

February 5, 2018

CITY COUNCIL AGENDA MEMORANDUM

SUBJECT

Resolution determining the anticipated shortfall in revenues for providing municipal services to the annexation areas of Eastgate, Hilltop, Tamara Hills and Horizon View (Eastgate Annexation Areas), setting a new threshold amount for the State of Washington fiscal year July 2018 to June 2019, continuing a sales and use tax, as authorized by RCW 82.14.415, Ordinance 6045 and Ordinance 6063 at the existing rate for such fiscal year; and authorizing certification of the City's true and actual costs to provide municipal services to the annexed areas

FISCAL IMPACT

Adoption of this Resolution signifies that the projected costs to provide municipal services to the Eastgate annexation areas exceeds the projected revenue that the City would otherwise receive from the annexation areas on an annual basis. The State, under RCW 82.14.415(7), allows the City to make up the operating budget gaps by crediting a share of the state sales tax to those operating deficit costs for a period of 10 years. This is not an additional tax. It reduces the State's revenue and credits it to the City instead. This authority is annexation-specific and applies only within the Eastgate annexation areas. This is a routine update that will occur annually until 2022.

RCW 82.14.415(9) requires that by March 1, a city imposing the annexation tax must provide the Department of Revenue with the following information:

- Threshold amount for the State of Washington fiscal year (July 1, 2018 through June 30, 2019); and
- Tax Rate Changes – notice of any applicable tax rate changes.

Adoption of the proposed Resolution will set the required new threshold amount for the upcoming State's fiscal year and applies the statutory 0.1 percent tax rate change to the City's total sales or use taxing authority that was initially adopted prior to the annexation in 2012. Fiscal year 2018-2019 will be the seventh year of the allowable 10 years available to claim the state sales tax annexation credit.

The July 2018 to June 2019 cost to provide these services within the annexation area exceeds estimated revenues by \$4,620,006, split \$3,440,268 General Capital Improvement Program (CIP) for ongoing maintenance expenditures and \$1,179,738 for General Fund operations. This Resolution allows the City to obtain up to \$4,620,006 from the state sales tax credit. The sales tax credit was included in the City's adopted 2017-2018 and 2019-2020 budget.

STAFF CONTACTS

Toni Call, Director, 452-6846
Finance Department

POLICY CONSIDERATION

City Code and RCW:

The City adopted Ordinance No. 6045, as amended by Ordinance No. 2063, which enabled imposition of the sales and use tax authorized under RCW 85.14.415, and established the threshold amount for the first fiscal year. Resolution No. 8513 (adopted February 2013), 8688 (adopted February 2014), 8876 (adopted February 2015), 9063 (adopted February 2016) and 9221 (adopted February 2017) established the threshold amounts for July 2013 to June 2014, July 2014 to June 2015, July 2015 to June 2016, July 2016 to June 2017, and July 2017 to June 2018 respectively.

Tonight's proposed Resolution updates and continues the authority for the State's fiscal year July 2018 to June 2019.

BACKGROUND

The areas of Eastgate, Hilltop, Tamara Hills, and Horizon View were annexed on June 1 and July 1, 2012. The costs to provide services includes the necessary staff and equipment to deliver human services programs, code compliance, police protection, traffic and pedestrian safety, improved transportation system and storm water utility services. The annexation areas included 5,500 new residents to the City, requiring City services.

The cost to provide services exceeds the amount of revenue received in the annexation areas. RCW 82.14.415 (7) provides that revenues from the tax are used for, but "may not exceed that which the city deems necessary to general revenue equal to the difference between the city's cost to provide, maintain, and operate municipal services for the annexation area and the general revenues that the city would otherwise expect to receive from the annexation [area] during a year."

If the revenues from the tax authorized in this section and the revenues from the annexation area exceed the costs to the City to provide, maintain, and operate municipal services for the annexation area during a given year, the City must notify the Department of Revenue and the tax distributions authorized in this section must be suspended for the remainder of the year. Any over-collection may be required to be remitted to the state.

Under the statute, the City is required to re-certify the sales tax credit for each fiscal year.

For the first year, July 2012 to June 2013, there was a slow ramp-up period and therefore the projected annexation costs were less than originally anticipated. The total received under the sales tax credit for the first fiscal year was \$417,063. The second fiscal year, June 2013 to July 2014, the net sales tax credit received was \$984,019. The third fiscal year, June 2014 to July 2015, the sales tax credit received was \$1,334,736. The threshold for the fourth fiscal year of July 2015 through June 2016 was \$1,496,021. The threshold for the fifth fiscal year of July 2016 through June 2017 is \$2,180,487. The threshold for the sixth and current year of July 2017 through July 2018 is \$1,692,093, as adopted by Resolution 9221, and the City projects to meet that threshold.

By adopting this Resolution, for the seventh fiscal year, June 2018 to July 2019, the threshold would be set at \$4,620,006, of which \$3,440,268 will be spent in the General Capital Improvement Program (CIP) for ongoing maintenance expenditures and \$1,179,738 for General Fund operations. By statute, the City is required to re-certify the costs of services and the related amount of sales tax credit for each fiscal year.

EFFECTIVE DATE

If approved, this Resolution becomes effective immediately upon Council adoption.

OPTIONS

1. Adopt the Resolution determining the anticipated shortfall in revenues for providing municipal services to the annexation areas of Eastgate, Hilltop, Tamara Hills and Horizon View (Eastgate Annexation Areas), setting a new threshold amount for the State of Washington fiscal year July 2018 to June 2019, continuing a sales and use tax, as authorized by RCW 82.14.415, Ordinance 6045 and Ordinance 6063 at the existing rate for such fiscal year; and authorizing certification of the City's true and actual costs to provide municipal services to the annexed areas.
2. Do not adopt the Resolution and provide alternative direction to staff.

RECOMMENDATION

Option 1

MOTION

Move to adopt Resolution No. 9365 determining the anticipated shortfall in revenues for providing municipal services to the annexation areas of Eastgate, Hilltop, Tamara Hills and Horizon View (Eastgate Annexation Areas), setting a new threshold amount for the State of Washington fiscal year July 2018 to June 2019, continuing a sales and use tax, as authorized by RCW 82.14.415, Ordinance 6045 and Ordinance 6063 at the existing rate for such fiscal year; and authorizing certification of the City's true and actual costs to provide municipal services to the annexed areas

ATTACHMENTS

Proposed Resolution No. 9365

AVAILABLE IN COUNCIL DOCUMENT LIBRARY

- A. Establishing: Ordinance 6045
- B. Threshold development: Ordinance 6063
- C. Threshold development: Resolution 8513
- D. Threshold development: Resolution 8688
- E. Threshold development: Resolution 8876
- F. Threshold development: Resolution 9063
- G. Threshold development: Resolution 9221