



CITY OF KIRKLAND
City Manager's Office
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MEMORANDUM

To: Dave Ramsay, City Manager

From: Marilynne Beard, Assistant City Manager
Tracey Dunlap, Director of Finance and Administration

Date: December 18, 2008

Subject: POTENTIAL ANNEXATION UPDATE

RECOMMENDATION:

Council review and comment on the proposed methodology and timeline for update of the potential annexation fiscal model.

BACKGROUND:

In May 2008, after two years of study, the City Council voted to delay a decision on annexation of the City's PAA (potential annexation area) until the City's budget was completed and the financial model was updated to reflect the adopted budget. With the adoption of the 2009-2010 Budget, staff is preparing to update the financial projections for annexation. The complexity of the financial model and related analysis will require the better part of January and February to complete. The purpose of this memo is to confirm the proposed timeline for the update and to confirm the assumptions that will be used in preparing the update.

As noted earlier, the purpose of the financial update is to determine whether the actions taken to balance the 2009-2010 budget produce a different financial outcome for annexation. To that end, staff will update the annexation financial model in a series of steps:

1. Input the adopted 2009-2010 Budget into the model.
2. Review inflationary and other growth assumptions to determine if they are still valid.
3. Update departmental staffing plans for the PAA to reflect current service levels.
4. Adjust for any known changes that have taken place or that will take place prior to annexation (e.g. transition to NORCOM, move of Toyota dealership, availability of King County funding).

We plan to model an effective date of January 1, 2011 to recognize the long-term nature of the projection, although it is likely that the effective date may fall sometime during 2010. If the decision is made to proceed with annexation, a detailed cash flow analysis will be developed to determine the optimal effective date from a revenue perspective as well as a plan for funding the transition needs in advance of that date.

The resulting model will reflect a "base case" for annexation that will assume many of the same service levels and assumptions used in the most recent rendition of the financial analysis. Unfortunately, there will still be many unknowns that cannot accurately be portrayed in the model, but that we can identify and attempt to quantify as either an upside or downside risk:

- Totem Lake Mall – Originally factored into the model as a revenue increase in 2011, we may need to revisit this assumption given the delayed start.
- Park Place – This project cannot be accurately factored in as a revenue impact since the exact project is not defined at this time.
- Casino Revenue – A legislative initiative to allow Kirkland to grandfather in the existing casino without allowing card rooms in other areas of the city would constitute a potential positive revenue change.
- State Funding – The City is approaching the deadline for eligibility for state annexation incentive funding. Given the State’s budget difficulties, annexation funding may not be available beyond the current deadline. The City’s legislative agenda includes support for seeking an extension to the annexation funding deadline.
- Regional Jail – The City’s investment in and use of a regional jail facility will be under study for at least another year before we can determine our level of participation in the project.
- Failure of the Voted Utility Tax –The 2009-2010 Budget assumes passage of the voted utility tax which will be the assumption rolled into the base case. Voter rejection of the measure represents a potential downside risk.

Another consideration is the “starting point” for assumptions to be used in the update of the model. At the end of the last process, the model had been updated to reflect an alternative service delivery model. In this scenario, the Police Department had submitted an option for three patrol districts (instead of four) and the Fire and Building Department had submitted an alternative staffing model to compensate for the anticipated closure of the Woodinville Fire and Life Safety District’s Kingsgate station. For the “base case” scenario, staff will begin with the latest iteration of the model and also prepare a version that reflects the original public safety service level assumptions (e.g. four patrol districts). The most recent version of the financial model (with the lower public safety staffing levels) resulted in a deficit of \$6.014 million, the majority of which was attributable to Kirkland (\$4.5 versus \$1.6 in the PAA). A copy of the staff report presented at the April 15 Council meeting is included as Attachment A.

At the May 20th meeting, the City Council provided direction to staff with regard to annexation:

- The Annexation Subcommittee would be disbanded and annexation issues would be addressed as a Council of the whole. If an annexation subcommittee was re-formed, a change membership would be considered.
- Staff was to pursue legislative initiatives in the 2009 session to seek extension of the deadline for annexation funding eligibility and potentially support a change in gambling laws to allow for grandfathering existing casinos in annexation areas (Note: These items are included in the adopted legislative agenda).
- A direct communication letter to residents of the PAA was not used in favor of an update to the City’s annexation web page.
- The City Council agreed to consider annexation petitions from residents of the PAA but not to initiate any petitions from the City.
- Staff was to update the financial model after conclusion of the 2009-2010 budget process.

- The City would not “release” the PAA to another city or cities at this time, but would initiate discussions with King County regarding the future of the PAA.

With regard to the final bullet, the City was made aware of a study being conducted by the City of Bothell (at the urging of King County) to determine whether they were interested in annexing Kirkland’s PAA (assuming Kirkland was not planning to proceed). The City of Bothell reports that the study, first scheduled to be completed in mid-October, is still being finalized. Staff anticipates forwarding the report and a recommendation to the Bothell City Council in early January. Although Bothell is also conducting a financial analysis, the financial results will necessarily be different. Bothell has a different service system and level of service than Kirkland, a different tax base and a different configuration for fire services. Their consultant is taking a different approach to the analysis and it is likely that the Bothell City Council applied different policy parameters and assumptions. Consequently, Bothell’s report will not necessarily inform Kirkland’s financial update other than to know whether they consider the annexation more or less financially viable for them. Staff will report back to Council when Bothell’s report is released.

We also recently received a copy of a letter from Attorney General Rob McKenna’s office that discusses the definition of “commence annexation.” As you may recall, “commence” is a key term that defines eligibility for state annexation incentive funding. The letter does not constitute an official opinion from the Attorneys General but does provide an idea of their working definition. According the letter, “commence” is any action taken by the City to begin the annexation process. Under this definition, a resolution calling for an election would qualify as “commence” and make the City eligible for state funding if such action were taken prior to January 1, 2010. Under this scenario, an election would not need to take place in 2009. The City may want to contact a member of its local legislative delegation and ask that a formal AG opinion be requested.

If an election were held in 2009, it could take place at a special election, the primary or the general election. Since it is the Council’s intent to ask annexation voters to assume their portion of outstanding debt (requiring a 60% approval and validation of 40% of the voters in the last general election) the timing of an election will be important. Given the turnout for the 2008 general election, validation will be difficult to secure before 2010.

Staff would like to schedule a study session to review the updated annexation financial information on March 3rd. The comprehensive nature of the annexation financial model is a very powerful analytical tool that provides the capability to test different budget balancing strategies (i.e. various uses of expenditure control, tax increases and optimistic/pessimistic growth assumptions). For the initial update, we will evaluate the base case under the 2009-2010 budget assumptions, model the two public safety staffing variations noted above and identify the upside and downside risks. If additional “what if” scenarios are identified at the first study session, we will schedule additional discussion.

On January 6, we are requesting feedback on three policy questions:

1. Is the direction provided by Council at the May 20th meeting still valid?
2. Are the base case assumptions to be used in updating the financial model appropriate for this exercise?
3. Is there additional information that would be helpful for Council to have for discussion?



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MEMORANDUM

To: Dave Ramsay, City Manager

From: Marilynne Beard, Assistant City Manager
Tracy Burrows, Intergovernmental Relations Manager
Tracey Dunlap, Director of Finance and Administration

Date: April 3, 2008

Subject: POTENTIAL ANNEXATION UPDATE

RECOMMENDATION:

City Council receive additional information on the potential annexation as requested at their January 15 meeting and provide direction to staff regarding next steps.

BACKGROUND:

On January 15, the City Council received a briefing on the potential annexation of Finn Hill, Juanita and Kingsgate. At that meeting, the Council was presented with four policy options for annexation:

Option 1— Go to Phase 3 with Election in November 2008 Proceed to Boundary Review Board as Soon as Possible

- a. Conduct public hearings on PAA zoning and proceed to Boundary Review Board
- b. Develop alternative level of service plan and assess its impacts on Kirkland and the PAA
- c. Pursue additional funding from King County and the State
- d. Initiate negotiations with the Woodinville Fire & Life Safety District
- e. Provide information updates to Kirkland and the PAA

Option 2— Continue Phase 2 through April 2008, Potential Election Dates: November 2008, Spring or Fall 2009; No Change in Annexation Area Boundary

- a. Develop alternative level of service plan and assess its impacts on Kirkland and the PAA
- b. Pursue additional funding from King County and the State
- c. Initiate negotiations with the Woodinville Fire & Life Safety District
- d. Provide information updates to Kirkland and the PAA

**Option 3— Continue Phase 2 through Fall 2008, Potential Election Date: Fall 2009
Involves Change to Annexation Area Boundary**

- a. Develop alternative level of service plan and assess its impacts on Kirkland and PAA
- b. Pursue additional funding from King County and the State
- c. Initiate negotiations with the Woodinville Fire & Life Safety District
- d. Analyze adjusted annexation boundary excluding Woodinville Fire & Life Safety
- e. Analyze different ways of phasing in annexation, i.e. one neighborhood at a time
- f. Provide information updates to Kirkland and the PAA

Option 4— No Go to Phase 3

- a. Pursue alternatives to annexation with the PAA, including incorporation and annexation to neighboring cities
- b. Pursue additional funding from King County and the State and additional time from the State
- c. Provide information update to Kirkland and the PAA

Council requested that staff pursue activities in options two and three and report back to Council in March or April regarding the following work items:

1. Pursue additional funding from the State and King County and legislative action that would extend the deadline for eligibility for State funding beyond January 1, 2010.
2. Engage in discussions with Woodinville Fire and Life Safety regarding alternatives for providing fire and emergency medical services to the Kingsgate area.
3. Identify staffing and service delivery alternatives to reduce the revised financial gap between estimated revenues and expenditures that result from annexation.
4. Identify the implications of annexing the PAA excluding the Woodinville Fire and Life Safety territory.
5. Study the feasibility of a phased annexation over a longer period of time.
6. Develop an annexation financial scenario that adjusts for potential increases in the key expenditure areas of wages and benefits.
7. Identify potential additional income assuming an aggressive economic development effort and full build-out of commercial areas.

