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MEMORANDUM

To: David Ramsay, City Manager

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

Date: January 4, 2007

Subject: ANNEXATION POLICY OPTIONS AND COMMUNICATIONS STRATEGY

RECOMMENDATION:

City Council reviews the four policy options for annexation and provides staff with direction on which of the options to pursue.

BACKGROUND:

The purpose of this memo is to provide further background in support of the City Council's discussion regarding whether to proceed to Phase 3 of the annexation study. This memo includes:

- A recap of the discussion and direction provided at the December 4 and November 15 Council study sessions concerning annexation.
- A presentation of four policy options related to annexation. It is recommended that the Council choose a course of action within the range of options.
- A recommended public information strategy to keep Kirkland and PAA residents informed of annexation-related decisions.

Recap of November 15 and December 4th Council Meetings

At the November 15th Study Session, the City Council received updated financial information related to annexation including: discussions with fire and parks special districts; the outcome of the infrastructure study and financial capacity to fund a CIP for the PAA; an update to the financial model; financial assistance from King County; and rules for use of the State sales tax credit. In general, the updated financial information heightened the financial challenges associated with annexation of the PAA.

In light of these financial challenges, at the December 4th Study Session, the Council considered potential actions that the City could pursue to help bring the revenues and expenditures in the annexation area into balance. One of the key points of discussion at the December 4th meeting was around the issue of level of

impacts that may occur as a result of annexation. There was an interest in exploring what those level of service options would mean to residents of the PAA and the current City of Kirkland. The following bullets summarize key points raised at the November and December meetings but do not necessarily reflect Council consensus.

- The updated financial information provided by staff caused Council to become more pessimistic about pursuing annexation.
- Council confirmed that:
 - *The City Council would continue its ban on commercial card rooms which would require the casino located in the Kingsgate area to discontinue operation.*
 - *The City would assume the outstanding debt of Fire District #41 for the fire station consolidation or retire the debt with available cash reserves.*
- Council expressed an interest in an analysis of an alternative level of service delivery and the impacts within the PAA and throughout the City as a whole of this alternative staffing plan.
- Council acknowledged that Kirkland has a financial problem (structural imbalance) that needs to be solved apart from the issue of annexation and some council members believe it should be talked about and addressed with constituents before annexation decisions are made.
- Council is interested in engaging King County in conversations about Kirkland's financial picture, about the true costs of annexation, and the adequacy of the County incentive funding to provide sufficient assistance to close the financial gap to support Kirkland's annexation.
- Staff and Council need to approach legislators to see if there is any possibility the State funding window could be extended or additional funding could be made available.
 - Extend State funding beyond ten years.
 - Extend eligibility for “commencing annexation” beyond 2010.
 - Provide significant capital funding for new facilities.
- Council believes that they have been provided good information and are conducting their "due diligence."
- Council should not rush into a decision about annexation, but should have the information needed to make a decision about Phase 3.
- Council would like more information about the feasibility and financial impacts of a slower implementation schedule for ramping up services or annexing smaller areas.
- Council would like to see a mailing to all Kirkland residents updating them on the annexation study.
- Council members believe that Kirkland should ensure that every possible way to make annexation work has been explored.

Policy Options

In response to the Council's annexation discussions at the November and December Study sessions, staff has developed four annexation options. It is recommended that the Council choose one of these options (or a combination of one or more of the options) to pursue. The options are presented below in both text and chart format followed by a more in-depth description of each of the proposed action steps:

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

Chart of Policy Options:

	Go Decision	Defer Decision Pending Additional Information		No Go Decision
Timing of Decision	Jan 2008	Apr 2008	Fall 2008	Jan 2008
Assess Level of Service Impacts of Annexation	X	X	X	
Pursue Additional Funding from King County and the State	X	X	X	X
Negotiate with WFLS	X	X	X	
Pursue Extension of Time-Frame for Annexation with State Incentive		X	X	X
Analyze Adjusted Annexation Boundary - excluding WFLS			X	
Analyze Annexation of Smaller Portion of PAA - Phased Approach			X	
Conduct Further Discussions with PAA Representatives - Alternatives to Annexation				X
Election Date	Fall 2008	Fall 2008/9	Fall 2009	NA

