



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: Michael Olson, Director of Finance and Administration
George Dugdale, Financial Planning Manager
Andrea Peterman, Budget Analyst

Date: January 29, 2021

Subject: ANNEXATION STATE SALES TAX CREDIT RESOLUTION

RECOMMENDATION:

City Council receives information on the Annexation State Sales Tax Credit (ASTC) and approves the resolution required for notification of the Department of Revenue (DOR) regarding the annexation state sales tax credit threshold and actual costs for the fiscal year July 1, 2019 through June 30, 2020. By approving the consent calendar, the Council authorizes this action.

BACKGROUND DISCUSSION:

An important part of the implementation strategy for the 2011 annexation was the use of the Annexation State Sales Tax Credit (ASTC) to assist the City in providing municipal services in the area where the revenues are not yet sufficient to fund those services. This credit was made available by the state for 10 years, and the City is now in the final year of eligibility for the tax credit.

As part of the strategy to prepare for the expiration of the ASTC, the amount requested was kept relatively constant at \$3.935 million for fiscal years one through eight. The request for year nine was increased to \$4.935 million and maintained for year ten. This additional \$1 million per year was budgeted to be added to the ASTC reserve, with the intent to manage the revenue loss that starts in mid-2021. Accordingly, the recently adopted 2021-22 Budget intentionally uses this reserve throughout the biennium.

RCW 82.14.415 (9) 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, noted below, is included in the resolution for the last completed State fiscal year (in this case, July 1, 2019 to June 30, 2020). This notification is required to be submitted to the Department of Revenue no later than March 1, 2021.

The true and actual costs to provide municipal services to the Annexation Area totaled \$32.049 million for the period corresponding to the State's fiscal year July 1, 2019 to June 30, 2020; and the revenue from the Annexation Area, excluding gambling and sales tax revenues for the same period totaled \$23.841 million, resulting in a difference of \$8.208

January 29, 2021

Page 2

million. The gambling tax revenue from the Annexation Area of \$1.117 million reduced this gap to \$7.091 million. The annexation sales tax credit received from the State was \$5.097 million.

Next year the Council will need to certify through a similar resolution that annexation costs for July 1, 2020 to June 30, 2021 were at least \$4.935 million. It is important to note that the credit is only available up to the amount needed to offset actual shortfalls due to annexation.

The ASTC has helped to bridge the gap between revenues and expenditures in the annexation area since the 2011 annexation. The impact of the expiration on the City's overall budget has been planned for and acted upon by Council throughout recent budget cycles.

RESOLUTION R- 5466

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
2 a sales and use tax as a credit against the state tax to assist the
3 City in providing municipal services to the newly annexed areas;
4 and

5
6 WHEREAS, on April 7, 2009, the City Council passed
7 Resolution R-4751 which directed the City Clerk to file a notice of
8 intent to annex the Finn Hill, Kingsgate and North Juanita
9 Annexation Area with the King County Boundary Review Board;
10 and

11
12 WHEREAS, the Boundary Review Board held a public
13 hearing on the proposed annexation on June 8, 2009, and
14 approved the annexation on July 9, 2009; and

15
16 WHEREAS, the City Council passed Resolution R-4763
17 calling for an election which was held pursuant to state statute;
18 and

19
20 WHEREAS, the King County Council transmitted a certified
21 abstract of the vote in the November 3, 2009, general election
22 reflecting that the annexation was approved by the voters; and

23
24 WHEREAS, the City Council passed Ordinance No. 4229 on
25 December 15, 2009, annexing the Finn Hill, Kingsgate and North
26 Juanita Annexation Area, an area that has a population of at least
27 twenty thousand people; and

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

33
34 WHEREAS, the annexation sales tax credit revenues for the
35 fiscal year July 1, 2019 to June 30, 2020 were necessary to support
36 the true and actual costs to provide municipal services to the
37 Annexation Area; and

38

39 WHEREAS, the City Council certifies the true and actual
 40 costs to provide municipal services to the Annexation Area
 41 totaled \$32.049 million for the period corresponding to the
 42 State’s fiscal year July 1, 2019 to June 30, 2020; and the
 43 revenue from the Annexation Area, excluding gambling and sales
 44 tax revenues for the same period totaled \$23.841 million,
 45 resulting in a difference of \$8.208 million. The gambling tax
 46 revenue from the Annexation Area of \$1.117 million reduced this
 47 gap to \$7.091 million. The annexation sales tax credit received
 48 from the State was \$5.097 million.

49
 50 NOW, THEREFORE, be it resolved by the City Council of the
 51 City of Kirkland as follows:

52
 53 Section 1. Purpose. The Kirkland City Council certifies that
 54 annexation sales tax credit revenues for the fiscal year July 1,
 55 2019 to June 30, 2020 were necessary to support the true and
 56 actual costs to provide municipal services to the Annexation Area.
 57 The City Council previously imposed a sales and use tax at the
 58 rate of 0.2 percent, with the passage of Ordinance No. 4237 on
 59 February 16, 2010.

60
 61 Section 2. Implementation. The City Manager is authorized
 62 to implement such administrative procedures as may be necessary
 63 to carry out the directions of this Resolution.

64
 65 Passed by majority vote of the Kirkland City Council in open
 66 meeting this 16th day of February, 2021.

67
 68 Signed in authentication thereof this 16th day of February,
 69 2021.

 Penny Sweet, Mayor

Attest:

 Kathi Anderson, City Clerk