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MEMORANDUM

To: Kirkland City Council

From: David Ramsay, City Manager
Marilynne Beard, Assistant City Manager

Date: November 26, 2007

Subject: POTENTIAL ANNEXATION

RECOMMENDATION:

City Council receives additional information on the potential annexation and provides direction to staff regarding next steps and timelines.

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 November 15 Council study session and the November 20 regular meeting concerning annexation.
- A discussion of potential action steps on annexation and related policy implication
- A recommended process for Council discussion.

.Three additional reports follow this memorandum. They are:

- The draft results of the Public Safety Building Feasibility (see memorandum from Marilynne Beard)
- An overview of facilities financing options (rescheduled from the November 7 Council meeting – see memorandum from Tracey Dunlap); and
- A report from Planning on the status of annexation zoning work (see memorandum from Teresa Swan and Eric Shields).

Recap of November 15 and November 20 Council Meetings

The purpose of the November 15 study session was to provide updated financial information to the City Council and to discuss next steps in the annexation study process. Updated information was provided regarding 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. The following bullet points summarize key points raised at the November 15 meeting but do not necessarily reflect Council consensus.

- The updated financial information provided by staff caused Council to become more pessimistic about pursuing annexation.
- Council does not want to change its basic assumptions from Phase 1 at this time.
- Council reiterated its position that service levels in the annexation area will be equivalent to existing Kirkland and annexation will not be pursued if it causes any degradation in services to Kirkland. In addition, the Council confirmed that:
 - *The City Council would continue its ban on commercial card rooms which would require the casino located in the Kingsgate area 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.*
 - *The City will assume maintenance of O.O. Denny Park.*
- 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 and State legislators in conversations about Kirkland's financial picture, about the true costs of annexation, and the adequacy of the State and County incentive funding to provide sufficient assistance to close the financial gap to support Kirkland's annexation.
- Council members believe that Kirkland should ensure that every possible way to make annexation work has been explored in light of the city's previous annexation of the Totem Lake revenue-producing area.
- Council believes that they have been provided good information and are conducting their "due diligence."
- Council is not ready to make a decision about Phase 3 in December.

Several Items were identified for follow-up:

- Council would like more information about the feasibility and financial impacts of a slower implementation schedule for ramping up services or annexing smaller areas.
- 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 would like to see a mailing to all Kirkland residents updating them on the annexation study.

At the November 20 regular meeting the Council received addition public input and provided further direction to staff:

- Council would like to consider engaging the PAA residents in a dialog about the future of annexation including desired levels of service and alternatives to annexation.
- Council rescheduled their Phase 3 "go/no go" decision from December 11 to January 15, 2008.

As noted above, the full Council had not achieved consensus on the statements or follow-up shown above and further discussion is needed in order to plan our next steps. One of the fundamental issues that needs further discussion is the potential impact of annexation on existing Kirkland residents. There are a variety of actions that could be taken to continue the annexation study; however, the utility of those options may depend on further definition of "impacts to Kirkland."

Potential Actions and Policy Issues

A list of possible topics for discussion and actions that have been suggested are discussed below along with policy implications and items needing further Council direction:

1. **Provide More Definition Regarding “Impacts to Kirkland”** – Several of the potential solutions for making annexation financially feasible relate to differential service levels in the PAA (either temporarily through phasing or indefinitely). A key issue with these options relates to potential impacts to Kirkland. While PAA residents may be willing to accept a lower level of service, there may be collateral impacts on Kirkland. Although those impacts may not be severe or can be mitigated, this option may be in conflict with Council’s assumptions that 1) an equivalent level of service would be provided in the PAA (there won’t be “two Kirklands”) and 2) there will be no impact on existing levels of service in Kirkland.

One relevant example of the possible collateral impacts of differential service levels relates to 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 “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. If there are fewer patrol districts in the annexation area (and fewer officers), officer safety will necessarily become the overriding priority and back-up coverage will be needed more often from within the existing boundaries of Kirkland. The recommended level of staffing contained in the fiscal model provides coverage of the PAA at a level consistent with Kirkland.

