



Annexation? Let's Talk Dollars and Cents.

Fall Update 2007

Background

Economic health is a top priority for Kirkland residents. For this reason, the Kirkland City Council is carefully studying how annexing the potential annexation area (PAA) of the Finn Hill, Upper Juanita, and Kingsgate neighborhoods could impact the City's budget. This fact sheet focuses on the 2006 financial analysis and 2007 infrastructure study that was recently completed.

The Challenge

Annexing neighborhoods to the north of Kirkland has been considered for many years. A 2005 financial analysis estimated an annual \$4.8 million financial "gap" between the cost of providing services and the new revenue that the PAA would generate. In March 2006, the Washington Legislature approved Senate Bill 6686, which provides cities with revenue from a portion of the State's share of the sales tax for up to ten years if they annex areas with at least 10,000 residents. To maximize the state funding, an area of at least 20,000 residents would need to be annexed.

The Financial and Infrastructure Analyses

The City conducted another financial analysis in 2006 that takes into consideration the state funding as well as the long-term financial impacts after the ten years of funding ends. The financial analysis is designed to estimate the long-term fiscal impacts of annexation under different development, cost, and revenue scenarios. The analysis will also help the City identify strategies to address the projected financial shortfall in the existing City budget. This past summer, the City also completed an infrastructure study of the PAA to better understand the level of investments needed within the PAA, if annexation proceeds.

Assumptions of the Financial Analysis

- If annexation were implemented, Kirkland would be managed as a larger city, collaborating as a whole to share resources and maintain services. Therefore, the financial analysis is based on the larger (post-annexation) city rather than focusing on just the PAA by itself (as the 2005 analysis did).
- The model assumes that the entire new area, including the PAA, would have a level of service equivalent to what Kirkland residents currently have and that new staff would be hired to serve the annexation area.



We've been keeping a log of all your questions and comments. See what your neighbors had to say by visiting the annexation webpage at: www.ci.kirkland.wa.us/annexation.

- The fiscal model factors in the new ten-year sales tax credit passed by the Washington Legislature and measures financial impacts through the year 2025, five years past the last possible year to receive State funding support.
- The model takes into account different variables such as changes in development patterns, growth assumptions, tax policies, and levels and costs of services.

Highlights of the Financial Analysis

- Like most other cities, Kirkland has estimated a future budget shortfall regardless of annexation. This "structural imbalance" occurs because revenue is growing at a slower rate than expenditures. Every budget cycle, that shortfall is addressed by the City Council using the tools they have available to balance the budget.
- Without the state funding, the City would not be able to afford annexation. The ten years of state funding significantly closes the gap between the revenues and costs of extending services to the PAA.
- If annexation proceeds, a portion of the state funds will be used for facilities costs needed to serve the PAA. After the State funding ends, the City anticipates that

facilities costs would be reduced and revenues would increase to a manageable level so that the City budget could be balanced.

- Through balancing the budget, wise use of the state funding, efficiencies in providing services on a larger scale and projected development trends, the study indicates that annexation would either be financially neutral or positive (depending on the tools used to balance the budget).
- In the long term, while the City Council will always need to make tough budget decisions, annexing Finn Hill, Upper Juanita, and Kingsgate would result in a financial picture that is very similar to current Kirkland.

Highlights of Infrastructure Analysis

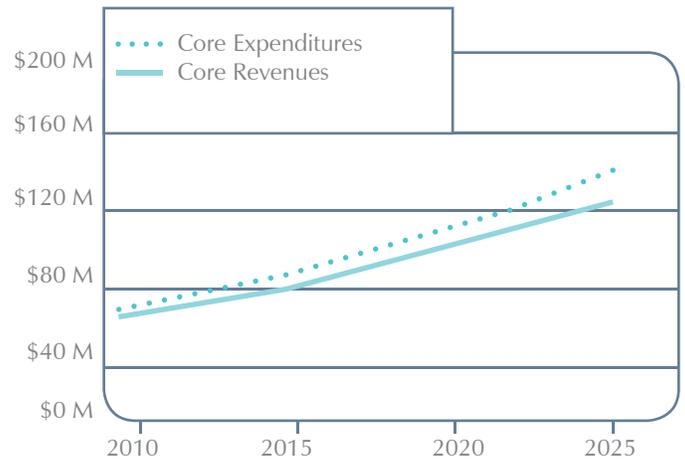
- Overall, the PAA infrastructure needs are similar to Kirkland’s existing needs.
- The pavement in the PAA is in good condition.
- There are a number of bicycle, pedestrian, and traffic safety improvements needed in the PAA.
- The storm drainage system in the PAA is generally older than Kirkland and some pipes require replacement or significant cleaning.
- Most of the park sites in the annexation area are undeveloped and do not require any immediate, significant capital outlay. Edith Moulton Park requires some immediate safety improvements and should undergo a neighborhood planning process to redevelop the park in the future.

When we factored the results of the infrastructure condition analysis into our financial picture, we learned that our estimates for anticipated investments in infrastructure in the PAA and the capital revenue from the PAA were similar to Kirkland’s and we are still confident in the long-term results of the 2006 financial analysis.

The graphs below help describe how annexation impacts the City’s long-term financial health.

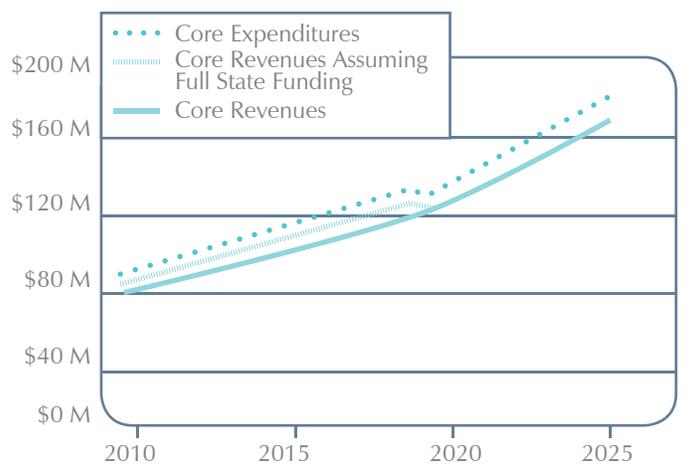
City Budget without Annexation

Even without annexation, the City faces a financial deficit that grows larger in the long term. The Council has always successfully balanced the budget in the short term by applying different tools and policy choices.



City Budget with Annexation

The state funding would greatly reduce the short-term deficit created by annexation to a more manageable level. In the long term, the financial implications will be very similar to the financial picture without annexation.



You can learn more about the financial analysis at www.ci.kirkland.wa.us/annexation.

For more information, visit the City of Kirkland’s annexation webpage:

www.ci.kirkland.wa.us/annexation

If you have further questions about annexation, please e-mail annexation@ci.kirkland.wa.us or call 425-587-3000.