Council opted to delay a direct mail informational flyer until Council is able to provide more definite direction regarding next steps.

Since the January 15 meeting, staff has been working with the Annexation Subcommittee to follow-up on the items requested by Council. Because of the volume and complexity of the information, the

Subcommittee recommended that an additional study session on annexation be scheduled. A second study session is scheduled for May 7. This memo provides a discussion of the findings associated with each of the tasks identified by Council.

Additional Funding and Timeline Changes

The State legislature held their 2008 session which ended in late March. During the session, the legislature did not consider amendments to the annexation incentive legislation passed in 2006 and no other action was taken to increase funding available for annexations. King County has not identified additional funding to be provided to the City but did include a budget proviso in their 2008 budget calling for County staff to provide GIS assistance to Kirkland in support of the potential annexation. The original funding proposal from King County for \$2.5 million received in November 2007 is expired. The annexation subcommittee has requested a meeting with King County Executive Ron Sims and County Councilmember Jane Hague to discuss additional one-time funding assistance and reaffirmation of the original funding proposal presented last year. Staff is in the process of scheduling that meeting.

Discussions with Woodinville Fire and Life Safety District (WFLS)

On February 26, the Annexation subcommittee met with Dennis Johnson, Chief of the WFLS district. Chief Johnson shared the commissioners' concerns about Kirkland's annexation and the impact on the district. If Kirkland annexes the entire PAA, WFLS would experience a revenue loss in excess of \$1 million which would necessitate closing one fire station in their area. They advised the City that their plan is to close the Kingsgate Station and one other station in the district and consolidate the two stations to a new location that can better serve revised boundaries. If Kirkland does not annex that area, the district would renovate or rebuild the Kingsgate station. Chief Johnson also shared the commissioners' request for the Kirkland City Council to make a decision as soon as possible regarding annexation so that they can continue their planning processes. The subcommittee inquired about the potential for contracting for fire services with WFLS and both Chief Johnson and Chief Blake emphasized that this would be problematic and a temporary solution at best.

Subsequent to the meeting with WFLS, Kirkland city staff met with staff from the City of Woodinville to discuss the potential for Woodinville taking the Kingsgate area into their PAA if Kirkland did not annex that area. Woodinville staff was open to the discussion; however, they needed to check in with their City Council. They did point out that the population of the Kingsgate area (7,190) would represent a significant increase to their current population of 10,390.

Alternative Service Delivery

City staff was asked to identify staffing and other reductions to their original annexation estimates and to provide a description of how the reductions would impact the PAA and Kirkland. In response, each of the departments developed two alternative service delivery plans—one for the entire PAA and one for the PAA excluding the Woodinville Fire and Life Safety District. For each of these staffing plans, the departments identified staffing adjustments that would reduce overall costs with the fewest impacts to service delivery. In addition, the departments detailed the specific level of service impacts of the staffing plans to (1) the residents of the PAA and (2) the current residents of Kirkland (*see* Table 1 at the end of this memo).

Alternative Service Delivery Plan for the PAA Overall

For the alternative staffing plan for the PAA overall, the departments were given general guidance to identify a 10 percent reduction in staffing costs. While the actual percentage reduction varied somewhat from department to department, the overall reductions achieved a 13 percent reduction in required staff. This 13% reduction represents 21 fewer FTE's in the alternative service delivery plan. The most significant changes to service delivery were:

- The reduction from four to three police patrol districts for the PAA.
- The assumption that the maintenance responsibility for O.O. Denny Park would remain with the Finn Hill Park District.
- Change to the minimum fire station staffing requirements for the Totem Lake station.

The attached Table summarizes the staff reductions associated with the alternative service delivery plan for the PAA. The summary discusses both the impacts to the PAA residents and the existing City residents. Some of the impacts of service level changes are limited to the PAA. For example, these changes will mean that it will take longer to complete neighborhood plans for the PAA and it may take longer to respond to requests for neighborhood traffic calming in that area. In other instances, the staffing adjustments may impact our responsiveness to requests within the PAA and the City, as in the case of requests for guide signs or red curb painting. The specific impacts of the alternative service delivery plans for Police, Parks, and Fire are discussed below.

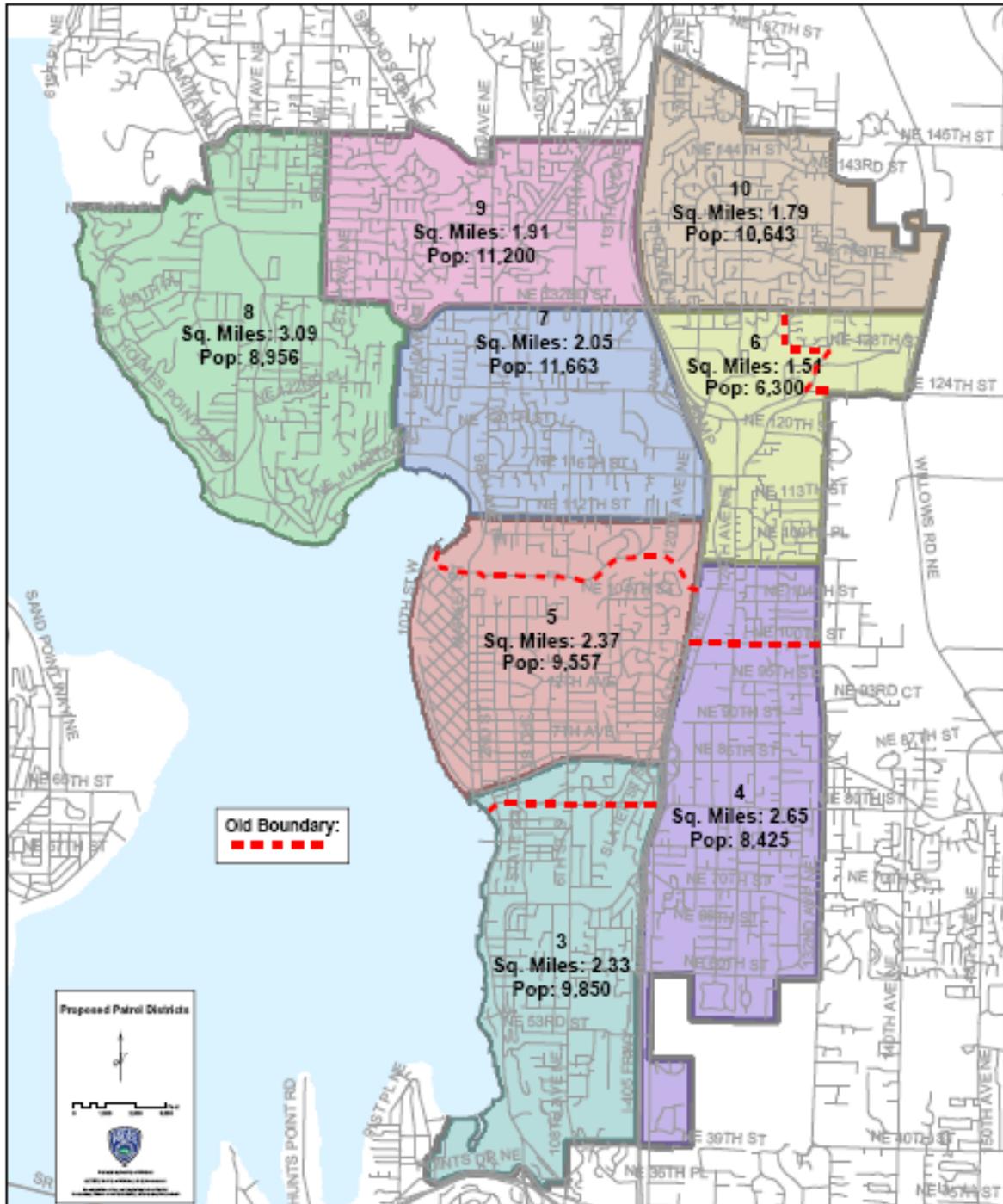
Police Patrol Districts

To achieve staffing economies in Police Department, the department reduced the number of patrol districts serving the area from four to three. The patrol district map was revised based on the population of each of the districts, projected calls for service within the districts, and the ease of transportation access within the district.

Currently, the police department handles just under 38,000 calls for service (incidents) each year. These calls for service include both when the officer is dispatched to an incident by the Dispatch Center and when the officer observes a potential incident and initiates a response. These incidents include traffic stops, arrests, and on-view contacts. Based on historical data, the department projects approximately 26,000 Calls for Service (Incidents) each year in the PAA. Approximately one-third of these calls will require a minimum of two officers to sufficiently handle the call (such as domestic violence calls).

The revised boundaries of the PAA three districts reflect the geographic constraints associated with the area. The challenges include the lack of east to west arterials and the high volume of traffic on north-south arterials and I-405. In addition, NE 132nd Street is the one clear direct route for officer response from one district to another. The map below illustrates the proposal for the three patrol district boundaries.