One of the options suggested in earlier staff presentations to mitigate this challenge would be to **contract with King County for police services in the annexed area**. King County officers could be dispatched by King County and would not be interchangeable with Kirkland police officers (i.e. Kirkland would not provide back-up for their officers and visa versa). King County’s back-up would be provided by deputies serving in surrounding areas such as Woodinville and Kenmore). It is likely that we could still provide a higher level of police protection in the annexed area than is currently provided, however, it would be a lower level than Kirkland has currently. One difficulty would be related to uncertainty regarding the future. Based on the financial information available at this time, it is not clear when Kirkland could commit to assuming police services in the annexed area. Thus, it would simply delay the same set of financial and operational problems that would exist if we assumed the area now. There could also be operational challenges relating to reporting of crime statistics and coordination with the Kirkland Municipal Court.

Other City service areas present different challenges. For instance, would customers coming into City Hall for permit services or planning information be treated any differently than a customer from the existing city? Would we respond to a report of a pot hole differently, given that the liability of not fixing it would be the same in the PAA and the existing city? 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. Even without the long term financial challenges, simply ramping up services to an additional 33,000 would cause a temporary disruption. However, the disruption would be resolved over time. **Further discussion about acceptable impacts is needed to test Council’s fundamental assumptions about service levels and impacts to Kirkland** before staff proceeds with an analysis of options that result in differential service levels.

2. **Conduct Further Discussions with Annexation Area Representatives** – There was a suggestion that we need to **have a meeting with representatives from the PAA regarding the level of service they desire and whether they are open to various phasing options, either in service levels or in sequencing annexation by sub-areas.** Some PAA residents have come forward and believe that our estimated costs may be overstated (particularly in the area of police services) based on their perception of needed services in their area. They would like the opportunity to discuss a lower level of service that may meet their needs and reduce costs. Before pursuing this conversation, the issues raised in item #1 above should be discussed.
3. **Initiate Discussions with the Woodinville Fire and Life Safety Fire District** – To date, our discussions with this fire district have been conducted via Kirkland’s fire chief and the district’s chief. A suggestion has been made to **hold a meeting between the Council Annexation Subcommittee and the Woodinville Fire and Life Safety district commissioners** so that we can each better understand the challenges and opportunities facing both entities and to determine if there is a middle ground that mitigates their expressed intent to relocate station #34 from Kingsgate. In the past, the Public Safety Committee has met with the commissioners from Fire District #41 to discuss issues of mutual concern. As an alternative to the Annexation Subcommittee, it may be appropriate for the **Public Safety Committee to meet with Woodinville Fire and Life Safety elected officials.** If the Council wants to pursue discussions with the Woodinville Fire and Life Safety commissioners, staff recommends that we **begin to engage Kirkland firefighters (IAFF) regarding which options they would support.**
4. **Initiate discussions with King County and State Legislators to Pursue Additional Funding and/or Time for Annexation** – Potential assistance could come in several forms including:
 - 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.
 - c. Additional capital funding towards facilities projects that helps offset long term debt service costs.
 - d. Additional ongoing financial support.
 - e. 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).

5. **Further Study the Financial Feasibility of Adjusted Boundaries** – 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). A detailed financial and operational analysis has not been conducted for this option, however, we estimate as much as \$4 million would be removed from the revenue base. In order to identify a like amount of expenditure reductions, a significant reduction would need to be achieved from the police services budget (e.g. reduce the number of patrol districts from four to three). A cursory analysis indicates that it would be difficult to achieve \$4 million in savings because some of the economies of scale would be lost. **Further direction is needed from Council about whether to pursue this study as it will require significant staff time to conduct a more detailed analysis** (which may not yield a different result than our initial

review).

One issue related to changing boundaries is that the proposal must still be reviewed and approved by the Boundary Review Board (BRB) and this change may not be seen as acceptable to the BRB and/or may increase the likelihood of an appeal to the BRB's decision.

