



CITY OF KIRKLAND
Department of Finance & Administration
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MEMORANDUM

To: David Ramsay, City Manager

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

Date: January 5, 2007

Subject: Annexation Fiscal Analysis – Study Session #2

RECOMMENDATION:

Council continue its discussion of the annexation fiscal analysis and additional public outreach to be conducted as part of Phase I.

BACKGROUND DISCUSSION:

At the December 12, 2006 Study Session, the City Council received the preliminary draft findings of the Annexation Long-Term Fiscal Analysis. At that meeting, a process for evaluating the results was discussed and additional information was requested. The supplemental information will be presented at the January 9, 2007 Special Study Session, including:

- Additional details regarding the baseline assumptions related to development, revenue projections, and expenditures, such as:
 - Projected development by type (single family, multifamily, commercial),
 - Assumed revenues, including historical sales tax trends,
 - Projected expenditures, including the major drivers of staffing additions and further detail on updated assumptions from the 2005 analysis, particularly related to Public Safety;
- Further details on the facilities financing assumptions and the state sales tax credit;
- Descriptions of the development, revenue, and expenditure assumptions in the “High, Medium, and Low” emphasis scenarios;
- An overview of the variables that most influence the results; and
- Updated scenarios and related materials.

The presentation slides and related supplemental information are attached to this memorandum. If you have questions while reviewing the materials that you would like to discuss before the January 9 meeting, please call Tracey at x3101. This information, along with the more detailed description of the model and policy issues that was contained in the December 12 Council packet, is intended to provide the City Council with sufficient financial information to enable a decision on whether to proceed to Phase 2 of the

annexation evaluation. Staff has been working with the City's communications consultants to develop options for an extended outreach process, which are outlined in the discussion that follows.

Public Outreach Plan

At the November 21st Council meeting, Sarah Brandt from EnviroIssues provided a recap of the phase one public outreach activities and results. At that time, Council expressed an interest in extending phase one to include additional outreach focusing on the results of the annexation fiscal analysis. At the December 12th meeting, staff suggested a process that continued Council discussion of the financial analysis in early January (special study session on January 9th), continued community outreach into late January/early February with a public forum in February and a concluded with phase one "go/no go" decision in early March. Since that time, the City's consultants have worked with staff and the annexation subcommittee to better define the format for the extended public outreach effort. EnviroIssues identified two format options for consideration including focus groups and a public forum. The format is described below:

Convene a public meeting or forum (beginning with an open house and including a presentation) to discuss financial information. Provide an opportunity for input in one of two ways:

- 1. Hold meeting at City Hall's Peter Kirk Room, then invite attendees into Council Chambers to participate in a "town meeting" discussion (i.e., Council listens while facilitator passes a microphone through the crowd for comments, rather than a hearing format). Council would not necessarily respond to each comment, but each member would have the opportunity to make a statement at the end of the discussion.***
- 2. Split attendees into small facilitated groups, with Council members in each group, and discuss reactions to the financial information and other factors influencing public opinions. Upon regrouping and debriefing, Council members could make statements to close the meeting.***

The options were reviewed with the annexation subcommittee at their January 4th meeting and the recommendation is to implement option one using a town hall meeting format to obtain public comment. Prior to the public forum, the findings of the financial analysis will be made available through our annexation listserv, on the City's web page and other means as available.

The public forum will have four general components that take place over a three hour period:

- 1. Open House Workshop** – The public will be invited to learn more about the financial analysis, to ask questions of the staff and consultant and to see a demonstration of the model. The listening log results will be posted around the room and a board will be displayed showing the "top ten" questions asked during the public outreach process and the answers (when available). The open house portion will last one hour.
- 2. Presentation** – Staff will make a presentation summarizing the findings of the financial analysis including responses to the most frequently asked financial questions. Following the presentation, the audience will have an opportunity to ask questions. The question period will be facilitated by the consultant using a "town hall" format whereby they consultant moves through the audience with a microphone to obtain questions with staff answering questions as appropriate. The presentation and question period will last about 30 to 45 minutes.

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3. **Public Comments** – After the presentation and related questions, the consultant will solicit comment from the audience using the same town hall format used for the question phase. The purpose of the comments session is to obtain input regarding any further concerns the Kirkland community may have that they believe should be addressed by the City Council. The comment period will last up to one hour.

4. **Closing Comments** – The last 15 minutes will be reserved for Council Member comments.

If possible, the forum will be held at the Peter Kirk Community Center since it has the capacity to accommodate an open house format with information boards as well as a town hall audience format without having to move from one room to another.

If Council agrees with this general approach, staff will begin to schedule and plan for the expanded outreach program. Since this is an expansion of the work first envisioned in our consultant's phase one scope of work, we are requesting Council approval of additional funding of up to \$9,420 for the consultants to develop new outreach materials, prepare for the public forum and facilitate the large and small group discussions.

City of Kirkland
Annexation Fiscal Analysis
Council Study Session #2

January 9, 2007

Presentation Overview

- Recap of key points from December 12
- Additional Detail – Baseline Assumptions
 - Kirkland Base Results
 - Kirkland Base with Annexation
- Description of Scenario Assumptions
 - Selected Scenario Results
- Next Steps and Community Outreach

Objectives

- Provide responses to specific questions and requests from December 12, 2006 Study Session
- Provide a basis for discussion of policy tools and scenarios
- Provide Council with sufficient financial information to enable a decision on whether to proceed to Phase 2 of the annexation evaluation

The Big Picture

- Kirkland has a structural imbalance between revenues and expenditures
- There is a resulting long-term gap in funding
- The Council will have to close that gap with or without annexation
- Annexation could help close the gap in the long term because there are more people contributing to whatever the solution is

Past Strategies for Closing the Gap*

Strategy	< 1999	1999	2000	2001	2002	2003	2004	2005-06
New revenue source:								
Surface water management fee	X							X
Revenue generating regulatory license fee						X		
Surface water utility tax					X			
Cost of service interfund charge	X							
Increased tax rate or fee:								
Increased property tax rate	X		X			X	X	X
Increased utility tax rate						X		X
Increased parking fines			X		X			
Increased development fees		X	X		X			
Changes to sales tax:								
Reduced CIP allocation			X					
Reduced sales tax lag to 1 year								X
Used one-time revenue source:								
Sales tax audit proceeds							X	
Interest income								X
Planned use of Rainy Day reserve						X	X	X
Expenditure reductions					X	X	X	
Other strategies:								
Used new construction growth	X	X						
Reduced budgeted benefit rate to citywide average					X			X
Reduction in state retirement rates					X			

* Additional information is included in the supplemental packet.

Baseline Assumptions and Related Information

Baseline Assumptions

- ***“Baseline” is defined as current conditions with no change in policy, for example:***
 - Baseline represents the “medium” development assumptions, which are similar to the pace of development generally planned for by the City
 - No explicit decisions are made that encourage or discourage the pace of development
 - The low and high development scenarios are intended to test how sensitive the projections are to the pace of development

Development Scenario Characteristics – Average*

Development Scenarios and Outputs (AVERAGE PER YEAR)

	Current City			PAAs			Total City		
	Low	Baseline	High	Low	Baseline	High	Low	Baseline	High
Residential									
SF DU Developed/Year	117	171	255	64	103	139	181	273	394
Net SF DU Added/Year	77	97	97	53	84	111	130	181	208
MF DU Developed/Year	159	206	232	77	125	161	236	331	393
Net MF DU Added/Year	135	171	174	68	110	143	203	281	317
Commercial									
Net Sq Ft Added (Retail)/Year	55,661	54,299	124,941	16,558	27,533	43,479	72,219	81,831	168,419
Net Sq Ft Added (Non-retail)/Year	14,792	100,840	143,454	22,927	36,867	57,212	37,719	137,707	200,667
Net Sq Ft Added (Total)/Year	70,453	155,139	268,395	39,485	64,399	100,691	109,938	219,538	369,086

SF DU – Single Family Dwelling Unit

MF DU – Multi-Family Dwelling Unit

* Additional information is included in the supplemental packet.

Cost of Service Assumptions

- Model estimates changes in the cost of services based on demand drivers for direct services, such as demographics and community changes
- The policy options available to change the cost of service include changing assumptions about:
 - Expected escalation of salary and benefit costs per FTE
 - Salaries escalate at 6% through 2010 and 5% thereafter
 - Benefits escalate at 10% through 2010 and 6% thereafter
 - Demand drivers that generate the need for staff to provide services (rate of hiring)

Description of Labor Categories

- **Direct.** Positions are driven directly by changes to the underlying land base of the city, such as population or employment
- **Fixed.** Positions do not change over the planning horizon
- **Indirect.** Positions are driven by staffing levels of one or more positions in a specific department or several departments

Examples of Direct Demand Drivers

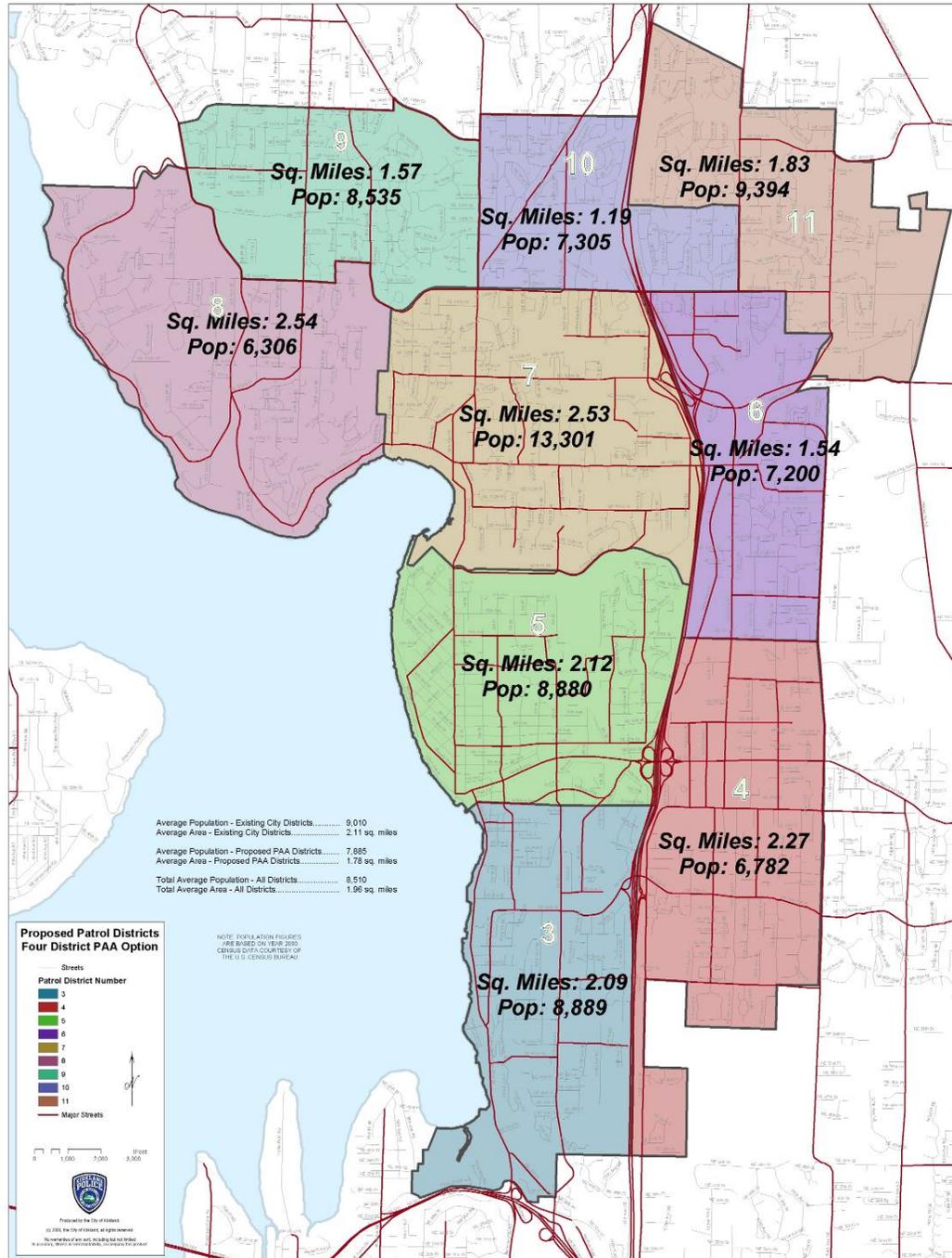
Position	FTE's (2006)	Driver
PARKS & COMMUNITY SERVICES		
Recreation Coordinator	1.00	Total Population (100%)
Groundsperson	10.50	Park Area (Acres) (100%)
PUBLIC WORKS		
Development Engineer	1.00	Total Population (100%)
Senior Maint. Person	3.50	Land Area (SqM) (100%)
Utilityperson	4.00	SF Dwelling Units (Total) Base (100%)
PLANNING & COMMUNITY DEVELOPMENT		
Senior Planner/Planner	8.67	Total Pop. (30%), Total Jobs (End of Year) (30%), Land Area (SqM) (30%)
Associate Planner	2.00	Total Population (100%)
Code Enforcement Officer	2.00	Total Dwelling Units (100%)

Comparison of FTEs to 2005 Results

Department	Annexation FTEs		
	2005 Study	Current Model	Change
Nondepartmental	0.00	0.00	0.00
City Council	0.00	0.00	0.00
City Manager	1.50	1.50	0.00
Human Resources	2.00	2.00	0.00
City Attorney	1.50	1.50	0.00
Parks Community Services	6.93	6.93	0.00
Public Works	17.24	17.24	0.00
Finance Administration	5.05	5.05	0.00
Planning Community Development	9.50	9.50	0.00
Police	77.50	64.50	-13.00
Fire Building	10.00	10.00	0.00
Municipal Court	8.24	6.92	-1.32
Total	139.46	125.14	-14.32

