



**CITY OF KIRKLAND**  
**City Manager's Office**  
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## **MEMORANDUM**

**To:** David Ramsay, City Manager

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

**Date:** May 1, 2008

**Subject:** ANNEXATION RESOLUTION AND POLICY DIRECTION

### RECOMMENDATION:

It is recommended that the City Council approve the attached resolution related to annexation and provide direction to staff on outstanding policy issues.

### BACKGROUND:

Since March 2006, the City Council has been studying the issue of annexation in earnest. During this timeframe, the Council's careful consideration of this issue has included public outreach to both the residents of Kirkland and the Potential Annexation Area (PAA), preparation of annexation staffing plans, analysis of annexation-related policy issues, and the development of a financial model with the ability to model a range of annexation scenarios.

Throughout this process, the financial issues associated with annexation have been challenging. In January of this year, the Council requested that the staff complete additional analysis of phasing options and alternate service delivery plans in an effort to determine how these alternatives would impact the costs and revenues associated with annexation.

At the April 15<sup>th</sup> study session, staff presented the Council with updated information on:

- a. annexation phasing options;
- b. alternative service delivery plans for both the entire PAA and the PAA without the Woodinville Fire & Safety District; and,
- c. the impacts of the alternate service plans on the annexation financial model including scenarios with (i) high wage and benefit costs, and (ii) maximization of economic development opportunities.

This new information was presented as part of the extensive analysis and outreach effort that has been developed to facilitate a decision on the annexation issue. Taken as a whole, this body of

information indicates that annexation would pose significant challenges for the City. In considering the risks associated with annexation, the Council gave direction that it would not be financially prudent to move forward at this time, particularly in light of the current economic climate. In giving this direction, the Council affirmed that annexation is consistent with growth management and good public policy principles and acknowledged that the City's financial structure must be placed on a more sustainable foundation before we can grow significantly through annexation.

In light of Council's direction, staff has drafted an annexation resolution for the Council's consideration. The resolution simply documents the City's deliberations related to the annexation question and establishes that the City will not place annexation on the ballot in the PAA in 2009.

In addition, staff has developed background information on outstanding policy issues for the Council to consider. These issues include:

- communications to residents of Kirkland and the PAA regarding the outcome of the annexation policy decision;
- annexation policy related to the future status of the annexation area, potential annexation petitions, and financial model updates;
- potential legislative initiatives related to annexation;
- the disposition of remaining one-time annexation funds that the Council allocated for 2008; and,
- the appropriate level of Council and staff resources to support annexation policy into the future.

## **COMMUNICATIONS**

Kirkland's annexation work has been informed by an extensive public outreach effort that was followed with interest by residents within the City and the PAA. With the official suspension of this work, it is important to inform the public of the Council's decision.

Staff has developed proposed talking points that could be used as the basis for communications to Kirkland and PAA residents. These points convey the message that the Council gave serious consideration to annexation and concluded that the timing is not favorable, particularly in light of the financial challenges facing the City. The proposed talking points are:

- We recognize that the City shares many common services and interests with Kirkland's annexation area.
- Annexation is the right thing to do from a public policy and growth management perspective.
- However, it would not be in the best interest of the City to progress with annexation at this time because it poses significant financial challenges at a time of economic uncertainty.

- The Council is following a prudent course of action in deciding to make progress on the City's own financial problems before initiating annexation.
- Similar to other cities, Kirkland currently has a structural imbalance stemming from the fact that our costs are growing faster than our revenues – the result of voter initiatives that took effect in past years.
- The City's financial structure must be placed on a more sustainable foundation before we can grow significantly through annexation.
- The City will continue to pursue sound financial policies that may make annexation more feasible from a fiscal perspective.
- The City may reconsider annexation opportunities once we have made progress on our underlying budget issues.
- We maintain a commitment to providing excellent public service. If and when we annex, we will provide a high level of service to all of our residents.

With direction from the Council on the key talking points, staff proposes to draft a letter to residents of Kirkland and the PAA informing them of the status of annexation. The cost of such a mailing to all residents of Kirkland and the PAA is approximately \$10,000. In addition to the mailing, staff recommends that the City convey the annexation decision through other established channels, including the annexation listserv, City Update, and the annexation web-site.

Staff also recommends sending a formal notification to the representatives of local governments that would have been affected by annexation. The City has been working on the annexation issue with key staff and elected officials from King County, Woodinville, Woodinville Fire & Life Safety District, Fire District 41, the Finn Hill Park District and other neighboring cities. Staff proposes to draft correspondence to the appropriate representatives of these agencies for Council consideration.