Proposed Patrol Districts



The following Table illustrates the differences between the 4 District and 3 District staffing plans. The Table also shows the current staffing levels for the relevant positions as a comparison.

	Revised 4 District		3 District Plan		Current Staffing	
	FTE's	FTEs/1000 Population	FTE's	FTEs/1000 Population	FTE's	FTEs/1000 Population
Captain	1	0.03	1	0.03	2	0.04
Lieutenant	2	0.06	1	0.03	4	0.08
Investigations/Narc	6	0.17	5	0.15	6	0.13
Sergeant	4	0.12	4	0.12	4	0.08
Corporals	4	0.12	4	0.12	4	0.08
Traffic Officers	4	0.12	3	0.09	4	0.08
K-9	1	0.03	1	0.03	1	0.02
Patrol Officers	22	0.64	18	0.52	24	0.51
	44	1.28	37	1.08	49	1.03
Communications*	8	0.23	8	0.23	18	0.38
Records	4	0.12	3	0.09	5	0.11
Admin Support	2	0.06	1	0.03	2	0.04
Evidence Officer	0.5	0.01	0.5	0.01	1	0.02
Corrections Officer	4	0.12	3	0.09	11	0.23
	18.5	0.54	15.5	0.45	37	0.78
Total FTE	62.5		52.5		86	

*Communications FTEs are shown as a "placeholder" for NORCOM charges that will be in effect in 2009.

There are a number of Police positions that will remain at the same staffing level post-annexation. These positions are noted below and are not included in the Table above.

Chief	1.0	Family/Youth Advocate	1.0
Detective Sergeant	1.0	Lead Records	1.0
Community Service Unit Sergeant	1.0	Corrections Lieutenant	1.0
Pro-Act Sergeant	1.0	Communications Supervisor	1.0
Admin Corporal	1.0	Lead Communications Tech	3.0
Pro-Act Officer	3.0	Family Violence Unit Detective	1.0
Training Officer	1.0	Parking Enforcement	2.0
Community Service Unit Officer	1.0	Admin Coordinator	1.0
School Resource Officer	1.0	Admin Associate	1.0
Neighborhood Resource Officer	1.0	ProAct PSA	1.0
Police Analyst	1.0		

Impact of Three Patrol District Plan

The Police Department projects that the PAA will generate approximately 26,000 annual calls for service. There will be service impacts associated with adopting a three district, but these impacts will be manageable. The most noticeable result of the three district plan will be the need to have a more refined system of prioritizing of calls for service. The response to life-threatening or in-progress crimes will be enhanced in the PAA. However, lower priority calls are likely to have longer response times than is current practice within the City.

One of the most noticeable impacts of adopting a three-district plan will be the increased demand for back-up support. Specifically, we anticipate that there will be an increase in the need for current city officers to assist the PAA officers with backup emergency calls. To manage this demand for assistance, the boundaries of the current north districts (5, 6 & 7) borders would be redrawn to aid in reducing the work load and coverage area in these districts. By doing this we would reduce area and population in the north districts and give this area to the two remaining south districts (3 & 4). This should spread the impact of increased calls to all districts and would be monitored for issues.

The proposed four district plan would have given the Police Department the opportunity to have a command level officer on duty at all times. Under a three district plan, there will be an increased number of hours where a command staff person is on duty, but there will still be times during weekends or late evenings when a sergeant or corporal is the highest ranking staff member.

Management of Additional Demands

We have listed several impacts of reducing the number of districts and staff covering the PAA. Emergency assistance and the preservation of life would always be our top priority. As mentioned above, the Police Department's greatest challenge will be in providing a standard level of service for lower priority response calls.

Some of the possible methods of prioritizing and handling the additional calls for service include:

1. Limiting the types of calls officers are required to handle (e.g. non follow-up calls handled as mail out reports, raise the dollar threshold on reporting non-injury accidents, barking dog complaints and others).
2. Offering internet-based report by victims; easy to use question/answer templates for reporting non follow-up type case which allow officers to be available for other calls. This can be done on the internet, by setting up a reporting station at various locations in the city (fire stations, police department, and community center).
3. Working a different schedule with patrol that allows for different staffing levels for peak times. Currently by contract we are locked into a twelve-hour schedule that does not allow for flexibility. We are currently working with the union on this issue and will continue whether annexation takes place or not to address the City and union's interests.

The staffing levels we proposed for the three districts will have impacts to service levels in the existing city and PAA. These impacts will be manageable, but will mean that new methods of managing calls will be employed and that lower priority calls will likely have longer response times.

Maintenance of O.O. Denny Park

Another significant adjustment with the alternative service delivery proposal is the change in the plan for maintenance for O.O. Denny Park. O.O. Denny Park is owned by the City of Seattle and, under an agreement with the original donors of the property, the City of Seattle will retain ownership provided that the property is maintained as a park. The maintenance of O.O. Denny Park is currently funded by a special levy of the Finn Hill Park District. Under the proposed alternative service delivery plan, the Park District would retain responsibility for park maintenance. The District is planning on a November 2008 ballot measure for the levy renewal that would provide funding for park maintenance for up to the next six years.

Without taking on the maintenance responsibilities at O.O. Denny Park, the Parks Department is able to eliminate two groundskeeper positions for a savings of approximately \$205,000 in annual operating costs associated with the PAA.

Fire Staffing Configuration

The alternative service delivery plan includes a proposed change to the current firefighter staffing requirements for the Totem Lake station. Currently, the Fire Department requires a total of five positions to staff an engine company and a medical aid unit – three firefighters for the engine company and two for the medical aid unit. This reflects a service level enhancement approved several years ago that allows for the Totem Lake Station to respond to two separate aid calls simultaneously or one fire and one aid call simultaneously.

Under the alternative service delivery plan, at the Totem Lake Station this would be reduced to a total of four staff that has the flexibility to work as part of either the engine company or the aid unit. The station would be equipped with both an aid vehicle and a fire engine. With this level of staffing, the station personnel retain the ability to respond to two medical emergency calls at the same time or one fire call. Also, it gives the station the ability to staff an engine company with four firefighters in the event of a fire emergency, giving the team greater capacity to handle fire related actions. However, the station staff would require automatic aid assistance to respond to simultaneous medical and fire calls.

It should be noted that the Fire Department is considering this change in staffing configuration on a city-wide basis because it does offer increased flexibility in staffing. This alternative staff configuration at the Totem Lake station would result in an overall reduction in three staff positions—one for each of the three eight-hour shifts needed for 24/7 coverage.

Alternative Service Delivery Plan – Excluding the Woodinville Fire & Life Safety District

Each of the City Departments also prepared an alternative service delivery plan for the PAA excluding the Woodinville Fire & Life Safety District. By excluding the Woodinville District, we would eliminate the need

for an additional engine company to serve the Kingsgate area, saving approximately \$1.5 million in annual operating costs and the capital costs associated with expanding Fire Station 27.

While excluding the District would lead to considerable cost savings for the Fire Department, there were not comparable economies for the other City departments. For the most part, the exclusion of the Woodinville District diminished the benefits of the economies of scale that could be realized in serving the entire area. For example, parks maintenance staffing would not be reduced at all because there are no public parks in the portion of the PAA in the Woodinville Fire District. Likewise, the Police Department would continue to need three patrol districts to serve the PAA, so their savings was limited to one traffic officer and one communications staff person. In total, 19.6 additional positions could be eliminated if the WFLS area were not annexed.

Because the exclusion of the Woodinville Fire & Life Safety District eliminates approximately 25% of the revenue base associated with the PAA, and there were not comparable savings in staff reductions, this alternative service delivery option was not financially sustainable.

Revised Financial Outcomes

At the end of the first phase of the annexation analysis (late 2006/early 2007), the financial model projected that there was a financial gap in both the existing City and the PAA. The gaps were roughly proportionate and scenarios were generated that illustrated potential actions that would close the gap. These scenarios indicated that the actions taken to close the gap in the existing City would also close the gap in the PAA. A number of follow up issues were identified for evaluation in Phase 2, including:

- The impacts on fire staffing if the Kingsgate station was relocated.
- The impacts of the City assuming responsibility for the maintenance of O.O. Denny Park, which is currently maintained by the Finn Hill Parks District.

In late 2007, the financial results were updated to take into account new information, including:

- The adopted 2007/08 budget.
- The costs of adding an engine company due to the expected relocation of the Kingsgate station.
- The costs of maintaining O.O. Denny park if the Finn Hill Park District dissolved.
- Assumption of the anticipated Fire District 41 debt associated with station consolidation.
- Updated facilities cost estimates.

These changes added sufficient costs to the PAA that the logic that the actions taken to balance the existing City's budget would balance the PAA no longer held true (Attachment A). To further evaluate the financial feasibility of annexation, the City Council requested that a number of options be generated for consideration:

- Identify Alternative Service Delivery (ASD) for the PAA that would reduce costs.
- Model with higher wage (6 percent) and benefit (10 percent) inflation continuing throughout the projection period.
- Model the effects of high commercial economic development activity in the PAA.
- Consider excluding the Woodinville Fire and Life Safety District (WFLSD) service area.

Staff prepared four scenarios that consider these factors. In addition, a discussion of the impact of subsequent financial events in the existing City on the annexation analysis follows the scenarios.