Key Changes to Public Safety Figures

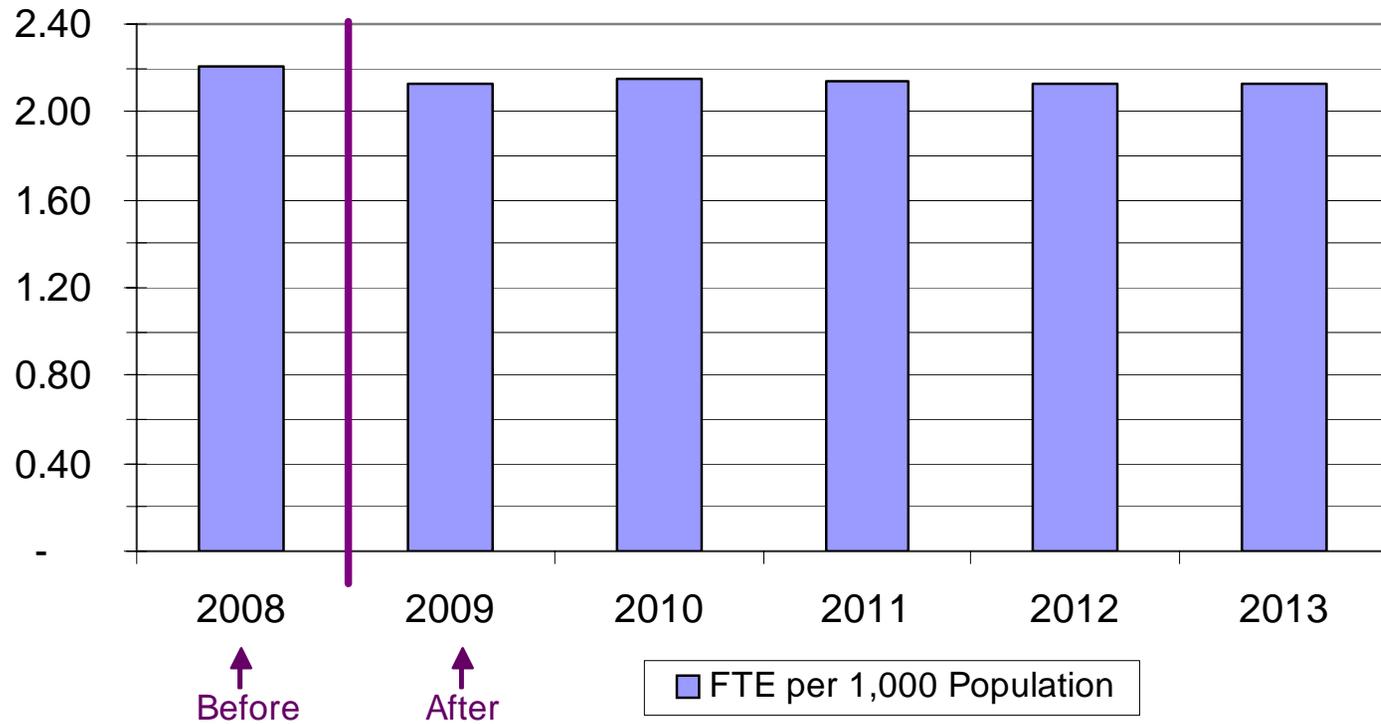
- Refinement of support position projections
- Looking at service for City and PAA as a whole
- Four patrol districts versus five, recognizing economies of modifying existing patrol district boundaries



Key Changes to Public Safety Figures

SWORN	Original Calculation	Revised Calculation	Reduction
Administration	3.0	3.0	0
Detectives	5.0	5.0	0
Narcotics Officer	1.0	1.0	0
Patrol	36.5	30	6.5
FVU Detective	1.0	0	1.0
NRO	1.0	0	1.0
K-9	1.0	1.0	0
Traffic	4.0	4.0	0
SWORN TOTALS	52.5	44.0	8.5
NON-SWORN	Original Calculation	Revised Calculation	Reduction
Records	4.0	4.0	0
Admin Support	2.0	2.0	0
Clerk Typist	1.0	0	1.0
Evidence Officer	0.5	0.5	0
Corrections	5.0	3.0	2.0
Communications	12.0	9.0	3.0
Analyst	0.5	0	0.5
NON-SWORN TOTALS	25.0	18.5	6.5

Total Police FTEs per 1,000 Population



	2008	2009	2010	2011	2012	2013
FTE per 1,000	2.21	2.13	2.15	2.14	2.13	2.12
FTEs	103.50	170.00	172.50	173.00	173.00	173.50

Treatment of Facilities Costs

- City has facilities needs, regardless of annexation

Base City Facility Needs	\$29.6 million
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City Hall expansion and public safety	\$25.0 million
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Maintenance facility expansion	\$4.6 million
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City Needs with Annexation	\$80.7 million
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City Hall expansion	\$28.9 million
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New public safety and jail facilities	\$44.0 million
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Maintenance facility expansion	\$7.8 million
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Treatment of Facilities Costs – PAA Share

- Incremental facilities cost is about \$50 million
- PAA share should recognize that the PAA residents would also contribute toward facilities financed by existing City residents (for example, 40% of the improvements without annexation)
- To recognize the contribution, a credit of about \$12 million dollars is applied to the PAA share
- The facilities costs attributed to the PAA totals \$38 million

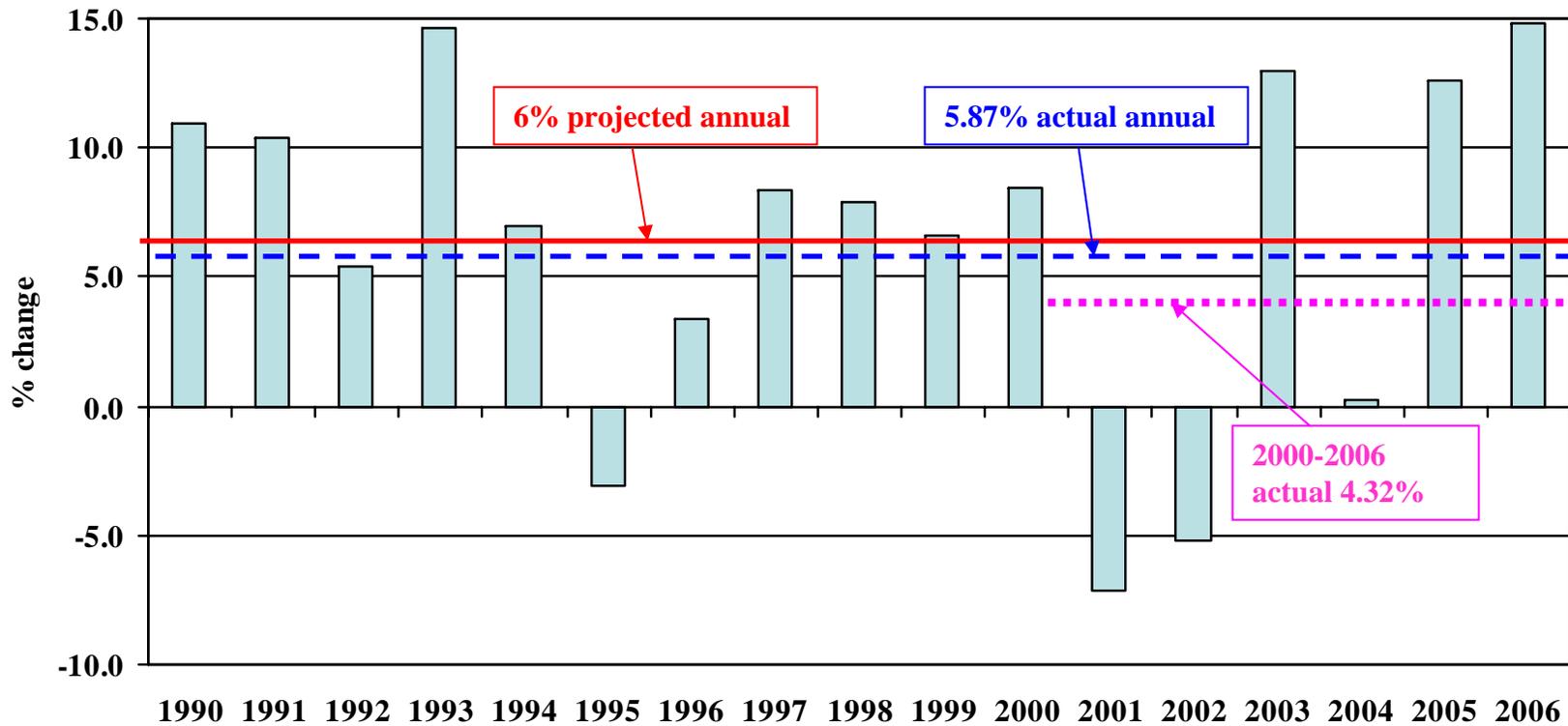
Treatment of Facilities Costs – PAA Share

- The state sales tax credit only applies for a 10 year period
- Generally, facilities would be financed over a 20-30 year period
- To match cash flow, the PAA cost share is assumed to be financed over 10 years
- In reality, this would be accomplished by one of a variety of methods such as:
 - Sinking fund payments
 - Accelerated depreciation
 - Custom debt amortization

Baseline Revenue Assumptions

- Tax and fee revenue estimates based on changes in components of the City's tax base resulting from growth (with or without annexation)
- Baseline assumptions:
 - Property tax increases by 1% optional levy each year plus new construction
 - Current business license surcharge remains in effect
 - Utility taxes remain at current rates
 - Sales tax revenues are expected to grow based on growth in retail square footage (annual increases ranging from 5.5% to 6.5%)

Sales Tax 1990-2006 Percentage Change



Totem Lake Assumptions

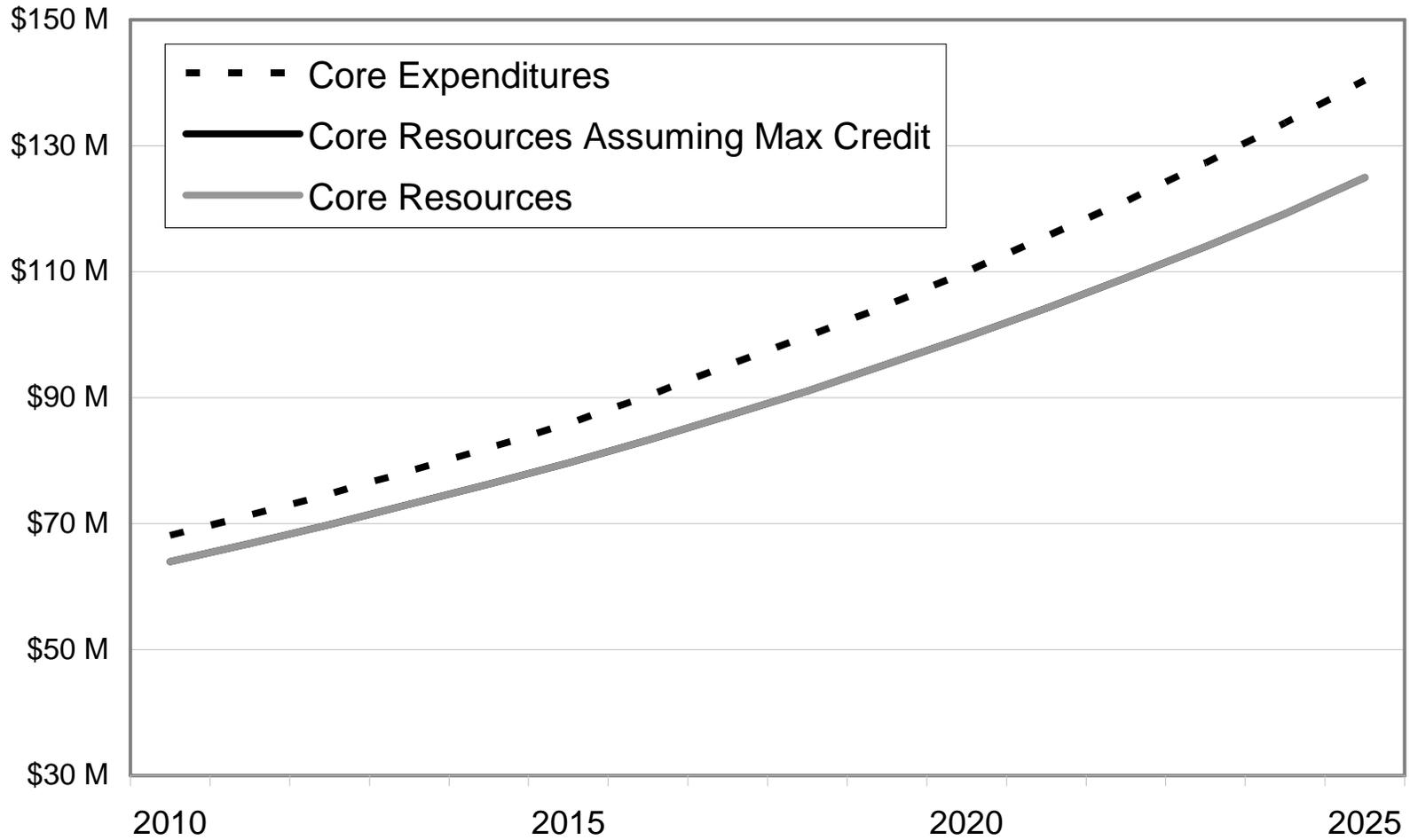
- Redevelopment 50% complete in 2008, 100% in 2009
- 216 MF Dwelling Units Added
- 620,049 sq ft Retail Added
- 144,000 sq ft Office Added
- \$213,292 (2005\$) Admissions Tax Bump
- \$13M debt financed at 5% for 20 years

State Sales Tax Credit Issues

- Without State Sales Tax Credit, significant fiscal impact of annexation to existing City taxpayers
- Assuming maximum Sales Tax Credit revenue, overall fiscal impact is neutral to positive in the long term:
 - Fiscal impact largely offset in the 10-year period of the credit.
 - Larger tax base and potential for greater economies of scale provides greater policy leverage to address future fiscal challenges.
- Working on specific guidance regarding credit application, including use toward facilities costs