## **FUTURE ANNEXATION POLICY**

### *Status of Potential Annexation Area*

The decision of the City Council not to pursue annexation in the near future does not address the long-term plans for annexation of our Potential Annexation Area (PAA). Our PAA is designated in both the Kirkland Comprehensive Plan and in the Countywide Planning Policies (CPPs). These designations indicate the policy intention for the area to eventually be annexed to Kirkland. The CPP designation also prevents other cities from annexing the area. If eventual annexation is no longer desired, then a change to the Comprehensive Plan and a request to amend the CPPs would be appropriate. A CPP amendment would require approval of the Growth Management Planning Council and County Council and ratification by a super-majority of King County cities. Since the

GMA and CPPs support annexation or incorporation of urbanized areas, elimination or reduction of Kirkland's PAA would raise the question of whether the area could or should be included in the PAA of another city or whether incorporation as a separate city is desired/ possible.

### *Alternative Annexations*

The decision not to pursue a voter approved annexation of the entire or a significant portion of the PAA also raises the question of whether smaller annexations would be accepted. It would be helpful for the Council to discuss under what conditions smaller annexations that are initiated by petition would be considered. According to staff of the King County Boundary Review Board, smaller annexations are frequently approved. Each annexation proposal would be evaluated on its own merits. Boundaries must be carefully drawn to be "regular." "Cherry-picking" of properties with high sales or property tax value is discouraged and could be the cause of a challenge by King County. It would be advisable to discuss each potential annexation with King County and affected special districts early in the process to avoid challenges.

For smaller annexations, use of the petition method of annexation is usually appropriate. The City could take an active role in initiating specific annexation petitions. In the alternative, the City could simply accept petitions from individual areas as they are presented to the City. Staff time involved in processing a petition annexation would vary with the size (number of property owners involved) of the annexation and complexity of pre-annexation zoning. It is anticipated that staffing would occur through the Planning Department and would be prioritized through the Planning Work Program. Major staff tasks would include:

- Coordination with annexation proponents.
- Scheduling and providing staff support to a meeting between annexation proponents and the City Council, at which time the issues of boundaries, zoning and indebtedness would be discussed.
- Preparation and validation of annexation petitions.
- Preparation of and public involvement in annexation zoning.
- Preparation of a report to the Boundary Review Board and presentation at a BRB hearing if necessary.
- Coordination with King County and other jurisdictions.
- Preparation and presentation of the annexation ordinance to the City Council.
- Conducting a post-annexation census and coordination of other post-annexation logistics.

This process typically takes between nine months and a year to complete.

### *Financial Model Update*

One of the major obstacles to pursuing annexation is the City's future financial outlook in light of the structural imbalance wherein the costs of providing services are rising faster than revenues. During this year's budget process, the Council will consider a number of strategies to balance the 2009-2010 biennial budget, including strategies that make progress toward resolving the structural imbalance. In light of the impact that this year's budget decisions may have on the financial

outlook for annexation, the annexation sub-committee has recommended that the annexation financial model be updated after adoption of the 2009-2010 budget. If the Council affirms this recommendation, the Council should give direction on which of the annexation scenarios, and particularly which of the annexation staffing models, should be included in an update of the annexation model. These staffing models include: the original staffing plan; the alternative service delivery staffing plan; and, the alternate service delivery plan with scenarios for high wage and benefit growth and maximum economic development. This update would likely take at least two months to complete and would likely be ready for Council consideration by March of 2009.

## **LEGISLATIVE AGENDA**

During the April 15<sup>th</sup> Study Session, the Council discussed the option of including annexation-related priorities in the City's 2009 legislative agenda. These legislative initiatives could include:

- requesting an extension of the state sales tax credit for large annexations; and,
- advocating for a state-wide cap on gambling licenses that would effectively grandfather in the card room in the Kingsgate area without opening the door to any additional such establishments within the City limits.

The current state law requires local governments to commence annexation by January 1, 2010 in order to be eligible for the annexation sales tax credit. While the definition of "commence annexation" has not yet been definitively established, it is likely that commencement would require at least having placed the annexation measure on the ballot by 2010. With the decision not to move forward with annexation at this time, Kirkland will not meet this 2010 deadline for eligibility. The Council could pursue an extension of the deadline in order to leave this option open for an additional time period. There may be other cities that need additional time to consider annexation options and that would join in an effort to extend the deadline. Given the State's other competing funding needs, the extension request would face a great deal of scrutiny. Success would depend on a number of factors that are difficult to predict at this time.

