



CITY OF KIRKLAND
Department of Finance & Administration
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Michael Olson, Director of Finance and Administration
Kyle Butler, Budget Analyst

Date: January 28, 2016

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, 2016 through June 30, 2017.

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, 2016 through June 30, 2017). To be eligible for the credit in the coming fiscal year, DOR must be notified no later than March 1, 2016, which necessitates approval of the attached resolution at the February 16, 2016 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 and may not be used for capital costs. 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, 2016 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, 2014 to June 30, 2015).

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-5185

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 sales
2 and use tax as a credit against the state tax to assist the City in providing
3 municipal services to the newly annexed areas; 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 Juanita
23 Annexation Area, an area that has a population of at least twenty
24 thousand people; and
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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; and
29

30 WHEREAS, the annexation sales tax credit revenues for the fiscal
31 year July 1, 2014 to June 30, 2015, were necessary to support the true
32 and actual costs to provide municipal services to the Annexation Area;
33 and
34

35 WHEREAS, the City Council certifies the true and actual cost to
36 provide municipal services to the Annexation Area totaled \$25.84 million
37 for the period corresponding to the State's fiscal year July 1, 2014 to
38 June 30, 2015; and the revenue from the Annexation Area, excluding
39 gambling and sales tax revenues for the same period totaled \$20.52
40 million, resulting in a difference of \$5.32 million. The gambling tax
41 revenue from the Annexation Area of \$1.08 million reduced this gap to

42 \$4.24 million. The annexation sales tax credit received from the State
43 was \$3.65 million; and

44
45 WHEREAS, RCW 82.14.415 requires the City to provide the
46 Washington State Department of Revenue with an estimate of the
47 anticipated shortfall or "threshold amount" in the Annexation Area for
48 the next fiscal year by March 1, 2016; and

49
50 WHEREAS, the City Council finds and determines that the
51 projected net cost to provide municipal services to the Annexation Area
52 exceeds the projected general revenue that the City would receive from
53 the Annexation Area by \$3.935 million for the state fiscal year starting
54 July 1, 2016, through June 30, 2017.

55
56 NOW, THEREFORE, be it resolved by the City Council of the City
57 of Kirkland as follows:

58
59 Section 1. Purpose. The Kirkland City Council determines that
60 the City's projected net cost in providing municipal services to the Finn
61 Hill, Kingsgate and North Juanita Annexation Area is in the amount of
62 \$3.935 million. The City Council previously imposed a sales and use tax
63 at the rate of 0.2 percent, with the passage of Ordinance No. 4237 on
64 February 16, 2010.

65
66 Section 2. Implementation. The City Manager is authorized to
67 implement such administrative procedures as may be necessary to carry
68 out the directions of this Resolution.

69
70 Passed by majority vote of the Kirkland City Council in open
71 meeting this ____ day of _____, 2016.

72
73 Signed in authentication thereof this ____ day of _____,
74 2016.

MAYOR

Attest:

City Clerk