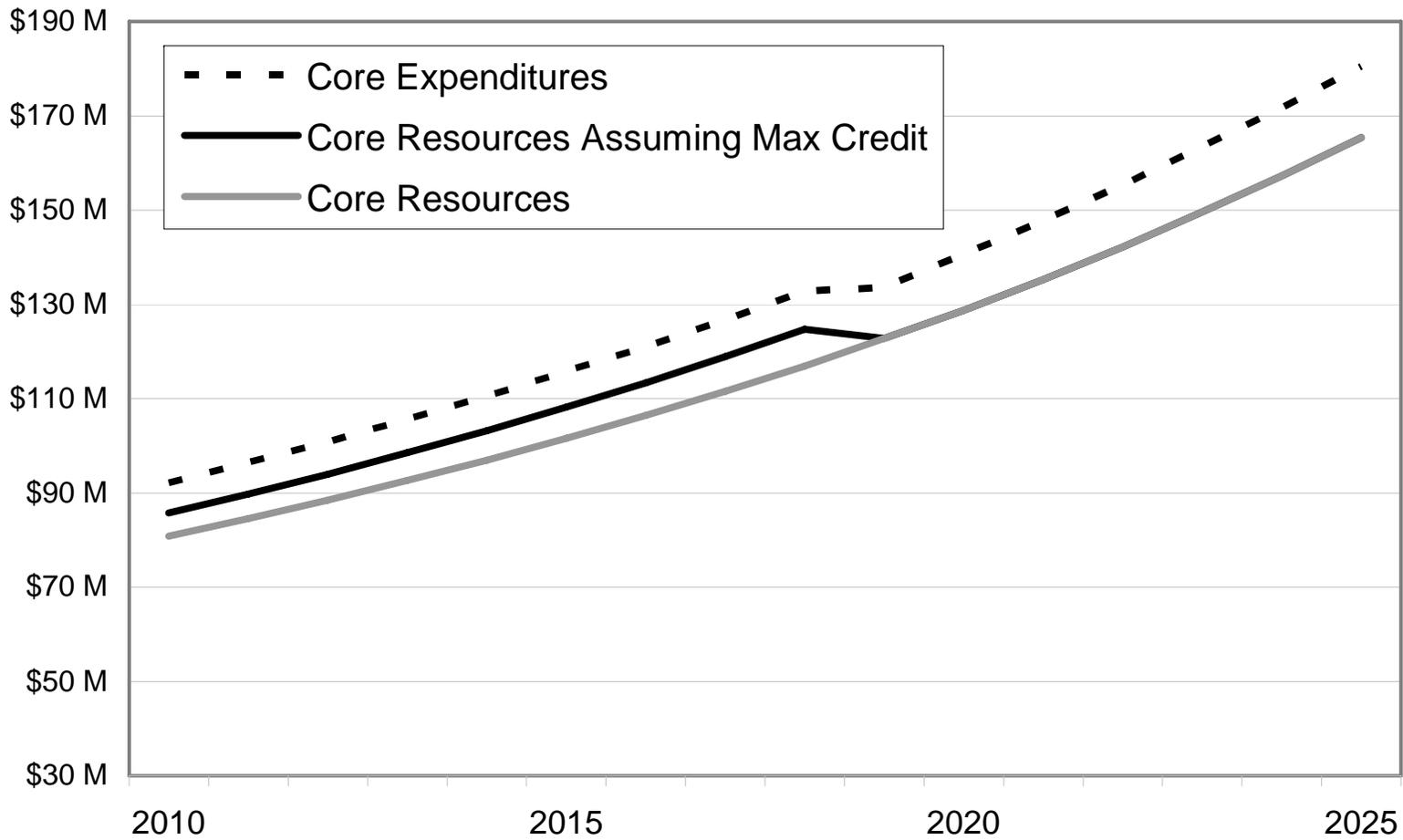
Scenario: Baseline No Annexation

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



Scenario: Baseline With Annexation

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



Scenario Assumptions and Preliminary Results

Fiscal Balancing Tools

1. Development-related revenue

- new construction property tax
- sales tax

2. Tax policy revenue

- property tax
- utility tax
- business tax

3. Expenditure management

- level of service – staffing levels
- efficiency/productivity
- compensation

Scenario Definitions

- Baseline is defined as current conditions with no change in policy
- For development only, baseline is the medium case
- For revenues and costs of service, Low, Medium, and High are all changes from the baseline assumptions
- The terms “Low, Medium, and High” refer to the *level of emphasis placed in each tool*, not necessarily the relative sizing of each option

Scenario Assumptions - Development

- Scenarios test sensitivity to the pace of development
 - Low: Rate of development 70% of baseline
 - Medium (Baseline): Rate of development consistent with pace generally planned for
 - High: Rate of development 30% higher than baseline

Development Scenario Characteristics – Total*

Development Scenarios and Outputs (TOTAL)

	Current City			PAAs			Total City		
	Low	Baseline	High	Low	Baseline	High	Low	Baseline	High
Residential									
SF DU Developed	2,338	3,413	5,106	1,282	2,055	2,775	3,620	5,468	7,881
Net SF DU Added	1,548	1,935	1,935	1,051	1,682	2,223	2,599	3,617	4,158
MF DU Developed	3,180	4,128	4,635	1,541	2,497	3,228	4,721	6,625	7,863
Net MF DU Added	2,707	3,410	3,479	1,357	2,204	2,852	4,064	5,614	6,331
Commercial									
Net Sq Ft Added (Retail)	1,113,218	1,706,019	2,498,816	331,161	550,654	869,571	1,444,379	1,636,624	3,368,387
Net Sq Ft Added (Non-retail)	295,835	1,396,753	2,869,090	458,540	737,334	1,144,243	754,376	2,754,136	4,013,333
Net Sq Ft Added (Total)	1,409,053	3,102,772	5,367,906	789,702	1,287,988	2,013,814	2,198,755	4,390,760	7,381,720
% AV from New Construction	1.26%	1.70%	2.22%	1.44%	2.16%	2.74%	1.31%	1.84%	2.38%

* Additional information is included in the supplemental packet.

Scenario Assumptions - Revenues

- Model assesses changes in potential tax and fee revenues on properties, businesses, and utilities.

Low	
Property Tax	3.0% per year for first 6 years (voter approval)
Business Tax/Utility Tax	Remains as is
Medium	
Property Tax	2.5-3.0% per year (voter approval)
Business Tax/Utility Tax	Remains as is
High	
Property Tax ¹	3.5-5.0% per year (voter approval) OR
Business Tax	0.0975% of gross receipts OR
Utility Taxes ²	9.0% on utilities (requires vote for private utilities)
² Scenario not shown in presentation, but utility tax included as part of blended scenario.	

¹ Property tax lid lift assumes use of remaining banked capacity without spending it on increased service levels

Scenario Assumptions – Cost of Service

- Assumes that new hiring rates related to growth are reduced from calculated levels
 - Low: No change - hiring based on projected needs based on service drivers (varies depending on development scenario: low 179/high 192 FTEs)
 - Medium: Hiring 5 fewer FTEs than projected
 - High: Hiring 47 fewer FTEs than projected (no new hires for growth)

Preliminary Matrix of Options*

	Tools			Long-Term Fiscal Outlook		
	Tax Policies	Expenditure Management Policies	Development	Fiscal Analysis Findings		Net Impact of Annexation
Baseline No Annexation	No change in tax policy 1% property tax limit	Hiring rate reflects current policies	Baseline	O&M Impacts Deficits in all years Deficit grows to \$15.5M by 2025 Def. as % of exp.: 1% to 11% Cost growth: 5.1%/yr Revenue growth: 4.5%/yr	Facilities \$30 M unfunded need Annual D/S: \$2.3 M	Surplus/Deficit in 2025 Current Kirkland: (\$15.5M) PAA: 0.0M Total City: (15.5M)
Annexation Scenarios						
Baseline With Annexation	Same as above	Same as above	City: Baseline PAA: Baseline	O&M Impacts Citywide deficit marginally reduced PAA deficit starts at 15% and ends at 1% Cost growth: 6.4%/yr Revenue growth: 6.0%/yr	Facilities \$80 M need citywide \$38 M impact from annexation 30-year bond -- \$3.3M/yr (all city) 10-year bond -- \$5.9M/yr (PAA impact)	Surplus/Deficit in 2025 Current Kirkland: (\$14.8M) PAA: (0.3M) Total City: (15.1M)
Balanced Scenarios (closes fiscal gap to within 1% of Expenditures in 2020)						
Property-Tax Focused	High Same as baseline plus the following levy limits: 2010-2015: 4.0% 2016-2025: 3.5%	Medium Reduce rate of hiring: hired 5 fewer FTEs (185 to 180)	Medium City: Baseline PAA: Baseline	Balancing with primarily property tax results in net gains from the annexation areas which help offset base City structural deficit issues. Without annexation, tax rates would need to be higher to achieve the same ends.		Current Kirkland: (\$4.1M) PAA: 4.6M Total City: .5M
Business-Tax Focused	High Same as baseline plus a new business tax on gross receipts at 0.0975%	Medium Reduce rate of hiring: hired 5 fewer FTEs (185 to 180)	Medium City: Baseline PAA: Baseline	This scenario is similar to the property tax based scenario except the net contribution from annexation is smaller, since the tax is based on businesses only.		Current Kirkland: (\$5.7M) PAA: 2.9M Total City: (2.8M)
No Growth-Related Hiring, Balance With Property Tax	Medium Same as baseline plus the following levy limits: 2010-2015: 3.0% 2016-2025: 2.5%	High Reduce rate of hiring: hired 47 fewer FTEs (185 to 138)	Medium City: Baseline PAA: Baseline	The impact of much lower hiring reduces the need for new taxes, though at a likely cost in terms of level-of-service. The impact of annexation is even more positive as the rate of growth in the annexation areas is somewhat higher than current Kirkland.		Current Kirkland: (\$4.4M) PAA: 6.4M Total City: 1.9M
Low Development PAAs, Property-Tax Focused	High Same as baseline plus the following levy limits: 2010-2015: 5.0% 2016-2025: 4.5%	Medium Reduce rate of hiring: hired 5 fewer FTEs (179 to 174)	Low City: Baseline PAA: Low	The impact of lower PAA development is higher tax rates and a lower FTE demand overall, though the PAA fiscal impact remains positive and the taxes lower than a no annexation scenario.		Current Kirkland: (\$1.8M) PAA: 2.2M Total City: .4M
High Development Current City, Property-Tax Focused	Low Same as baseline plus the following levy limits: 2010-2015: 3.0%	Medium Reduce rate of hiring: hired 7 fewer FTEs (192 to 185)	High City: High PAA: Baseline	The impact of high development in current Kirkland is a much lower tax need. The impact of annexation remains positive, but to a much lower degree, since most of the funding gap is solved by development in current Kirkland.		Current Kirkland: (\$2.9M) PAA: 1.9M Total City: 1.0M

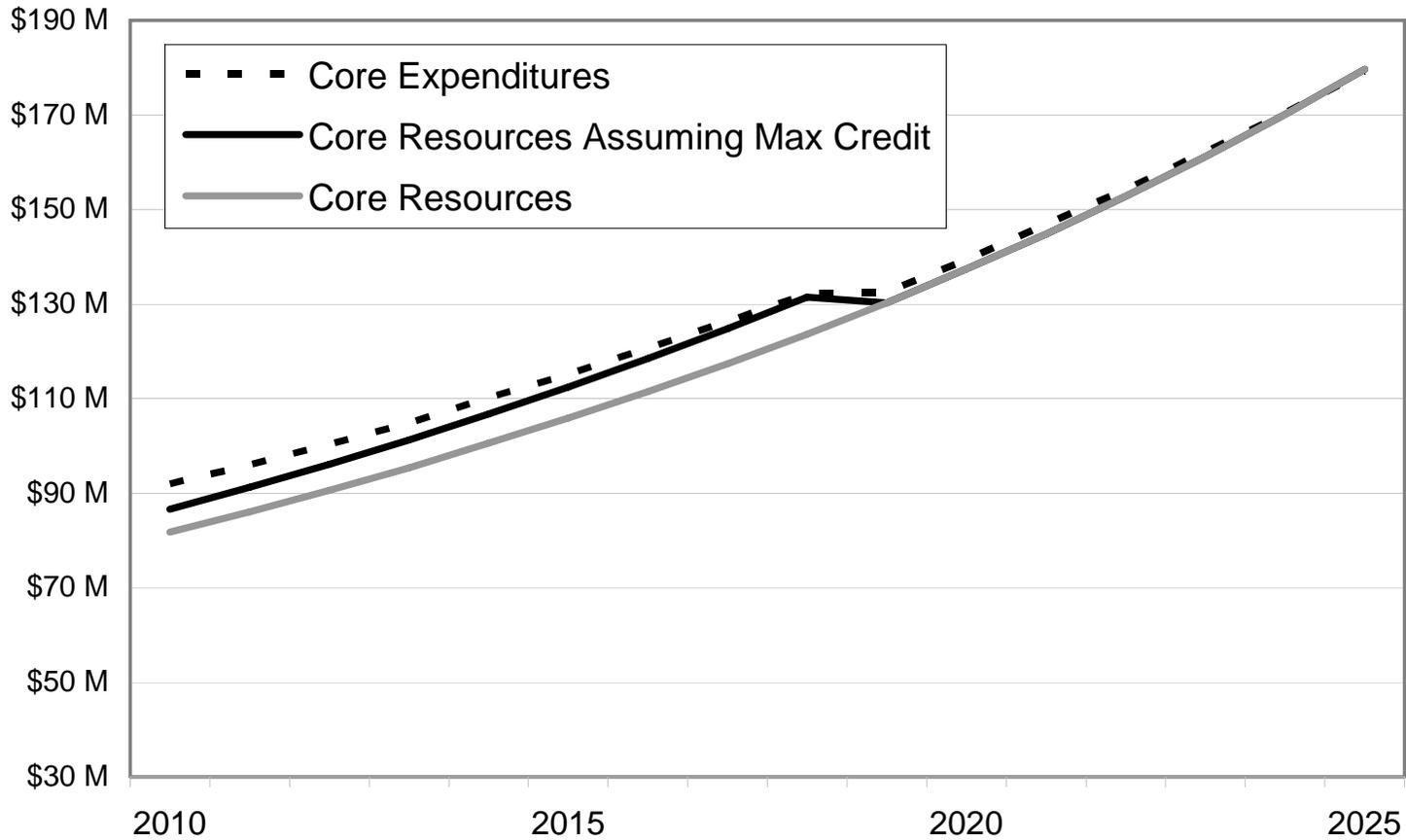
* Additional information is included in the supplemental packet.

Scenario Options

- The scenarios shown in the matrix are based on:
 - Closing the gap to within 1% of expenditures by 2020
 - A variety of combinations of the tools were tested, but those which didn't close the gap were excluded
- All strategies shown are more effective with annexation
- Different strategies perform better with addition of the PAA

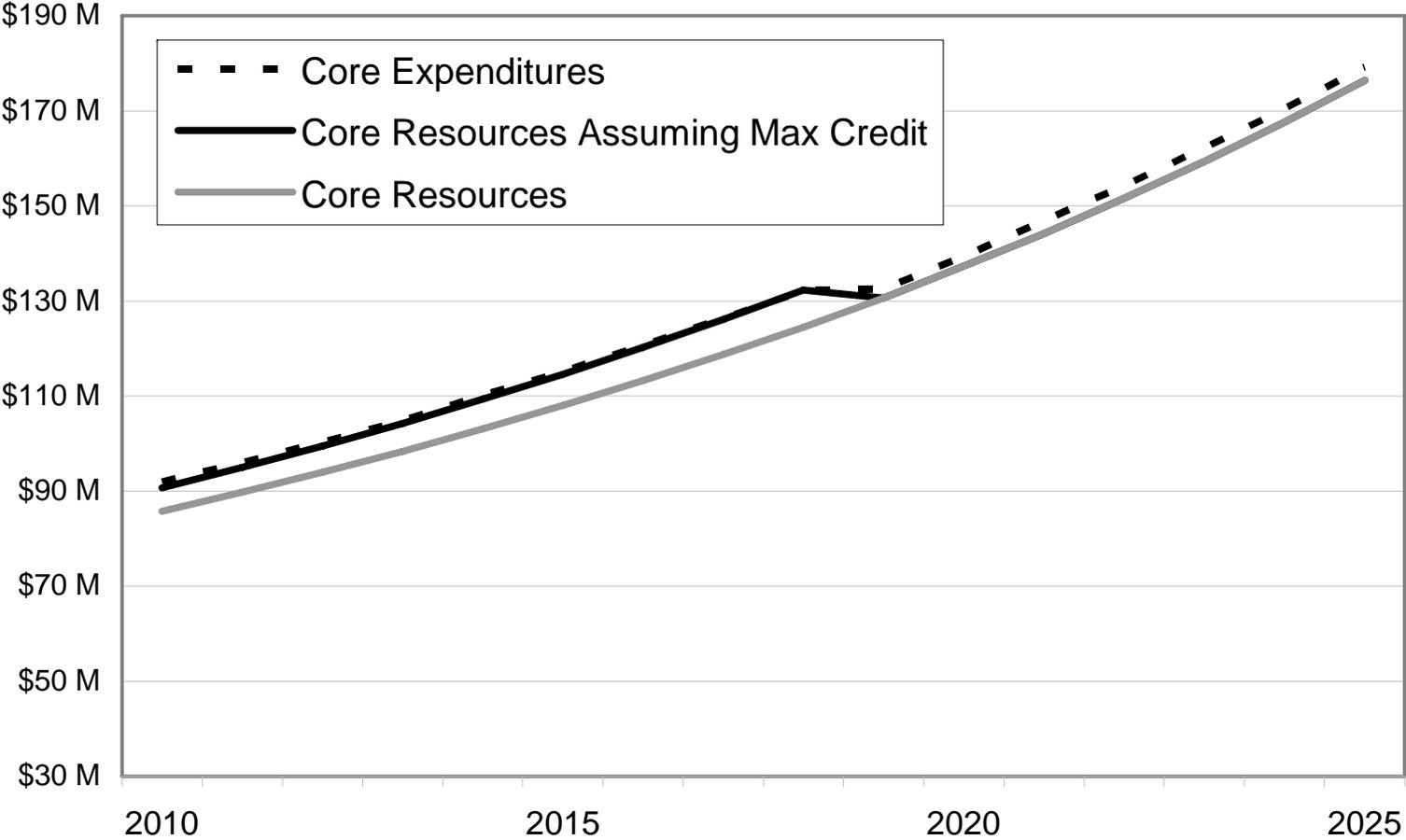
Scenario: Property Tax Focused

Tax Policies	Expenditure Management Policies	Development
<p align="center">High</p> <p>Same as baseline plus the following levy limits: 2010-2015: 4.0% 2016-2025: 3.5%</p>	<p align="center">Medium</p> <p>Reduce rate of hiring: hired 5 fewer FTEs (185 to 180)</p>	<p align="center">Medium</p> <p>City: Baseline PAA: Baseline</p>