During the 2007 legislative session, the State legislature considered a bill that would have placed a cap on the number of gambling licenses in the State and would have given local governments more control over zoning for gambling establishments. While the bill was not adopted, there continues to be interest in the issue. The Association of Washington Cities (AWC) has been seeking legislation that gives local governments more control over zoning for gambling establishments for the past several years. For the 2009 session, Kirkland could work with AWC and other stakeholders on a bill that would cap the number of gambling licenses in the state and give cities zoning authority over these establishments. This cap, along with additional authority to impose zoning controls, would effectively grandfather in the Kingsgate casino without opening the door to other such establishments in Kirkland. The City could then consider an annexation scenario that would allow the casino to remain in operation. Since card room establishments are subject to a tax rate of up to 20%, this could have a significant impact on the revenues associated with the PAA.

Again, it should be noted that this legislation has been considered in years past and it is difficult to predict whether there would be any progress made in the 2009 legislative session. If the Council wishes to pursue either of the legislative options presented in this memo, the legislative committee would work with our local legislators to gain support and develop a strategic approach for the session.

In addition to these potential legislative initiatives, City staff plans to monitor the implementation of the rules governing the state sales tax credit. This task will not require additional resources and may prove instructive in the future.

## **STAFF AND COUNCIL SUPPORT FOR ANNEXATION ISSUES**

The decision of the City Council not to pursue annexation in the near future raises issues related to the future status of one-time staffing for the annexation effort and of the Council's annexation subcommittee. There are three annexation related staff positions that are impacted by this decision, including two positions providing annexation coordination and administrative support in the City Manager's Office and a captain position in the Police Department.

In the City Manager's Office, the Local Government Management Fellow position has been providing back-fill support for the annexation effort. In addition, the administrative assistant position has provided administrative support for annexation. These positions were funded by the annexation service package through December 2008.

At the May 7<sup>th</sup> Budget study session, staff recommended that these two staff positions be redirected to help support the 2009-2010 biennial budget process. This assistance will include integrating performance measures into the budget document, supporting the public outreach effort, maintaining the budget web page, and supporting the preparation of budget documents. It is anticipated that these positions would be phased out at the conclusion of the budget process. At the study session, the Council gave preliminary approval of this reallocation of resources to support to the 2009-2010 budget development.

Staff is also recommending maintaining the additional Police Captain position to fill a critical need through December 2008. Captain Gene Markle has taken on a key role in the implementation of a complex system of computer-aided dispatch, mobile reporting, and records management technology for the new North East King County Regional Public Safety Communications Agency (NORCOM). This work in support of technology selection and implementation will be critical to Kirkland's successful transition to NORCOM dispatch in 2009. Because this need is immediate and is for a limited duration of time, staff recommends maintaining this allocation of resources to the Police Department.

The following table shows the remaining annexation funding and its proposed reallocation to budget support and NORCOM. If Council supports this recommendation, there would remain \$57,411 in unallocated annexation funds through 2008.

**2007 – 2008 Annexation Service Packages – Remaining Balance**

	<b>2007-2008 Funded</b>	<b>Total 2007- 2008 Est Expenses</b>	<b>Remaining Amount Available</b>
<b>GENERAL FUND</b>			
<b>City Manager</b>			
Annexation Public Safety Building Feasibility Analysis	50,000	29,700	20,300
Annexation Coordination	152,781	82,764	70,017
Annexation Communications - Phases 2 and 3	121,236	121,236	-
Annexation Administrative Support	112,360	74,806	37,554
<b>Subtotal City Manager</b>	<b>436,377</b>	<b>308,506</b>	<b>127,871</b>
<b>City Attorney</b>			
Annexation Legal Services	60,000	-	60,000
<b>Subtotal City Attorney</b>	<b>60,000</b>	<b>-</b>	<b>60,000</b>
<b>Public Works</b>			
Annexation PW CIP Assessment of Streets	65,500	47,270	18,230
Annexation Surface Water Facility Assessment	95,000	14,482	80,518
<b>Subtotal Public Works</b>	<b>160,500</b>	<b>61,752</b>	<b>98,748</b>
<b>Finance &amp; Administration</b>			
Annexation Fiscal Services Resources	105,147	39,316	65,831
<b>Subtotal Finance &amp; Administration</b>	<b>105,147</b>	<b>39,316</b>	<b>65,831</b>
<b>Planning &amp; Community Development</b>			
Annexation Planning Dept. Support	188,688	76,428	112,260
<b>Subtotal Planning &amp; Community Development</b>	<b>188,688</b>	<b>76,428</b>	<b>112,260</b>
<b>Police</b>			
Annexation Recruitment & Liaison Officer	195,095	133,660	61,435
<b>Subtotal Police</b>	<b>195,095</b>	<b>133,660</b>	<b>61,435</b>
<b>GENERAL FUND TOTAL</b>	<b>1,145,807</b>	<b>619,662</b>	<b>526,145</b>

