



CITY OF KIRKLAND
Department of Finance & Administration
123 Fifth Avenue, Kirkland, WA 98033 425.587.3100
www.ci.kirkland.wa.us

MEMORANDUM

To: David Ramsay, City Manager
From: Gwen Chapman, Interim Finance and Administration Director
Date: May 30, 2006
Subject: Annexation Financial Update

Recommendation

Council receive an update on annexation fiscal issues and review proposed Long-Term Fiscal Analysis Request for Qualifications.

Background

In 2000, the city contracted with Henderson, Young & Company to prepare an analysis of the fiscal impacts of annexing the Finn Hill, North Juanita and Kingsgate neighborhoods. The consultant's analysis concluded that the city would experience a significant negative operating impact as a result of extending services to the potential annexation area (PAA).

In 2005, city staff issued a report that provided updated figures to account for changes to revenues and service levels since the 2000 study. The 2005 staff report estimated that providing services to the PAA would result in an annual operating deficit of \$4.78 million. As discussed in previous annexation updates, the passage of Senate Bill 6686 significantly narrowed this deficit to an estimated \$635,000.

Fiscal Issues

Finance staff has begun the work of updating the 2005 annexation report for current revenues, rates and contract provisions. This update will include working with each department to identify options for adjustments to the PAA expenditure estimates in an effort to eliminate the remaining estimated gap.

On May 11th, staff met with representatives from the Department of Revenue (DOR) and other cities looking at possible annexations utilizing the transitional funding provided by SB 6686. DOR staff provided a draft Q&A related to the implementation of SB 6686 and was available for clarifying questions. Key points discussed include:

- The transitional state funding is limited to the lesser of .2% of the PAA sales tax (assuming >20,000 population in the annexation area) or the amount of the deficit incurred from providing services to the PAA. DOR directed the cities to the State Auditor's Office for questions regarding what reporting will be required to support deficit calculations.
- The deficit is calculated on our fiscal year but collected on the State's fiscal year. We report our deficit in March and it is collected from July to July of the next fiscal year.
- Enacting the tax does not create an impact on citizens; instead it redirects a portion of sales tax revenue from the State to the City to ease transition.
- The tax can be imposed at the time annexation commences. This can be as early as the Council resolution of intent. The ten year clock starts ticking when the tax is imposed.
- The funding will cease ten years from the date it is first enacted. The structure of the tax change provides a fiscal disincentive for phasing annexation by neighborhood.

Due to the ten year limit on transitional funding and the size of the deficit absent this funding, advance planning is required to ensure the City's long-term fiscal health. Long-term strategies for tapering off the transitional state funding need to be developed and analyzed in the near future in order to provide time to implement a fiscal action plan. There are many different options that can be utilized to assist in closing the long-term financial gap including redevelopment, additional revenues, and changes in service provision methods. Staff will be contracting with a consultant to develop additional options to consider.

During the mid-year budget process staff will be requesting funding for a consultant to develop a long-term fiscal model and strategy for financing the service provision in the PAA. The scope of work (attached) includes the development of a forecast model spanning 15 years. The model will provide the ability to assess the impact of different long-term scenarios and enable staff to continue to reassess the fiscal progress toward self sufficiency over the ten years of state provided support.

Next Steps

- Staff is preparing a mid-year budget request for a fiscal consultant to conduct a long-term (15 year) fiscal forecast with strategies the Council can employ to offset the loss of transitional state funding.
- Staff will continue to work with the State to determine how the funding legislation will be implemented. This will include a meeting with the State Auditor's Office to determine reporting requirements.
- Representatives of different departments will be meeting with the Annexation Team from the City of Vancouver on July 6th to learn from their experience.
- Staff will continue to work with other local cities studying annexation to share information and coordinate discussions with the state.