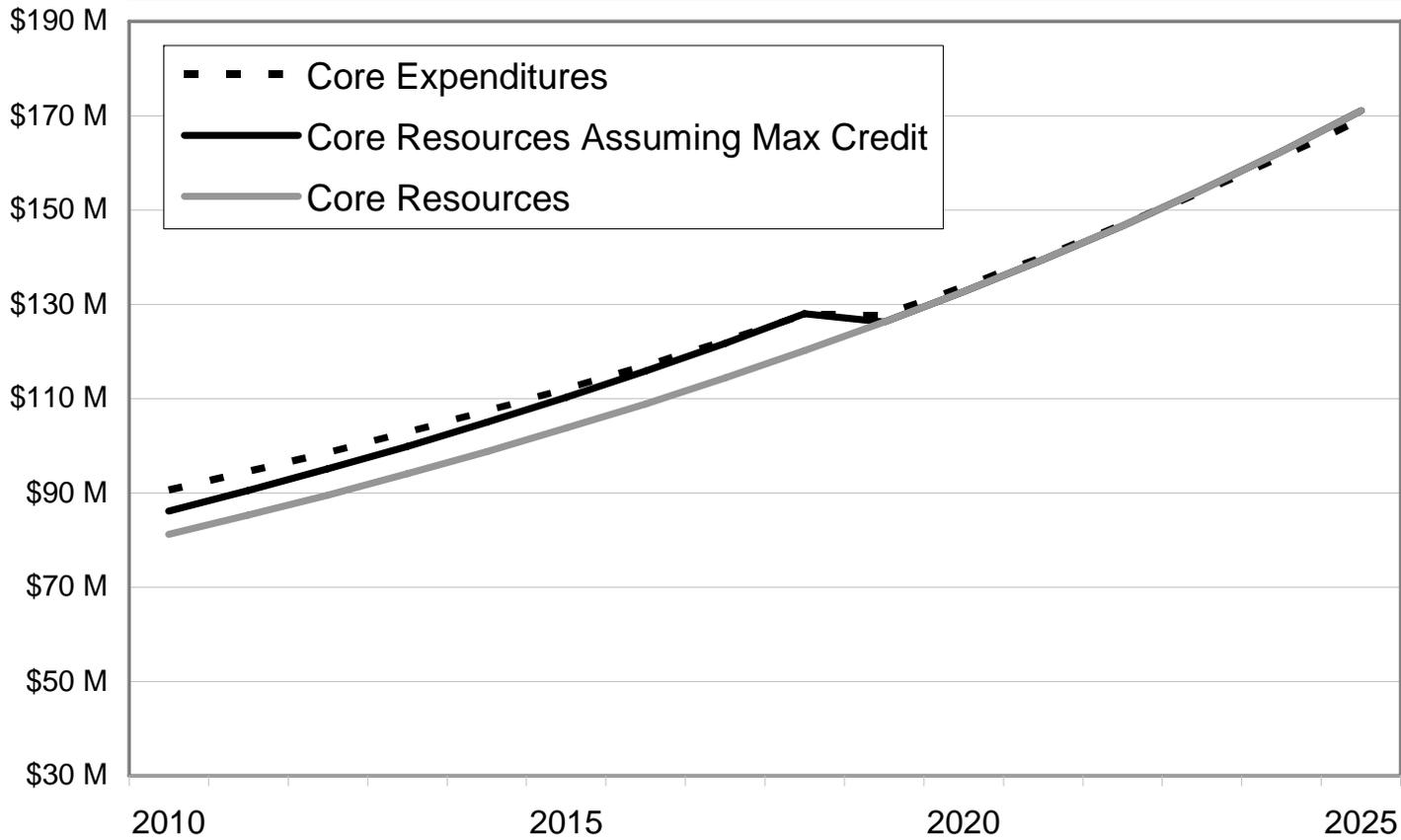
Scenario: Business Tax Focused

Tax Policies	Expenditure Management Policies	Development
High	Medium	Medium
Same as baseline plus a new business tax on gross receipts at 0.0975%	Reduce rate of hiring: hired 5 fewer FTEs (185 to 180)	City: Baseline PAA: Baseline



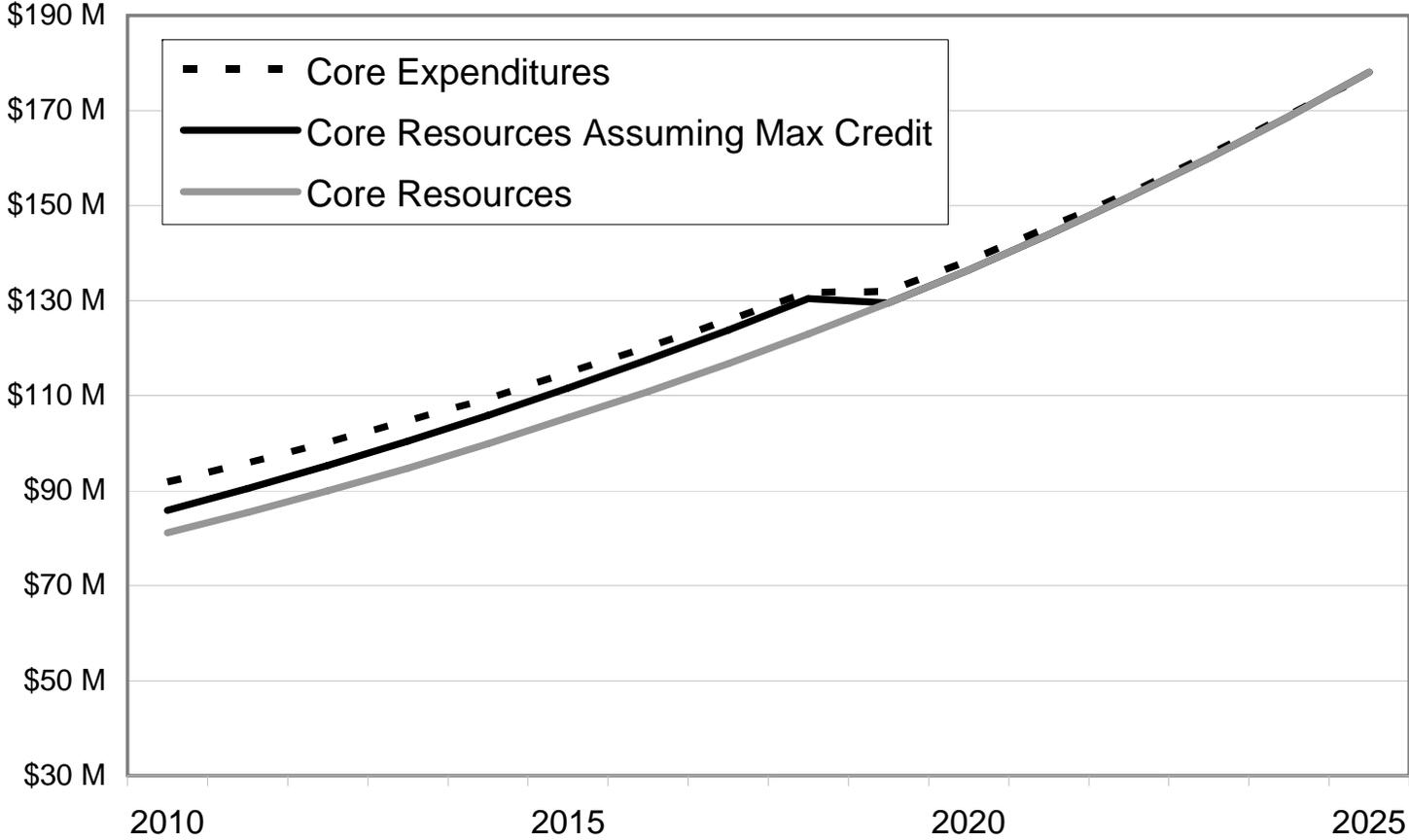
Scenario: No Growth-Related Hiring, Balance With Property Tax

Tax Policies	Expenditure Management Policies	Development
Medium	High	Medium
Same as baseline plus the following levy limits: 2010-2015: 3.0% 2016-2025: 2.5%	Reduce rate of hiring: hired 47 fewer FTEs (185 to 138)	City: Baseline PAA: Baseline



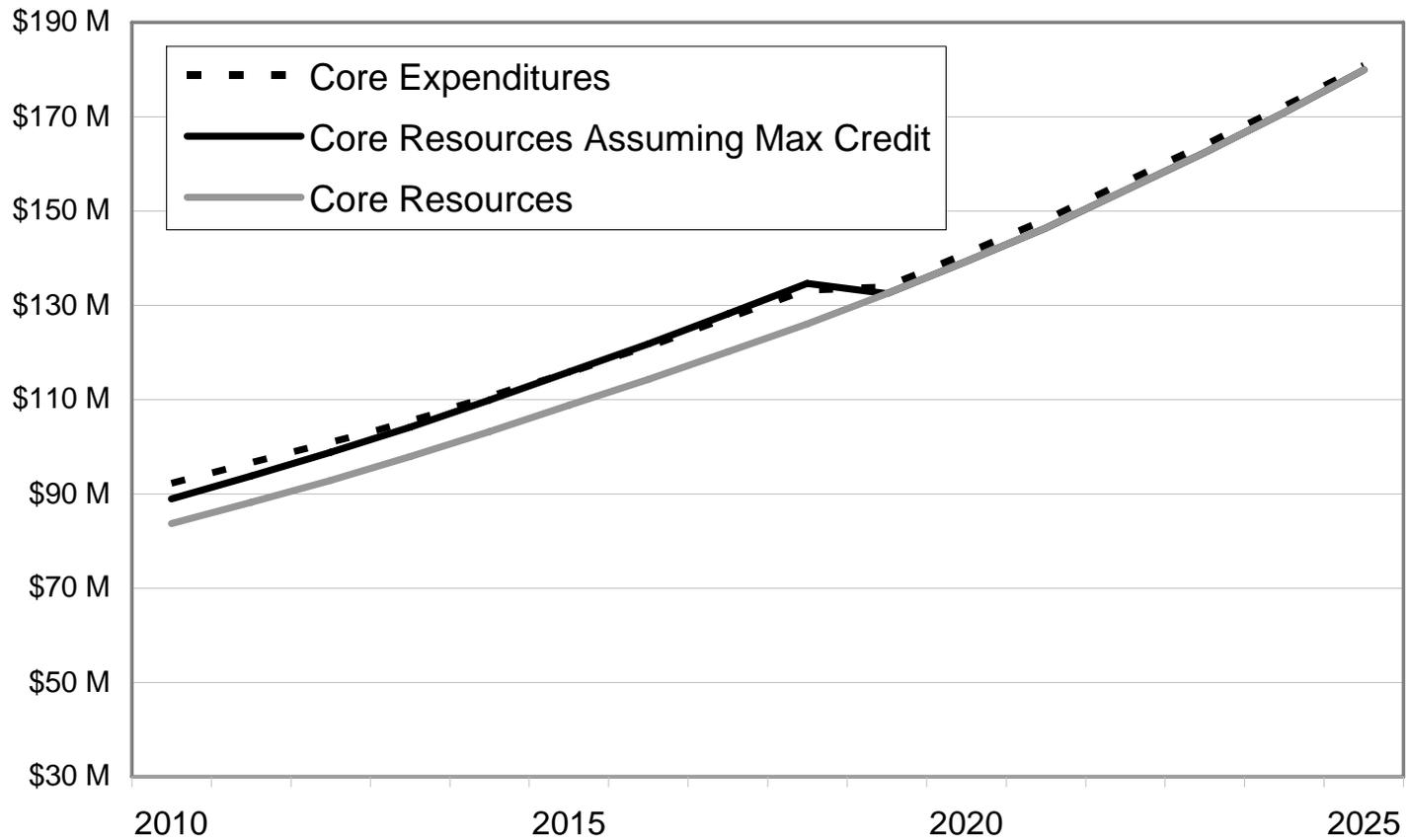
Scenario: Low Development PAAs, Property-Tax Focused

Tax Policies	Expenditure Management Policies	Development
High	Medium	Low
Same as baseline plus the following levy limits: 2010-2015: 5.0% 2016-2025: 4.5%	Reduce rate of hiring: hired 5 fewer FTEs (179 to 174)	City: Baseline PAA: Low