Another way to adjust 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 . **Since this option would require a significant investment of staff time, further direction from Council is needed about whether to pursue this analysis.**

6. **Study the Potential for a Slower Phase-in of Service Levels** – A question was raised about whether **a slower phase-in of service levels** helps mitigate the financial outlook. The financial model was developed assuming no phasing of services because the purpose of the model was to evaluate the ultimate full cost of services and supporting revenue. If one were to change the near term costs (by initially providing a lower level of service), it simply delays the same financial outcome. If services are added in later years in the model, the cost of those services would be inflated to reflect the estimated cost in the year they are added so there are no long-term, ongoing savings that results from phasing in services. As a practical matter, we will need to phase-in services over some (shorter) period time due to the amount of time it takes to hire and train new employees and to get equipment and facilities in place. However, we can predict an end to that temporary impact, whereas any phasing of a full service level (without changing any of the underlying assumptions as discussed above) simply delays the same outcome. Another potential problem with phasing is that it assumes a lower level of service in the PAA than in existing Kirkland. The longer it takes to implement a full service level, the longer we risk the downsides of differential service levels as described in item #1 above.

An additional issue related to phasing relates to the State sales tax credit rules. The City is eligible for up to a .20% sales tax credit to the extent that we can demonstrate a difference between revenues and expenses of that amount. Each year, the City must demonstrate the difference between revenue received from the annexation area and expenses related to that area. That difference is the amount the City will receive in the State sales tax credit (up to .20%). Our financial model assumes that we will receive the maximum amount of sales tax credit revenue available. We would need to take into account this rule and the potential financial impact of phasing.

7. **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.

8. **Delay the Annexation for up to One Year** – Some Council members have suggested a “time out” for annexation. During this time, we would suspend major staff work and studies and allow time to pursue legislative assistance and to better assess our own financial condition.

A brief time out might last until the end of the legislative session when we will know more about possible assistance from the State or County. In this scenario, we could still potentially proceed to the Boundary Review Board (BRB process would need to be initiated by March in order to still consider a November 2008 election) concurrent with the legislative session. Council would make a “go/no go” decision in early April 2008.

A longer time out could occur for as long as one year; however, we would need to re-initiate the Boundary Review Board process by March 2009 in order to meet the deadlines for eligibility for State funding. Three timeline scenarios are attached at the end of this memo. Scenario 1 assumes we move forward to Phase 3 with an election in November 2008. Scenario 2 assumes a “go/no go” decision isn’t made until after the legislative session, and the election moves to August 2009. Scenario 3 assumes that the election occurs in November 2009 (at the latest possible time that still allows for eligibility for State funding) and works backwards for other deadlines from that point.

9. **Make a “Go/No Go” Decision** – The City Council can elect to make a decision to discontinue the annexation study. If a **“no go” decision is made, then staff would be directed to demobilize annexation study staffing and consulting services.** Council would also need to determine whether a “no go” decision meant that annexation is **put on indefinite hold** (requiring no change to the Comprehensive Plan) or if they will **seek to find a different solution for the PAA** (either through incorporation or reassignment of the area to other cities, possibly including Kirkland).
10. **Develop a Communication Strategy** – Whatever actions are chosen, an effective communication strategy will be needed. Council has expressed an interest in **developing a mailer to all Kirkland residents** specifically aimed at correcting misinformation distributed in a privately-funded flyer mailed to all Kirkland residents in October of this year. As an alternative, a mailer to Kirkland residents could also describe the Council’s current position on annexation (keep studying, put on hold, discontinue further study). Council may also want to consider a **mailer to all PAA residents** with similar information about the status of annexation. Council may want to consider seeking input from our communications consultant, EnviroIssues, about the content and audience of a mailer and the advisability or **sending one mailer to Kirkland and the PAA or sending different mailers to each area.**

Whether or not the Council chooses to proceed to Phase 3, undertaking some of these actions may require funding currently approved for 2008 or requested as part of the mid-biennial budget adjustment that will be presented to Council for consideration on December 11.

