



CITY OF KIRKLAND
Department of Finance & Administration
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MEMORANDUM

To: David Ramsay, City Manager
From: Tracey Dunlap, Director of Finance & Administration
Date: August 28, 2008
Subject: Leasehold Excise Tax Repayment

RECOMMENDATION:

Council approve the use of approximately \$251,000 from the Contingency Reserve Fund to repay the leasehold excise tax credit balance created when the State of Washington refunded \$300,000 from the City's leasehold excise tax receipts to King County Hospital District #2 (Evergreen).

BACKGROUND DISCUSSION:

In March 2008, the City of Kirkland was notified by the Washington State Department of Revenue that they had issued a leasehold excise tax credit of \$300,000 from the City's leasehold excise tax receipts to King County Hospital District #2 (Evergreen) in recognition of their overpayment of this tax. Since that time, our bimonthly leasehold excise tax receipts have been applied against this credit, reducing the outstanding amount to approximately \$251,000. In June 2008, the Department of Revenue requested repayment in full, in response to which the City proposed continuing to apply the bimonthly receipts to the credit until it was satisfied (a process that would take over two years and eliminate all revenue from this on-going tax resource for the 2009-2010 budget period). While the Department has agreed that this proposal is acceptable, on further consideration, we are recommending that we repay the outstanding credit using the Contingency Reserve Fund. The current balance in the Contingency Reserve Fund is projected at \$2.8 million at the end of 2008 and the reserve's stated purpose is "to meet any municipal expense, the necessity or extent of which could not be reasonably foreseen at the time of adopting the biennial budget." The leasehold excise tax refund meets this definition and the Contingency Reserve Fund is not one of the reserves that is expected to be used in the budget balancing plan (the use of part of the Revenue Stabilization Reserve is planned as part of the framework, with the General Operating Reserve as a hedge against worsening conditions).

While paying over time is an option, the City's current budget situation is driven in part by a decline in on-going revenues. By deducting the credit from the on-going receipts, we eliminate an on-going revenue source of about \$60,000 per year, or \$120,000 for the biennium, which could be used toward preserving existing service levels. By using the Contingency Reserve Fund (which is not part of the budget balancing strategy) to pay off the credit balance, we add the remaining on-going leasehold excise tax revenues back as an on-going revenue source. This option also avoids the need to record the obligation to repay the credit as a liability on the City's financial statements.

Staff recommends paying the \$251,000 credit balance from the Contingency Reserve Fund (a fiscal note is attached) and including the remaining revenues from leasehold excise tax in the on-going revenue projection.

FISCAL NOTE

CITY OF KIRKLAND

Source of Request							
Tracey Dunlap, Director of Finance & Administration							
Description of Request							
Request funding of approximately \$251,000 to completely pay the outstanding amount of leasehold excise tax credit to the Washington State Department of Revenue. The balance is owed due to a significant refund in 2008 resulting from overpayment of this tax over the last three years by Evergreen Hospital. This will make on-going leasehold excise tax revenue available for 2009-10.							
Funding is recommended to come from the Contingency Fund.							
Legality/City Policy Basis							
Fiscal Impact							
One-time use of approximately \$251,000 from the Contingency Fund. The contingency is able to fully fund this request.							
Recommended Funding Source(s)							
Reserve	Description	2008 Est End Balance	Prior Auth. 2007-08 Uses	Prior Auth. 2007-08 Additions	Amount This Request	Revised 2008 End Balance	2008 Target
	Contingency	3,193,826	365,936	0	250,000	2,577,890	3,285,172
	2007-08 Prior Authorized Uses include: \$31,500 for a Permit Process Review project, \$54,436 for continued Annexation Outreach, \$25,000 for a fiscal review of the Park Place developer's analysis of a potential redevelopment and \$255,000 for the Planned Action Environmental Impact Statement related to the private amendment request for Park Place.						
Revenue/ Exp Savings							
Other Source							
Other Information							

Prepared By	Neil Kruse, Budget Analyst	Date	September 4, 2008
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