



CITY OF KIRKLAND
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MEMORANDUM

To: Dave Ramsay, City Manager

From: Marilynne Beard, Assistant City Manager
Tracy Burrows, Intergovernmental Relations Manager

Date: May 18, 2007

Subject: POTENTIAL ANNEXATION – PHASE TWO UPDATE

RECOMMENDATION:

City Council provide feedback and direction on the proposed phase two annexation timeline, communications plan and key policy issues related to annexation.

BACKGROUND:

At their April 3rd meeting, the City Council voted to proceed to phase two of the potential annexation study. At their April 17th meeting, the City Council approved funding for interim staffing and consulting services to support phase two of the annexation study process. The purpose of this memo is to provide an update on planned activities and the timing for phase two, an overview of the proposed communications and outreach plan and background on key policy issues so that Council can provide preliminary direction. The Annexation Subcommittee discussed the communications proposal and policy issues and their comments are provided following each item.

Phase Two Activities and Timeline

Staff identified five focus areas for phase two study activities. The attached matrix (Attachment A) shows each of the focus areas, major tasks, assigned staff and a general time frame. A more detailed version of this matrix will be used internally to monitor progress. Staff will provide regular updates to the City Council. Briefly, the five focus areas are:

- **Inter-Agency Negotiations** – This includes analysis that feeds into negotiations and the actual negotiations or discussions with external agencies. One of the primary activities in this category is the infrastructure assessment that will provide background for our discussions with other agencies such as King County, the Finn Hill Park District and the three fire districts. We will also be initiating discussions with Northshore Utility District and Comcast regarding their franchise agreements and determining what action needs to be taken with regard to solid waste services. The culmination of this focus area will be a planning interlocal agreement with King County regarding timing and funding.
- **Outreach** – In phase two of the communications and outreach program, we will continue to work with EnviroIssues (see discussion later in this memo) on the communications plan and will also implement an internal communications strategy.

- **Facilities** – Facilities planning was identified as a critical component of phase two given the magnitude of the issue and the investment and lead time needed to address new municipal facilities. The City Council provided initial direction for studies and interim short term steps to take in planning for public safety and City Hall facilities.
- **Finance** – Ongoing work by Finance is needed to develop and maintain an updated fiscal model and to begin cash flow analysis of various implementation scenarios.
- **Operational Planning** – We expect this effort to be the most staff-intensive activity of phase two. We will be asking each department to identify critical services and options for service delivery (e.g. hiring new staff, contracting out, contracting back with King County). In doing so, we will be able to provide recommended priorities for implementation including hiring schedules, negotiations with other agencies, equipment purchases, facilities needs, etc.. We will also begin the process of developing interlocal agreements for service transition with King County.

We will continue to update this matrix of activities as we proceed through phase two. We expect to have a series of agenda items dealing with various issues during phase two. When there is no specific agenda item dealing with annexation on the regular agenda, staff will provide a short update under City Manager Reports as to our progress on phase 2.

Timeline

The Council was presented with a draft timeline that has been updated several times to reflect the process as it has evolved. An updated timeline is attached that incorporates the communications strategy described below. Given the extended time period needed for phase one, staff is recommending that an election be delayed until at least August 2008. Even with the delay in the election, we are fast approaching the time when our annexation proposal must be submitted to the Boundary Review Board (which includes proposed zoning for the PAA). In past annexations, City staff worked closely with PAA residents to develop the zoning proposal and it is our intent to allow for similar public involvement in this process. We are proposing that Planning staff begin the process of determining the underlying zoning currently in place, overlaying the City's zoning code and identifying where issues or significant differences exist. We would not begin the public involvement portion of the land use discussion until Council decides whether to proceed to phase three. Given the amount of staff time and citizen time that must be devoted to that process, we are hoping to work through phase two by the end of October. The attached timeline reflects the most current estimate of activities and time frames (Attachment B). We have also attached a previous memo that discusses the election cycle and the implications for an annexation vote (Attachment C).

Communications and Outreach Plan

Staff has been working on a phase two communications plan with EnviroIssues and the Annexation Subcommittee. Attachment D is a proposed communications strategy. The plan outlines the elements of the phase two plan including:

- **Communications Objectives** – Specific objectives related to phase two communications with Kirkland residents and PAA residents are described and focus on educating, updating, listening and transparency in the decision-making process.
- **Key Assumptions** – Underlying shared assumptions that form the basis for the key messages and strategy proposed. There are five assumptions that are listed as “not yet validated by City Council.” These assumptions are the subject of the policy direction requested in the next section of this memo.

- **Key Messages** – Messages that will be incorporated into all print materials and presentations prepared for phase two. It is important for Council to provide feedback about whether these are the right messages and if there is anything that should be added.
- **Roles and Tools** – This section discusses the proposed activities and the roles of staff and elected officials. In discussions with the Annexation Subcommittee it was felt that during phase two the City Council should continue to be in a listening mode but may be asked to provide a welcome and introduction to community meetings. We expect that there may be a need for additional staff that are “subject matter experts” to be present at community meetings in the annexation area, depending on the group’s interests (e.g. police, public works, parks). We are in the process of forming a “speakers bureau” that can respond as needed to meeting requests. We will have two community forums in June, hold ad hoc meetings during the summer with specific groups, and hold additional community meetings in the PAA and in Kirkland in the fall. We will conduct targeted mailings in addition to maintaining our website and listserv contacts. We will also produce a phase two folio and FAQ.
- **Stakeholders** – One of the challenges in phase two is the lack of established groups and contacts in the PAA. City staff is aware of some groups (e.g. Denny Creek Neighborhood Alliance and Kingsgate homeowners associations) and will contact individuals in the PAA to identify additional groups. We will also be working with the King County Council so that we can use their mailing lists and liaisons to make contact with as many people in the PAA as possible.
- **Focus Groups** – The annexation subcommittee asked for consideration of focus groups during phase two. Focus groups would be used to test key messages and to gain a better understanding of the concerns and issues in the PAA and in Kirkland. Although focus groups are not a valid means of gathering public opinion (e.g. Do you support annexation) they can inform our process so that we better tailor our materials to the community’s needs.

The original proposal from EnviroIssues (received about one year ago) did not include focus groups nor was it expected to involve EnviroIssues staff to the extent that we have utilized them so far. Their input and facilitation skills have proved to be an invaluable resource in developing an open and responsive public process. If the Council approves the proposed communications plan including focus groups, we would ask EnviroIssues to submit a revised project budget for our consideration.

We have tentatively scheduled the first two public forums in the annexation for Thursday, June 21 (location in Finn Hill to be confirmed) and on Tuesday, June 26 (tentatively at Evergreen Hospital and Medical Center). When we have finalized the dates and locations, we will send out a postcard mailer to all households in the annexation area and also notify King County. Notice will also be posted on our web page and sent out to all listserv subscribers.

Policy Issues

When we began our annexation study last year, we identified a number of policy issues that would need to be addressed by the City Council. In order to create an accurate and responsive communications strategy, we are requesting preliminary policy direction on six key policy issues. These particular policy issues were either the subject of citizen inquiries in phase one or are expected to be frequently-asked questions in phase two. Some of the policy areas are very complex and have far-reaching implications. Although we do not expect the Council to make a final decision, we wanted to validate certain assumptions that are implicit in our annexation study or that need to be addressed to better define our work program. All of these issues are discussed in detail in the attached memo from Tracy Burrows and Tracy Dunlap (Attachment E).

1. **Council composition and wards.** A question was raised about whether the size of the City Council would change (from seven to some larger number) or whether the Council would change to a ward system.

Although the number of council positions is set at seven by state law, code cities may designate wards.

In past annexations, the City did temporarily increase the size of the Planning Commission. Individuals from the annexing neighborhoods were added so they could actively participate in proposed land use decisions for their area. After annexation, the PAA members were appointed to fill vacancies that occurred on the original Planning Commission and the commission returned to its original size.

- 2. Boundaries.** Kirkland's PAA boundaries are established by the Countywide Planning Policies (CPP) established by the Growth Management Planning Council. We have had several requests to change the boundaries to include additional properties that are currently identified in the CPP's as belonging to another city's PAA. Any changes in established boundaries would need to be approved through the Growth Management Planning Commission.
- 3. Card Rooms.** The City of Kirkland currently prohibits card rooms within the city limits. There is a casino located in the annexation area that allows card games. Current zoning law does not allow the City to "spot zone" or allow gambling establishments in one area without allowing similar establishments to conduct card games in other areas of the city. There are financial implications to closing the existing casino, however the current Kirkland Municipal Code would require the casino to cease any prohibited gambling activities.
- 4. Phase annexation by neighborhood or all at once.** There are three distinct areas in the PAA – Kingsgate, Finn Hill and Upper Juanita. In order to maximize the availability of state funds, the City must annex a population of at least 20,000. None of the areas alone represent 20,000 people, however in different combinations, that threshold can be met.