Process Recommendation

The preceding discussion includes a number of possible action steps that could be taken as part of the “no/no go” decision. For instance, the Council may decide to proceed to Phase 3 and take one or more of the action steps described above. Alternatively, the Council could make a “no go” decision and pursue a series of actions complementary to that decision (e.g. in either case, Council may decide to develop a mailer to all Kirkland and PAA residents). It should be noted that additional annexation agenda items are schedule for December and January. On December 11, the Council will be presented with an ordinance amending the 2007–2008 Budget which includes additional funding for annexation activities. The January 2 study session is devoted to discussion of the proposed annexation zoning ordinance. A public hearing on the proposed annexation zoning ordinance is scheduled for the regular meeting on January 15. This schedule is necessary in order to meet the Boundary Review Board schedule based on the November 2008 election timeline. The January 15 hearing would take place under “Public Hearings” which would be on the agenda before the Council takes formal action on the phase three decision.

Given the complex set of interrelated decisions, staff recommends the following process to reach the next “go/no go” decision.

1. At the December 4 study session Council should:
 - a. Provide more definition about the acceptable level of impacts to Kirkland that may occur as a result of annexation.
 - b. Once an understanding is reached about that assumption, the Council can provide direction on each of the possible action items and which they want to pursue to support the “go/no go” decision.
 - c. Revisit the current schedule of annexation-related agenda items on January 2 and January 15 and determine if the timing is still appropriate.
2. At the January 15 regular meeting, staff will bring back the results of the December 4 study session along with a resolution for Council consideration regarding proceeding to phase three.

Summary of Possible Action Items to Supplement Go/No Go Decision

The following summary of possible action items is provided to facilitate Council discussion regarding which actions they are interested in pursuing further.

- Conduct Further Discussions with Annexation Area Representatives
 - Have a meeting with representatives from the PAA regarding the level of service they desire.
 - Or whether they are open to various phasing options by geographic area.
- Pursue discussions with King County regarding contracting for police services in the annexed area
- Initiate discussions with the Woodinville Fire and Life Safety Fire District
 - Hold a meeting between the Council annexation subcommittee and the Woodinville Fire and Life Safety elected officials.
 - Or the Public Safety Committee and the Woodinville Fire and Life Safety elected officials.
 - Begin to engage Kirkland firefighters (IAFF) to which options they would support..

- Approach State Legislators to Pursue Additional Funding and/or Time for Annexation
 - An extension of the time available to commence annexation and still be eligible for the State funding (current deadline is January 1, 2010).
 - An extension of the State sales tax credit for a period longer than 10 years.
 - Additional capital funding towards facilities projects that helps offset long term debt service costs.
 - Additional ongoing financial support.
 - Clarification from the State Auditor concerning rules for the State sales tax credit..

- Further Study the Financial Feasibility of Adjusted Boundaries
 - Change the boundaries of the proposed annexation area to exclude the Woodinville Fire and Life Safety district .
 - Annex smaller portions of the PAA at one time.
 - Pursue this study as it will require significant staff time to conduct a more detailed analysis.

- Study the Potential for a Slower Phase-in of Service Levels

- Discuss Alternatives to Annexation with Representatives of the PAA
 - Work with other adjacent cities to reassign the PAA as their annexation areas.
 - Assist the PAA with a study on incorporation and contracting back with Kirkland.

- Delay the Annexation for up to One Year
 - A brief time out (to end of legislative session).
 - Or a longer time out (one year).

- Make a “Go/No Go” Decision
 - Put on indefinite hold.
 - Seek a different solution for the PAA through incorporation or reassignment of the area to other cities, possibly including Kirkland.
 - Direct staff to demobilize annexation study staffing and consulting services.

