencies
    - G. Capital improvement requirements
    - H. Utility assessment
    - I. Water, wastewater, and storm water system assessment
    - J. Environmental assessment
    - K. Urban service needs
    - L. Service requirement costs
    - M. Estimated revenues
    - N. Social and economic characteristics
    - O. Impact on existing inter-local agreements
    - P. Special issues, if any
    - Q. Amount of bonded indebtedness to be assumed by the annexation area.

2. The City will consider expanding or contracting the area of a proposed annexation when such an expansion or contraction would serve to make City boundaries more regular, where the area to be served is a logical extension of City service capabilities, or where the best interests of the city are an overriding consideration.
3. Annexation of land should be directly dependent upon the City's ability to provide, acquire, operate and maintain services for public works (streets, stormwater, water and sewer), police protection, parks and recreation, code enforcement and related municipal services. Annexation should be considered only after the City is satisfied that these services, a) can be made available in a manner cost effective to the City, b) are not detrimental to existing services provided Lacey residents, and, c) the annexation is in the best interest of the City.
4. Private streets, facilities and/or utilities located in an annexation area will not be assumed by the City as a result of annexation unless requested and the private streets, facilities and/or utilities meet the City's current standards for construction and maintenance and, it is in the interest of the City to assume this additional responsibility.
5. An area proposed for annexation will assume its prorated share of the City's bonded indebtedness existing at the time of annexation.
6. The City will evaluate proposed annexations based on the following criteria:
    a. The ability of the City to provide public services at a level equal to or better than that available from current service providers;
    b. The ability of the City to provide public services at the City's current levels of service;
    c. Whether the annexation will cause a financial burden or a reduction in level of service to the City or existing citizens;
    d. Whether the annexation would eliminate an unincorporated island or could be expanded to eliminate an unincorporated island(s);
    e. Whether the annexation would follow logical boundaries, such as streets, subdivisions, waterways, or substantial topographic changes;
    f. Whether the annexation would eliminate an irregularity or irregularities in the City's boundaries, thereby improving service delivery;
    g. The relative costs and affordability to serve the proposed annexation versus the revenue to be derived from annexation;
    h. The proposed annexation is consistent with the GMA and the adopted Comprehensive Plan;
    i. The capital cost and affordability to the City of making required infrastructure improvements and/or addressing infrastructure deficiencies.
7. In order to accomplish the above, the City of Lacey will support the following annexation procedures:
    a. The City Manager will designate the Community Development Department and/or other staff to perform the following:
        i. Receive and process annexation requests

ii. Furnish the public and City officials with annexation procedure information

iii. Coordinate the preparation of annexation studies, technical studies and assessments on the impacts from annexation

b. The City will review the zoning of the annexation area to ensure consistency with the adopted comprehensive plan. The annexation request will be referred to the Planning Commission if a comprehensive plan amendment or rezone is warranted.

c. Prior to any annexation, the City will confer with affected special districts and other jurisdictions to assess the impact of annexation.

d. The City should follow the provisions of RCW chapter 35A.13 regarding its relationship to water districts when annexation takes place.

e. Create, update, refine and maintain a City annexation brochure and other informational resources relating to annexation.

f. Develop a standardized matrix and evaluation process for conducting fiscal feasibility studies to determine the economic impact of proposed annexations.

g. Develop a priority list of annexations based on the development potential of land within the planning area and the "squaring" up of boundaries for service enhancement. Annexations processed at the request of property owners will be prioritized as they are received.

Utilities:

The City of Lacey should support the extension of City utilities into the unincorporated Urban Growth Area, provided the utilities extension meets City standards, is consistent with current City utility policies, and the residents to be served commit to annexation into the City when the City deems annexation is appropriate.

<u>Policies:</u>

1. Unincorporated, undeveloped land which is immediately adjacent to the City boundary should be required to annex to the City at the time development is proposed in order to receive the full range of urban services. Provided, the policies and requirements of this document are satisfactorily met.
2. Unincorporated and undeveloped land, which is located within the Urban Growth Area but is not adjacent to the City boundary and is not practical to annex at the time of development may be developed subject to compliance with the Comprehensive Plan and implementation ordinances, standards and guidelines. Connection to utilities should not occur unless public improvements are constructed to City standards and the properties served commit to annexation into the City when the City deems annexation is appropriate.
3. Until adequate water rights are obtained as determined by the City, annexation of undeveloped properties will be considered only if the terms of Resolution 917 are met, summarized below (Resolution 917):

   a. Sufficient water production is available, and the owner or developer of the property provides water rights to the City sufficient to serve such property and the transfer of such water rights for municipal use is approved by the Department of Ecology.

b. The owner or developer of the property provides water rights to the City and facilitates an acceptable water supply agreement with another qualified water purveyor for furnishing to the City sufficient water to serve the subject property.

c. The owner or developer of the property enters into an agreement acceptable to the City which commits such owner or developer to use reclaimed water for all irrigation and toilet flushing within the development and, in addition, where feasible and allowed by state law and regulation, use for other purposes within the development. The City shall not approve such an agreement unless a sufficient supply of reclaimed water beyond that needed for water right mitigation is available in the area in question and the agreement makes provision for the installation or advanced payment for the infrastructure necessary to store, distribute and convey such reclaimed water from LOTT reclaimed water facilities to the development.

4. The City may, by Council approval, coordinate the extension of City utilities and services to developed and undeveloped properties to encourage and guide needed and desirable urban growth, provided that (resolution 541):

   a. The owners of lands to be served by such water and/or sewer service agree to participate financially by formation of local improvement district or other means, to the extent and in the manner agreeable to the City, in capital improvements taking or projected to take place.

   b. The area and property owners served by water and/or sewer are subject to a contractual arrangement wherein it is agreed all utility improvements meet City standards and residents of the area agree to annex to the City at such time as the City deems appropriate.

   c. The owners of lands to be served by such water and/or sewer service, provide when requested by Local Improvement District or other non-City funds, specified water and/or sewer supply, transmission, distribution and storage facilities, intertied with City systems. Ownership and control of such facilities shall be transferred to the City following construction, inspection and acceptance.

Interlocal Agreements:

Policies:

1. The City, where appropriate, will collaborate with adjacent jurisdictions in the creation of inter-local agreements to provide technical and financial support for the extension and improvement of public services and facilities within in the City's Urban Growth Area.
2. The City supports the Memorandum of Understanding between the Lacey, Olympia Tumwater and Thurston County relating to Urban Growth Area Zoning and Development Standards establishing uniform adoption and implementation of comprehensive plan, zoning and development standards within the Urban Growth Boundary.
3. The City will participate in the planning for areas outside its boundaries but within its urban growth area to ensure that land uses are compatible with the City of Lacey and Thurston County Land Use Plan for the Lacey Urban Growth Area, goals, polices and land use designations.