Alternate Service Delivery (Entire PAA)

Attachment B reflects the financial results under the alternate service delivery assumptions developed since December. Key changes include:

- Assumption that the City will not assume responsibility for O.O. Denny Park.
- Adjustment to Police patrol districts from 4 to 3 in the PAA.
- Change in minimum Fire staffing configuration.
- Overall reduction in staffing needs of approximately 20.7 FTEs (13 percent).

The service level adjustments produce a gap in the PAA that is roughly proportionate to the gap in the existing City, which returns the discussion to the earlier logic – that the actions taken to balance the budget in the existing City should also balance the PAA.

High Personnel Cost Inflation

Attachment C begins with the revised baseline (alternate service delivery) and sets wage inflation at 6 percent and benefit inflation at 10 percent throughout the projection period (rather than the long-term projections of 5 percent and 6 percent used in the previous scenario). What is evident from the graph is that this level of wage and benefit growth is not sustainable over the long-term in the existing City or the PAA. These assumptions mean that salaries would double every 12 years and benefit costs would double every 7.2 years. In this scenario, the projected shortfalls in both the City and the PAA more than double over the projection period. If this circumstance were to occur, the City would have to dramatically alter its service levels and taxation policies, since revenues are not expected to grow at that pace over the long-term regardless of annexation.

Maximize Commercial Development in the PAA

To test the sensitivity of the model to economic development assumptions in the PAA, the level of new commercial development and redevelopment was set to “full build out” by 2025. An overview of the square footage assumptions for the high economic development scenario is summarized in Attachment D. In brief, the baseline results reflected a doubling in commercial square footage in the PAA from the current 638,000 sq. ft. to 1.3 million sq. ft. In the high economic development scenario, commercial growth increases from 638,000 sq. ft. to over 2 million sq. feet (roughly triple the current level). This scenario represents a 5.65 percent increase in revenues to the PAA by 2026, resulting in some reduction in the gap over the long-term (Attachment E), but still leaves a gap of 5 percent in 2026. It is important to note that this scenario is intended to provide an upper boundary that maximizes the potential of the commercial areas and is not likely to occur as shown.

Concerning potential expansion of the commercial districts within the annexation area, there are only a few properties that could possibly redevelop to commercial uses. The commercial areas are mostly surrounded by existing condominium and apartment complexes. Adjacent to the north Finn Hill

commercial district are one vacant property and a daycare facility and adjacent to the Kingsgate commercial district is a daycare facility, all of which could be rezoned and developed as commercial uses.

The PAA's industrial area in Totem Lake north of NE 124th Street has the greatest opportunity for commercial redevelopment. Current uses in the western portion of the area are generally located in older buildings and include Allied Waste Management operations, various auto repair shops, catering services, door sales, a karate school, and wholesale heating, air conditioning, plumbing and electrical companies. Toyota of Kirkland plans to remove the Graham Steel Corporation building and replace it with a new showroom. The eastern portion of the industrial area contains newer office and warehouse buildings. Staff has identified at least six vacant parcels that can be developed. Even so, redevelopment to retail uses may be hampered by the lack of convenient access to NE 124th St. from most of the properties in this area.

In addition, we have recently determined that three industrially zoned parcels south of NE 124th Street and east of 132nd Ave NE are in our PAA. The parcels contain a dry cleaner, a body repair shop and a utility substation.

The existing Totem Lake (TL) 7 zoning proposed for the industrial area would allow for vehicle and boat sales, retail variety or department stores containing at least 75,000 square feet of floor area, and retail strip centers of seven or more businesses along with various types of industrial wholesale trade uses. The potential for additional retail uses could be increased by allowing freestanding retail uses with less than 75,000 square feet. If this were done, these uses would also be allowed in the portion of the TL 7 zone currently within the City west of 132nd Ave. NE.

Alternate Service Delivery (PAA excluding WFLSD)

The other major alternative evaluated was adjusting the boundaries of the PAA to exclude the service area of the Woodinville Fire and Life Safety District, eliminating the need to add an engine company. This scenario was generated under the alternate service delivery assumptions, adjusting staffing accordingly, which resulted in an additional reduction in the total FTEs of 19.6 (15 percent). However, the revenue reduction caused by removing this area is over \$4 million, which represents a 25 percent reduction. Given these figures, the gap in the PAA worsens under this scenario (*see* Attachment F).

This alternative (excluding WFLSD) with 6/10 percent wage/benefit growth shows the same dynamics as under the prior scenario, with the higher cost growth rates being unsustainable in both the City and the PAA. Maximizing economic development in the PAA does not perform as well without the WFLSD area because the Kingsgate PAA offers the largest potential commercial redevelopment area, so reducing this area reduces the potential benefits. Under this scenario, the revenue in the PAA increases 3.2 percent by 2026, rather than the 5.65 percent for the full PAA described earlier.

Summary of Attachments

	Baseline	Description	Outcome	
11/07 Baseline Adjusted	A	Nov/Dec 2007 Baseline	Updated results including: <ul style="list-style-type: none"> • Kingsgate Fire Staffing • O.O. Denny Maintenance • FD 41 debt • Updated revenue and expenditures 	<ul style="list-style-type: none"> • Proportionally increased gap in PAA • Balancing existing Kirkland no longer closed PAA gap
	B	With Alternate Service Levels	<ul style="list-style-type: none"> • Reduce staffing by 20.7 FTE's (13%) • Change from four to three patrol districts • O.O. Denny Park maintenance by Park District • Change in fire staffing configuration 	<ul style="list-style-type: none"> • Actions taken to balance City budget addresses PAA gap
	C	Alternate Service Levels and High Personnel Costs	<ul style="list-style-type: none"> • Increase wage inflation from 5% to 6% and benefits from 6% to 10% 	<ul style="list-style-type: none"> • Not sustainable over time
	D/E	Alternate Service Levels and Maximum Commercial Development	<ul style="list-style-type: none"> • Assume "full build out" to maximum commercial use by 2025. 	<ul style="list-style-type: none"> • Increases PAA revenue 5.65% • Reduces PAA gap in 2026 from -9% to -5% • High risk to plan on such aggressive growth
	F	Alternative Service Delivery Excluding Woodinville Fire & Life Safety	<ul style="list-style-type: none"> • Eliminate need for Kingsgate fire staffing • Additional FTE reduction • Reduces PAA revenue by \$4 million 	<ul style="list-style-type: none"> • Revenue loss is greater than expenditure savings (worsens PAA gap)

Other Factors in Projections

A number of events have occurred that impact the existing City projections that have not been incorporated into the model at this stage to allow for the discussion of impacts versus the Phase 2 baseline projections. These changes include:

- Delay of Totem Lake Redevelopment
- Reduction in baseline sales tax due to:
 - No growth in receipts from 2006 to 2007, reducing the baseline starting point,
 - Reduction in Costco revenues of 33 percent due to the opening of two new stores by 2009 (recovering over 5 years).
- In December 2007, a variety of financing options were identified as available for the existing City share of facilities expansions (up to \$31 million). While no specific decisions were made, it would be reasonable to include a portion of the resources (approximately \$15 million) toward the existing City's share of the required facilities is expansions.
- Move of the sales tax generated from Toyota auto sales from the existing City to the PAA.

The net impact of the first three items is to worsen the existing City's financial situation, meaning that the actions necessary to balance the budget for the existing City become more pronounced. However, assuming that these events do not impact the PAA directly, the actions to balance the budget would work more efficiently over the larger base.

The move of the Toyota sales facility to the PAA changes the dynamics between the existing City and the PAA, but does not result in additional revenue in the overall picture. While the existing City outlook worsens with the move, the PAA projection improves significantly given the smaller revenue base in that area.

Next Steps

If the decision is made to proceed with placing annexation on the ballot, there will be a series of issues that will be analyzed in depth:

- **State Sales Tax Credit** – The 10-year state sales tax credit is an integral part of the annexation financial analysis and came out of the recent legislative session intact. The State has not issued formal guidance as to how the state sales tax credit will be administered and what specific documentation will be required to demonstrate shortfalls. At this stage, we are monitoring the experience of Auburn, who had an annexation that qualifies for the credit last year, and Renton, who had a qualifying annexation vote last fall. Auburn's experience to date has provided two insights: (1) that detailed record-keeping will be necessary to demonstrate qualifying costs, and (2) that timing is critical to maximize the credit. We will continue to stay in contact with both jurisdictions to track their "lessons learned".

Indications are that to get definitive guidance from the State may require requesting an Attorney General's opinion on specific issues. One issue that we are considering for this option is to confirm the definition of "commencing" annexation as acceptance of an affirmative vote. If the City does not hold the election until the November 2009 election, this definition will be necessary to ensure that we meet the January 1, 2010 deadline.

- **King County Funding**—In 2007, King County offered the City \$2.5 million in funding, of which \$1.0 million was for capital and \$1.5 million was for general purposes. This offer expired in March of 2008. Staff is pursuing an extension of this offer and additional funding that would factor into how transition costs could be handled.
- **Transition Costs and Cash Flow Considerations**—If the election is held in late 2009, there will be transition costs in 2009 and 2010, which will occur before there is any cash flow from the PAA. The identification and timing of these transition costs and the cash flow implications will be a priority analysis if the decision is made to proceed so that those costs can be factored into the 2009/10 budget process.

Annexation Phasing Considerations

City Council asked staff to study the feasibility of annexing smaller portions of the PAA incrementally over time. Although there were no specific parameters assigned to “smaller,” we can discuss the implications of various options.