Description of Potential Action Steps

Develop Alternative Level of Service Plan and Assess its Impacts on Kirkland and the PAA

For this option, each of the departments will develop a staffing plan for the PAA that is consistent with the area's projected revenue stream. The Finance Department and City Manager's Office will review the individual department staffing plans and work with the departments to develop an overall PAA staffing plan that is consistent with the resources available and will result in the fewest impacts to service delivery.

It will likely take eight to 12 weeks to complete the work associated with this option. The results of the work could be presented to the Council in April. If the Council were to make a decision in April to go forward with the annexation vote, there is the possibility that the annexation election could take place in November of 2008. However, the timeline for completing the Boundary Review Board process would be very tight and would preclude completion of the annexation zoning adoption until after the annexation vote. It is more

likely that the time required to complete the Boundary Review Board process and the deadlines for filing for election would push the election date beyond the November 2008 election. While the Council could consider a Spring 2009 election date, it would be subject to the validation requirements for an annexation ballot that includes a “yes” or “no” vote on whether annexation area residents are willing to share in the City’s bonded indebtedness. Validation requires a minimum of 40% of the voter turn-out from the previous general election. The high voter turn-out for the 2008 presidential election would likely result in validation thresholds that would be difficult to meet in a 2009 special or primary election. Therefore, the next opportunity for the annexation vote would likely be the November 2009 general election ballot.

As part of the analysis for this option, each department will describe the specific level of service impacts of the staffing plan to: (1) the residents of the PAA; and, (2) the current residents of Kirkland. This description of level of service impacts should be at a level of detail where it will be possible to determine the extent to which the service impacts will materially impact City residents.

There are certain services where the impacts of service delivery could likely be contained to the Potential Annexation Area. For example, the parks department could establish a level of parks maintenance for the parks within the annexation area that differs from the level that is provided to current city parks. Although that level of service would still almost certainly represent an improvement over the level of service that is currently provided by King County, the PAA parks would be maintained at a lower level of service for an indefinite amount of time.

There are other services where it would be difficult to distinguish the level of service impacts within or outside the PAA. For instance, it would be challenging and undesirable to treat customers coming into City Hall for permit services or planning information differently depending on whether their project was in the PAA or the existing city. We would likely respond to a report of a pot hole in the same manner, no matter its location, particularly given the liability implication of not fixing the problem. Kirkland staff prides itself on providing good customer service and would find it difficult to differentiate between customers at the counter or on the phone.

As part of the analysis for this option, staff would look closely at the level of service impacts on police services. Staffing levels in the Kirkland Police Department provide an established level of response to calls for service. Any call that is a report of a “crime in progress” (e.g. domestic violence, burglary, auto theft), requires more than one officer to respond to ensure officer safety. This means that a car from one patrol district must leave their assigned area to assist another officer. Officers in other patrol districts then cover calls for service in the area left unmanned. This already occurs on a regular basis within Kirkland with officers moving between patrols for back-up. In fact, Kirkland officers currently provide back-up service to the King County Sheriff’s Office in the PAA, thereby reducing coverage within the current city limits during the back-up engagement. The analysis under this option will provide as accurate an account as possible of whether and the extent to which reducing the number of patrol districts in the PAA will mean that back-up coverage will be needed more often from within the existing boundaries of Kirkland. It will also describe what that will mean to Kirkland residents in terms of service impacts.

Pursue additional funding from King County and the State

This action step involves additional discussions with King County and State legislators in pursuit of additional annexation funding. Potential assistance could come in several forms including:

- a. Additional capital funding towards facilities projects that helps offset long term debt service costs.