The annexation must commence by January 1, 2010 to be eligible for state funds. Staff has recommended in previous memos that we conduct one annexation election for the entire area in order to maximize the revenue potential and to limit the impact on the organization and community as we work through the complex transition issues. If the Council intends to annex all three areas eventually, the limited amount of time between now and January 1, 2010 would make multiple elections and implementations difficult to achieve.

- 5. One ballot measure to include assumption of debt.** A second election-related issue is the whether the Council will ask residents of the annexation area to assume responsibility for a share of outstanding general obligation debt. Based on current information, the estimated impact on an average home in the annexation would be about \$41 per year. This amount was factored into our earlier tax comparisons that concluded that taxation under Kirkland would be about the same as current taxes under King County. The debt question can be submitted to the voters as one ballot measure with annexation or as separate measures.
- 6. Fire District #41 Debt.** The City has been working with the Fire District Commissioners for a number of years on improving fire response times in the district. The District agreed to the option of consolidating two fire stations (Station 25 on Holmes Point Drive and Station 24 on Finn Hill) in order to improve response times throughout the area. The District expects to issue debt to construct the station and they have asked the City to assume this debt if annexation were to occur.

As noted above, these are complex decisions, some of which have long term impacts. By developing a preliminary policy position on these issues, the residents of the annexation area and the City of Kirkland will have a better understanding of how the potential annexation may impact them.

ANNEXATION PHASE 2 WORKPLAN

COMMITTEE/ WORKGROUP	TASKS	STATUS/NEXT STEPS	TIMEFRAME
1 INTER-AGENCY NEGOTIATIONS	Assess PAA Infrastructure	Developing format for reporting results	August-07
	Negotiate terms of an interlocal agreement with King County related to Funding, Annexation Assistance, Timing of Annexation Vote, Terms of Infrastructure Transfer, Disposition of Legal Liabilities	Meetings with key County elected officials and staff	December-07
	Review agreements with service providers in the annexation area and work with them to develop plans for transition of services post-annexation—cable, garbage, utilities, parks, fire	Conducting analysis of current agreements	September-07
2 OUTREACH	Internal communications related to annexation issues for Kirkland Staff	Staff meeting presentations	On-going kick-off meetings May-June 2007
	Public outreach to residents in the Potential Annexation Area and to current Kirkland residents	Council review and approval of outreach plan; Identification of Stakeholder Groups	May-Aug: Stakeholder Briefings June: First Public Meetings Sept/October: Second Public Meeting
3 FACILITIES	Plan for facility needs, including a public safety building - Interim Space Plan for the period immediately after annexation - Long-term Space Plan	Analysis of options	October-07
4 FINANCE	Update the financial model as new information on the phasing of services and the provision of services in the annexation area becomes available.	Update for '07-'08 budget changes	Ongoing
	Refine Estimate of Start-Up Costs of Annexation	Identify costs	On-going
5 OPERATIONAL PLANNING	Plan for how services will be phased in after effective date of annexation. Identify services that will be provided on Day 1 of annexation implementation, and those services that will be phased in over time. Plan for how the services will be provided, and whether certain services will be contracted for in the short-term or on a permanent basis.	Test Format of Phasing Model at June Planning Retreat	September-07
	Plan for the hiring of new staff to provide services to the annexation area. Using the guidance of the phasing plan, determine the optimal way to phase in staff hires.	Await results of phasing plan.	October-07
	Plan for the purchase and deployment of new equipment needed to provide services to the annexation area, including fleet, computers, and office equipment.	Await results of phasing plan.	October/November 2007

Annexation Timeline
(2008 Election/Implement Tax After Effective Date)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
2006							Phase 1						
							Communication with Kirkland Apr/May -- Develop Communications Plan June -- First round of public meetings in PAA (joint effort with King County) July-August -- Focus Groups; continue informal meetings in PAA Sep/Oct -- Second round of public meetings in PAA and Kirkland (ongoing)						
2007	Phase 1 (cont.)												
	Kirkland Public Involvement	Go/No Go to Phase 2*		Phase 2 (King County ILA)									
				Complete infrastructure assessment									
				<-----Negotiate Planning ILA with King County----->									
				Continue Communication with Kirkland and Expand to PAA									
			Departments Begin Preliminary Planning, Develop Zoning and Work on Operational Plans with King County						Go/No Go to Phase 3**		Phase 3		
2008	Phase 3 (continued)												
	Approve Zoning	Proceed to Boundary Review Board				Set Election Date		Election date to be determined (election will be no earlier than August 2008)					
	Continue Implementation Planning								Phase 4				
	Continue Communication Strategy								Begin Hiring and Continue Planning				
2009	Phase 4 (continued)												
				<-----Effective Date to be determined-----?>									
	Continue Hiring		Departments Begin Service Delivery										
							Enact Local Sales Tax						

*If "Go" then proceed to ILA negotiation with King County to establish timeline and funding commitment

**If "Go" then proceed to election and select election date

***If annexation measure passes, Council to adopt ordinance accepting annexation.



MEMORANDUM

ATTACHMENT C

To: David Ramsay, City Manager
From: Tracy Burrows, Sr. Management Analyst
Date: September 23, 2006
Subject: Potential Annexation Area Voting Patterns

Recommendation: It is recommended that the City Council receive this report related to voting patterns in the Potential Annexation Area.

This memo provides information about voting patterns on fiscal measures within the annexation area. If annexation goes forward, the annexation ballot measure will likely request that annexation area residents incur their proportionate share of the City's bonded indebtedness. Such a ballot measure would trigger a minimum voter turnout requirement and would request a financial commitment from annexation area residents. This memo examines annexation area voting results to help shed light on the following two issues:

1. How annexation area voter turn-out and voting patterns may influence the preferred timing of an annexation ballot measure; and,
2. What recent election results in the annexation area indicate about the likelihood that PAA residents would vote to take on their proportionate share of Kirkland's voted debt.

Voter Turn-Out – Impact on the Timing of an Annexation Ballot Measure

Washington State law includes a voter turn-out threshold requirement for an annexation ballot measure related to incurring voted debt. If the annexation ballot includes a "yes" or "no" vote on whether annexation area residents are willing to share in the City's bonded indebtedness, then the number of votes cast on the measure must be a minimum of 40% of the voter turn-out from the previous general election in order to be validated. Thus, by definition, an annexation vote that takes place during a November general election automatically meets the threshold validation requirements. An election held at any other time must meet the 40% of the general election turn-out threshold. The pattern of voter turn-out in the PAA indicates that the 40% threshold is not likely to be a barrier to validation, unless the annexation vote were to occur during a special election following a presidential year general election.

Table 1 below shows that the voter turn-out in the PAA was sufficient to meet the 40% threshold in the May 2003 King County Parks Levy, the September 2004 Woodinville Fire District Levy, and the February 2006 Lake Washington School District Bond/Levy elections. These elections all followed non-presidential year general elections. Largely because of the high voter turn-out for the 2004 presidential election, the May 2005 Fire District 41 Levy election fell significantly short of the 40% threshold (voter turn-out was 28% of the presidential general election.)

The May 2004 Evergreen Hospital Bond election was the only bond or levy-related issue since 2002 that did not meet the 40% threshold following a non-presidential general election. This levy garnered only 36% of the previous year's non-presidential election turn-out. However, one would expect that an annexation ballot measure would likely generate more voter interest than a hospital bond issue. These results indicate that the City Council has flexibility in

determining the timing of the annexation ballot measure, but that it would be prudent to avoid placing the annexation measure on a special election ballot following the November 2008 presidential election. This is consistent with the annexation timeline scenarios that the Council is currently considering which anticipate a 2008 annexation election that would be validated by the 2007 general election turn-out threshold.

Table 1 Potential Annexation Area Election Turn-Out for Bond and Levy Issues

Date	Election Issue	PAA Turn-Out	40% Threshold	Met Threshold?
May-03	Special Election - King County Parks Levy	4555	4059	YES
Nov-03	General Election	11470	4588	YES
May-04	Special Election Evergreen Hospital Bonds	4108	4588	NO
Sep-04	Primary Election - Woodinville Fire Levy	1408	829*	YES
Nov-04	2004 General Election - Presidential	16052	6421	YES
May-05	Special Election Fire District 41 Levy	3679	5164*	NO
Nov-05	2005 General Election -Human Services Levy	9767	3907	YES
Feb-06	Special Election School District Levy and Bond Issues	5059	3907	YES

