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**City of Kirkland**  
Annexation Fiscal Analysis  
Council Briefing

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November 8, 2006

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## Purpose of Study

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- Fiscal model is designed to estimate revenues and expenses for the current City of Kirkland and the PAA
- Model focuses on the budget components funded through general tax and fee revenues (excludes the utility enterprise funds)
- Capital costs included only for the equipment, fleet and facility costs associated with increasing staff levels; capital implications related to new public infrastructure are excluded
- Model includes an estimate of the new sales tax credit funding enacted by the State Legislature for annexation scenarios

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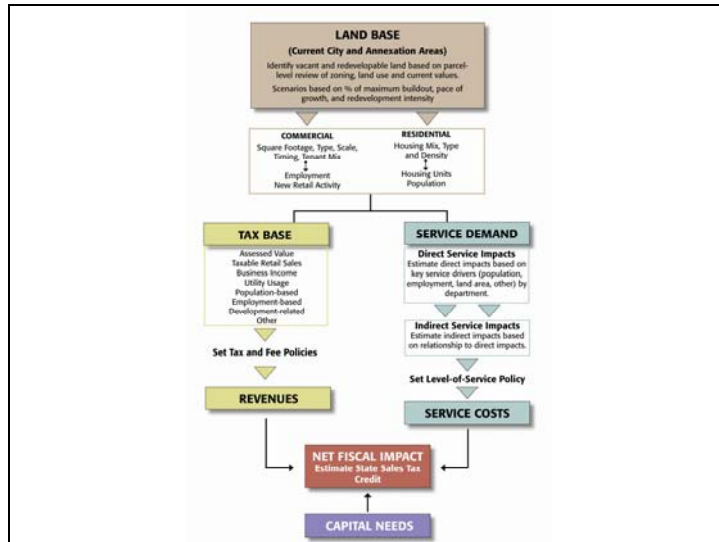
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### Model Schematic

- Key fiscal model elements include:
  - The land base which drives both demand for services and the tax base
  - Choices regarding level of service, driving demand for services/costs
  - Fiscal and taxing policy (limited by tax laws), leading to tax and fee revenues
- The model has built-in flexibility to support policy discussions related to fiscal issues pre- and post-annexation
  - Development scenarios
  - Revenue policies
  - Cost of services and staffing needs
  - Annexation transition assumptions

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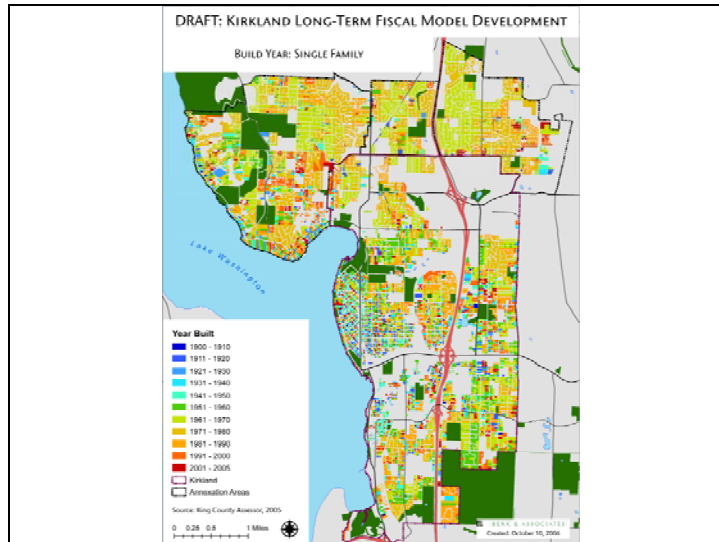
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### Development Scenarios

- Revenues and costs dependent on the type and quantity of development over the next 20 years
- Test different development scenarios to evaluate fiscal implications and annexation policy choices of growth on the City
- Model includes development scenarios based on:
  - Current zoning in the City and PAA
  - Settings for redevelopment (low, medium and high)
  - Adjustments for environmental factors (such as steep slopes) impacting development capacity

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**Cost of Service Policy Options**

- Model estimates changes in the cost of services based on relationships between direct services and underlying demographic and community changes
- The policy options available to change the cost of service include changing assumptions about:
  - Demand drivers that generate the need for staff to provide services
  - The expected escalation of salary and benefit costs per FTE

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**Revenue Choices**

- Tax and fee revenue estimates based on changes in components of the City's tax base resulting from growth (with or without annexation)
- Estimated tax base is included for all major potential City taxes (even those not currently imposed)
- Model assesses changes in potential tax and fee revenues on properties, businesses, and utilities. For example, options are available to:
  - Assess different property tax scenarios including levy lid lifts and excess levies (which would require voter approval)
  - Change the tax and fee rates of existing sources (some of which would require voter approval)
  - Add new taxes and fees

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### Approach to Annexation Analysis

- Current fiscal outlook (baseline) for existing City projects ongoing budget gap
- Previous annexation analyses suggested that annexation would result in a net loss
- Solution to projected future deficits determine the economic viability of annexation
- Impact of annexation on the baseline to be evaluated by:
  - Developing a “balanced budget scenario” – making policy assumptions that close the City’s fiscal gap in the future and then layer in the PAA
  - Analyzing whether increase in expected future deficits are proportionate to change in either the tax base or the size of the City

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### Approach to Annexation Analysis

- Balancing future budgets for the City (with or without annexation) will depend on one or more of the following:
  - **Development.** Varying development scenarios to assess impact on future costs and revenues.
  - **Cost factors and demand for services.** Balancing cost drivers such as staffing and the increased demand for services.
  - **Tax policy changes.** Property, business, and utility tax policies are major variables in balancing the City’s budget.
- It is important to note that these factors are in play every time the Council considers its next City budget

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