There are limitless combinations of approaches to proceeding with annexation in smaller increments. A few options are described below, ranging from “largest” to “smallest”:

1. **Exclude Woodinville Fire and Life Safety District Only**—This option involves annexing the entire PAA except for the area currently served by WFLS. This eliminates the need to fund an additional engine company, creates a smaller service area (by about 10,000 residents) and eliminates a significant portion of the estimated revenue.
2. **Annex One Neighborhood at a Time**—This option involves annexing one neighborhood at a time (i.e. Upper Juanita, Finn Hill or Kingsgate).
3. **Annex Identifiable Sub-Areas**—This option could involve areas as small as a subdivisions or combinations of subdivisions, working outward from the existing City boundaries. Under this scenario, the areas farthest from the existing boundaries would be the last to annex.

As we’ve seen in our most recent annexation study, there are many complex elements to take into consideration before proceeding with any annexation. The discussion below summarizes how those elements might be impacted based on the size of the annexation area:

Election or Petition

State law does not set upper or lower limits for each annexation method. In other words, an election could be held for a very small annexation area and a petition could be used for a very large area. In either method, the City Council is the final decision maker inasmuch as they will either accept or reject an annexation election or petition after those processes are complete. In any case, the proposed annexation would need to go before the Boundary Review Board.

Under a petition method, any property or group of properties can petition to annex to a city if they gather signatures of at least 10 percent of the residents of the area to be annexed or owners representing at least 10 percent of the value of the properties to be annexed. The petition is submitted to the City Council who can determine whether or not to accept the petition. If accepted, an annexation petition must be signed by property owners representing at least 60 percent of the area to be annexed. The annexation petition can also ask that residents accept outstanding debt. The petition must be validated by staff to ensure that petition signers represent the current property owners. If accepted, the annexation must go before the Boundary Review Board.

Under the petition method, city staff is charged with validating all of the signatures on both of the petitions, developing zoning for the area and preparing materials for presentation to the Boundary Review Board. If the annexation is approved by the BRB and Council, the City must shortly thereafter conduct a census, update all of the City's base maps and coordinate with a variety of utility providers and other public agencies to assure taxes and fees are properly assessed. The petition method of annexation is lengthy and time intensive, even for small annexations. As an example, the most recent annexation of the Morningstar subdivision (which consisted of six homes) took nearly a year to complete.

An election can be called by City Council resolution or can be initiated by a petition of 20 percent of the voters in the annexing area (that voted in the last election). If an election is initiated by petition, the City Council must accept the petition and hold the election. In both cases (whether the election is initiated by the City Council or by petition), the city bears the cost of the election. As noted in earlier memos, the cost of an election depends on when the election is held (general, special, primary) and the number of other items on the ballot.

Because of the cost of holding an election, it is obviously a more cost-effective choice for larger annexations; whereas the smaller annexation (i.e. by subdivision) lends itself more to a petition method, even though it requires more staff work. It should be noted that when any area is officially involved in an annexation (by petition or election) it cannot be part of any other annexation effort simultaneously.

Financial Analysis

For any annexation, the relative impact on revenues and expenditures is measured by estimated marginal new revenue that would be generated by the annexed properties and the estimated cost of extending services to the area. The annexation financial model incorporates the existing city and has the ability to calculate fiscal impacts by neighborhood (i.e. Kingsgate, Finn Hill and Upper Juanita). The model is interactive inasmuch as it relies on underlying GIS data to take into consideration the impacts future development potential on both revenues and the need for new services. The GIS element is not easily manipulated or changed, so using the model for sub-area analysis would be time consuming and costly (with exception of the WFLS option #1 which is already in development as an option and requires the least amount of update to the model). Consequently, analyzing the financial impacts of sub-areas that are not already identified in the model would require a separate set of new calculations (i.e. begin the financial analysis "from scratch").

Impact on Fire Districts

If annexation of an area is considered that is not contiguous with a fire district, different rules apply depending on the amount of the district being annexed (for a complete discussion regarding annexation of fire districts, refer to the 2005 special report by Berk and Associates included as an appendix to the 2005 Annexation Fiscal Study). One consideration to keep in mind is the potential financial impact on the annexed fire district. For instance, annexation of a significant portion of Fire District #41 may eliminate much of their tax base but require that they still be in existence in order to provide service to the remaining area. Since District #41 contracts with Kirkland for fire and emergency medical services, we would need to be assured that they would have sufficient remaining tax base to continue to pay their share of costs.

Impact on State Funding

In order to be eligible for State annexation funding, the City must annex an area with a population of at least 10,000 residents. To maximize the State assistance, the City would need to annex an area representing at least 20,000 people. Annexing smaller areas would mean that the City would forego the State funding. Even though the State funding is time-limited (ten years), it can contribute significantly to necessary equipment and facility debt service payments while it is available. If the City were to eventually annex the entire area, the same equipment and facilities would still be necessary but would need to be purchased without benefit of the State funds. Another consideration is timing. Even if the City annexes in increments of 10,000 residents, it is not likely that we could annex more than one area before the deadline expires (assuming a significant time extension isn't made available by the legislature). If the legislature were to extend the deadline for five to several years, it may be possible to annex three larger areas and still be eligible for funding.

Service Level Planning Impacts

It is certainly possible to annex small enough areas that don't trigger new staff or that trigger smaller increments of new staff. Depending on the time frame over which the smaller annexations would be accomplished, service levels would necessarily fluctuate for both Kirkland and the annexation area. This would occur because a very small annexation (e.g. one subdivision) may not trigger any new staff but would expand the service area for existing staff. The next subdivision might not trigger an entire FTE, but a partial FTE may be impractical to hire. Most likely, the next area might also be absorbed. In the meantime, the City would have received an increment of new revenue. When the next small area is annexed, it may be clear that new staffing is needed. If full-time staff is hired, it may be more than is needed to service the three small annexation areas and so service levels could temporarily exceed the original levels. The revenue from all three small annexation areas may or may not be sufficient to fund the FTE(s) needed to properly serve the new area. In addition, the City would have to have "banked" or set aside the new revenue from first two annexations so that it could contribute when the new FTE is triggered. While this example may seem unnecessarily convoluted, it illustrates the inefficiencies that may result from very small annexations, unless they are accomplished over a very long period of time.

Annexation of Non-Contiguous Areas

The city cannot annex areas that are not contiguous to its existing boundaries unless the property(s) will be used for “municipal purposes.” If the city does not own the property, then 100 percent of the property owners must agree to the annexation (and a legitimate public purpose must still exist). An example of this would be a city-owned property that will be used for a park, cemetery or other municipal purpose. Given this limitation, smaller annexation areas would each have to approve annexation (either by election or petition) before areas farther away could be annexed. Depending on the boundaries of the non-annexing area, this could leave islands of non-contiguous properties that would like to annex but are unable to. Another consideration is vehicular access. Even though a portion of the area to be annexed may be contiguous to Kirkland, if street access isn’t available, this type of annexation may not be practical.

Impact on County Funding

In November, King County presented the City with an offer of annexation transition assistance funding in the amount of \$2.5 million that was contingent on an effective date for the annexation of March 1, 2009. At this point, it is clear that a November 2008 election is not possible (and so a March 2009 effective date is also not possible) given the additional data requested by Council and the resulting compressed time frame for preparing for an annexation election. Therefore, the City would need to request a revised offer from King County that acknowledges the new time frame. If the City chooses to pursue small annexation areas over a longer period of time, the County may be inclined to change the level of financial support. This is an issue that needs further discussion with King County once the City has narrowed its options regarding annexation.

Impact on Facilities Planning

As noted above, smaller, incremental annexations would result in a slower hiring process. Consequently, the need for significant new facilities wouldn’t be triggered for some time. The City is currently facing a shortage of space at City Hall and at the Maintenance Center. The ability to move forward with a major facility expansion or construction has been deferred until a decision on annexation is made. If the City did not pursue annexation, then City Hall would be expanded at its current location (and would include public safety facilities with the Municipal Court remaining off-site). If the annexation were to occur, a separate public safety building would be needed at another site. Given the scarcity of available properties in Kirkland, the City would want to purchase a property that could serve its long term needs for a public safety facility. If annexations are completed over a long period of time (as in scenarios 2 through 4 above) the prudent course would be to purchase a building or property now that would allow for expansion later. As an alternative, the City could lease office space for some functions that would need to move out of City Hall. The recent Public Safety Building Feasibility Analysis described the “essential services standard” that must be met for some police and corrections functions. It may be more cost-effective to expand the Police Department in the existing City Hall and move other functions (such as development services) out to a leased facility.

Impacts to Existing Levels of Service

Smaller, incremental annexations may have the effect of minimizing impacts to Kirkland residents because the change would be very small. If the primary objective is to lessen the amount of change occurring at any one time, then smaller incremental annexations may be an option, despite the issues noted in earlier sections of this memo. In order to add some certainty to the plan, the Council may want to commit to a schedule over a defined number of years so that residents in the City and in the PAA have some idea of when they might be impacted.

Next Steps and Timing Considerations

As we near the 2009–2010 Budget process, staff will need direction regarding assumptions to use in preparing the budget. If annexation is proceeding, then one-time resources would need to be set aside for the remaining work to be done, an election and transition.