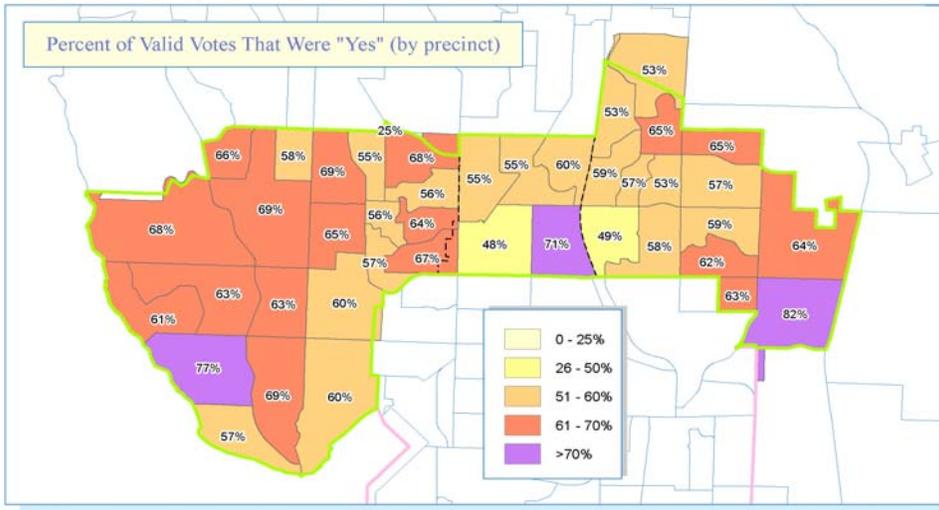
*Pro-rated to reflect precincts voting in the Fire District Levy Election

Potential Annexation Area Support for Bond and Levy Measures

The voters in Kirkland’s Potential Annexation Area have demonstrated support of levy and bond measures in recent elections. The maps below show, by voting precinct, the levels of support for the 2003 King County Parks Levy, the 2005 Initiative 912 proposal to repeal the gas tax increase, and the 2006 Lake Washington School District bond measure. None of the PAA voting precincts supported the repeal of the gas tax, with the Finn Hill neighborhood precincts voting most consistently against the repeal. The Parks Levy and School District bond measures garnered strong support in the PAA, with 61% support of the Parks Levy and 64% support for the Lake Washington School District Bond. For both those measures, the precincts with the strongest levels of support tended to be in the Finn Hill and Kingsgate neighborhoods.

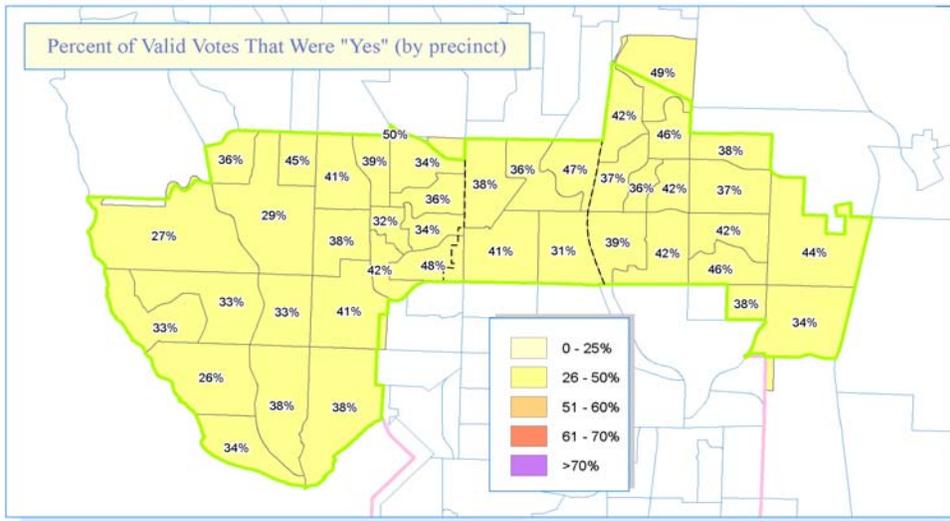
The voters in the PAA also voted to support the 2003 Woodinville Fire and Life Safety Levy (53% yes in the PAA, while this measure failed overall in the Fire District with a 48% yes vote), the 2004 Evergreen Hospital Bonds (69% yes), the Fire District 41 levy (63% yes), and the Veteran and Human Services Levy (55% yes). The precinct by precinct results of these elections are displayed on maps that are available in the Council Study.

PAA Summary: 61% of valid votes on this measure were "Yes"



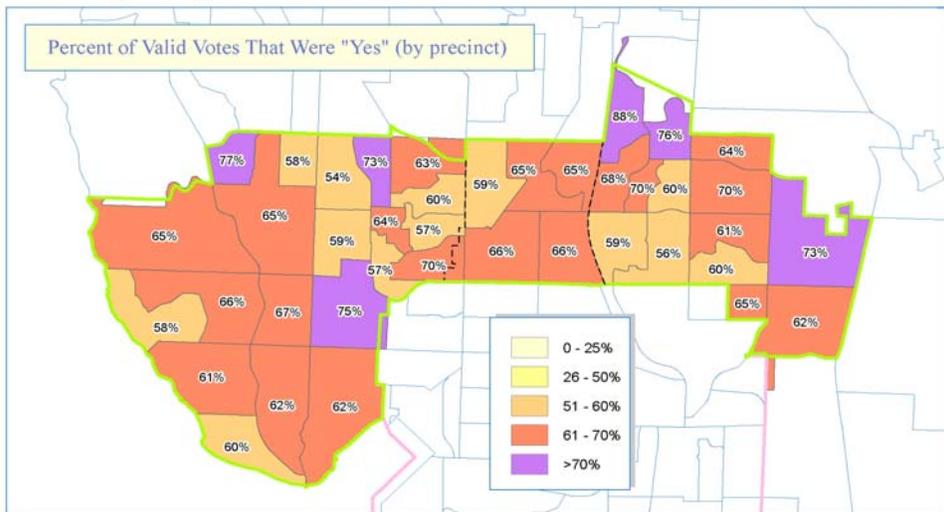
5/2003 Special Election
Proposition 1
King County Parks Levy

PAA Summary: 38% of valid votes on this measure were "Yes"



11/2005 General Election
Initiative 912
Repeal Gas Tax Increase

PAA Summary: 64% of valid votes on this measure were "Yes"



2/2006 Special Election
Proposition 3
Lake Washington School
District Bond

Recent election returns from the PAA indicate that the voting patterns in the annexation area are very similar to voting patterns of the current residents of Kirkland. Annexation area vote results were generally within one to two percentage points of the City of Kirkland results. The proposed gas tax repeal was the only measure where the voting patterns were more distinct. 67% of Kirkland residents opposed the repeal compared to 62% of annexation area residents. Table 2 shows the comparison of Kirkland and Potential Annexation Area (PAA) voters on various fiscal measures.

Table 2 Comparison of Kirkland and Annexation Area Voting Patterns

Date	Election Issue	Jurisdiction	Yes Votes	No Votes	% For	% Against
May 2003	King County Parks Levy	Kirkland	4,081	2,762	59.6%	40.4%
		PAA	2,797	1,758	61.4%	38.6%
May 2004	Evergreen Hospital Bonds	Kirkland	8,480	3,596	70.2%	29.8%
		PAA	5,686	2,530	69.1%	30.9%
Nov. 2005	Vet. & Human Services Levy	Kirkland	7,073	5,515	56.2%	43.8%
		PAA	5,086	4,235	54.6%	45.4%
Nov. 2005	Gas Tax Repeal	Kirkland	4,365	8,931	32.8%	67.2%
		PAA	3,720	6,047	38.1%	61.9%
Feb 2006	LWSD Bond Issue	Kirkland	4,306	2,148	66.7%	33.3%
		PAA	2,865	1,628	63.8%	36.2%

Conclusion

The pattern of voter turn-out in the annexation area indicates that an annexation ballot measure would likely meet the validation requirements, even if the measure were on a special or primary election ballot. The exception to this would be a special or primary election following the 2008 presidential election. Because of the high voter turn-out for the presidential election, there is the potential that a 2009 non-general annexation election would not meet the 40% voter turn-out threshold.

Voting patterns on fiscal issues in the annexation area show that annexation area residents typically vote very consistently with current Kirkland residents. The area is generally supportive of bond and levy measures. This would indicate that including the question of taking on a proportionate share of the City's voted debt would not likely be the determining factor on the outcome of the annexation measure itself.

City of Kirkland Annexation Dialogue Phase 2 Communications Plan

Submitted to:

City of Kirkland
City Hall, 123 5th Avenue
Kirkland, WA 98033

Prepared by:

EnviroIssues
101 Stewart Street, Suite 1101
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Background

The City of Kirkland is considering annexing the neighborhoods of Kingsgate, Juanita, and Finn Hill. The City Council is engaged in a careful, deliberate process to consider whether annexation of these potential annexation areas (PAAs) is right for the City of Kirkland. There are many key decisions to make and much information needed to help inform the decisions.

Currently, the Council has agreed to move on to Phase 2, continuing to explore annexation while involving both Kirkland and PAA in the process. At the end of Phase 2, the Council will decide whether to initiate Phase 3, which would put annexation on the ballot for residents of the PAA.

The first phase consisted primarily of exploring current City of Kirkland residents' concerns and questions about annexation, as well as initial staff work regarding how annexation might be accomplished (e.g., reviewing potential funding, etc.). In Phase 1, the City completed a financial analysis, hosted four open houses, and presented at neighborhood and community associations focused on the Kirkland community.