- Develop a Communication Strategy
 - Develop a mailer to all Kirkland residents.
 - Develop a mailer to all PAA residents.
 - Sending one mailer to Kirkland and the PAA.

There may be other action items not identified above that we can add to the list for Council consideration at the December 4 study session. Many of the possible action items listed above are not mutually exclusive and some are in direct conflict with another. In other words, taking one course of action or maintaining some assumptions may preclude certain other actions. Direction from Council about next steps will ultimately need to reconcile those conflicts and provide a clear course of action for the future of the annexation study.

Annexation Timeline November 2008 Election

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
2007				Phase 2 (King County ILA)									
			Go/No Go to Phase 2*									Complete infrastructure assessment	
				<-----Negotiate Planning ILA with King County----->									
				Continue Communication with Kirkland and Expand to PAA									
				Departments Begin Preliminary Planning, Develop Zoning and Work on Operational Plans with King County									
2008			Go/No Go to Phase 3**	Phase 3									
			Approve Zoning (after 2 Public Hearings)	Proceed to Boundary Review Board			Set Election Date	July 15 deadline for resolution for Nov 4 election***				Phase 4	
			Continue Implementation Planning									Post Election Communication	
			Continue Communication Strategy										
2009	Phase 4 (continued)												
								<-----Effective Date to be determined-----?>					
	Continue Hiring						Departments Begin Service Delivery						
								Enact Local Sales Tax					

*If "Go" then proceed to ILA negotiation with King County to establish timeline and funding commitment
 **If "Go" then proceed to election and select election date
 ***If annexation measure passes, Council to adopt ordinance accepting annexation.

**Annexation Timeline
August 2009 Election**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
2007				Phase 2 (King County ILA)									
			Go/No Go to Phase 2*	<-----Negotiate Planning ILA with King County----- >									
				Continue Communication with Kirkland and Expand to PAA									
				Departments Begin Preliminary Planning, Develop Zoning and Work on Operational Plans with King County									
2008	Phase 2 (cont.)			Go/No Go to Phase 3**	Phase 3								
	Discussions/Negotiations with State Legislature, King County, and Woodinville Fire & Life Safety										Approve Zoning (after 2 Public Hearings)		
	Continue Implementation Planning												
	Continue Communication Strategy												
2009	Phase 3 (cont.)												
	Proceed to Boundary Review Board				Set Election Date	May deadline for resolution for Aug 2009 election***			Post Election Communication				
									Phase 4				
2010	Phase 4 (continued)												
									Departments Begin Service Delivery				
									Enact Local Sales Tax				
							<-----Effective Date to be determined-----?>						
Annexation Hiring													

*If "Go" then proceed to ILA negotiation with King County to establish timeline and funding commitment

**If "Go" then proceed to election and select election date

***If annexation measure passes, Council to adopt ordinance accepting annexation.

Annexation Timeline

(2009 Election/Implement Tax After Effective Date)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
2007				Phase 2 (King County ILA)									
			Go/No Go to Phase 2*	<-----Negotiate Planning ILA with King County----- >									
				Continue Communication with Kirkland and Expand to PAA									
				Departments Begin Preliminary Planning, Develop Zoning and Work on Operational Plans with King County									
2008	Phase 2 (cont.)											Go/No Go to Phase 3**	
	Discussions/Negotiations with State Legislature, King County, and Woodinville Fire & Life Safety												
	Implementation Planning Time Out												
2009	Phase 3												
	Approve Zoning (after 2 Public Hearings)			Proceed to Boundary Review Board				July deadline for resolution for Nov 2009 election				Phase 4	
	Continue Communication Strategy											Post Election Communication	
2010	Phase 4 (continued)												
	<-----Effective Date to be determined-----?>												
	Departments Begin Service Delivery												
	Enact Local Sales Tax												
	Annexation Hiring												

*If "Go" then proceed to ILA negotiation with King County to establish timeline and funding commitment

**If "Go" then proceed to election and select election date

***If annexation measure passes, Council to adopt ordinance accepting annexation.