



CITY OF KIRKLAND
Department of Finance & Administration
123 Fifth Avenue, Kirkland, WA 98033 425.587.3100
www.kirklandwa.gov

MEMORANDUM

To: Kurt Triplett, City Manager

From: Tracey Dunlap, Director of Finance and Administration
Kyle Butler, Budget Analyst

Date: January 21, 2015

Subject: ANNEXATION STATE SALES TAX CREDIT RESOLUTION

RECOMMENDATION:

City Council approves the resolution required for notification of the Department of Revenue regarding the annexation state sales tax credit threshold for July 1, 2015 through June 30, 2016.

BACKGROUND DISCUSSION:

An important part of the implementation strategy for the 2011 annexation was the use of the annexation state sales tax credit to assist the City in providing municipal services in the area where the revenues are not yet sufficient to fund those services. RCW 82.14.415 requires the City to provide the Department of Revenue (DOR) with an estimate of the anticipated shortfall (labeled, "new threshold amount") in the annexation area for the next fiscal year (July 1, 2015 through June 30, 2016). To be eligible for the credit in the coming fiscal year, DOR must be notified no later than March 1, 2015, which necessitates approval of the attached resolution at the February 3 City Council meeting.

The state sales tax credit helps bridge the gap between revenues and expenditures in the annexation area. It is important to note that the credit is only available up to the amount needed to offset actual shortfalls due to annexation. The distribution is set up to match the State's fiscal year of July through June. The new threshold amount for the fiscal year beginning July 1, 2015 is \$3.935 million.

RCW 82.14.415 (9) also requires the City to provide the DOR with a certification of the City's true and actual costs to provide municipal services to the annexed area. This certification language is included in the resolution for the last completed State fiscal year (in this case, July 1, 2013 to June 30, 2014).

DOR makes the monthly distributions on a two-month delay (for example, July revenue received in September) and continues until the threshold amount has been reached or until June 30 of the following year, whichever occurs first.

RESOLUTION R-5105

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND DETERMINING THE ANTICIPATED SHORTFALL IN REVENUES FOR PROVIDING MUNICIPAL SERVICES TO THE ANNEXATION AREA AS REQUIRED BY RCW 82.14.415.

1 WHEREAS, RCW 82.14.415 authorizes the City to impose a
2 sales and use tax as a credit against the state tax to assist the City in
3 providing municipal services to the areas annexed in 2011; and
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5 WHEREAS, on April 7, 2009, the City Council passed Resolution
6 R-4751 which directed the City Clerk to file a notice of intent to annex
7 the Finn Hill, Kingsgate and North Juanita Annexation Area with the King
8 County Boundary Review Board; and
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10 WHEREAS, the Boundary Review Board held a public hearing on
11 the proposed annexation on June 8, 2009, and approved the annexation
12 on July 9, 2009; and
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14 WHEREAS, the City Council passed Resolution R-4763 calling for
15 an election which was held pursuant to state statute; and
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17 WHEREAS, the King County Council transmitted a certified
18 abstract of the vote in the November 3, 2009, general election reflecting
19 that the annexation was approved by the voters; and
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21 WHEREAS, the City Council passed Ordinance No. 4229 on
22 December 15, 2009, annexing the Finn Hill, Kingsgate and North
23 Juanita Annexation Area, an area that has a population of at least
24 twenty thousand people; and
25

26 WHEREAS, on February 16, 2010, the City Council passed
27 Ordinance No. 4237 creating Chapter 5.07 of the Kirkland Municipal
28 Code and imposing the sales and use tax at the rate of 0.2 percent;
29 and
30

31 WHEREAS, the annexation sales tax credit revenues for the
32 fiscal year July 1, 2013 to June 30, 2014 were necessary to support
33 the true and actual costs to provide municipal services to the
34 Annexation Area; and
35

36 WHEREAS, the City Council certifies the true and actual cost to
37 provide municipal services to the Annexation Area totaled \$25.37 million
38 for the period corresponding to the State's fiscal year July 1, 2013 to
39 June 30, 2014; and the revenue from the Annexation Area, excluding
40 gambling and sales tax credit revenues for the same period totaled
41 \$19.56 million, resulting in a difference of \$5.81 million. The gambling

42 tax revenue from the Annexation Area of \$730,769 reduced this gap to
43 \$5.08 million. The annexation sales tax credit received from the State
44 was \$3.65 million.

45
46 WHEREAS, RCW 82.14.415 requires the City to provide the
47 Washington State Department of Revenue with an estimate of the
48 anticipated shortfall or "threshold amount" in the Annexation Area for
49 the next fiscal year by March 1, 2015; and

50
51 WHEREAS, the City Council finds and determines that the
52 projected net cost to provide municipal services to the Annexation
53 Area exceeds the projected general revenue that the City would
54 receive from the Annexation Area by \$3.935 million for the state fiscal
55 year starting July 1, 2015, through June 30, 2016.

56
57 NOW, THEREFORE, be it resolved by the City Council of the City
58 of Kirkland as follows:

59
60 Section 1. Purpose. The Kirkland City Council determines that
61 the City's projected net cost in providing municipal services to the Finn
62 Hill, Kingsgate and North Juanita Annexation Area is in the amount of
63 \$3.935 million. The City Council previously imposed a sales and use tax
64 at the rate of 0.2 percent, with the passage of Ordinance No. 4237 on
65 February 16, 2010.

66
67 Section 2. Implementation. The City Manager is authorized to
68 implement such administrative procedures as may be necessary to carry
69 out the directions of this Resolution.

70
71 Passed by majority vote of the Kirkland City Council in open
72 meeting this ____ day of _____, 2015.

73
74 Signed in authentication thereof this ____ day of _____,
75 2015.

MAYOR

Attest:

City Clerk