This communications plan addresses Phase 2 of the annexation dialog. If the Council decides to proceed with subsequent phases of decision-making, the plan will be amended to support future phases. If a no-go decision is made, no further amendments will be necessary.

For the purpose of Phase 2, the target audiences will be:

- Neighborhood groups within the City of Kirkland and the PAA
- Local and county elected officials
- Media
- General public and newcomers to the area
- Local institutions

This plan is a living document that communications staff will continue to adapt and change to reflect new information and lessons learned.

Communication Strategies

Phase 2 Goal

The goal of Phase 2 is to continue to create diverse and meaningful opportunities to share information with the public about the important annexation decision facing the City of Kirkland. By creating and implementing a robust communications strategy, the Kirkland City Council wants to extend the dialogue to the PAA and continue to involve Kirkland before deciding whether to place annexation on the ballot. By eliciting and identifying as many community concerns and questions as possible, the Council will be better prepared to decide if pursuing Phase 3 is the right decision for the City.

Communications Objectives

- Implement and support an open and transparent decision-making process.
- Provide continuing multiple and meaningful opportunities for residents of Kirkland to participate in the decision-making process.
- Provide multiple and meaningful opportunities for residents of the PAA to participate in the decision-making process.
- Inform Kirkland and PAA residents about annexation and the annexation dialog and provide tools to enable informed participation in the dialog.
- Ensure Kirkland and PAA residents understand the complexity and all the factors being weighed in the decision.
- Educate PAA residents in a neutral manner about what joining the City of Kirkland means.
- Demonstrate to Kirkland residents how their issues, concerns and questions have been and will continue to be used in the decision-making process.
- Ensure Kirkland and PAA residents clearly understand the objectives of Phase 2 and the decision to be made.
- Inform Kirkland and PAA residents about the Phase 1 decision and the rationale for it.
- Demonstrate to Kirkland and PAA residents that all decisions will be made openly.
- Demonstrate how Council is balancing obligations to current and possibly future Kirkland residents through this process.

Key Assumptions

The City Council and city staff will rely on many assumptions to inform their decisions. Sharing these assumptions with the community is important so that a deeper understanding of the decision-making process can be built to support substantive dialog about annexation. Mutually exploring assumptions will also support the key objective of an open and transparent decision-making process.

Below is a list of assumptions that apply to the issue of annexation in Kirkland:

- Annexing Juanita, Kingsgate and Finn Hill would essentially “complete” the annexation picture.
- When Kirkland annexed the Totem Lake business area, many in the PAAs felt that Kirkland was annexing the best revenue-producing areas without annexing residential areas that supported them.
- The City Council will not support the annexation under discussion if it cannot be done in a fiscally prudent manner.
- City of Kirkland residents value their small-town atmosphere.
- City of Kirkland residents appreciate a consistent, high level of service and do not want it to change.
- The City Council and city staff will strive to maintain high levels of service and to mitigate disruptions to existing services resulting from annexation if it is pursued.
- Kirkland residents expect and appreciate being substantively involved in city decision-making.
- City of Kirkland residents will participate in public forums and other public means of engagement to discuss important city issues.
- The City is better equipped to provide urban-level services than King County.
- King County supports the annexation of Juanita, Kingsgate, and Finn Hill neighborhoods.

Assumptions not yet validated by City Council

The following assumptions have been expressed at various times, but have not been formally agreed upon.

- If the City Council decides to approve the annexation, they will annex all three neighborhoods rather than just one.
- The City Council will maintain zoning that prohibits gambling establishments within City limits.
- If annexation is implemented, the City Council size will not change; boards and commissions may have membership adjusted to include PAA representation.
- If a ballot measure on annexation proceeds, the PAA will be asked if they want to be annexed and assume a prorated share of Kirkland’s current debt.
- If annexation is implemented the City will assume the fire station debt.

Key Messages

- With new funding available, now is the right time to thoroughly consider annexation.
 - This is a difficult decision, and the City Council is approaching the issue thoughtfully and deliberately to make sure we are making good decisions for the community.

- The dialog is wide open – the decision to put annexation to a vote has not been made yet.
- City Council is considering annexation as a way to welcome our neighbors into the Kirkland community – we already function as one community by sharing commercial areas, a school district, parks and infrastructure.
 - Kirkland is a city built by annexation.
 - Officially consolidating the city might be the “right and responsible” thing to do according to sound growth management principles.
- City Council understands that economic health is a top priority for Kirkland citizens, and will not support annexation if it cannot be done in a fiscally prudent manner.
 - The recent financial study indicates that annexation is either revenue neutral or may slightly improve Kirkland’s long-term financial outlook, depending on which strategies the City uses to shrink the anticipated long-term budget deficit.
 - An assessment of the current infrastructure in the PAA will be an important part of Phase 2.
- City Council will continue to consult with Kirkland in Phase 2.
 - After extensive public involvement with Kirkland residents in Phase 1, the City Council unanimously decided to move on to Phase 2 and continue to explore annexation further.
 - As part of Phase 2, City Council will expand the discussion to PAA communities to discover all of the questions that need to be answered, and all potential concerns that need to be addressed, before making any decisions to put annexation on the ballot.

Look and Feel

Kirkland offers diverse opportunities for citizens to participate in civic decisions, and competing for public attention will be a challenge. As such, developing a consistent look and feel for all materials and media addressing annexation will help the project team compete for “mindshare.” The City will continue to use the graphic header and tagline “Annexation? Let’s Talk.” in Phase 2 materials to help citizens recognize the ongoing efforts to engage them in a public dialog about annexation.

City and County Council and Staff Roles

During Phase 2, City staff will continue to be key presenters and sources of information for all activities. City Council members will again be actively listening and taking note of concerns, issues and questions from Kirkland and PAA residents. During Phase 2 outreach in the PAA, King County Council members and/or King County staff may expect to play a speaking role at public meetings or neighborhood group meetings. Coordination with City and County representatives will be necessary, and agendas may be adjusted on a case-by-case basis to accommodate requests. Kirkland City Council

members may be asked to introduce meetings and staff. If so, a script will be provided. City Council members will have an opportunity to publicly present their thoughts about Phase 2 in public meetings to be held near the end of the phase.

What the Project Team Can Expect

Strengths & Opportunities

- The project team, City Council, and city staff are committed to making communications a priority in this effort.
- Many Kirkland residents did share their thoughts and participated in the project and the City can expect them to continue to engage in the process.
- Kirkland residents appreciate the City Council's deliberate decision-making process and inclusion thus far of Kirkland citizens.

Potential Challenges

Challenges Identified in Phase 1

- Kirkland residents worry about financial risks for the city and taxpayers.
- Some Kirkland residents worry about how annexation affects land use, zoning, services, and Kirkland's small town atmosphere.
- For annexation to be considered seriously, some Kirkland residents expect to see clear benefits from annexation. Many residents did not see the Growth Management Act goals as strong enough incentive to drive annexation, and do not see how the goals may benefit the region.
- Because Kirkland residents do not have a vote on this issue, the City Council must clearly understand and respect the Kirkland community's stance in their decision-making.
- Annexation may be seen negatively because of similar, more contentious processes taking place in White Center and other areas around the Puget Sound region.

Potential Phase 2 Challenges

- There are fewer organized neighborhood groups within the PAA than Kirkland, which may make it more difficult for the City to present information to targeted groups.
- The PAA consists of three distinct neighborhoods and the City will have to listen carefully to recognize differences and not treat the PAA as one entity with one voice.
- The casino located within the PAA may be a strong issue for citizens participating in the annexation dialogue and City Council may be asked to make a stance on this issue.

- City Council needs to clearly understand the condition of PAA infrastructure before making the decision on whether to move to Phase 3.
- Despite the public involvement process, some Kirkland residents may still not feel they've had an adequate voice in the decision-making.
- There are competing timing pressures – the desire to have an unhurried, deliberative public dialog and the need to move forward smartly in order to meet the state deadline to qualify for funding.

Tools

Communications staff proposes the following tools to achieve the goals and objectives of Phase 2. Each is described in more detail below:

- Stakeholder Briefings/Speakers Bureau for Kirkland and the PAA
- Introductory Packets for Institutional Stakeholders for the PAA
- Public Meetings / Open Houses
- Opening Mailer Announcing Phase 2
- Focus Groups
- Informal Outreach in Kirkland and PAA
- Static Display Board
- Listening Log
- Informational Materials
- Annexation Webpage
- Annexation Listserv
- Mailing List
- Media Relations

Stakeholder Briefings/Speakers Bureau

Presentations to stakeholder groups in Kirkland and the PAA will be a key part of outreach in Phase 2. Project liaisons will present general information about annexation, offer updates, and provide feedback to the project team on the group's questions and concerns. City of Kirkland staff will need to develop a team of liaisons, or a speakers bureau, to reach the large number of community groups in Kirkland and the PAA. A training session prior to Phase 2 will ensure consistent messages. Phase 2 will also require a subset of speakers (subject matter experts) who can address specific issues such as police services or financial information.