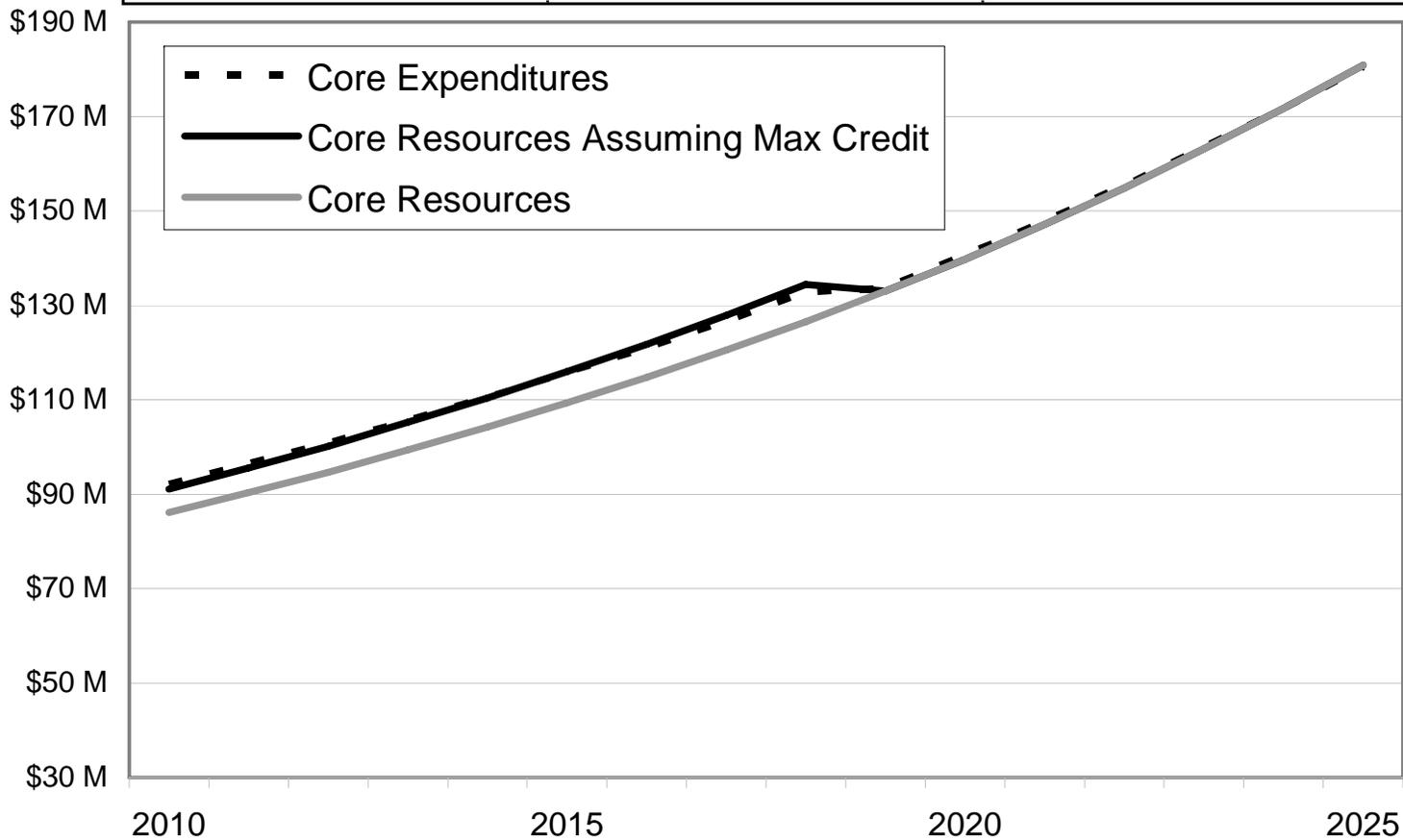
Scenario: High Development Current City, Property-Tax Focused

Tax Policies	Expenditure Management Policies	Development
Low	Medium	High
Same as baseline plus the following levy limits: 2010-2015: 3.0%	Reduce rate of hiring: hired 7 fewer FTEs (192 to 185)	City: High PAA: Baseline



Scenario: Blended Tax Scenario, Property, Business, and Utility Tax Increases

Tax Policies	Expenditure Management Policies	Development
High	Low	Medium
Levy limits of 2.0% from 2010-2025 Tax on gross receipts at 0.05% Private utility taxes at 7.5%	Hiring rate reflects current policies	City: Baseline PAA: Baseline



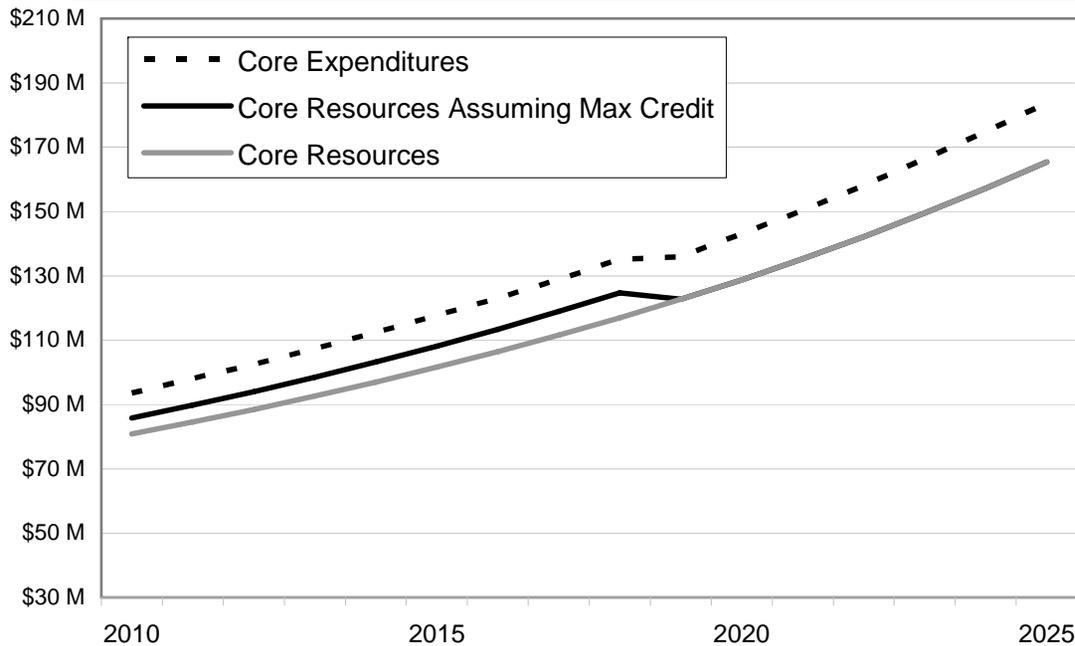
What Variables Matter?

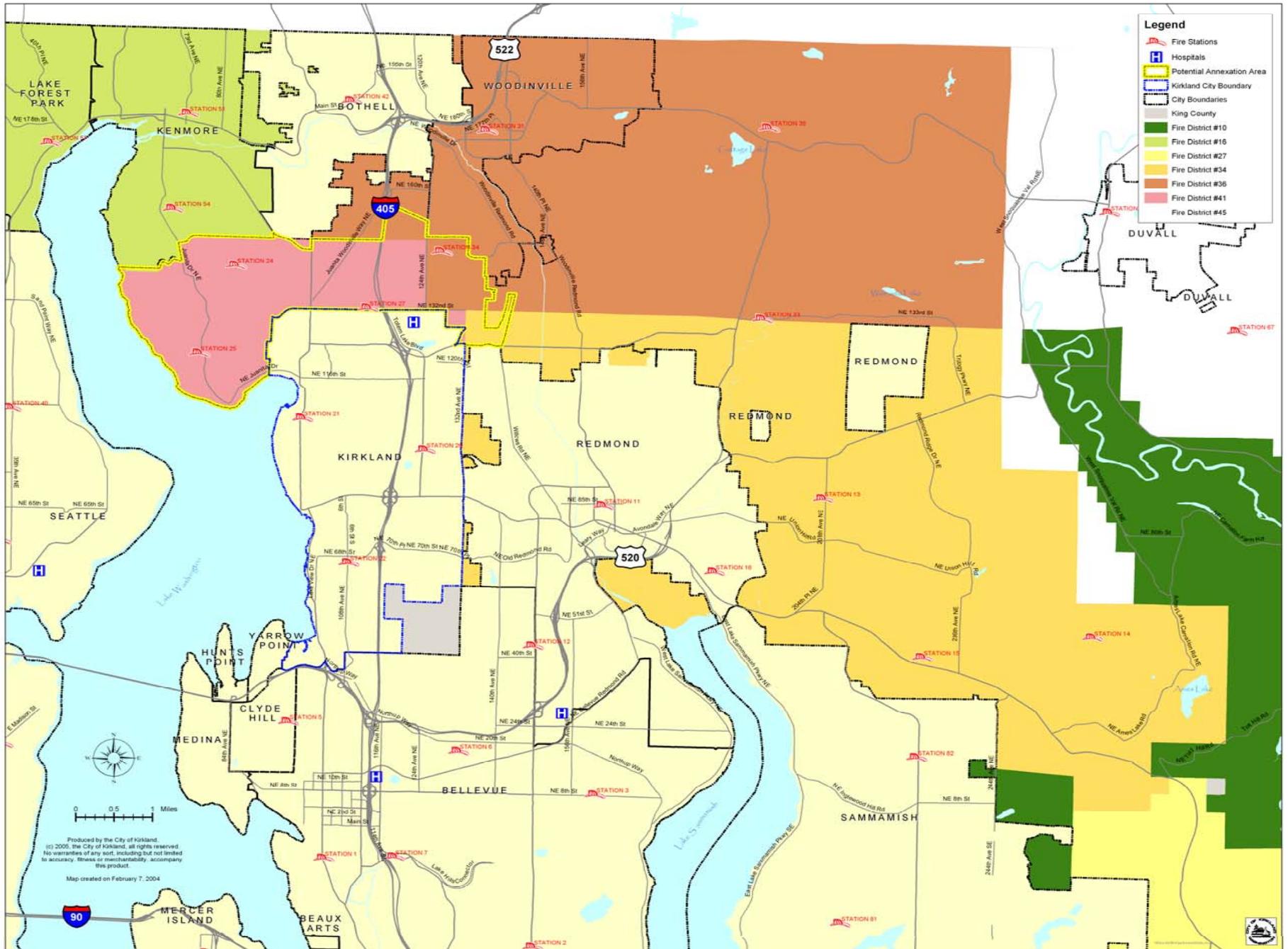
- Added costs in the PAA (example: Kingsgate Fire Station)

**Scenario: Baseline With Annexation,
With Staffed Kingsgate Fire Station**

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

2025 Deficit
Before: \$15 million
After: \$18 million

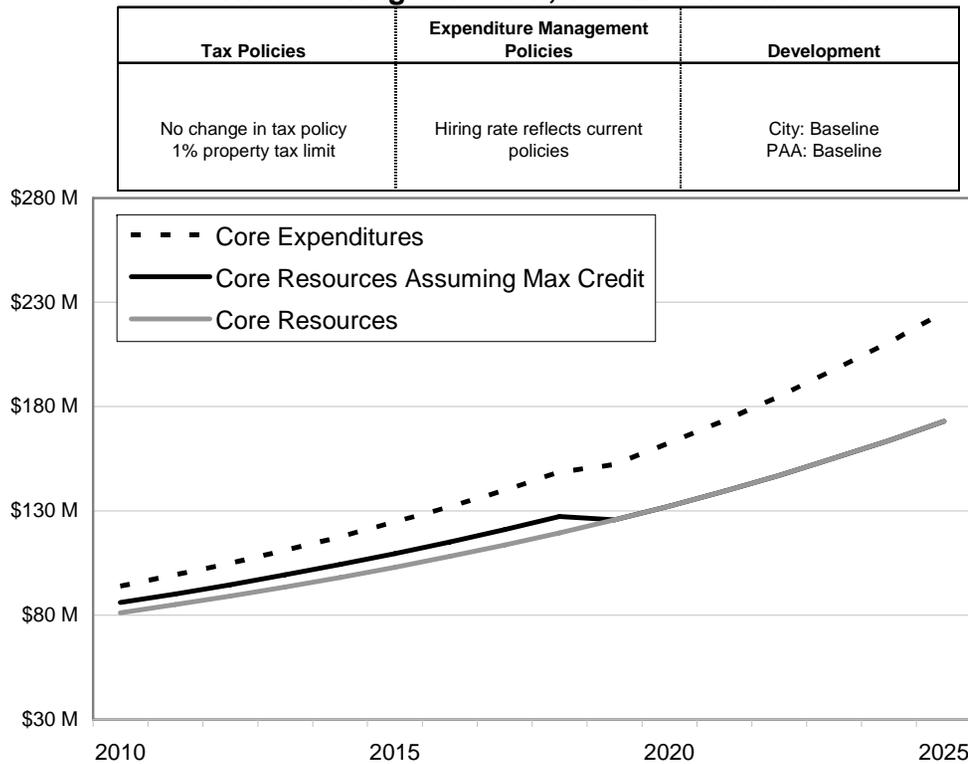




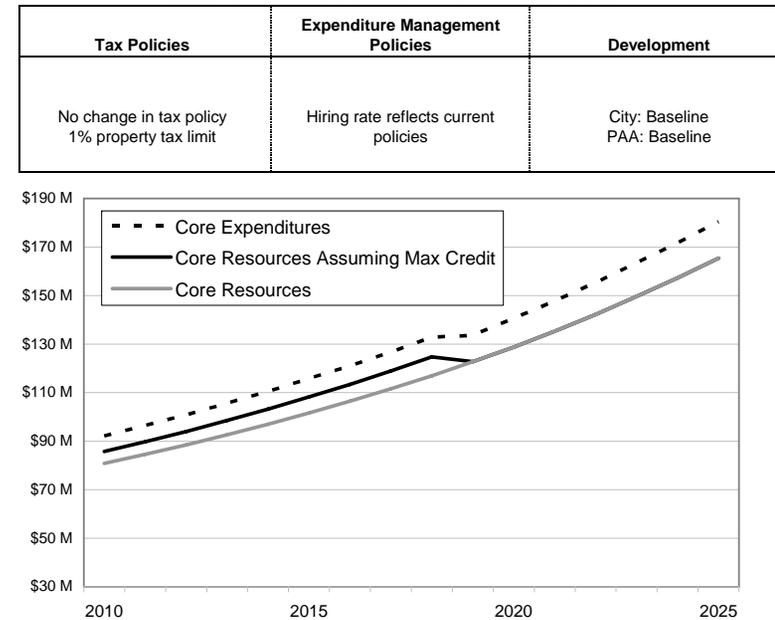
What Variables Matter (continued)?

- The compound rate of wage and benefit inflation

**Scenario: Baseline With Annexation,
With 6% Wage Inflation, 10% Benefit Inflation**



Scenario: Baseline With Annexation



What Variables Matter (continued)?

- In all cases:
 - A change in policy increasing revenues is required (regardless of annexation)
 - Expenditure management is less impacted by the number of FTEs added than by the wage and benefit inflation rates
 - The City cannot control the pace of development; as a result, the high scenario may not be realistic

Recap of Phase II Open Financial Issues

- Stability of state sales tax credit and method
- Infrastructure needs of the PAA
- Availability of funds from King County
- Impacts of adding fire staffing if the Kingsgate Fire station is relocated
- The ultimate sizing and configuration of the new Public Safety/Jail facilities
- Assumption that Northshore Utility District will continue to provide service, but that the franchise fee will keep pace with City utility tax rate

Objectives Revisited

- Provide responses to specific questions and requests from December 12, 2006 Study Session
- Provide a basis for discussion of policy tools and scenarios
- Provide Council with sufficient financial information to enable a decision on whether to proceed to Phase 2 of the annexation evaluation

Proposed Next Steps

- January/February Kirkland Outreach/Financial Information
- February Public Forum
- March Go/No Go Decision to Proceed to Phase Two

Public Outreach

- Council Request in November to extend public outreach to Kirkland residents
 - Present results of financial analysis
 - Ask for further concerns or questions
- Staff worked with Envirolssues to design additional outreach activities
- Two options presented
 - Focus Groups
 - Community Workshop and Forum (recommended format)

Recommended Pre-Forum Activities

- Develop updated materials for public information and an invitation to forum
- Send invitation to all who participated in prior session, listserv subscribers and key stakeholder groups (e.g. neighborhood associations, Chamber of Commerce, etc.)