Following Council discussion regarding the information provided in this memo, staff will need direction regarding next steps. Based on the financial implications of excluding the Woodinville Fire & Life Safety District, staff does not recommend pursuing this option. Further, careful consideration should be given to the implications of phasing in small annexations through the petition method. Policy options to consider include:

Option 1— Proceed to Phase 3 with an annexation election to be held in Fall 2009

- Finalize zoning
- Prepare county action declaring intent to hold an election
- Prepare materials for the Boundary Review Board
- Conduct further transitional planning work

Option 2— No Go to Phase 3

- Pursue alternatives to annexation with the PAA, including incorporation and annexation to neighboring cities
- Pursue additional funding from King County and the State and additional time from the State
- Provide information update to Kirkland and the PAA

Table 1

Summary of Staff Reductions

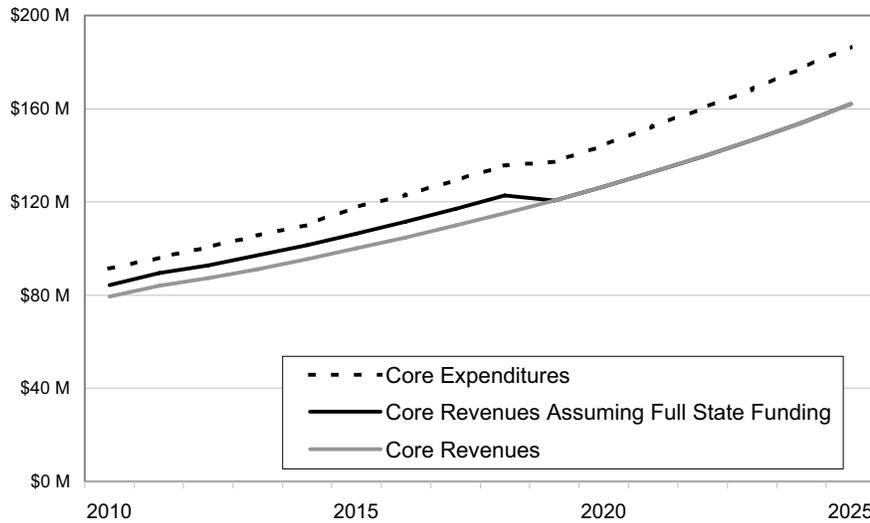
Department	Original # FTEs	Revised # FTEs	Explanation of Staff Reduction	Level of Service (LOS) Impact to PAA	Level of Service (LOS) Impact to City
City Attorneys Office	1.5	1.5	Reduction in \$15,000 of prosecution professional services because of reduced case load due to adjustments in police staffing.	Prosecution services reduction consistent with reduction in case loads anticipated from adjustments to police staffing.	None anticipated.
City Manager's Office	8.7	7.7	.5 probation officer: Probation officers currently have a high case load, that case load will continue at the same level after annexation. .5 Policy Analyst: Resources would be focused on current priorities.	Probation officer reduction consistent with reduction in case loads anticipated from adjustments to police staffing.	CMO policy work would be focused on highest priority needs. Support for special projects or initiatives, such as recruitment and retention incentives, performance measurement, percent for art, and the Active Living Program would be more limited.
Fire and Building	22	19	3 Firefighters: The reduction of three firefighters will be a change in the way we respond to emergencies in the Totem Lake area. While this reduces three positions from the annexation staffing model, this will require a transfer of three firefighters from the Totem Lake station to the annexation staffing. By doing this we will reduce the daily staffing at the Totem Lake station from five per day to four per day. This will eliminate the independent staffing of the fire engine and medical aid unit. However, having four staff on duty per day will still give us the ability to respond on two medical aid calls or one fire call; four firefighters on an engine company gives us a greater capability to handle fire related actions at a fire emergency.	This would not directly change the level of service to the PAA, but it would have an overall impact on services in the Totem Lake and Kingsgate area; because it reduces the daily number of firefighters available to respond to emergencies. It is believed that this change has the potential to have only a slight negative impact, but should be evaluated as this new staffing concept is used to deliver service.	See PAA impacts on level of service above. If this is unacceptable, we have may be able to make other reductions in the Department, however they would not have the same costs reduction as this proposal.
Human Resources	2.0	1.8	.10 HR Analyst & .10 HR Coordinator: Should not be a significant impact as other City Departments are adjusting/lowering their number of FTE's. A lower number of new hires City-wide correspondingly decreases the amount of HR staff time.	None anticipated—HR will need to work in cooperation with City Departments to ensure timely & successful recruitments that will allow adequate service levels in the PAA.	None anticipated.
Information Technology	8.5	7.5	1.0 Senior Design Specialist: IT would cut this MMS position and allocate \$10,000 to an intern to do simpler graphics work.	None different from City overall.	May lead to delays in completion of graphics work for internal customers. Citizen communication would take priority. Departments may have to take on some of their own work.
Parks	6.75 4300 hrs	4.75 3300 hrs	2 Grounds person & 1,000 hours of seasonal labor City does not take on managing OO Denny Park	Contained to a specific geographic region (OO Denny). Residents of area most likely able to see visible difference in level of service compared to other PAA sites. No likely impacts to other areas.	No foreseeable impact to level of service in Kirkland.
Recreation/Community Services	6.7 .5 seasonal	5.7 0 seasonal	.50 Recreation Coordinator, .50 Program Assistant, & seasonal summer youth outreach staff: This will reduce recreational programming only after additional indoor recreational space is available in Kirkland. Until that time, recreational programming and staff will expand as much as possible under current space limitations and will be operating at full capacity.	No impact until after additional recreational facilities are available for greater expansion of programs. Once additional capacity is available, this reduction will impact the rate of expansion of new programs. We could develop our online business model, trying to drive more business online. We could seek business sponsorships to try to support more recreation programs.	Same as in PAA. Once new facilities are in place, demand for new programs may outpace our ability to plan and coordinate them.
Planning and Community Development	10	9	1 Associate Planner Area 3 (long Range Planning): The Associate Planner and Senior Planner were targeted to start neighborhood planning, zoning code and comprehensive plan updates in the PAA. If the Associate Planner is deleted, our department could manage resources differently as described.	The most likely result of losing the Associate Planner would be a slow down in neighborhood planning in the PAA. Another option is to reallocate staff performing neighborhood planning in Kirkland to the PAA. If this were to occur then some neighborhood planning could take place in the PAA.	There would not be an impact to neighborhood planning in Kirkland unless long range staff is reallocated to the PAA. If this were to occur, then neighborhood planning would slow down in Kirkland.

Department	Original # FTEs	Revised # FTEs	Explanation of Staff Reduction	Level of Service (LOS) Impact to PAA	Level of Service (LOS) Impact to City
Police	62.5	52.5	<p>1-Lieutenant: No 24 x 7 Command Staff coverage. Increased workload. Managers will oversee twice as many supervisors.</p> <p>1-Detective: Caseload will increase across the division. Lower priority cases may go uninvestigated in City and PAA.</p> <p>1-Traffic Officer: Complex enforcement issues in PAA. Greater number of traffic accident reports by district officers will slow response time to other calls for service by these district officers</p> <p>4-Patrol Officers: Calls for service (CFS) will increase in PAA when transition from King County to Kirkland. Department will see increases in time non-emergency calls.</p> <p>1- Records Clerk 1 Admin Support 1 Corrections Officer</p>	<i>Impacts discussed in Council memo.</i>	<i>Impacts discussed in Council memo.</i>
Public Works General Fund	21.92 Seasonal: 2000 hrs 4000 hrs	20.42 Seasonal: 760 hrs 2757 hrs	<p>1 Street Utility person (.50 FTE Sign Shop & .50 FTE Signal Shop): Safety concerns, liability issues, and emergencies take priority, specifically:</p> <ul style="list-style-type: none"> • "Regulatory" signs (those that carry the letter of the law). • "Traffic Signal" operation will not be impacted. • "Streetlight" work prioritized next and could be delayed for days or weeks. <p>All other signal shop activities could be delayed even longer.</p> <p>.50 FTE Neighborhood Traffic Control Coordinator: Concerns would be handled by priority according to assessment of safety considerations.</p> <p>1240 Hrs Street Seasonal: Seasonal staff service downtown garbage cans, perform tree and brush maintenance, paint medians and islands, and paint curbs (red and yellow). The reduction represents over half the need.</p> <p>1243 Hrs Grounds Seasonal: With 30% less staff, we estimate that the path and trail work, ROW tree management and weed control in medians, landscapes and sidewalks will take 1/3 longer to respond to and the maintenance cycle will be 1/3 longer than our current cycle.</p>	<p>1 Street Utility person: Level of service would decrease. Lower priorities would be delayed, specifically:</p> <ul style="list-style-type: none"> • "Warning" signs could be delayed for hours. • "Guide" signs could be delayed for days depending on the situation. • "Crosswalk" work could be delayed for hours or days in some situations. <p>All other sign shop activities could be delayed even longer.</p> <p>Neighborhood Traffic Control Coordinator: Kirkland's traffic control program is more comprehensive than the county's. However, we cannot predict the level of pent-up demand there is for traffic calming in the neighborhoods. If demand is low, we believe .5 would be adequate. If demand is high neighborhoods would be on a waiting list for service; and responses would be slower.</p> <p>1240 Hrs Street Seasonal: Responses to calls in the PAA will take twice as long or maintenance will be done at twice the interval than in Kirkland.</p> <p>1243 Hrs Grounds Seasonal: Staff hours would be stretched to cover more area, and the LOS would be less than that of Kirkland.</p>	<p>1 Street Utility person: Same as PAA.</p> <p>Neighborhood Traffic Control Coordinator: No LOS impact.</p> <p>1240 Hrs Street Seasonal: High priority areas would remain consistent.</p> <p>1243 Hrs Grounds Seasonal: High priority areas would remain consistent.</p>
Public Works General Fund—Facilities	1.5	1.25	<p>Facilities Technician: From a Tech 2 to a Tech 3 this would amount to a reduction in expenses of \$10,000/year. This would reduce the skill-level of available technicians and, therefore, there would likely be a greater dependence on contract help in the long-term. Contracting out labor could cause repairs to take longer.</p>	<p>Facilities Technician: Initially, impact would be minimal since the buildings being maintained should be newer (City Hall expansion and Public Safety Building).</p>	<p>Facilities Technician: Same as PAA.</p>
Public Works General Fund—Fleet	2	2	N/A	N/A	N/A
Public Works Surface Water Fund	11.5	11.5	N/A	N/A	N/A