The focus of briefings for Kirkland residents will be to provide an update on the Council's decision to move to Phase 2 and the activities planned for this dialogue. PAA residents should understand how annexation would affect them and what changes they can expect if annexation were implemented. Specialty speakers, such as for police services, will be scheduled in advance according to a group's stated interest. Summaries of each briefing will be prepared following the meetings to inform the City Council and city staff. Updates will be made to the Listening Log as necessary. Action items will be identified and completed by a member of the team.

Target Groups

Council subcommittee and staff will brainstorm a list of stakeholders to talk to which may include:

- Neighborhood Associations
- Service clubs
- Chamber of Commerce
- Downtown Business Association
- Other groups identified

Format of Presentations

Offer a 10 to 15 minute presentation that covers:

City of Kirkland

- Overview of what annexation is
- History of Kirkland's previous annexations
- Overview of why time is right to consider annexations now (e.g., legislation, funding, etc.)
- Overview of fiscal analysis from Phase 1
- Overview of decision-process Council is using (i.e., phased approach and "go / no-go" decision points)
- Council's decision to move on to Phase 2 and what that entails
- Intention and need to gather questions and concerns Council and staff should include in process (review listening log, see below)
- Entertain questions, though many answers may not yet be available

PAA

- Overview of what annexation is
- Overview of why time is right to consider annexations now (e.g., legislation, funding, etc.)
- Overview of decision-process Council is using (i.e., phased approach and "go / no-go" decision points)
- Overview of fiscal analysis from Phase 1
- Council's decision to move on to Phase 2 and what that entails
- The process to implement annexation
- How annexation would affect PAA residents
- Intention and need to gather questions and concerns Council and staff should include in process (review listening log, see below)
- Entertain questions, though many answers may not yet be available

Materials Needed

- PowerPoint presentation
- Fact sheets

- Meeting agenda
- Map of Kirkland’s annexations through the years
- Map of Kirkland and PAA
- Board with the phasing timeline presented
- Comment form

Who

- Core group of presenters from city staff including city manager, assistant city manager, and key staff
- City Council and King County council members informed of all outreach engagements and invited to attend to “listen actively”
- King County staff as needed
- Consultants provide one staff member to assist with listening log, capture comments and produce summary
- City staff and the consultant will share responsibilities for scheduling stakeholder briefings based on strategic considerations. The consultant will develop a list of targeted groups to brief and ask for guidance from the City about responsibilities for contacting each.

Introductory Mailing for Institutional Stakeholders in the PAA

The project team will create a packet of information to introduce the annexation process, including a cover letter that will provide an overview, invite comments and questions, and offer staff resources if a presentation or briefing is requested. Fact sheets and other informative materials will be included as appropriate.

Target Groups

Large employers and other institutional entities in the PAA

Packet Contents

- Letter introducing annexation and inviting participation
- Fact sheets providing additional details about the process and involvement opportunities

Who

- Consultant will draft list of institutions to target for city staff approval and will draft packet contents and prepare final materials based on city comments
- City staff will review draft materials, approve final packet, and produce and mail packet to target list

Public Meetings/Open Houses

Public forums will be used to provide an opportunity for the community to conceptualize annexation and to offer comment or input. Open houses will be

advertised through various information materials, including mailings, posters, display advertisements, press releases, and the City of Kirkland webpage. All materials from open houses will be made available on the city webpage, including a summary of public input received at the meetings.

Schedule and Location

- Two rounds of public meetings will be held. The first round will consist of three meetings in late June in each of the PAA neighborhoods. The second round will be held near the end of Phase 2, one in Kirkland and one in the PAA.
- The first round of public meetings will focus on introducing annexation to the PAA and explaining how annexation may affect PAA residents.
- The second round of public meetings will report out to residents on the comments and questions gathered to date, information gathered about the PAA infrastructure, and provide the final opportunity for public comment before the next “go/no go” decision.
- Meetings will be held on different week nights to maximize community participation.

Format of Meetings

Provide a 20 to 30 minute presentation that expands on the Speakers Bureau presentation and covers:

- What annexation is
- History of Kirkland’s previous annexations
- Overview of why time is right to consider annexations now (e.g., legislation, funding, etc.)
- Overview of decision-process Council is using (i.e., phased approach and “go / no-go” decision points
- The implication of activities planned for Phase 3
- Intention and need to gather questions and concerns Council and staff should include in process
- Overview of common questions and concerns heard so far through Phase 1 and 2
- Review of listening log

The presentation will conclude with a facilitated “listening session” when the public can ask questions and make comments. Questions will not necessarily be answered, but all will be recorded. The facilitator will use the listening log as a tool to highlight questions that have been answered.

Who

- EnviroIssues facilitator introduces meeting, introduces city staff
- King County and City elected officials introduced as “actively listening from the audience” in the first round of public meetings
- King County and City elected officials will have opportunities to make closing remarks at the end of public meetings in round two.

- City staff member provides presentation
- Facilitator and EnviroIssues staff fields questions and records comments

Materials Needed

- PowerPoint presentation
- Meeting advertisements (various media)
- Fact sheets
- Meeting agenda
- Map of Kirkland's annexations through the years
- Board with the phasing timeline presented
- Comment form

Opening Mailer Announcing Phase 2

The project team will create a one page flyer/mailer to notify all PAA and Kirkland residents of the City Council's recent decision to move to Phase 2 and the opportunities for public involvement throughout the decision-making process. The mailer will also highlight the June public meetings and note that Kirkland residents can stay tuned for a public meeting near the end of Phase 2.

Target Groups

- One mailer to all Kirkland and PAA residents

Purpose

- Notify residents that the City is in Phase 2 of a four phase decision-making process
- Provide a summary of the activities completed and information gathered in Phase 1 (i.e. public involvement activities and financial analysis)
- Highlight comments from Phase 1 listening log
- Provide information about activities planned for Phase 2
- Direct residents to the Annexation Webpage and listserv

Who

- Consultant will develop a first draft of the mailer for the City's review and final comments.
- Consultant will handle logistics and costs of printing and mailing

Focus Groups

Information gathered in a focus group should not be considered a statistically valid sample of public opinion. However, focus groups can help Council better understand different group's perceptions, expectations and concerns about annexation. Questions and issues that arise in focus groups can be used as the basis for other public involvement work such as educational efforts, surveys and public workshops.

Kirkland

For Phase 2, focus groups are recommended as a means to explore, in Kirkland, what values lie behind people's attitudes towards annexation of the PAA. Does a responsibility to manage growth resonate? Must there be obvious, significant benefits for Kirkland for annexation to occur? Does control of future growth and land use in the PAAs resonate as a potential future benefit? Are there community values that have not yet been expressed or addressed in the informational materials and presentations?

PAA

In the PAA, focus groups can help develop an understanding of what information residents would need to make an informed decision. What do residents want to know about annexation and what do they think they need to know in order to form an opinion? Do they understand the issues of assuming a portion of Kirkland's debt? What concerns do they have about being annexed by Kirkland? What information about Kirkland's practices, processes and values are they seeking?

Format

Conduct two focus groups in Kirkland and three in the PAA (one in each separate PAA). Time them to occur prior to planning for end-of-Phase 2 public forums so as to inform the contents and structure of the forums. Use a hosting firm to ensure appropriate recruitment and observation practices are followed. EnviroIssues will facilitate the focus groups and produce a summary.

Materials needed

- Focus group plan
- Recruitment script
- Focus group script
- Participant compensation

Informal Outreach

The project team will staff information tables and distribute information at other community gathering places in order to educate and involve as many interested parties as possible. Staffing a table at local events will allow the project to reach a number of people in a short time frame and add more members to the project mailing list. Consultant will research events and opportunities in the PAA to conduct informal outreach.

Targeted events

- Kirkland Farmers Market, Wednesdays, 10:00 a.m. to 4:00 p.m.
- Friday evening Farmers Market at Juanita Beach
- Denny Creek Neighborhood Alliance annual picnic
- Other events and locations to be identified

Format

Informational booth with display boards and handouts

Who

Core group of presenters from city staff including city manager, assistant city manager, and key staff

Materials Needed

- Display boards
- Fact sheets
- Sign-up sheets to be added to project mailing list
- Comment forms

Static Display Board

Project staff will develop an informational display board about Phase 2 to place in high-traffic public areas. It is a cost-effective way to reach people because it does not require staffing, and can be easily updated from existing display boards. The board will be simple, visually-appealing, and promote the City's annexation webpage as the source for the latest information.

Potential Locations

- Kingsgate Library
- Peter Kirk Community Center
- Saint Edward State Park

Listening Log

Project staff will maintain a cumulative flip-chart list of questions and concerns heard at various public presentations and engagements, and build upon the list at every subsequent meeting. This "living document" will demonstrate the breadth of outreach and input received over the life of the project. If there are answers available for questions, they will be inserted on the log; if not, that will be indicated. The listening log will be carried to and posted at each presentation (including the open houses), with participants invited to review and add any questions or concerns they don't already see reflected. An electronic version of the log will also be posted and updated on the annexation webpage.

