

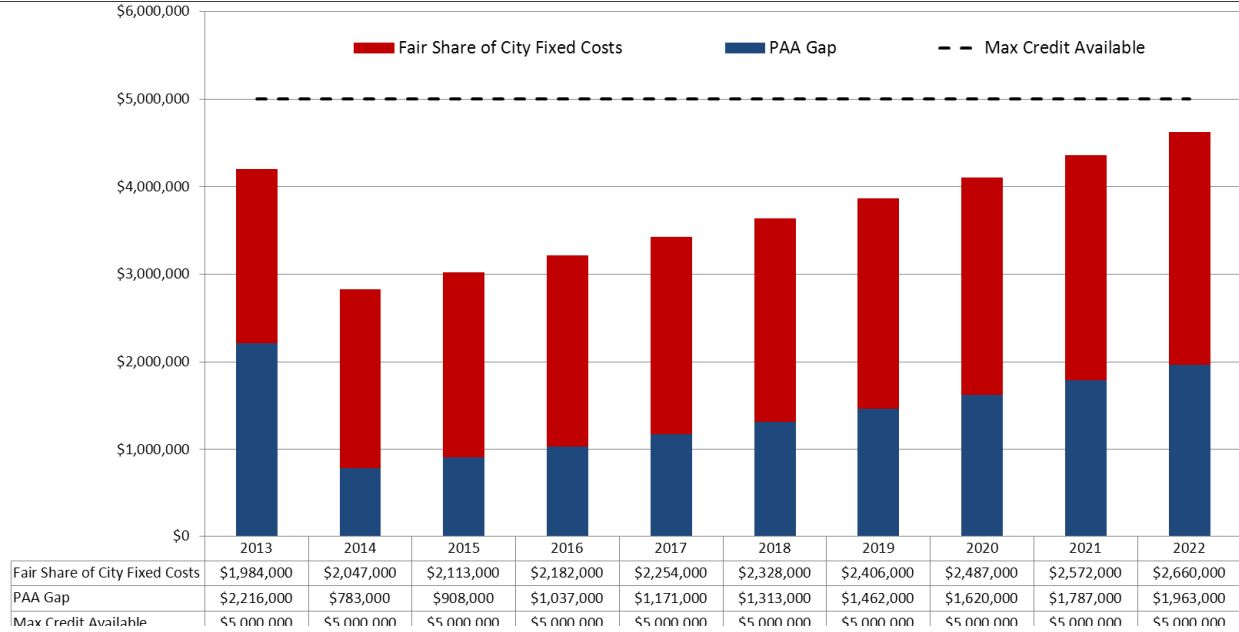
WHAT ABOUT THE SALES TAX CREDIT-

The consultants to the city of Burien stated that they did not believe that the City would qualify for the full sales tax credit in any of the ten years.

Burien will not get automatically get \$5million per year for annexation. Here is what the Burien City consultants have had to say about what Burien can expect to get:

8/17/2011 FINAL REPORT ES-6

Exhibit ES - 5: Estimated Annual Annexation Sales Tax Credit Revenues (2013-2022)



Source: BERK, 2011

This net revenue gain from annexation is possible due to the differences between the *marginal* and *average* cost of serving the area. The City has services with certain fixed costs already in place and is able to absorb additional constituents without incurring substantial additional costs. In this instance, the *marginal* (or incremental) cost of serving new constituents is significantly less than the *average* cost of serving existing residents. Over time, the relative amount of sales tax credit dedicated to paying the annexation gap increase due to escalation in core service costs.

Although it appears that the City would not qualify for the full tax credit in all years, in this instance it is best to think of the potential availability of additional sales tax credit as an added level of insurance to mitigate potential financial risks associated with annexation.