Scenario: Phase-II Baseline With Annexation

Tax Policies	Expenditure Management Policies	Development
No change in tax policy 1% property tax limit	Hiring rate reflects current policies	Baseline

Plus Additional Costs



Current Kirkland	2010	2015	2020	2025
Core Expenditures (000's)	64,672	83,353	107,003	137,610
Facility Debt Service (000's)	2,295	2,303	2,288	2,254
Subtotal Expenditures	66,967	85,655	109,291	139,864
Core Resources (000's)	62,741	78,551	97,907	122,627
State Sales Tax Credit ('000's)	0	0	0	0
Subtotal Revenues	62,741	78,551	97,907	122,627
Net Resources (000's)	(4,226)	(7,104)	(11,384)	(17,238)
Deficit as % of Expenditures	-7%	-9%	-11%	-13%

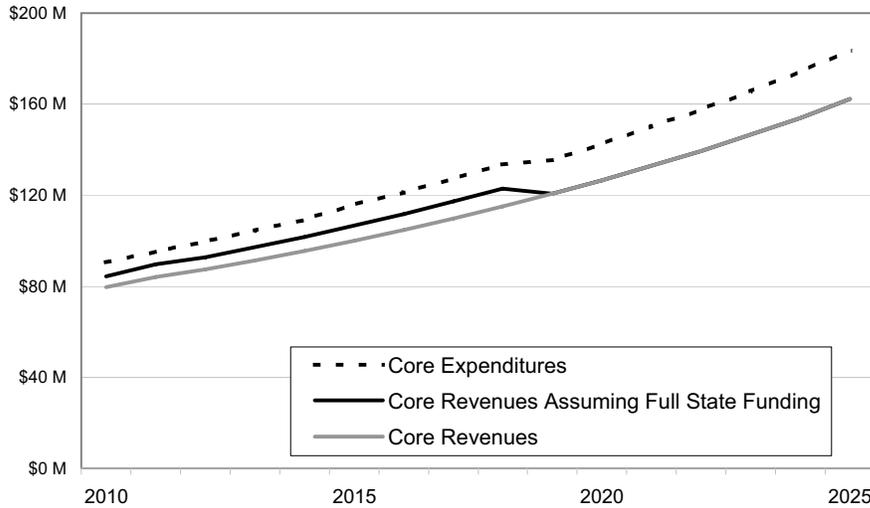
Increment from PAA's	2010	2015	2020	2025
Core Expenditures (000's)	18,282	26,084	34,181	45,636
Facility Debt Service (000's)	6,078	6,070	993	1,027
Subtotal Expenditures	24,360	32,154	35,174	46,662
Core Resources (000's)	16,646	21,468	28,594	39,486
State Sales Tax Credit ('000's)	4,929	6,527	0	0
Subtotal Revenues	21,576	27,995	28,594	39,486
Net Resources (000's)	(2,784)	(4,159)	(6,580)	(7,176)
Deficit as % of Expenditures	-15%	-16%	-19%	-16%

Entire City	2010	2015	2020	2025
Core Expenditures (000's)	82,954	109,437	141,184	183,246
Facility Debt Service (000's)	8,373	8,373	3,281	3,281
Subtotal Expenditures	91,327	117,809	144,465	186,527
Core Resources (000's)	79,388	100,019	126,502	162,113
State Sales Tax Credit ('000's)	4,929	6,527	0	0
Subtotal Revenues	84,317	106,546	126,502	162,113
Net Resources (000's)	(7,010)	(11,263)	(17,963)	(24,414)
Deficit as % of Core Expenditures	-8%	-10%	-13%	-13%

Scenario: Phase-II Baseline With Annexation & Alternative Service Delivery (ASD)

Tax Policies	Expenditure Management Policies	Development
No change in tax policy 1% property tax limit	Hiring rate reflects current policies Alternative Service Delivery (ASD) & 3 Police districts in PAA	Baseline

Plus Additional Costs



Current Kirkland	2010	2015	2020	2025
Core Expenditures (000's)	64,906	83,567	107,443	138,110
Facility Debt Service (000's)	2,295	2,303	2,288	2,254
Subtotal Expenditures	67,201	85,869	109,731	140,365
Core Resources (000's)	62,741	78,551	97,907	122,627
State Sales Tax Credit ('000's)	0	0	0	0
Subtotal Revenues	62,741	78,551	97,907	122,627
Net Resources (000's)	(4,460)	(7,318)	(11,824)	(17,738)
Deficit as % of Expenditures	-7%	-9%	-11%	-13%

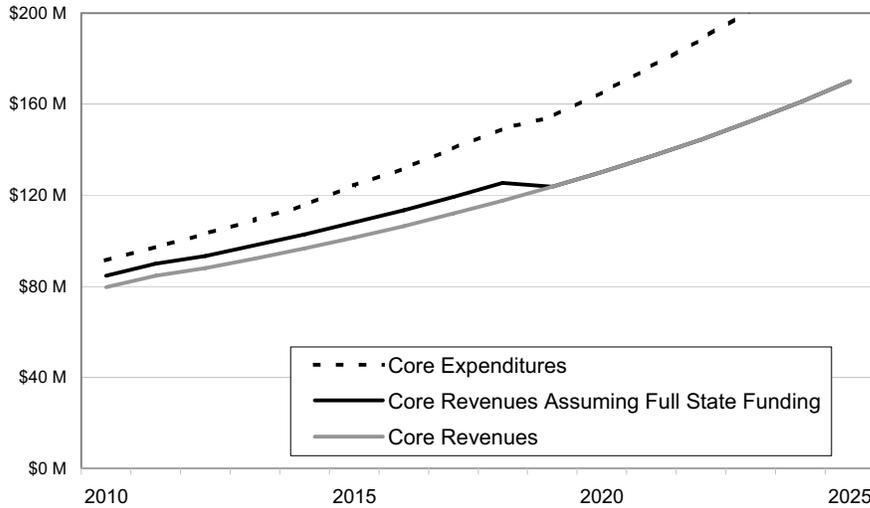
Increment from PAAs	2010	2015	2020	2025
Core Expenditures (000's)	17,149	24,053	31,821	42,240
Facility Debt Service (000's)	6,078	6,070	993	1,027
Subtotal Expenditures	23,227	30,123	32,814	43,267
Core Resources (000's)	16,744	21,516	28,638	39,543
State Sales Tax Credit ('000's)	4,929	6,527	0	0
Subtotal Revenues	21,673	28,043	28,638	39,543
Net Resources (000's)	(1,554)	(2,080)	(4,175)	(3,724)
Deficit as % of Expenditures	-9%	-9%	-13%	-9%

Entire City	2010	2015	2020	2025
Core Expenditures (000's)	82,056	107,620	139,264	180,351
Facility Debt Service (000's)	8,373	8,373	3,281	3,281
Subtotal Expenditures	90,428	115,992	142,545	183,632
Core Resources (000's)	79,485	100,068	126,545	162,170
State Sales Tax Credit ('000's)	4,929	6,527	0	0
Subtotal Revenues	84,414	106,594	126,545	162,170
Net Resources (000's)	(6,014)	(9,398)	(15,999)	(21,462)
Deficit as % of Core Expenditures	-7%	-9%	-11%	-12%

Scenario: Phase-II Baseline With Annexation & A.S.D. & High Personnel Costs (6% Salary & 10% Benefit Inflation)

Tax Policies	Expenditure Management Policies	Development
No change in tax policy 1% property tax limit	Hiring rate reflects current policies Alternative Service Delivery (ASD) & 3 Police districts in PAA	Baseline

Plus Additional Costs



Current Kirkland	2010	2015	2020	2025
Core Expenditures (000's)	65,641	89,943	124,321	173,642
Facility Debt Service (000's)	2,295	2,303	2,288	2,254
Subtotal Expenditures	67,936	92,246	126,609	175,896
Core Resources (000's)	62,857	79,562	100,586	128,339
State Sales Tax Credit ('000's)	0	0	0	0
Subtotal Revenues	62,857	79,562	100,586	128,339
Net Resources (000's)	(5,079)	(12,684)	(26,023)	(47,557)
Deficit as % of Expenditures	-8%	-14%	-21%	-27%

Increment from PAAs	2010	2015	2020	2025
Core Expenditures (000's)	17,363	26,092	37,351	54,174
Facility Debt Service (000's)	6,078	6,070	993	1,027
Subtotal Expenditures	23,440	32,162	38,344	55,201
Core Resources (000's)	16,786	21,873	29,611	41,742
State Sales Tax Credit ('000's)	4,929	6,527	0	0
Subtotal Revenues	21,715	28,400	29,611	41,742
Net Resources (000's)	(1,725)	(3,762)	(8,733)	(13,459)
Deficit as % of Expenditures	-10%	-14%	-23%	-25%