Who

- The City will close out Phase 1 of the listening log, which will be available on the Annexation Webpage
- Consultant will develop and maintain a joint Kirkland and PAA listening log during all Phase 2 events, as well as the electronic version for posting on the Webpage
- City staff will be responsible for reviewing the listening log and updating the log with answers to questions if possible

- City staff will be responsible for recording comments and questions on the listening log if consultants are not present at a relevant meeting or briefing

Informational Materials

A suite of project materials will be developed to support all outreach activities, and to leave at popular public gathering places (e.g., churches, athletic clubs, etc.)

Fact Sheets/Brochure

Handouts will be developed that focus on specific areas of the process or provide more general information. Examples include:

- Introductory Brochure (Update for Phase 2)
- Frequently asked questions (Update for Phase 2)
- Financial Fact Sheet/Dollars and Cents (Update for Phase 2)
- How will my services change (Create for Phase 2)

Handouts will be distributed at informal outreach events.

Posters/Postcards

Posters and postcards will be used to advertise public forums and other outreach events. Postcards will be mailed to carrier routes throughout the project area and to the project mailing list.

Newsletters

Informational articles about the annexation dialogue will be inserted into the City of Kirkland's update in the Kirkland Courier.

Webpage

The Annexation Webpage will be maintained on the City of Kirkland server. The Webpage will include current information about the project and a project library with materials from briefings and public meetings. The site will also direct users to an e-mail address for the project so they may submit comments electronically. Comments gathered will receive individual responses and will be entered in the public comment database. The listening log would also be posted on the Webpage.

Annexation Listserv

Periodic quick facts or updates on the annexation dialog will be sent to the existing (and growing) annexation listserv. This listserv already exists, and will be a low-cost way to update interested community members on project process. Messages could include answers to common questions being asked; an outreach calendar where the project team will be available, etc.

Mailing List

A mailing list will be maintained throughout the life of the project. The mailing list will be generated using existing neighborhood, business, and interested parties mailing lists from the City of Kirkland. Attendees at public events and community briefings will be asked whether they would like to be added to the mailing list. There will be a postal mailing list and e-mail distribution list so that announcements can also be sent out via mail and e-mail.

Media Relations

To ensure that local media have accurate information and opportunities to engage in the annexation dialog, several tools will be developed.

Press Releases/Press Kits/Press Briefings

A press briefing will be held early in Phase 2 to inform the media about the process and enlist assistance from the press to help stimulate community dialog. Press releases may be published prior to key milestones such as the public forums to notify media and the public about project decisions and opportunities for involvement. The project will use existing media lists and distribution system to distribute press releases.

Format

To be determined in consultation with city staff.

Who

To be determined in consultation with city staff.

Key Media Contacts

Seattle P-I

- Gordy Holt, 425-646-7900 or gordyholt@seattlepi.com

Seattle Times

- Karen Gaudette: 206-515-5618 or kgaudette@seattletimes.com

Puget Sound Business Journal

- Reporter TBD

Daily Journal of Commerce

Kirkland Courier Reporter

***now a weekly publication under new ownership**

- Reporter TBD

Schedule of Activities *(to be refined when strategy is approved)*

May 2007

- Develop list and schedule of community and neighborhood groups
- Begin scheduling briefings with groups (city staff)
- Update communication plans (EnviroIssues)
- Update webpage (project team)
- Create information materials (project team)
- Community briefings (City Council, King County and project team)
- Informal outreach (project team)

June 2007

- Council approves communications strategy (City Council)
- Press briefing (project team)
- Opening mailer sent to Kirkland and PAA residents (project team)
- Ongoing briefings (City Council, King County and project team)
- Ongoing informal outreach (project team)
- First round of public meetings (one in each PAA neighborhood) (City Council, King County and project team)

July – August 2007

- Ongoing briefings (City Council, King County and project team)
- Ongoing informal outreach (project team)
- Focus groups in Kirkland and PAA

September – October 2007

- Second round of public meetings (one in the PAA and one in Kirkland) (City Council, King County and project team)
- Decision on whether to initiate Phase 3 (City Council)

Looking to Phase 3 – if Go decision is made

While no formal planning has begun for Phase 2, and will not be made until the go-no go decision is made, one topic of discussion has been the need for a Citizen Committee comprised of PAA citizen representatives. In previous City of Kirkland annexation processes, Citizen Committees have been established to work with City staff to explore issues such as zoning, planning, public safety, etc. and how the City's processes match (or not) with the County's practices. The decision about a Citizen Committee as well as other communications strategies and tools will be made only if City Council decides to move to Phase 3.



CITY OF KIRKLAND

City Manager's Office

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MEMORANDUM

To: David Ramsay, City Manager

From: Tracy Burrows, Intergovernmental Relations Manager
Tracey Dunlap, Finance Director

Date: May 24, 2007

Subject: Annexation Policy Issues

When the City began the annexation study last year, we identified a number of policy issues that would need to be addressed by the City Council. In order to create an accurate and responsive communications strategy, we are requesting preliminary policy direction on several key policy issues. These particular policy issues were either the subject of citizen inquiries in Phase 1 or are expected to be frequently-asked questions in Phase 2. Some of the policy areas are very complex and have far-reaching implications. Although we do not expect the Council to make a final decision, we wanted to validate certain assumptions that are implicit in our annexation study or that need to be addressed to better define our work program.

The Size of the City Council

At a number of the Phase I community meetings, Kirkland residents raised the question of whether the size of the City Council would increase and whether the Council would be elected by district after annexation. Because Washington State law clearly establishes the number of councilmembers for Code cities such as Kirkland, this is not a discretionary Council policy issue. RCW 35A.13.010 states that "The council of a noncharter code city having less than twenty-five hundred inhabitants shall consist of five members; when there are twenty-five hundred or more inhabitants the council shall consist of seven members." Therefore, Kirkland would continue to have seven councilmembers if annexation occurs.

Washington State law does permit district elections for municipal positions. However, Kirkland has undertaken major annexations in the past and continued to maintain at-large elections. Even in larger cities in Central Puget Sound, city council members are typically elected at-large. Seattle voters recently rejected a ballot measure calling for district elections.

If annexation is implemented, there would be an opportunity to expand the membership of selected Boards and Commissions so that new City residents from the annexation area would have an immediate opportunity to play an active role in the development of City policy decisions. In particular, expansion of the membership of the Planning Commission and Parks Board would permit new residents from the annexation area to have an influential role in shaping important city issues. This expansion, with membership seats specifically designated for annexation area residents, could be done on a temporary basis. Over time, annexation area residents would have opportunities to apply for open membership seats,

just as would any other City resident. It should be noted that some City commissions, such as the Transportation Commission and Cultural Council, already include residents from the annexation area.

Assumption: If annexation moves forward, the City Council will have the same number of positions that are elected at-large. To ensure immediate representation for annexation residents, the Council would create new positions on selected Boards and Commissions that are designated for annexation area residents. The designation of these positions specifically for annexation area residents would be phased out over time.

The Overall Boundaries of the Potential Annexation Area

The City of Kirkland has recently received requests for annexation area boundary adjustments from some small residential pockets that adjoin the Potential Annexation Area (PAA.) These residential pockets may logically belong within Kirkland's PAA because they are integrally connected to the network of residential streets that are comprised with the annexation area or because they would be left as very small, isolated pockets of unincorporated area if annexation were implemented.

The overall boundaries of the PAA are established in the County-Wide Planning Policies (CPPs) that are adopted by the King County Growth Management Planning Council (GMPC.) The GMPC is a formal body of elected officials, chaired by County Executive Sims with representatives from King County, Seattle, Bellevue, cities and towns in King County, the Port of Seattle, and special districts. Any change to Kirkland's PAA boundaries would have to be approved by the GMPC.

Because the GMPC meets only on a quarterly basis, the process of changing the boundaries of the PAA could take six to nine months to accomplish. This timeframe for adjustment of the PAA boundary does not integrate well with the timeframe for the annexation process, whereby the boundary of the annexation area must be firmly set for the Boundary Review Board's consideration approximately six to eight months before an annexation election. If an annexation election were to be scheduled in 2008, there simply would not be adequate lead time to implement changes to the PAA boundary.

This is not to suggest that these isolated pockets should be left in limbo indefinitely. The annexation process could go forward with the boundaries as they are currently established. If annexation is implemented, then the City could go through the process of adding these small islands to the Potential Annexation Area. Once this is accomplished, these areas could be annexed through the petition method or through an inter-local agreement with King County under the island annexation provisions of state law.

Recommendation: Because of the lead time needed to effect changes to the PAA boundary, it is recommended that any potential boundary changes be implemented after an annexation election. If annexation is implemented, then these small pockets could be added to the City boundaries through the petition method of annexation or through an inter-local agreement with King County under the island annexation provisions of state law.