Meeting Format

- Open house workshop to share information and demonstrate model to interested participations
- Staff presentation of financial analysis findings and answers to FAQ's
- Public comment period in town hall format facilitated by consultant
- Closing comments from Council

Next Steps

- Poll Council for possible dates
- Obtain facility
- Develop updated materials and invitation
- Contact stakeholders

Annexation Study Session
January 9, 2007

Supplemental Materials

Past Strategies to Address the “Diverging Lines”

Strategy	< 1999	1999	2000	2001	2002	2003	2004	2005-06
New revenue source:								
Surface water management fee	X							X
Revenue generating regulatory license fee						X		
Surface water utility tax					X			
Cost of service interfund charge	X							
Increased tax rate or fee:								
Increased property tax rate	X		X			X	X	X
Increased utility tax rate						X		X
Increased parking fines			X		X			
Increased development fees		X	X		X			
Changes to sales tax:								
Reduced CIP allocation			X					
Reduced sales tax lag to 1 year								X
Used one-time revenue source:								
Sales tax audit proceeds							X	
Interest income								X
Planned use of Rainy Day reserve						X	X	X
Expenditure reductions					X	X	X	
Other strategies:								
Used new construction growth	X	X						
Reduced budgeted benefit rate to citywide average					X			X
Reduction in state retirement rates					X			

Major Events

Revenue Impacts

- **1999:** Passage of Initiative 695 (repealing motor vehicle excise tax and requiring voter-approval of all tax and fee increases). Estimated loss of \$660,000 per year. Later declared unconstitutional, but legislature subsequently approved a measure to reduce vehicle license fees
- **2000:** Passage of 722 limiting property tax increases to 2%; later ruled unconstitutional.
- **2001:** Passage of Initiative 747 limits property tax increase to 1% as of 2002.
- **2002:** General economic downturn begins mid-2002; also loss of Home Base, Apple Computer and Kirkland Nissan.
- **2002:** Initiative 776 (\$30 car tabs) passed by voters. Ruled unconstitutional by Superior Court in 2003, but upheld by the State Supreme Court in 2004. Estimated annual loss of \$400,000 for CIP moved planned projects to unfunded.
- **2004:** Sidewalk fee-in-lieu elimination removed \$2.98 M in 6-year CIP for planned sidewalks.

Expenditure Impacts

- Added staff between 1997 and 2007 averaging 13 FTE’s per year addressing service level needs (e.g., public safety, development services, and technology) and adding programs such as economic development and neighborhood traffic control.
- Health-care related benefit premiums have essentially doubled since 1998.

Development Scenario Characteristics – Average*

Development Scenarios and Outputs (AVERAGE PER YEAR)

	Current City			PAAs			Total City		
	Low	Baseline	High	Low	Baseline	High	Low	Baseline	High
Residential									
SF DU Developed/Year	117	171	255	64	103	139	181	273	394
Net SF DU Added/Year	77	97	97	53	84	111	130	181	208
MF DU Developed/Year	159	206	232	77	125	161	236	331	393
Net MF DU Added/Year	135	171	174	68	110	143	203	281	317
Commercial									
Net Sq Ft Added (Retail)/Year	55,661	54,299	124,941	16,558	27,533	43,479	72,219	81,831	168,419
Net Sq Ft Added (Non-retail)/Year	14,792	100,840	143,454	22,927	36,867	57,212	37,719	137,707	200,667
Net Sq Ft Added (Total)/Year	70,453	155,139	268,395	39,485	64,399	100,691	109,938	219,538	369,086

SF DU – Single Family Dwelling Unit

MF DU – Multi-Family Dwelling Unit

* Additional information is included in the supplemental packet.

Development Scenario Characteristics – Total*

Development Scenarios and Outputs (TOTAL)

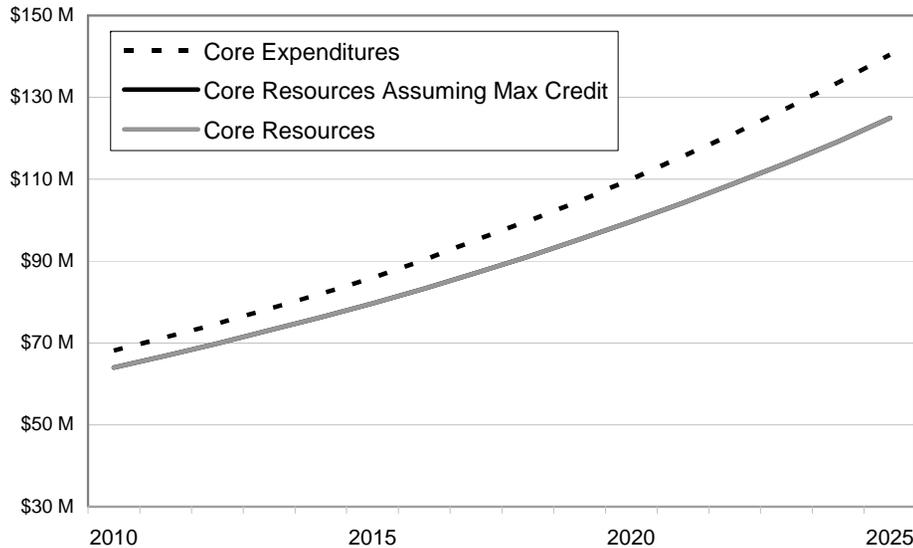
	Current City			PAAs			Total City		
	Low	Baseline	High	Low	Baseline	High	Low	Baseline	High
Residential									
SF DU Developed	2,338	3,413	5,106	1,282	2,055	2,775	3,620	5,468	7,881
Net SF DU Added	1,548	1,935	1,935	1,051	1,682	2,223	2,599	3,617	4,158
MF DU Developed	3,180	4,128	4,635	1,541	2,497	3,228	4,721	6,625	7,863
Net MF DU Added	2,707	3,410	3,479	1,357	2,204	2,852	4,064	5,614	6,331
Commercial									
Net Sq Ft Added (Retail)	1,113,218	1,706,019	2,498,816	331,161	550,654	869,571	1,444,379	1,636,624	3,368,387
Net Sq Ft Added (Non-retail)	295,835	1,396,753	2,869,090	458,540	737,334	1,144,243	754,376	2,754,136	4,013,333
Net Sq Ft Added (Total)	1,409,053	3,102,772	5,367,906	789,702	1,287,988	2,013,814	2,198,755	4,390,760	7,381,720
% AV from New Construction	1.26%	1.70%	2.22%	1.44%	2.16%	2.74%	1.31%	1.84%	2.38%

* Additional information is included in the supplemental packet.

	Tools			Long-Term Fiscal Outlook		
	Tax Policies	Expenditure Management Policies	Development	Fiscal Analysis Findings		Net Impact of Annexation
Baseline No Annexation	No change in tax policy 1% property tax limit	Hiring rate reflects current policies	Baseline	O&M Impacts Deficits in all years Deficit grows to \$15.5M by 2025 Def. as % of exp.: 1% to 11% Cost growth: 5.1%/yr Revenue growth: 4.5%/yr	Facilities \$30 M unfunded need Annual D/S: \$2.3 M	Surplus/Deficit in 2025 Current Kirkland: (\$15.5M) PAA: 0.0M Total City: (15.5M)
Annexation Scenarios						
Baseline With Annexation	Same as above	Same as above	City: Baseline PAA: Baseline	O&M Impacts Citywide deficit marginally reduced PAA deficit starts at 15% and ends at 1% Cost growth: 6.4%/yr Revenue growth: 6.0%/yr	Facilities \$80 M need citywide \$38 M impact from annexation 30-year bond -- \$3.3M/yr (all city) 10-year bond -- \$5.9M/yr (PAA impact)	Surplus/Deficit in 2025 Current Kirkland: (\$14.8M) PAA: (0.3M) Total City: (15.1M)
Balanced Scenarios (closes fiscal gap to within 1% of Expenditures in 2020)						
Property-Tax Focused	High Same as baseline plus the following levy limits: 2010-2015: 4.0% 2016-2025: 3.5%	Medium Reduce rate of hiring: hired 5 fewer FTEs (185 to 180)	Medium City: Baseline PAA: Baseline	Balancing with primarily property tax results in net gains from the annexation areas which help offset base City structural deficit issues. Without annexation, tax rates would need to be higher to achieve the same ends.		Current Kirkland: (\$4.1M) PAA: 4.6M Total City: .5M
Business-Tax Focused	High Same as baseline plus a new business tax on gross receipts at 0.0975%	Medium Reduce rate of hiring: hired 5 fewer FTEs (185 to 180)	Medium City: Baseline PAA: Baseline	This scenario is similar to the property tax based scenario except the net contribution from annexation is smaller, since the tax is based on businesses only.		Current Kirkland: (\$5.7M) PAA: 2.9M Total City: (2.8M)
No Growth-Related Hiring, Balance With Property Tax	Medium Same as baseline plus the following levy limits: 2010-2015: 3.0% 2016-2025: 2.5%	High Reduce rate of hiring: hired 47 fewer FTEs (185 to 138)	Medium City: Baseline PAA: Baseline	The impact of much lower hiring reduces the need for new taxes, though at a likely cost in terms of level-of-service. The impact of annexation is even more positive as the rate of growth in the annexation areas is somewhat higher than current Kirkland.		Current Kirkland: (\$4.4M) PAA: 6.4M Total City: 1.9M
Low Development PAAs, Property-Tax Focused	High Same as baseline plus the following levy limits: 2010-2015: 5.0% 2016-2025: 4.5%	Medium Reduce rate of hiring: hired 5 fewer FTEs (179 to 174)	Low City: Baseline PAA: Low	The impact of lower PAA development is higher tax rates and a lower FTE demand overall, though the PAA fiscal impact remains positive and the taxes lower than a no annexation scenario.		Current Kirkland: (\$1.8M) PAA: 2.2M Total City: .4M
High Development Current City, Property-Tax Focused	Low Same as baseline plus the following levy limits: 2010-2015: 3.0%	Medium Reduce rate of hiring: hired 7 fewer FTEs (192 to 185)	High City: High PAA: Baseline	The impact of high development in current Kirkland is a much lower tax need. The impact of annexation remains positive, but to a much lower degree, since most of the funding gap is solved by development in current Kirkland.		Current Kirkland: (\$2.9M) PAA: 1.9M Total City: 1.0M

Scenario: Baseline No Annexation

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



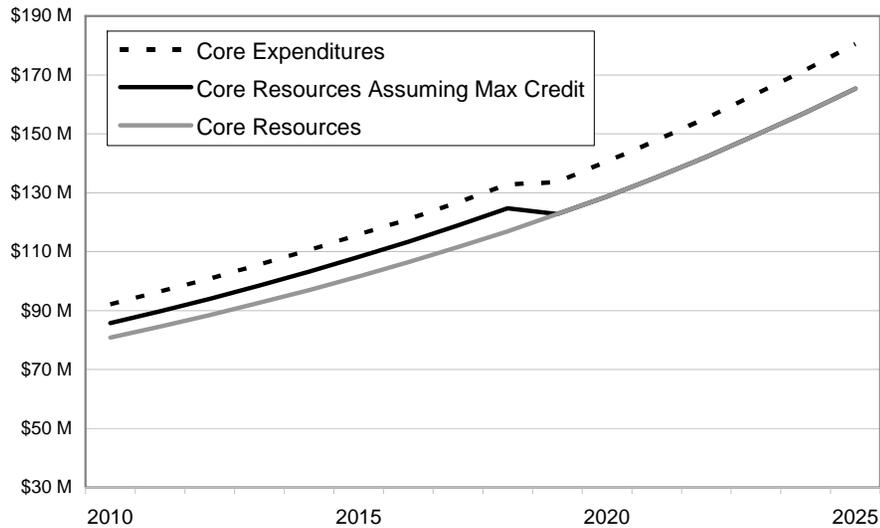
Current Kirkland	2010	2015	2020	2025
Core Expenditures (000's)	65,804	83,604	107,673	138,105
Facility Debt Service (000's)	2,295	2,295	2,295	2,295
Subtotal Expenditures	68,099	85,899	109,968	140,400
Core Resources (000's)	64,000	79,685	99,650	124,937
State Sales Tax Credit ('000's)	0	0	0	0
Subtotal Revenues	64,000	79,685	99,650	124,937
Net Resources (000's)	(4,099)	(6,214)	(10,318)	(15,462)
Deficit as % of Expenditures	-6%	-7%	-10%	-11%

Increment from PAAs	2010	2015	2020	2025
Core Expenditures (000's)	0	0	0	0
Facility Debt Service (000's)	0	0	0	0
Subtotal Expenditures	0	0	0	0
Core Resources (000's)	0	0	0	0
State Sales Tax Credit ('000's)	0	0	0	0
Subtotal Revenues	0	0	0	0
Net Resources (000's)	0	0	0	0
Deficit as % of Expenditures	N/A	N/A	N/A	N/A

Entire City	2010	2015	2020	2025
Core Expenditures (000's)	65,804	83,604	107,673	138,105
Facility Debt Service (000's)	2,295	2,295	2,295	2,295
Subtotal Expenditures	68,099	85,899	109,968	140,400
Core Resources (000's)	64,000	79,685	99,650	124,937
State Sales Tax Credit ('000's)	0	0	0	0
Subtotal Revenues	64,000	79,685	99,650	124,937
Net Resources (000's)	(4,099)	(6,214)	(10,318)	(15,462)
Deficit as % of Core Expenditures	-6%	-7%	-10%	-11%