<b>OTHER OPERATING FUNDS</b>			
<b>Information Technology Fund</b>			
Annexation GIS Mapping (xfr from GF)	67,989	-	67,989
<b>Subtotal Information Technology Fund</b>	<b>67,989</b>	<b>-</b>	<b>67,989</b>
<b>TOTAL OTHER OPERATING FUNDS</b>	<b>67,989</b>	<b>-</b>	<b>67,989</b>

<b>TOTAL ALL FUNDS</b>	<b>1,213,796</b>	<b>619,662</b>	<b>594,134</b>
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LESS: Communications/Budget Support	102,288
LESS: Tax Burden Study	25,000
LESS: NORCOM SUPPORT	61,435
<i>Subtotal</i>	<i>405,411</i>
LESS: Sales Tax Over Prior Year 2007 Actual	348,000
<b>Net Remaining</b>	<b>\$ 57,411</b>

### *Council Annexation Subcommittee*

The current annexation sub-committee has recommended that the sub-committee be retained, but modified to meet current needs. While regular meetings of the sub-committee are not anticipated in the near future, the sub-committee may meet on an as-needed basis in order to review annexation petitions or to advise the Council on annexation issues that may arise with neighboring cities. As part of taking on this new charge, it is recommended that the membership of the sub-committee change to better reflect the range of views on this issue.

### **SUMMARY**

There are a number of outstanding annexation-related issues for Council discussion and direction. These issues include:

- the content of communications to residents of Kirkland and the PAA regarding the outcome of the annexation policy decision;
- whether to initiate discussions with King County and cities that adjoin the PAA in the pursuit of changes to the comprehensive plan;
- whether to consider annexation petitions that are submitted by PAA neighborhoods on their own initiative and/or whether to initiate annexation petitions in certain areas;
- whether to update the annexation financial model upon conclusion of the 2009-2010 budget process and, if so, based on which annexation scenarios;
- whether to pursue an extension of the deadline for taking advantage of the state's annexation sales tax credit;
- whether to seek legislation capping the number of gambling licenses and giving local governments zoning authority over gambling establishments;
- the disposition of remaining one-time annexation funds that the Council allocated for 2008; and,
- whether to retain the Council's annexation sub-committee to meet on an as needed basis to review potential annexation petitions and other annexation-related issues and, if so, the suggested membership of the sub-committee.

RESOLUTION R-4706

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND RELATING TO THE DECISION OF THE KIRKLAND CITY COUNCIL NOT TO PLACE THE QUESTION OF WHETHER TO ANNEX THE POTENTIAL ANNEXATION AREA ON A BALLOT AT THIS TIME.

WHEREAS, in Fall 2006, the City Council began a four-phase process to carefully consider whether to annex the Finn Hill, Upper Juanita, and Kingsgate neighborhoods, collectively referred to as the Potential Annexation Area or PAA; and

WHEREAS, annexation is consistent with the Washington State's Growth Management Act and the City Council is committed to the principles of the Growth Management Act; and

WHEREAS, since the fall of 2006, the City has conducted extensive analysis and outreach as it explored annexation; and

WHEREAS, economic health is a top priority for Kirkland citizens and the City Council; and

WHEREAS, recent information provided to the City Council concerning the worsening economy and City's revenues and expenditures includes some disturbing trends and poses significant challenges for the 2009-2010 biennial budget process; and

WHEREAS, it would be difficult to provide a level of City services throughout the PAA consistent with that already enjoyed by Kirkland residents; and

WHEREAS, in light of the current financial conditions, the City Council has decided not to place the question of whether to annex on a ballot for a vote by the PAA residents at this time; and

WHEREAS, the City Council appreciates the time and attention devoted to the exploration of annexation by residents of the PAA, Kirkland residents, and City staff; and

NOW, THEREFORE, be it resolved by the City Council of the City of Kirkland as follows:

Section 1. The question of whether to annex the PAA will not be placed on a ballot for a vote of the PAA residents at this time.

Passed by majority vote of the Kirkland City Council in open meeting this \_\_\_\_\_ day of \_\_\_\_\_, 2008.

Signed in authentication thereof this \_\_\_\_ day of \_\_\_\_\_, 2008.

\_\_\_\_\_  
MAYOR

Attest:

\_\_\_\_\_  
City Clerk