

**CITY COUNCIL REGULAR SESSION**

Resolution determining the anticipated shortfall in revenues for providing municipal services to the annexations 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 2019 to June 2020, 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.

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*Finance and Asset Management Department*

**EXECUTIVE SUMMARY**

This Resolution establishes the anticipated shortfall and certifies the findings to the State of Washington as required under RCW 82.14.415(7), which allows the City to make up the operating deficit by crediting a share of the state sales tax to those operating deficit costs for a period of ten 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.

**RECOMMENDATION**

Move to adopt Resolution No. 9547.

If approved, effective date: 02/11/2019

**BACKGROUND/ANALYSIS**

This is the eighth of ten consecutive years authorizing the cost to provide municipal services to the Eastgate annexation areas, which are in excess of the projected revenue that the City would otherwise receive from the annexation areas. The areas of Eastgate, Hilltop, Tamara Hills, and Horizon View were annexed on June 1 and July 1, 2012. The annexation areas included 5,500 new residents to the City, requiring City services. 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 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."

By adopting this Resolution, the eighth fiscal year, July 2019 to June 2020, the threshold would be set at \$3,137,329, of which \$1,750,000 will be spent in the General Capital Improvement Program (CIP) for ongoing maintenance expenditures and \$1,387,329 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.

## **POLICY & FISCAL IMPACTS**

### **Policy Impact**

City Code and RCW:

The City adopted Ordinance No. 6045, as amended by Ordinance No. 6063, 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. Previous year's Resolutions can be found in the Council Library.

### **Fiscal Impact**

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, 2019 through June 30, 2020); and
- Tax Rate Changes – notice of any applicable tax rate changes.

Adopting 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 to offset maintenance expenditures within the Eastgate Annexation Areas. Fiscal year 2019-2020 will be the eighth year of the allowable ten years available to claim the state sales tax annexation credit.

The July 2019 to June 2020 cost to provide these services within the annexation area exceeds estimated revenues by \$3,137,329, of which \$1,750,000 will be spent in the General Capital Improvement Program (CIP) for ongoing maintenance expenditures and \$1,387,329 for General Fund operations. This Resolution allows the City to obtain up to \$3,137,329 from the state sales tax credit. The sales tax credit was anticipated in the 2019-2020 Adopted Budget.

If the revenues from the tax authorized in this section and the revenues from the annexation areas exceed the costs to the City to provide, maintain, and operate municipal services for the annexation areas 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.

## **OPTIONS**

1. Adopt the Resolution determining the anticipated shortfall in revenues for providing municipal services to the annexations 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 2019 to June 2020, 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.

## **ATTACHMENTS & AVAILABLE DOCUMENTS**

Proposed Resolution No. 9547

## **AVAILABLE IN COUNCIL LIBRARY**

Establishing Annexation: Ordinance 6045

Threshold development: Ordinance 6063

Threshold development: Resolution 8513

Threshold development: Resolution 8688

Threshold development: Resolution 8876

Threshold development: Resolution 9063

Threshold development: Resolution 9221

Threshold development: Resolution 9365