

## AGENDA ITEM SUMMARY




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**Title/Topic:** Island Annexation Information and Background

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**Date:** Monday, April 14, 2025  
**Department:** Administration  
**Contact(s):** City Manager Chris Workman

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### ISSUE STATEMENT

This is an informational memo intended to inform the City Council about property islands and island annexations, how they are created, disadvantages, the island annexation process, and what the timeframe would be for moving through the island annexation process.

### BACKGROUND

Property islands are created when surrounding properties are annexed into the City, leaving one or more unincorporated “county lots” completely surrounded by “city lots”. These islands have access to and receive the same city-provided benefits as neighboring properties such as public safety, public streets, bus service, nuisance enforcement, public parks, trash collection, and other quality of life benefits; however, they don’t help pay for these services by way of paying city property taxes. These types of public services are “non-excludable”, meaning someone cannot be excluded from their benefits due to nonpayment. In economics, a “free rider” scenario is created when someone benefits from a resource, good, or service without paying for it, often related to public goods that are non-excludable.

### Past Efforts of the City Council

This is a common issue that cities deal with. The City of Philomath last annexed island properties in 2018. At that time, the following 12 island lots existed within city limits:

1. 500 Pioneer St., Residential
2. 501 Main St., Residential
3. 529 Main St., Commercial
4. 615 Main St., Residential
5. 498 N 9th St., Residential
6. 432 Landmark Dr., Industrial
7. 428 Landmark Dr., Industrial
8. Landmark Dr., Industrial
9. Landmark Dr., Industrial

10. Landmark Dr., Industrial
11. 2707-09 Main St., Industrial
12. 3157 Main St., Residential

All but two, 500 Pioneer and 498 N 9th Street, were approved by the City Council and later voted on and approved by the Philomath electorate. Since that time, these two islands remain and an additional nine tax lots have become islands. The eleven parcels are in seven groupings, along with one right-of-way dedicated to the City that was not included in the city limits after dedication in 1984. The remaining parcels were notified that they were becoming island parcels in either 2018 or 2022. All the properties could be serviced with water and sewer at this time.

The following list shows all the current islands:

1. 500 Pioneer St.; Residential (R-1)
2. Near 392 N 17th St.; Residential (R-1)
3. North of 498 N 9th St.; Residential (R-1)
4. 365 N 17th St.; Light Industrial (LI)
5. 401 N 17th St.; Light Industrial (LI)
6. 610 S 19th St. 0.34 acres; Residential (R-2)
7. 610 S 19th St. .72 acres; Residential (R-2)
8. 640 S 19th St.; Residential (R-2)
9. 700 S 19th St.; Residential (R-2)
10. 714 S 19th St.; Residential (R-2)
11. Near 398 N 7th St.; Right of Way

### **Opposition to Annexation**

Property owners make all manner of arguments for why their property should remain outside city limits, but ultimately it comes down to not wanting their property tax statement to increase. Although we can all certainly appreciate not wanting our taxes to go up, advocates for periodic island annexations would argue that it is not fair that a handful of property owners within the city continue to not help pay for non-excludable city services like everyone else.

Upon annexation, each property's taxes will increase based on its assessed value, which in most cases will be very similar to what neighboring property owners are currently paying. With a City tax rate of \$5.30 per thousand dollars of assessed valuation, each landowner would see a property tax increase of \$5.30 for every thousand dollars of assessed valuation, as determined by Benton County's tax assessors. It is important to note that these property owners do pay property taxes to:

- 911 Emergency Service District
- Benton County
- Benton County Extension District
- Benton County Library

- Benton County Local Option Levy (2021)
- Benton County Soil & Water
- Philomath Fire and Rescue
- Philomath School District
- Linn-Benton Community College
- Linn-Benton Lincoln ESD

They also pay their share of the Philomath School Bonds (2010 & 2022), Linn-Benton Community College Bonds (?, 2022), and the Fire and Rescue Bond (2016). However, they do not pay property taxes to the City of Philomath or Philomath Urban Renewal, though most of the properties have been developed and receiving the benefits of city services for years.

### Process for Annexing Island Properties

The Philomath Municipal Code sets forth the procedure for annexing island properties in section 18.135.030(L):

The following policies are adopted for island annexations:

1. The city shall attempt not to create islands of unincorporated territory within the corporate limits of the city. If such an island is created, the city council may set a time for a public hearing for the purpose of determining if the annexation should be submitted to the voters.
2. Written notice to property owners by first class mail will be made prior to annexation to allow for property owner responses. Failure to receive notice shall not in any way invalidate the annexation procedure that may be subsequently undertaken by the city.
3. Annexation of an island shall be by ordinance, subject to approval by the voting majority of the electorate.

Properties with commercial or industrial zoning and uses would be brought into City limits following a majority vote of the electorate and passage of an approving ordinance by the City Council. To address this issue of new and higher taxes on residential properties, State Law precludes annexing or imposing new taxes on properties with residential zoning and uses for at least three years following approval of the voters, or when the property is sold, whichever comes first.

**Note:** SB1573, which specifically prohibits cities from sending annexations to a vote of the people prior to approval, does not apply to island annexations (or non-unanimous, owner-initiated annexations).

### Proposed Timeline for Annexation

The next available election is the November 4, 2025, General Election. Staff recommends the following timeline for presenting this issue to the public and placing these annexations on the November 2025 ballot:

- Apr 21 Mail notice of scheduled public hearing(s) to property owners and give public notice
- Jun 16 Public Hearing at Planning Commission meeting
- Jul 14 Public Hearing at City Council meeting
- Jul 14 Resolution by City Council approving ballot title(s)
- Aug 15 Last day to submit ballot titles to Benton County Elections
- Sept 4 Last day to file Explanatory Statement with Benton County
- Nov 5 General Election
- Jan 12 Adopting Ordinance (depending on the outcome of the election)

### **Council Priority**

The City Council has also expressed its interest in addressing the equity issue, which is embodied in its adopted Strategic Plan. Objective 1.2.2 of the draft 2025 Philomath Strategic Plan is to, "Identify and eliminate unincorporated territories within city limits. Action: Identify and annex unincorporated territory within the corporate limits of the city through the island annexation procedures." The Council has not identified top priorities for 2025 as of the writing of this memo.

If the City Council includes this action item in its Top 10 list for 2025, a motion should be made directing staff to proceed with the Island Annexation process and timeline as presented in this memo. If not, Staff will hold off on this effort until it becomes a higher priority of the City Council.