Scenario: Baseline With Annexation

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



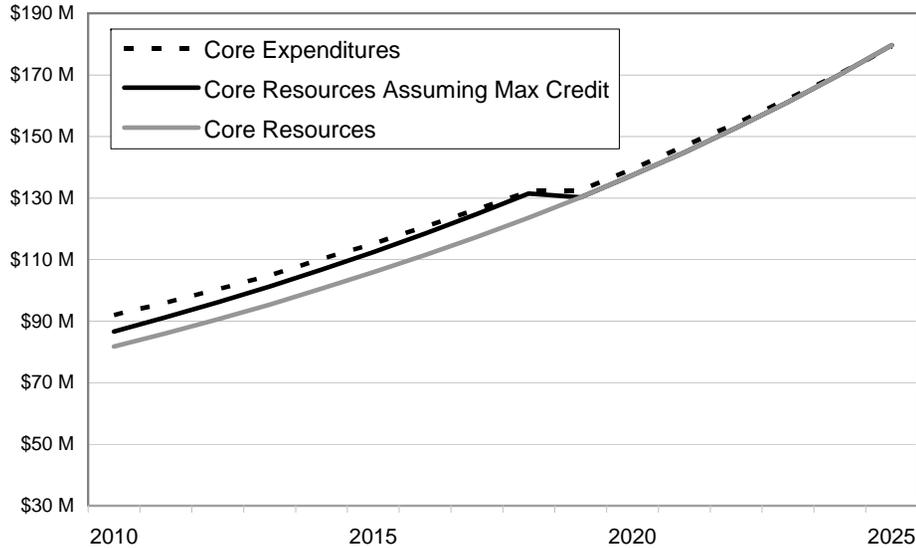
Current Kirkland	2010	2015	2020	2025
Core Expenditures (000's)	65,843	83,819	107,752	138,083
Facility Debt Service (000's)	2,311	2,310	2,290	2,247
Subtotal Expenditures	68,153	86,129	110,042	140,330
Core Resources (000's)	64,326	80,067	100,110	125,510
State Sales Tax Credit ('000's)	0	0	0	0
Subtotal Revenues	64,326	80,067	100,110	125,510
Net Resources (000's)	(3,827)	(6,062)	(9,932)	(14,820)
Deficit as % of Expenditures	-6%	-7%	-9%	-11%

Increment from PAAs	2010	2015	2020	2025
Core Expenditures (000's)	17,079	22,751	29,565	39,117
Facility Debt Service (000's)	6,873	6,874	1,022	1,064
Subtotal Expenditures	23,953	29,624	30,587	40,181
Core Resources (000's)	16,507	21,557	28,618	39,902
State Sales Tax Credit ('000's)	4,926	6,565	0	0
Subtotal Revenues	21,433	28,123	28,618	39,902
Net Resources (000's)	(2,520)	(1,502)	(1,969)	(279)
Deficit as % of Expenditures	-15%	-7%	-7%	-1%

Entire City	2010	2015	2020	2025
Core Expenditures (000's)	82,922	106,569	137,317	177,200
Facility Debt Service (000's)	9,184	9,184	3,312	3,312
Subtotal Expenditures	92,106	115,753	140,628	180,511
Core Resources (000's)	80,833	101,624	128,727	165,412
State Sales Tax Credit ('000's)	4,926	6,565	0	0
Subtotal Revenues	85,759	108,190	128,727	165,412
Net Resources (000's)	(6,347)	(7,564)	(11,901)	(15,099)
Deficit as % of Core Expenditures	-8%	-7%	-9%	-9%

Scenario: Property Tax Focused

Tax Policies	Expenditure Management Policies	Development
High	Medium	Medium
Same as baseline plus the following levy limits: 2010-2015: 4.0% 2016-2025: 3.5%	Reduce rate of hiring: hired 5 fewer FTEs (185 to 180)	City: Baseline PAA: Baseline



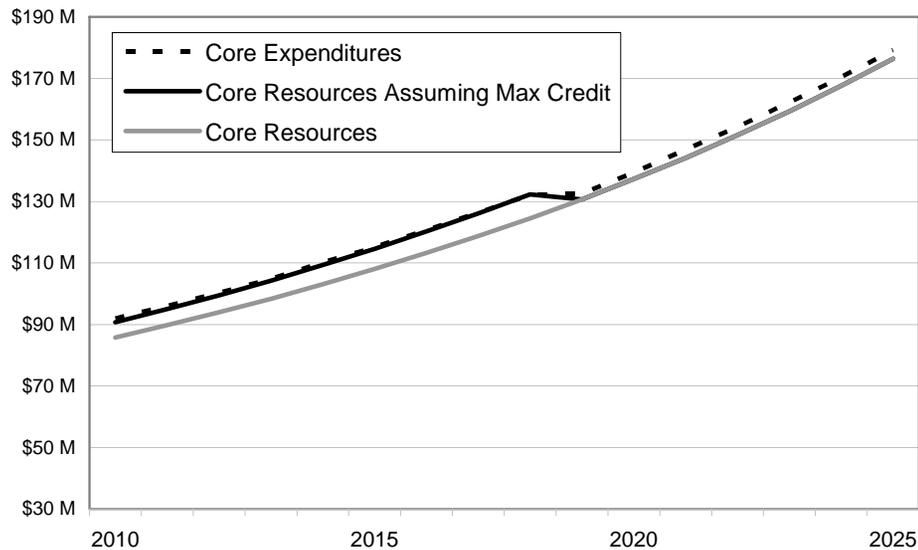
Current Kirkland	2010	2015	2020	2025
Core Expenditures (000's)	65,681	83,578	106,710	137,171
Facility Debt Service (000's)	2,311	2,310	2,290	2,247
Subtotal Expenditures	67,992	85,888	109,000	139,419
Core Resources (000's)	64,955	83,135	105,947	135,277
State Sales Tax Credit ('000's)	0	0	0	0
Subtotal Revenues	64,955	83,135	105,947	135,277
Net Resources (000's)	(3,037)	(2,753)	(3,053)	(4,142)
Deficit as % of Expenditures	-5%	-3%	-3%	-3%

Increment from PAAs	2010	2015	2020	2025
Core Expenditures (000's)	17,048	22,390	29,270	38,677
Facility Debt Service (000's)	6,873	6,874	1,022	1,064
Subtotal Expenditures	23,921	29,264	30,292	39,741
Core Resources (000's)	16,747	22,750	31,445	44,361
State Sales Tax Credit ('000's)	4,926	6,565	0	0
Subtotal Revenues	21,674	29,315	31,445	44,361
Net Resources (000's)	(2,248)	51	1,153	4,619
Deficit as % of Expenditures	-13%	0%	4%	12%

Entire City	2010	2015	2020	2025
Core Expenditures (000's)	82,729	105,968	135,980	175,848
Facility Debt Service (000's)	9,184	9,184	3,312	3,312
Subtotal Expenditures	91,913	115,152	139,291	179,160
Core Resources (000's)	81,702	105,885	137,391	179,637
State Sales Tax Credit ('000's)	4,926	6,565	0	0
Subtotal Revenues	86,629	112,450	137,391	179,637
Net Resources (000's)	(5,284)	(2,702)	(1,900)	477
Deficit as % of Core Expenditures	-6%	-3%	-1%	0%

Scenario: Business Tax Focused

Tax Policies	Expenditure Management Policies	Development
High	Medium	Medium
Same as baseline plus a new business tax on gross receipts at 0.0975%	Reduce rate of hiring: hired 5 fewer FTEs (185 to 180)	City: Baseline PAA: Baseline



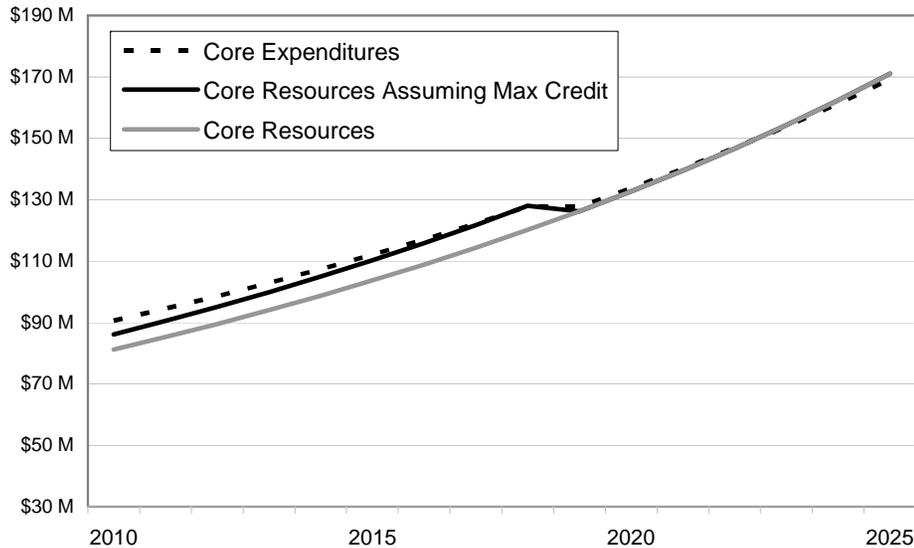
Current Kirkland	2010	2015	2020	2025
Core Expenditures (000's)	65,681	83,578	106,710	137,171
Facility Debt Service (000's)	2,311	2,310	2,290	2,247
Subtotal Expenditures	67,992	85,888	109,000	139,419
Core Resources (000's)	68,463	85,381	106,677	133,750
State Sales Tax Credit ('000's)	0	0	0	0
Subtotal Revenues	68,463	85,381	106,677	133,750
Net Resources (000's)	471	(507)	(2,323)	(5,668)
Deficit as % of Expenditures	1%	-1%	-2%	-4%

Increment from PAAs	2010	2015	2020	2025
Core Expenditures (000's)	17,048	22,390	29,270	38,677
Facility Debt Service (000's)	6,873	6,874	1,022	1,064
Subtotal Expenditures	23,921	29,264	30,292	39,741
Core Resources (000's)	17,283	22,630	30,631	42,600
State Sales Tax Credit ('000's)	4,926	6,565	0	0
Subtotal Revenues	22,209	29,195	30,631	42,600
Net Resources (000's)	(1,712)	(69)	340	2,859
Deficit as % of Expenditures	-10%	0%	1%	7%

Entire City	2010	2015	2020	2025
Core Expenditures (000's)	82,729	105,968	135,980	175,848
Facility Debt Service (000's)	9,184	9,184	3,312	3,312
Subtotal Expenditures	91,913	115,152	139,291	179,160
Core Resources (000's)	85,746	108,011	137,309	176,350
State Sales Tax Credit ('000's)	4,926	6,565	0	0
Subtotal Revenues	90,672	114,577	137,309	176,350
Net Resources (000's)	(1,241)	(575)	(1,983)	(2,810)
Deficit as % of Core Expenditures	-2%	-1%	-1%	-2%

Scenario: No Growth-Related Hiring, Balance With Property Tax

Tax Policies	Expenditure Management Policies	Development
Medium	High	Medium
Same as baseline plus the following levy limits: 2010-2015: 3.0% 2016-2025: 2.5%	Reduce rate of hiring: hired 47 fewer FTEs (185 to 138)	City: Baseline PAA: Baseline



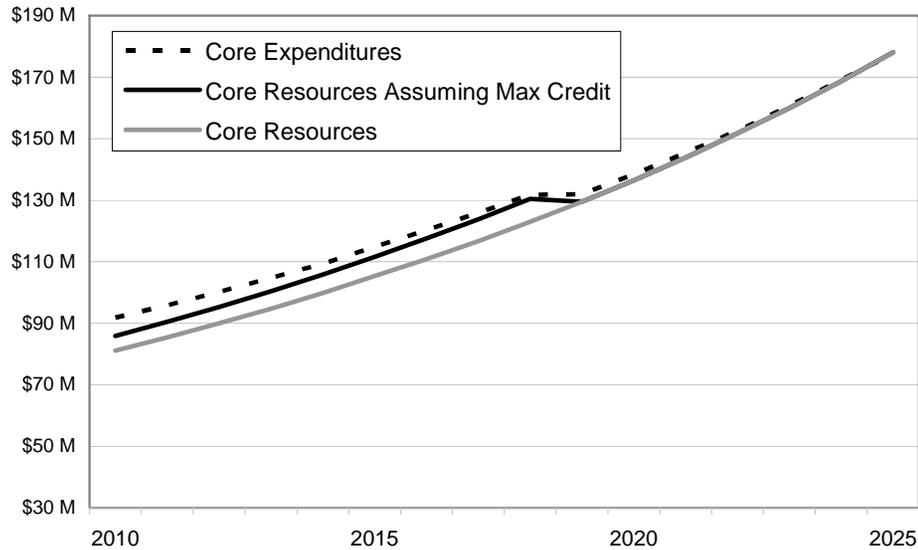
Current Kirkland	2010	2015	2020	2025
Core Expenditures (000's)	64,679	81,652	103,507	131,746
Facility Debt Service (000's)	2,311	2,310	2,290	2,247
Subtotal Expenditures	66,990	83,962	105,797	133,993
Core Resources (000's)	64,551	81,607	102,738	129,553
State Sales Tax Credit ('000's)	0	0	0	0
Subtotal Revenues	64,551	81,607	102,738	129,553
Net Resources (000's)	(2,439)	(2,355)	(3,059)	(4,440)
Deficit as % of Expenditures	-4%	-3%	-3%	-3%

Increment from PAAs	2010	2015	2020	2025
Core Expenditures (000's)	16,787	21,218	26,865	34,069
Facility Debt Service (000's)	6,873	6,874	1,022	1,064
Subtotal Expenditures	23,660	28,092	27,887	35,133
Core Resources (000's)	16,658	22,154	29,908	41,501
State Sales Tax Credit ('000's)	4,926	6,565	0	0
Subtotal Revenues	21,585	28,719	29,908	41,501
Net Resources (000's)	(2,075)	627	2,022	6,368
Deficit as % of Expenditures	-12%	3%	8%	19%

Entire City	2010	2015	2020	2025
Core Expenditures (000's)	81,466	102,870	130,372	165,815
Facility Debt Service (000's)	9,184	9,184	3,312	3,312
Subtotal Expenditures	90,650	112,054	133,684	169,126
Core Resources (000's)	81,209	103,761	132,646	171,054
State Sales Tax Credit ('000's)	4,926	6,565	0	0
Subtotal Revenues	86,135	110,326	132,646	171,054
Net Resources (000's)	(4,514)	(1,728)	(1,038)	1,928
Deficit as % of Core Expenditures	-6%	-2%	-1%	1%

Scenario: Low Development PAAs, Property-Tax Focused

Tax Policies	Expenditure Management Policies	Development
High	Medium	Low
Same as baseline plus the following levy limits: 2010-2015: 5.0% 2016-2025: 4.5%	Reduce rate of hiring: hired 5 fewer FTEs (179 to 174)	City: Baseline PAA: Low



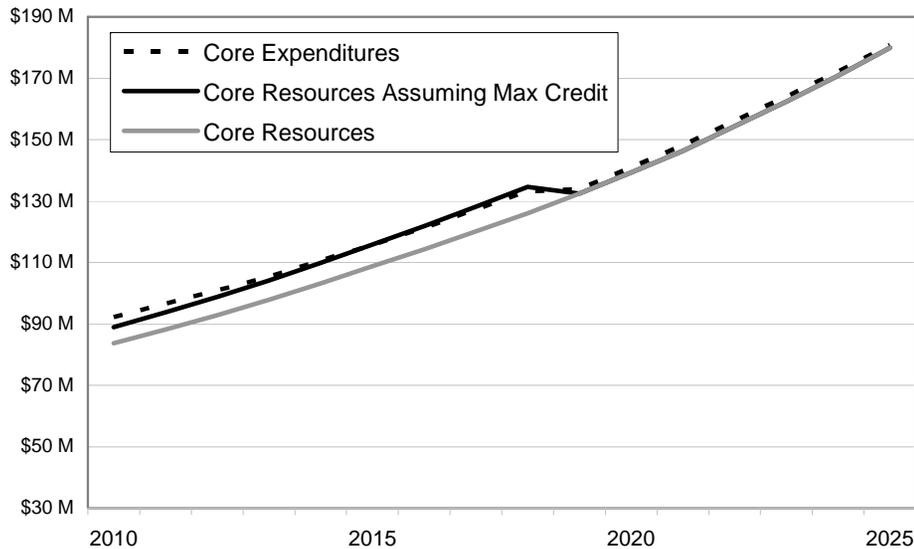
Current Kirkland	2010	2015	2020	2025
Core Expenditures (000's)	65,690	83,597	106,718	137,247
Facility Debt Service (000's)	2,327	2,346	2,349	2,336
Subtotal Expenditures	68,017	85,942	109,068	139,583
Core Resources (000's)	64,853	83,571	107,231	137,800
State Sales Tax Credit ('000's)	0	0	0	0
Subtotal Revenues	64,853	83,571	107,231	137,800
Net Resources (000's)	(3,164)	(2,371)	(1,836)	(1,783)
Deficit as % of Expenditures	-5%	-3%	-2%	-1%