- b. Additional ongoing financial support.
- c. Clarification from the State Auditor concerning rules for the State sales tax credit.

Given the State and County's fiscal position and the fact that other cities are undertaking annexation under the current State sales tax rules, securing additional funding from either of these may be challenging. Clarification is needed regarding which of these to pursue, for how long and who will take these initiatives forward (i.e. City Council subcommittee, legislative committee, individual council members, staff).

Initiate negotiations with the Woodinville Fire & Life Safety District

One of the most significant challenges related to annexation is determining how to efficiently serve the portion of Kirkland's PAA that is currently within the Woodinville Fire & Life Safety District. Woodinville Fire has indicated that if annexation occurs, it would move its Fire Station #34 out of Kingsgate to a new location that is better situated to serve their remaining service area. Such a relocation would impact both Kirkland and Bothell, because both cities have portions of their respective PAA's that are served by Fire Station #34 and both respond into the area under the automatic aid agreement.

Under this policy option, the City of Kirkland would pursue discussions with Woodinville Fire & Life Safety and Bothell to determine if there are alternatives to the relocation of Fire Station #34 that would meet on-going needs. The purpose of these discussions would be to identify the mutual interests of Kirkland, Bothell, and Woodinville Fire and to develop service delivery options that are cost effective for all parties.

To prepare for initial discussions with Woodinville Fire & Life Safety, staff is gathering information on:

- 1) refined estimates of the annual cost of engine company staffing to serve the portion of Kirkland's PAA in the Woodinville Fire & Life Safety District
- 2) the revenue impact on Woodinville Fire & Life Safety if Kirkland were to complete annexation
- 3) the revenue impact on Woodinville Fire & Life Safety if Bothell were to complete annexation of the portion of its PAA that is served by Woodinville Fire
- 4) the range of staffing options that would be supported by Kirkland firefighters (IAFF)

If this option is pursued, staff recommends that it be initiated with one or more staff-level meetings in January and February that shape the issues and identify potential areas for mutual agreement. This would be followed by a joint meeting of the Public Safety Committee with Woodinville Fire & Life Safety elected officials, similar to the practice of the Public Safety Committee meetings with the Fire District 41 Commissioners. The timing of these discussions would delay submittal of annexation materials to the Boundary Review Board, meaning that the earliest that the annexation question could be on the ballot would likely be the general election in 2009.

Analyze adjusted annexation boundary excluding Woodinville Fire & Life Safety

Staff has brought forward the possibility of changing the boundaries of the proposed annexation area to exclude the Woodinville Fire and Life Safety District. The district has indicated that if we do not annex that area, they would not relocate the Kingsgate fire station, eliminating the need for an additional engine company to serve that area. The elimination of this area would still leave a total population in excess of the 20,000 eligibility threshold for the maximum amount of State financial assistance. However, it also removes a portion of the revenue base and would reduce the population to be served (and expenditures).

If Council directs staff to pursue this option, a detailed financial and operational analysis would be conducted. Staff recommends that this detailed analysis be completed in sequence after the level of service impact analysis described above. This would allow the Council to compare two options at a comparable level of service.

One issue related to changing boundaries is that the proposal must still be reviewed and approved by the Boundary Review Board (BRB). For that reason, it would be important to have the support of King County and the Woodinville Fire & Life Safety District for this option to increase the likelihood that the BRB would find it acceptable. In addition, the City would need to work with Woodinville and Bothell to develop a plan for the eventual annexation of the WFLSD portion of the PAA.

Analyze annexation of a smaller portion of the PAA - Phased Approach

Another way to adjust the annexation boundaries is to annex smaller portions of the PAA at one time. We do have the ability within the financial model to calculate the relative cost of providing services and revenues by the major neighborhood areas. This involves more than a simple mathematical calculation since the model divides up FTE's proportionally between the areas and does not take into consideration the realities of providing services with fractions of FTE's. This option would require a significant investment of staff time.