Entire City	2010	2015	2020	2025
Core Expenditures (000's)	83,004	116,035	161,672	227,816
Facility Debt Service (000's)	8,373	8,373	3,281	3,281
Subtotal Expenditures	91,376	124,407	164,953	231,097
Core Resources (000's)	79,643	101,435	130,197	170,082
State Sales Tax Credit ('000's)	4,929	6,527	0	0
Subtotal Revenues	84,572	107,961	130,197	170,082
Net Resources (000's)	(6,804)	(16,446)	(34,756)	(61,016)
Deficit as % of Core Expenditures	-8%	-14%	-21%	-27%

Kirkland Annexation Analysis

Change in Development Assumptions in PAA -- Commercial Area Only

Neighborhood	From: "Baseline"		To: "Maximum"	
	Scenario	Buildout % in 2025	Scenario	Buildout % in 2025
Kingsgate	Base	80%	High	100%
Finn Hill	Base	40%	High	100%
Juanita	Base	80%	High	100%

Change in Commercial Square Feet

	Current PAA	Baseline PAA	Difference Current & Baseline	% Difference Current & Baseline
Net Sq Ft Added (Retail)	387,817	550,654	162,837	41.99%
Net Sq Ft Added (Non-retail)	250,422	737,334	486,912	194.44%
Net Sq Ft Added (Total)	638,239	1,287,988	649,749	101.80%

	Current PAA	Maximum PAA	Difference Current & Maximum	% Difference Current & Maximum
Net Sq Ft Added (Retail)	387,817	887,656	499,839	128.89%
Net Sq Ft Added (Non-retail)	250,422	1,147,434	897,012	358.20%
Net Sq Ft Added (Total)	638,239	2,035,091	1,396,852	218.86%

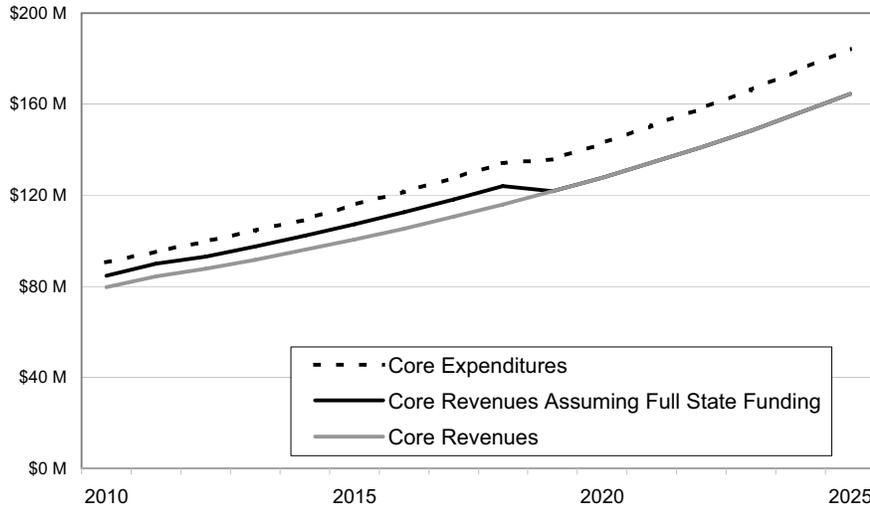
Change in 2026 Revenues with Change in PAA Development Assumption from Baseline to Maximum under ASD Option

Revenue	Kingsgate	Finn Hill	Juanita	PAA Total
Total Revenue Change	\$ 2,395,514	\$ 130,950	\$ 256,570	\$ 2,783,034
Total Baseline Revenue in 2026	\$ 21,555,454	\$ 20,457,682	\$ 7,244,851	49,257,987
% Change Compared to 2026 Baseline	11.11%	0.64%	3.54%	5.65%

Scenario: Phase-II Baseline With Annexation & Alternative Service Delivery (ASD) and Maximum Commercial Development in PAA

Tax Policies	Expenditure Management Policies	Development
No change in tax policy 1% property tax limit	Hiring rate reflects current policies Alternative Service Delivery (ASD) & 3 Police districts in PAA	Baseline in Current City & Maximum Commercial Development in PAA

Plus Additional Costs



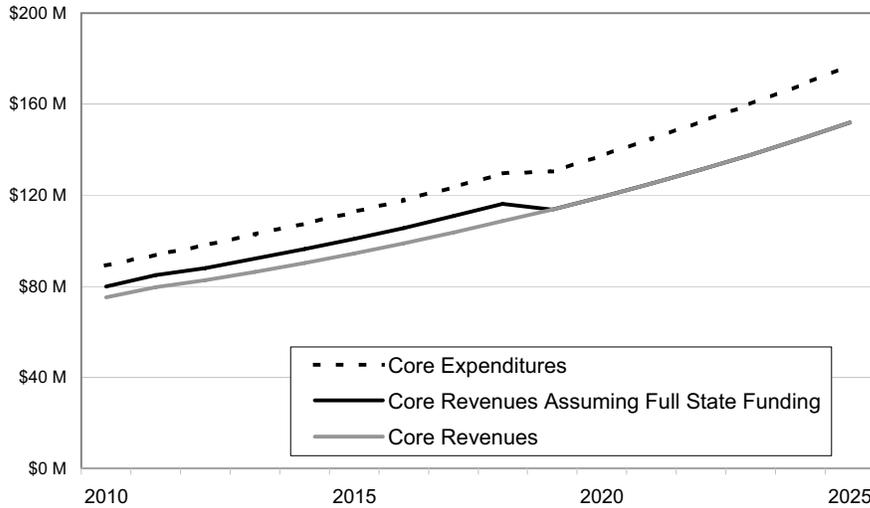
Current Kirkland	2010	2015	2020	2025
Core Expenditures (000's)	64,928	83,549	107,430	138,173
Facility Debt Service (000's)	2,299	2,303	2,285	2,247
Subtotal Expenditures	67,227	85,853	109,715	140,420
Core Resources (000's)	62,753	78,580	97,962	122,721
State Sales Tax Credit ('000's)	0	0	0	0
Subtotal Revenues	62,753	78,580	97,962	122,721
Net Resources (000's)	(4,474)	(7,273)	(11,753)	(17,699)
Deficit as % of Expenditures	-7%	-9%	-11%	-13%

Increment from PAAs	2010	2015	2020	2025
Core Expenditures (000's)	17,276	24,073	32,044	43,005
Facility Debt Service (000's)	6,066	6,061	1,004	1,042
Subtotal Expenditures	23,342	30,134	33,048	44,047
Core Resources (000's)	16,903	21,995	29,795	41,702
State Sales Tax Credit ('000's)	4,955	6,603	0	0
Subtotal Revenues	21,858	28,598	29,795	41,702
Net Resources (000's)	(1,484)	(1,536)	(3,253)	(2,345)
Deficit as % of Expenditures	-9%	-6%	-10%	-5%

Entire City	2010	2015	2020	2025
Core Expenditures (000's)	82,204	107,622	139,474	181,178
Facility Debt Service (000's)	8,365	8,365	3,289	3,289
Subtotal Expenditures	90,569	115,987	142,763	184,467
Core Resources (000's)	79,656	100,575	127,757	164,423
State Sales Tax Credit ('000's)	4,955	6,603	0	0
Subtotal Revenues	84,611	107,178	127,757	164,423
Net Resources (000's)	(5,958)	(8,809)	(15,006)	(20,044)
Deficit as % of Core Expenditures	-7%	-8%	-11%	-11%

Scenario: Phase-II Baseline With Annexation Without WFLS & Alternative Service Delivery (ASD)

Tax Policies	Expenditure Management Policies	Development
No change in tax policy 1% property tax limit	Hiring rate reflects current policies Alternative Service Delivery (ASD) & 3 Police districts in PAA	Baseline



Current Kirkland	2010	2015	2020	2025
Core Expenditures (000's)	65,227	83,855	107,724	138,418
Facility Debt Service (000's)	2,297	2,306	2,296	2,270
Subtotal Expenditures	67,525	86,161	110,021	140,688
Core Resources (000's)	62,681	78,442	97,686	122,175
State Sales Tax Credit ('000's)	0	0	0	0
Subtotal Revenues	62,681	78,442	97,686	122,175
Net Resources (000's)	(4,844)	(7,719)	(12,335)	(18,513)
Deficit as % of Expenditures	-7%	-9%	-11%	-13%

Increment from PAAs	2010	2015	2020	2025
Core Expenditures (000's)	15,402	20,156	26,585	35,372
Facility Debt Service (000's)	6,234	6,225	825	851
Subtotal Expenditures	21,636	26,381	27,409	36,223
Core Resources (000's)	12,438	16,073	21,624	29,735
State Sales Tax Credit ('000's)	4,861	6,406	0	0
Subtotal Revenues	17,300	22,480	21,624	29,735
Net Resources (000's)	(4,336)	(3,901)	(5,785)	(6,487)
Deficit as % of Expenditures	-28%	-19%	-22%	-18%

Entire City	2010	2015	2020	2025
Core Expenditures (000's)	80,630	104,011	134,309	173,790
Facility Debt Service (000's)	8,531	8,531	3,121	3,121
Subtotal Expenditures	89,161	112,542	137,430	176,911
Core Resources (000's)	75,119	94,516	119,309	151,911
State Sales Tax Credit ('000's)	4,861	6,406	0	0
Subtotal Revenues	79,980	100,922	119,309	151,911
Net Resources (000's)	(9,181)	(11,620)	(18,121)	(25,000)
Deficit as % of Core Expenditures	-11%	-11%	-13%	-14%