CITY OF KIRKLAND
Department of Finance & Administration
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Tracey Dunlap, Director of Finance and Administration
Robin Jenkinson, City Attorney

Date: January 23, 2014

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, 2014 through June 30, 2015.

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, 2014 through June 30, 2015). To be eligible for the credit in the coming fiscal year, DOR must be notified no later than March 1, 2014, which necessitates approval of the attached resolution at the February 18 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, 2014 is $3.65 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, 2012 to June 30, 2013). Last year the DOR requested information regarding the breakdown of revenues received from the annexation area and this information is also included in the resolution.

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-5037

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.

WHEREAS, RCW 82.14.415 authorizes the City to impose a sales and use tax as a credit against the state tax to assist the City in providing municipal services to the areas annexed in 2011; and

WHEREAS, on April 7, 2009, the City Council passed Resolution R-4751 which directed the City Clerk to file a notice of intent to annex the Finn Hill, Kingsgate and North Juanita Annexation Area with the King County Boundary Review Board; and

WHEREAS, the Boundary Review Board held a public hearing on the proposed annexation on June 8, 2009, and approved the annexation on July 9, 2009; and

WHEREAS, the City Council passed Resolution R-4763 calling for an election which was held pursuant to state statute; and

WHEREAS, the King County Council transmitted a certified abstract of the vote in the November 3, 2009, general election reflecting that the annexation was approved by the voters; and

WHEREAS, the City Council passed Ordinance No. 4229 on December 15, 2009, annexing the Finn Hill, Kingsgate and North Juanita Annexation Area, an area that has a population of at least twenty thousand people; and

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

WHEREAS, the annexation sales tax credit revenues for the fiscal year July 1, 2012 to June 30, 2013 were necessary to support the true and actual costs to provide municipal services to the Annexation Area; and

WHEREAS, the City Council certifies the true and actual cost to provide municipal services to the Annexation Area totaled $23.74 million for the period corresponding to the State's fiscal year July 1, 2012 to June 30, 2013; and the revenue from the Annexation Area, excluding gambling and sales tax credit revenues for the same period totaled $17.66 million, resulting in a difference of $6.10 million. The gambling tax revenue from the Annexation Area of $754,821 reduced

this gap to $5.32 million. The annexation sales tax credit received from the State was $3.64 million.

WHEREAS, RCW 82.14.415 requires the City to provide the Washington State Department of Revenue with an estimate of the anticipated shortfall or "threshold amount" in the Annexation Area for the next fiscal year by March 1, 2014; and

WHEREAS, the City Council finds and determines that the projected net cost to provide municipal services to the Annexation Area exceeds the projected general revenue that the City would receive from the Annexation Area by $3.65 million for the state fiscal year starting July 1, 2014, through June 30, 2015; and

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

Section 1. Purpose. The Kirkland City Council determines that the City's projected net cost in providing municipal services to the Finn Hill, Kingsgate and North Juanita Annexation Area is in the amount of $3.65 million. The City Council previously imposed a sales and use tax at the rate of 0.2 percent, with the passage of Ordinance No. 4237 on February 16, 2010.

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

Passed by majority vote of the Kirkland City Council in open meeting this _____ day of _____, 2014.

Signed in authentication thereof this ____ day of _____, 2014.

_____
MAYOR

Attest:

_____
City Clerk