CITY OF KIRKLAND

REQUEST FOR QUALIFICATIONS LONG-TERM FISCAL ANALYSIS OF ANNEXATION

Background

The City of Kirkland is studying the long-term financial implications of annexing all or a portion of its potential annexation area (PAA) as identified in the City's Comprehensive Plan. For the purposes of this study, the PAA is divided into three sub-areas as shown on the attached map. Previous studies have developed costs associated with providing services to the PAA. Recent legislation provided the potential for transitional funding from the State. The City is interested in assessing the long-term economic viability of annexation. The City is seeking a firm qualified to conduct detailed fiscal analysis and develop forecast models for use by the City.

The goal of this project is to provide a fiscal forecast and to develop strategies for offsetting the loss of temporary state revenue. Based on this analysis, the City Council will have the financial data necessary to further evaluate the feasibility and/or appropriate timing for annexing all or a portion of the PAA.

Kirkland's potential annexation area extends north from the City limits at NE 132nd Street to approximately NE 145th Street, and from Lake Washington east to the Burlington Northern railroad right-of-way located near the base of the plateau. The area contains three sub-areas which include the Kingsgate neighborhood east of I-405; the Juanita neighborhood in the middle; and the Finn Hill neighborhood on the west (see attached map).

The estimated population of this area for year 2006 is 32,600. For comparison, Kirkland's population in 2006 is estimated at 45,800. In 1997, there were approximately 13,000 housing units in the PAA. About 70% of the housing units are single-family dwellings.

Residential use is the predominant land use in the area. The Kingsgate and Juanita neighborhoods have community commercial retail shopping districts. The Finn Hill area has a few neighborhood commercial centers.

The Kirkland Fire Department serves the area within the boundaries of the King County Fire District #41. It is in the Lake Washington School District. There are over 300 acres of publicly owned parks and open space with Big Finn Hill Regional Park alone accounting for over 200 acres of the total. Water and sewer utilities are primarily the responsibility of the Northshore utility with a small area provided by the Woodinville Water District. Transportation, law enforcement, parks and surface water are the responsibility of King County.

Project Description

The project consists of an assessment of the long-term economic viability of annexation. The study is to be conducted individually for the three identified sub-areas within the PAA and includes an analysis of a variety of combinations of these geographic areas. There are three major tasks associated with this study:

1. Development of a long range (15 year) financial forecast of the potential annexation area.
2. Development of forecast model City staff can use to assess impact of changes in variables. Model should provide ability to forecast monthly cash flow for the first three years to be used for assessing service implementation options.

3. Analysis of strategies that could be employed to enhance the long term economic viability of the potential annexation area (e.g. use of new or enhanced revenue sources, strategic agreements with other agencies, redevelopment options, etc.).

Project Time Frames and Products

A draft report is to be completed by August 31, 2006. A final report and meetings with the City Council will take place following staff review. The final product will include a computer model and a detailed report depicting the long range fiscal forecast for the potential annexation area by sub-area and in aggregate. The report will include an executive summary. The City has a significant amount of data regarding annexation that will be provided to the consultant to aide in conducting the requested analysis.

Submittal Requirements

Each submittal must include:

1. A brief letter of introductions.
2. A statement of qualifications and relevant experience of each of the firms to be involved. The project manager and individuals who will be involved in the project.
3. A general description of the firm's proposed approach to the project including roles and responsibilities of the firm(s) and individuals that will be undertaking the project and the percentage of time for each firm (please limit this section of the proposal to three pages).
4. A summary of hourly billing rates.
5. Names and phone numbers of five references for each firm including a minimum of two references for the principle firm from cities where similar work was performed.

The firm or team should be able to identify a project manager who will coordinate the project to a timely completion of all work products within budget. The project manager must be available for a possible interview. The firm or team should be available to begin immediately upon selection.

The deadlines for submittals of qualifications is June 30, 2006. Six copies of the packet should be submitted to:

Gwen Chapman, Interim Finance Director
City of Kirkland
123 Fifth Avenue
Kirkland, WA 98033

For more information, contact Gwen Chapman at (425) 587-3116.