Maintenance of Prohibition on Card Rooms

Under Washington State law, cities have little discretion to regulate gambling. Gambling, like liquor sales and use, is an activity that is generally controlled by state law, and cities are quite limited in their ability to regulate it locally. However, cities are authorized to: (1) enact as local ordinances any of the state gambling statutes the violation of which constitutes a misdemeanor or gross misdemeanor; (2) impose taxes on gambling activities; and/or, (3) prohibit any or all gambling activities for which licenses are required.

Kirkland has chosen to exercise all three of these local powers. The Kirkland Municipal Code (1) adopts the state gambling statutes as they relate to the definition and licensing requirements for different types of gambling; (2) establishes tax rates for gambling activities; and, (3) prohibits "social card games as a commercial stimulant." The term "commercial stimulant" means an activity operated in connection with an established business, with the purpose of increasing the volume of sales of food or drink for consumption on that business premises. KMC 7.48.017. These types of gambling establishments are more commonly known as card rooms or mini-casinos.

The State Gambling Commission is authorized to license card rooms to operate up to 15 separate house-banked tables. In house-banked games, the players play against the "house" which pays winnings or collects losses, rather than playing against each other. There is one house-banked card room that is currently operating with a State license in the annexation area. This establishment would not be permitted to operate under Kirkland's current gambling regulations.

What Happens After Annexation?

Unless the Kirkland City Council takes an affirmative action to change its Municipal Code provisions related to gambling, then the City's current regulations pertaining to gambling will apply to persons, associations, businesses and organizations within the annexation area. Since the Kirkland Municipal Code currently prohibits "social card rooms as a commercial stimulant," this prohibition would also apply in the annexation area. The Washington Administrative Code establishes that "A city that prohibits any or all forms of gambling must notify the gambling commission in writing so that the commission will not issue or renew a license, which is valid for one year, for the type of gambling prohibited within that jurisdiction. WAC 230-04-500." Under this provision, it would appear that the Gambling Commission would not renew the license for a commercial card room located within Kirkland and the card room would effectively be required to cease operation once its current license expired.

It is very important to note that, under current State law, the City of Kirkland would not have to take an affirmative action to prohibit commercial card rooms after annexation, since the current city laws would apply in the annexation area. During this year's State legislative session, there was gambling legislation that was nearly adopted that would have required the Council to take an affirmative action to prohibit card rooms in the annexation area. If the Council is required to take an affirmative action, this action would almost certainly be challenged by the gambling establishment so that the establishment could continue operations during the ensuing legal process.

The experience of the City of Kenmore may be illustrative of a scenario the City of Kirkland would likely face if it were required to affirmatively enact an ordinance banning card rooms in the annexation area. When the Kenmore City Council adopted the card room ban in December 2005, the owner of the card

room immediately filed suit in federal district court seeking, among other things, to prevent the enforcement of the ordinance. Since that time, the litigation has been winding its way through the judicial system and the card room has been allowed to remain in operation, pursuant to court order. Currently, the dispute is being considered at two levels, one in the Ninth Circuit Court of Appeals and one in King County Superior Court. The Ninth Circuit has not yet scheduled a date for hearing on the appeal. Trial in the Superior Court action is set for March 2008. Kenmore's card room ban will not be enforceable until these cases are resolved, and resolution does not appear likely in the foreseeable future.

Revenues Associated with Gambling Activities

Kirkland currently imposes taxes on the types of gambling activities that are allowed within the City, including bingo, raffles, punch boards and/or pull tabs, amusement games, social card games (not commercial card rooms), and contests of chance. Revenues from local gambling taxes must be used "primarily for the purpose of enforcement of the provisions of this chapter [9.46 RCW] by the county, city or town law enforcement agency." RCW 9.46.113. The state supreme court has indicated that "primarily," as used in this statute, means that a city must first use these revenues for gambling law enforcement purposes. It does not mean that most or a substantial amount of the revenue must be used for that purpose. So, if a city needs only 10 percent of the tax revenues to enforce the gambling laws, then it need not spend more than that for enforcement.

As reported to the Gambling Commission, the 2006 annexation area tax revenues from gambling activities that are not prohibited in Kirkland are \$102,560. This revenue is associated with punch boards, pull tabs, bingo and raffles that would likely continue to operate after annexation. The establishments with permitted gambling in the annexation area include the SnoKing Hockey Association's Bingo Hall and a small number of local taverns.

The potential tax revenue from currently prohibited gambling activities is significant. According to 2006 figures from the State Gambling Commission, the house-banked card room in the annexation area had \$5,274,539 in annual gross receipts and paid \$577,999 in local gambling taxes. If the City were to apply its current 20% tax rate for social card games to this establishment, then the annual revenues from the card room would be approximately \$1,000,900. If the City were to apply the 11% tax rate that the County currently applies to the card room, then the annual revenues would be approximately \$600,000 annually.

Options

As stated above, Kirkland has limited discretion in regulating gambling. The City can either allow a gambling activity as licensed by the State Gambling Commission, or absolutely prohibit the gambling activity. Once the activity is prohibited, then the Gambling Commission has the sole authority to revoke or refuse to renew an existing license for that activity within the City.

The Washington State Court of Appeals in *Edmonds Shopping Center Assoc. v. City of Edmonds* June 2003, 117 Wn. App. 344 ruled that cities are prohibited from: (1) declaring a gambling establishment a legal nonconforming use; (2) limiting the expansion of a gambling establishment; (3) requiring the cessation of operations of a gambling establishment upon revocation or failure to renew license issued by the Washington State Gambling Commission; and (4) phasing out the operation of a gambling establishment. Under this ruling, the City of Kirkland could not "grandfather in" an existing gambling

establishment while prohibiting card rooms in all other locations in the City. Likewise, the City could not phase out the operation of a card room over time.

Therefore, if the City were to implement an annexation where an existing card room is located then, under current law, it would have two options:

- (1) To take no affirmative action, thus applying the current prohibition on commercial card rooms to the annexation area; or,
- (2) To repeal the City's ban on commercial card rooms in its entirety.

State Legislative Proposals

While the City's options are very circumscribed at this time, there may be changes to State law within the next year or two that could expand the city's options or could negatively impact its ability to successfully prohibit card rooms. During the 2007 legislative session, the Association of Washington Cities worked with the Gambling Industry on SB 5558. The proposed bill would have capped the number of card rooms in the state to those that exist today and those that were currently in the pipeline. These provisions would have "grandfathered in" existing card rooms and prohibited new establishments. The bill also would have given local governments additional authority to exert zoning controls over card rooms. Therefore, this bill would have given Kirkland the option to grandfather in the existing card room establishment in the annexation area without opening up the potential for new card rooms to locate within the City.

However, SB 5558 would have had a negative impact on the City's ability to successfully ban card rooms in the annexation area. It would have given a card room within Kirkland's annexation area an 18-month grace period during which it could operate regardless of the City's ban on these types of establishments. More importantly, the bill would have required Kirkland to enact a new ordinance prohibiting gambling in the annexation area. This new ordinance would very likely be challenged by the existing card room owners and, just as has happened in Kenmore, the City could face years of legal battles over the ordinance banning card rooms in the annexation area.

While SB 5558 was not passed by the legislature in 2007, it did make it through the Senate and into the House Rules Committee. It is very likely that there will be legislative proposals during the next session that could have a significant impact on Kirkland's options as they relate to regulation of card rooms.

Recommendation: It is recommended that the Council provide direction on the issue of commercial card room regulations.

Phasing of the Annexation

The Kirkland annexation area consists of the neighborhoods of Finn Hill, Juanita, and Kingsgate with an overall population of approximately 32,600 residents. During the Phase I annexation analysis, the issue of phasing in the annexation of these neighborhoods was considered, but was not definitively resolved by the City Council.

Kirkland could pursue a strategy to phase in the annexation of this area over time. However, the State annexation funding legislation provides a significant incentive to complete annexation by 2010. In addition, the State annexation funding legislation favors large annexations. It provides .10% in sales tax revenues if the City annexes an area with a population of at least 10,000 people, and a .20% in sales tax revenues for an area with a population of 20,000 or more. Therefore, it would be most advantageous to Kirkland if the City were to annex at least 20,000 in population. To achieve this threshold, the annexation would need to include two or all three areas in the PAA at one time, one of which would need to be Finn Hill in order to obtain the highest funding level of .20%. The following table shows the populations of the three annexation areas:

Neighborhood	Population
Kingsgate	11,700
Juanita	5,600
Finn Hill	15,300

The table shows that the City would be eligible for the .20% sales tax credit if it annexed all three areas at once, or if it annexed the Finn Hill and Juanita areas at once. While annexing Finn Hill and Kingsgate together does exceed the 20,000 population threshold, this option would be very impractical because it divides Kirkland's PAA, leaving Juanita as an unincorporated island between the Finn Hill and Kingsgate areas. This would unduly complicate service delivery in these areas and is not considered a viable option.

Financial Considerations in Phasing Annexation

The City's financial analysis of annexation has focused on the overall financial impacts of annexing the entire PAA at once. This option takes advantage of the economies of scale that can be achieved by annexing the entire PAA and it takes advantage of the state annexation funding to the fullest extent possible.