Increment from PAAs	2010	2015	2020	2025
Core Expenditures (000's)	16,976	22,022	28,339	37,122
Facility Debt Service (000's)	6,857	6,838	962	976
Subtotal Expenditures	23,833	28,860	29,302	38,098
Core Resources (000's)	16,207	21,741	29,153	40,294
State Sales Tax Credit ('000's)	4,817	6,317	0	0
Subtotal Revenues	21,024	28,058	29,153	40,294
Net Resources (000's)	(2,809)	(802)	(148)	2,196
Deficit as % of Expenditures	-17%	-4%	-1%	6%

Entire City	2010	2015	2020	2025
Core Expenditures (000's)	82,666	105,618	135,057	174,370
Facility Debt Service (000's)	9,184	9,184	3,312	3,312
Subtotal Expenditures	91,850	114,802	138,369	177,681
Core Resources (000's)	81,060	105,312	136,384	178,094
State Sales Tax Credit ('000's)	4,817	6,317	0	0
Subtotal Revenues	85,877	111,628	136,384	178,094
Net Resources (000's)	(5,973)	(3,174)	(1,985)	413
Deficit as % of Core Expenditures	-7%	-3%	-1%	0%

Scenario: High Development Current City, Property-Tax Focused

Tax Policies	Expenditure Management Policies	Development
Low	Medium	High
Same as baseline plus the following levy limits: 2010-2015: 3.0%	Reduce rate of hiring: hired 7 fewer FTEs (192 to 185)	City: High PAA: Baseline



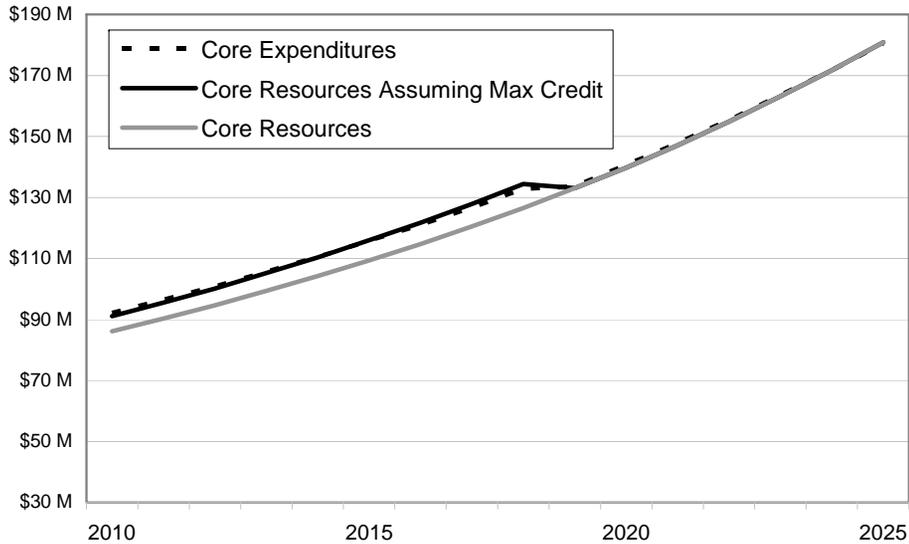
Current Kirkland	2010	2015	2020	2025
Core Expenditures (000's)	65,906	84,363	108,149	139,107
Facility Debt Service (000's)	2,326	2,341	2,334	2,304
Subtotal Expenditures	68,232	86,704	110,483	141,411
Core Resources (000's)	66,841	86,271	109,254	138,532
State Sales Tax Credit ('000's)	0	0	0	0
Subtotal Revenues	66,841	86,271	109,254	138,532
Net Resources (000's)	(1,390)	(434)	(1,229)	(2,880)
Deficit as % of Expenditures	-2%	-1%	-1%	-2%

Increment from PAAs	2010	2015	2020	2025
Core Expenditures (000's)	17,058	22,156	29,515	38,483
Facility Debt Service (000's)	6,858	6,843	977	1,007
Subtotal Expenditures	23,916	28,999	30,493	39,490
Core Resources (000's)	16,874	22,524	29,997	41,370
State Sales Tax Credit ('000's)	5,251	7,126	0	0
Subtotal Revenues	22,125	29,650	29,997	41,370
Net Resources (000's)	(1,791)	651	(496)	1,879
Deficit as % of Expenditures	-10%	3%	-2%	5%

Entire City	2010	2015	2020	2025
Core Expenditures (000's)	82,964	106,519	137,664	177,590
Facility Debt Service (000's)	9,184	9,184	3,312	3,312
Subtotal Expenditures	92,148	115,703	140,975	180,902
Core Resources (000's)	83,715	108,795	139,251	179,901
State Sales Tax Credit ('000's)	5,251	7,126	0	0
Subtotal Revenues	88,966	115,920	139,251	179,901
Net Resources (000's)	(3,181)	217	(1,725)	(1,001)
Deficit as % of Core Expenditures	-4%	0%	-1%	-1%

Scenario: Blended Tax Scenario, Property, Business, and Utility Tax Increases

Tax Policies	Expenditure Management Policies	Development
High	Low	Medium
Levy limits of 2.0% from 2010-2025 Tax on gross receipts at 0.05% Private utility taxes at 7.5%	Hiring rate reflects current policies	City: Baseline PAA: Baseline



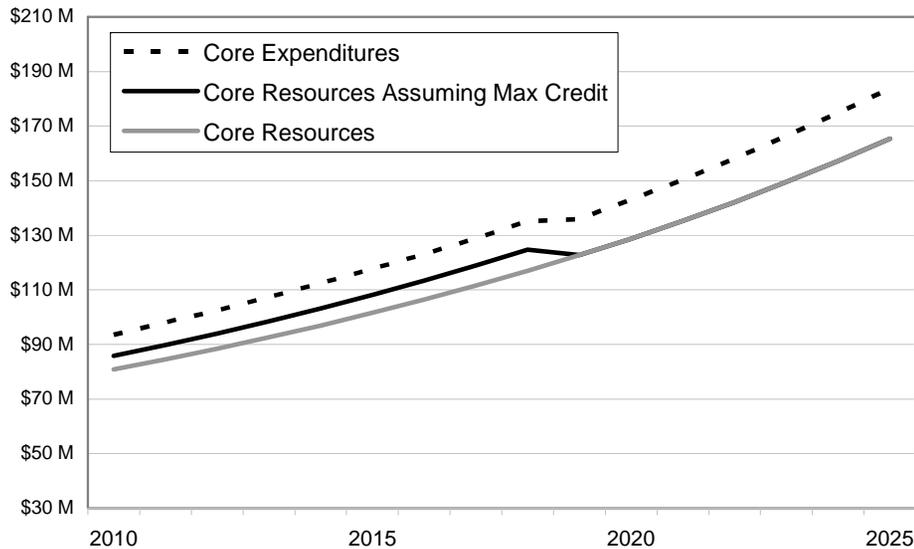
Current Kirkland	2010	2015	2020	2025
Core Expenditures (000's)	65,843	83,819	107,752	138,083
Facility Debt Service (000's)	2,311	2,310	2,290	2,247
Subtotal Expenditures	68,153	86,129	110,042	140,330
Core Resources (000's)	68,205	85,676	107,937	136,151
State Sales Tax Credit ('000's)	0	0	0	0
Subtotal Revenues	68,205	85,676	107,937	136,151
Net Resources (000's)	52	(453)	(2,105)	(4,179)
Deficit as % of Expenditures	0%	-1%	-2%	-3%

Increment from PAAs	2010	2015	2020	2025
Core Expenditures (000's)	17,079	22,751	29,565	39,117
Facility Debt Service (000's)	6,873	6,874	1,022	1,064
Subtotal Expenditures	23,953	29,624	30,587	40,181
Core Resources (000's)	17,917	23,714	31,850	44,739
State Sales Tax Credit ('000's)	4,926	6,565	0	0
Subtotal Revenues	22,844	30,279	31,850	44,739
Net Resources (000's)	(1,109)	655	1,263	4,558
Deficit as % of Expenditures	-6%	3%	4%	12%

Entire City	2010	2015	2020	2025
Core Expenditures (000's)	82,922	106,569	137,317	177,200
Facility Debt Service (000's)	9,184	9,184	3,312	3,312
Subtotal Expenditures	92,106	115,753	140,628	180,511
Core Resources (000's)	86,123	109,390	139,787	180,890
State Sales Tax Credit ('000's)	4,926	6,565	0	0
Subtotal Revenues	91,049	115,955	139,787	180,890
Net Resources (000's)	(1,057)	202	(841)	379
Deficit as % of Core Expenditures	-1%	0%	-1%	0%

Scenario: Baseline With Annexation, With Staffed Kingsgate Fire Station

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



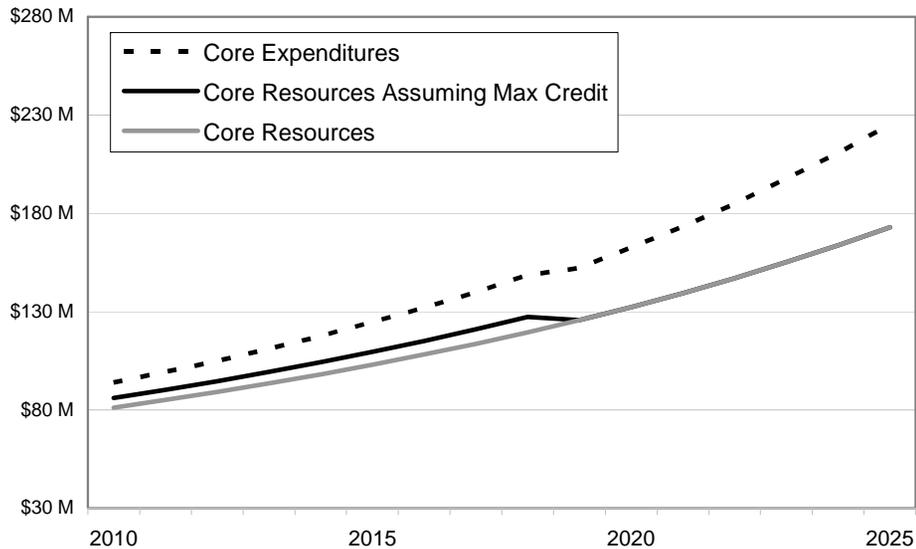
Current Kirkland	2010	2015	2020	2025
Core Expenditures (000's)	65,843	83,819	107,752	138,083
Facility Debt Service (000's)	2,311	2,310	2,290	2,247
Subtotal Expenditures	68,153	86,129	110,042	140,330
Core Resources (000's)	64,326	80,067	100,110	125,510
State Sales Tax Credit ('000's)	0	0	0	0
Subtotal Revenues	64,326	80,067	100,110	125,510
Net Resources (000's)	(3,827)	(6,062)	(9,932)	(14,820)
Deficit as % of Expenditures	-6%	-7%	-9%	-11%

Increment from PAAs	2010	2015	2020	2025
Core Expenditures (000's)	18,579	24,674	32,035	42,291
Facility Debt Service (000's)	6,873	6,874	1,022	1,064
Subtotal Expenditures	25,452	31,548	33,057	43,356
Core Resources (000's)	16,507	21,557	28,618	39,902
State Sales Tax Credit ('000's)	4,926	6,565	0	0
Subtotal Revenues	21,433	28,123	28,618	39,902
Net Resources (000's)	(4,019)	(3,425)	(4,439)	(3,454)
Deficit as % of Expenditures	-22%	-14%	-14%	-8%

Entire City	2010	2015	2020	2025
Core Expenditures (000's)	84,421	108,493	139,787	180,374
Facility Debt Service (000's)	9,184	9,184	3,312	3,312
Subtotal Expenditures	93,605	117,677	143,098	183,686
Core Resources (000's)	80,833	101,624	128,727	165,412
State Sales Tax Credit ('000's)	4,926	6,565	0	0
Subtotal Revenues	85,759	108,190	128,727	165,412
Net Resources (000's)	(7,846)	(9,487)	(14,371)	(18,274)
Deficit as % of Core Expenditures	-9%	-9%	-10%	-10%

Scenario: Baseline With Annexation, With 6% Wage Inflation, 10% Benefit Inflation

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



Current Kirkland	2010	2015	2020	2025
Core Expenditures (000's)	67,218	90,596	124,394	171,718
Facility Debt Service (000's)	2,311	2,310	2,290	2,247
Subtotal Expenditures	69,529	92,906	126,683	173,966
Core Resources (000's)	64,527	81,074	102,642	130,753
State Sales Tax Credit ('000's)	0	0	0	0
Subtotal Revenues	64,527	81,074	102,642	130,753
Net Resources (000's)	(5,002)	(11,832)	(24,041)	(43,213)
Deficit as % of Expenditures	-7%	-13%	-19%	-25%

Increment from PAAs	2010	2015	2020	2025
Core Expenditures (000's)	17,491	24,890	34,851	50,184
Facility Debt Service (000's)	6,873	6,874	1,022	1,064
Subtotal Expenditures	24,364	31,764	35,873	51,248
Core Resources (000's)	16,585	21,966	29,597	42,110
State Sales Tax Credit ('000's)	4,926	6,565	0	0
Subtotal Revenues	21,511	28,531	29,597	42,110
Net Resources (000's)	(2,853)	(3,233)	(6,276)	(9,138)
Deficit as % of Expenditures	-16%	-13%	-18%	-18%

Entire City	2010	2015	2020	2025
Core Expenditures (000's)	84,709	115,486	159,245	221,902
Facility Debt Service (000's)	9,184	9,184	3,312	3,312
Subtotal Expenditures	93,893	124,670	162,557	225,214
Core Resources (000's)	81,112	103,040	132,239	172,862
State Sales Tax Credit ('000's)	4,926	6,565	0	0
Subtotal Revenues	86,038	109,605	132,239	172,862
Net Resources (000's)	(7,854)	(15,065)	(30,317)	(52,352)
Deficit as % of Core Expenditures	-9%	-13%	-19%	-24%