In addition, this strategy would likely reduce or eliminate Kirkland's eligibility for the maximum amount of State annexation funding. 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

Pursue and Extension of the Timeframe for Annexation with the State Incentive

This action step is part of the City's proposed legislative agenda and will give the City additional time to complete consideration of the annexation issue. The complex service delivery and financial challenges associated with annexation provide the rationale for the extension. For this action step, the City would pursue:

- a. An extension of the time available to commence annexation and still be eligible for the State funding (current deadline is January 1, 2010).
- b. An extension of the State sales tax credit for a period longer than 10 years.

For this action step, the City would work with our state legislators to draft legislation and garner support for these proposals during the 2008 legislative session, which concludes in March.

Discuss Alternatives to Annexation with Representatives of the PAA

If Kirkland decides not to annex the PAA, then the question of what happens to that area must be answered. Since the PAA is included in Kirkland's adopted Comprehensive Plan, the Council may amend the plan and present the amendment for consideration to the Growth Management Planning Commission. We can anticipate that we will need to work with other adjacent cities to reassign all or a portion of the PAA as their annexation areas unless we keep it in our comp plan. Another potential avenue to explore is to assist the PAA with a study on incorporation, with the understanding that they will contract back with Kirkland (and/or other jurisdictions) for their desired level of service. We would not expect that option to be supported by King County as it creates one more "contract city" within the county.

Communications Strategy

The Council has expressed an interest in continuing its outreach efforts regarding annexation. In particular, the following actions have been suggested by one or more Council members:

- Staff, in consultation with the City's communications consultants, should develop a direct-mail informational flyer for distribution to all households in Kirkland and the PAA
- There may be a need for different direct mail informational flyers to Kirkland and the PAA oriented to their particular interests
- The direct mail flyer should be full-color and noticeable so that recipients are more likely to read the information
- The flyer should correct misinformation contained in flyers distributed by other parties
- The flyer(s) should focus on an update on the annexation process reflecting the Council's pending decision on whether to proceed to phase three of the annexation process
- Additional discussion with PAA residents should take place regarding expected and/or acceptable levels of service that could be provided with available resources
- Additional discussion with Kirkland residents should take place regarding the collateral impacts of lower service levels proposed for the PAA

There is general agreement that updated information on annexation needs to reach all households through direct mail rather than relying on the website, the listserv, newspaper articles, City Update articles, public meetings, neighborhood association meetings and homeowner's association meetings. The cost of an 11" by 17" direct mail, color pamphlet to all residents (about 34,000 households) is estimated at about \$13,000.

Over the past two months, Council has received numerous emails, postcard mailers and letters from both Kirkland residents and PAA residents. This self-selected feedback does not reflect a statistically valid sample of opinions; however, the most recent correspondence received by the City regarding annexation is consistent in content. For Kirkland residents, the majority of correspondence opposes annexation because

of concerns about the loss of the “small town feel” and negative impact on services to Kirkland. Some people noted that they had no idea that annexation was under consideration until they received the “Stop Annexation” flyer mailed to all Kirkland residents in late October. For PAA residents, the majority of correspondence reflects support for annexation based on the sense that they are already part of Kirkland and welcome the anticipated improved level of service.

There are many tools that can be used for public outreach. The tools that are chosen should be consistent with the purpose of the public outreach which can range from “inform” to “collaborate.” Over the past eighteen months, the City has engaged in a variety of public outreach activities that included both informing and educating the public and asking for input regarding what concerns or issues the Council should consider in its decision to pursue annexation. Activities and strategies employed over this time period included:

- Comprehensive website which includes links to all Council meeting materials, a listening log of all comments received to date, frequently asked questions, links to related sites and an on-line comment form.
- An annexation email address where interested residents could ask questions, request speakers or offer comments to the City.
- A listserv that alerts subscribers when new information is posted to the website and when meetings will take place.
- A series of annexation brochures (“Annexation – Let’s Talk”) were developed that describe the annexation process, the financial considerations and frequently asked questions. Brochures were made available at public facilities, neighborhood meetings and other public meetings.
- Seven public forums held in Kirkland and in the PAA between October 2006 and November 2007 for which postcard invitations were mailed to all households in Kirkland and the PAA.
- Focus groups held for residents of Kirkland and the PAA to gain further understanding of the issues they wanted the City Council to consider in their annexation decision.
- Numerous presentations to neighborhood association meetings, homeowner’s association meetings, local service clubs and business organizations.
- Information booths at both the Wednesday Public Market and Friday Farmers Market where staff was available to answer questions and take comment forms.
- Posters at local businesses and public bulletin boards announcing public forums.
- Several articles and editorials were published in local newspapers and in “City Update,” distributed through the [Kirkland Courier Reporter](#).
- Working groups formed in the PAA to begin development of a zoning ordinance that would constitute part of the annexation measure to be considered by PAA voters (if the Council decides to proceed to a vote).

In addition to this current work, a statistically valid telephone survey of the PAA was conducted in 2005 to gauge public acceptance for annexation and potential financial strategies that were being considered at the time.

Throughout this effort, the outreach strategy focused on two objectives:

1. Educating the public about annexation rules, Kirkland's process and the financial and service implications for Kirkland and the PAA.
2. Asking residents to tell the Council their questions and concerns about annexation and the considerations the Council should take into account in their decision about whether to place annexation on the ballot.

As noted above, the majority of the feedback and input received to date from Kirkland residents has conflicted with that received from PAA residents. However, within those two groups, the general sentiment has been consistent. As new information has become available, the content of the feedback to Council has not changed much, although the volume of comments tends to increase in response to communications efforts put forth by the City or one of the external groups working for or against annexation. At this time, it is reasonable to assume that requests for additional input from the public will not yield significantly different results unless the financial or service level assumptions concerning annexation change drastically.

Going forward, outreach strategies should inform the public about the Council's decision regarding whether and how to proceed with the annexation. Four options are included earlier in this memo regarding next steps for annexation. Council's decision regarding which option to pursue will be needed before planning the next annexation communication steps. Regardless of which option is chosen, the Council has expressed interest in a direct mail communication that would update all residents of Kirkland and the PAA of the current status of the Council's annexation decision process. Staff also suggests that the communication include a discussion of the Council's rationale for choosing that option (which is why staff recommended waiting until after the January 15th meeting to develop and mail the materials). Staff also recommends that any materials include a summary of the comments and issues raised by the public so far. In this way, the City Council is acknowledging what they have heard so far from the many comments forms, emails and letters received to date.

Future communication strategies should be based on the desired outcomes of the Council and may range from "inform" to "empower." If the Council simply wants to keep the public informed about the status of the annexation study and its decision process, then the focus would be informational materials, presentations at meetings and continued update of the web page. If the Council believes it needs more input from the public before making a decision, they should carefully consider how the input will be used. Again, there is a range of involvement that spans from consult (we will take your comments into consideration when we make our decision and let you know how your input was used) to empower (we will do what you think we should do – this often takes the form of a vote).

A fundamental principle of effective public involvement is the need for clarity about the decision to be made and who is making the decision. If the Council decides to proceed to phase three then an "inform" approach is appropriate until an election is held. If the Council decides to study alternate service levels and the impacts, then they need to determine how that information will be used in the Council's decision process and whether another round of public involvement related to the alternate service levels is needed before Council can make decision about an election.

At this time, staff will plan on drafting an informational brochure for direct mail to all households that describes the status of the annexation decision process. The focus group discussions provided valuable input about how residents want to receive information on annexation. Depending on which option the Council chooses, additional strategies will be developed that are appropriate to the level of public involvement the Council believes is needed at this stage in order to make a decision about whether to proceed to phase three of annexation.