On the other hand, if the City were to phase in annexation, then the table below summarizes the fiscal impacts in a very general way:

Costs/Revenues	Impacts
Costs to serve the annexation area	Likely to be disproportionately higher because City would not likely realize staffing economies of scale
Revenues associated with annexation	May be disproportionately lower, but would depend on the exact annexation boundaries and the exact application of the state funding formula

This general analysis would indicate that the phasing option is not favorable to the City. However, there are additional considerations that could influence the decision on the phasing question.

The first consideration is the complication of the Fire District Boundaries. The Kingsgate neighborhood includes portions of three different fire districts: Fire District 41, the Woodinville Fire & Life Safety District,

and, in much smaller part, Fire District 34 (operated by the Redmond Fire Department.) If Kingsgate is annexed to Kirkland, Woodinville Fire & Life Safety District would no longer have jurisdiction to serve the area, creating significant service-delivery issues that would need to be resolved. In addition, the Woodinville has indicated that they may relocate Fire Station 34 out of the Kingsgate area. These service delivery issues may well be resolved through a contract for services with Woodinville Fire & Life Safety. However, there is the potential that the Kirkland Fire Department would incur significant one-time and annual expenses related to the operation of Fire Station 34 (currently operated by Woodinville Fire & Life Safety) in the Kingsgate area. These potential expenses could impact the fiscal forecast for the Kingsgate neighborhood annexation and have not been factored into the financial model to date.

It is important to point out that these service-related issues would probably need to be resolved between Fire District 41 and Woodinville Fire & Life Safety even if there were no annexation. Woodinville may relocate Station 34 in either case since the station is outdated and does not provide the optimum location for response.

A second consideration is the application of the State annexation funding. There are still a number of outstanding issues in how the sales tax credit is calculated, particularly if the annexation is not completed all at one time. The Department of Revenue has clarified that to qualify for the .20% credit, a city must annex at least 20,000 in population all at one time. However, the Department of Revenue has not clarified all of the issues related to the annexation funding and there could be financial impacts of phasing in annexation that are not known at this time.

It is also important to note that the City is not bound to designate its annexation area to coincide with the neighborhood boundaries. For operational reasons, the City could choose to phase in annexation and designate an initial boundary that coincides with the Fire District boundary or with the boundaries of the service precincts that the Police Department has designated. One caution to this approach is that the Boundary Review Board does have the authority to adjust the boundary if it determines that the boundary does not follow a logical geographic pattern. For example, the Boundary Review Board could require the annexation boundary to comprise the entire PAA, even if the City submitted an annexation proposal that did not include the entire area.

Recommendation: It is recommended that the City Council establish its intent to annex the Finn Hill, Juanita, and Kingsgate neighborhoods all at one time.

Annexation Area Assumption of a Prorated Share of Kirkland's Current Debt

Washington State law establishes that a city may include on the annexation ballot the question as to whether the annexation area residents are willing to share in the City's bonded indebtedness. This question can be placed on the ballot as a separate ballot measure, or it can be combined with the annexation ballot measure itself so that annexation area residents are voting on one question: whether to annex to the City of Kirkland *and* assume a prorated share of the City's current debt. If the City Council's acceptance of the annexation area depends on the residents' willingness to share in the City's debt, then the ballot measure should be combined into one issue. Otherwise, the City Council could be faced with the scenario where the annexation area residents vote to annex to Kirkland, but vote against the acceptance of a share of the debt. However, the Council should be aware that this combined ballot measure has

different majority vote requirements than would a separate annexation election, which could have bearing on the outcome of an annexation election.

If the annexation ballot includes the debt issue, then the election will be subject to Washington State's validation requirements. The number of votes cast on the measure must be a minimum of 40% of the voter turn-out from the previous general election in order to be validated. The pattern of voter turn-out in the PAA indicates that the 40% threshold is not likely to be a barrier to validation, unless the annexation vote were to occur during a special election following a presidential year general election. In addition, a 60% majority of election voters must vote to assume the debt.

The City of Kirkland has a current voted debt balance of approximately \$10,130,000 which equates to an annual cost of \$59.44 on a \$400,000 home. If this cost is shared by the annexation area residents, then the annual cost for a current Kirkland resident with a \$400,000 home would decline to \$41.47 (an annual savings of \$17.97). By taking on a share of Kirkland's current voted debt, the annual debt costs for an annexation area resident with a \$400,000 home would be \$41.47. These debt costs have always been included in the comparison of the taxes and fees that annexation area residents would pay to Kirkland versus those that they currently pay to King County that is featured on the City's web-site.

The City's bonded indebtedness is primarily associated with parks and, to a lesser extent, public safety improvements. These parks currently serve both Kirkland residents and residents of the annexation area. If annexation is implemented, annexation area residents will benefit from the public safety improvements that the City has invested in. For these reasons, there is a clear rationale for requiring that the annexation area residents share in the City's bonded debt.

To sum up, if the issue of the annexation vote and the issue of sharing the debt are combined on the same ballot question, then the pro-annexation voter does not have the discretion decline the share of the City's debt. This combination vote also raises the base threshold for the annexation vote to 60% "yes."

Assumption: The annexation ballot measure would be one measure that combined the issues of annexation and assumption of a pro-rated share of Kirkland's debt.

Kirkland's Assumption of Fire District 41's Debt

King County Fire District #41 contracts with the City of Kirkland for fire and emergency medical services. Under the terms of the contract between the City and the District, the District owns fire facilities located in the District boundaries and the City owns facilities within the City limits. Construction of new fire facilities is the financial responsibility of the jurisdiction within which the facility will be located. In 2005, the District decided to consolidate the current facilities located in North Finn Hill and at Holmes Point to a more central location that will improve response times in the area due to the accessibility it provides. The new fire station location is on property owned by the Lake Washington School District and is part of the Finn Hill Junior High campus site. The District is currently in negotiations with the school district for a land lease (to which the school district has already agreed in principle).

At the time the station consolidation plan was approved, the City and District agreed to add fire suppression staffing to the Forbes Creek fire station that responds within the City and the District. The combination of the relocated Finn Hill station and the additional fire suppression capability at the Forbes

Creek station provides better coverage for the City and District overall. The operational savings from the fire station consolidation would provide the ongoing funding for the fire suppression coverage at Forbes Creek. Since the actual savings won't be realized until the new station is constructed and in service, the City and District agreed to provide "bridge funding" for the fire suppression capability at Forbes Creek. The City budgeted one-time funds for 2005 and 2006, with the understanding that the new station would be in service by early 2007. A variety of issues have delayed the construction of the station and the prospect of the potential annexation of the fire district area into the City of Kirkland caused the District to question the timing and appropriate financing mechanism.

If the City did not annex the Fire District, the District would be responsible for financing the new fire station. As an independent governmental entity, the District has financing options similar to those available to cities including use of cash resources or debt. Voted debt would take the form of a bond issue and would require a sixty percent majority approval. If approved, the District would be authorized to levy property taxes sufficient to retire the debt as presented in the bond measure. Non-voted debt could take the form of limited tax general obligation bonds (LTGO bonds) or a bank loan. If the District chose non-voted debt, they would retire the debt from their existing revenue streams. In the District's case, their only source of revenue is their regular property tax levy.

If the City did annex the Fire District (assuming that the District was annexed in its entirety) all of the District's assets and liabilities would transfer to the City and the District would cease to exist. However, if the District has outstanding debt at the time of annexation, the City would be able to continue imposing a property tax levy on the former district residents in order to retire the debt. This provision would be in place regardless of whether the debt was voted or non-voted. That being said, the City Council could choose to retire the debt through means other than taxation including defeasing the outstanding debt (paying it off with cash resources), retiring the debt through general City revenues or refunding (refinancing the debt).

The most recent estimates for the cost of the consolidated fire station is \$5.5 million. The Fire District expects to have cash available in reserve and from the proceeds of the land sale that totals approximately \$2 million, resulting in the need to fund \$3.5 million using long-term debt. The annual debt service commitment would be about \$265,000 (assuming 20 year bonds at 4.4%). Our understanding is that the debt will be non-voted and paid from the District's operating levy. If the City opts to assume that debt and pay the debt service through other general fund resources, the annual debt service of \$265,000 is additive to the impacts of annexation.

The Fire District Commissioners have met with the Public Safety Committee regarding the size and completion schedule of the station. The Commission and the Public Safety Committee are scheduled to meet again in June to discuss the project. In the meantime, the District has asked whether the City Council intends to impose a tax or absorb the debt service if annexation were to occur.

Recommendation: It is recommended that the City Council give preliminary direction to assume the District's debt, provided that: (1) the PAA voters agree to accept a share of the City's voted debt; and, (2) the District and City reach an agreement on the issue of the fire station consolidation. The City would address payment of that debt in one of the following ways: use general City revenues, defease the debt with existing City cash resources, or refinance the debt, potentially by including it as part of a future (possibly voted) bond issue.