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: Tracey Dunlap, Director of Finance and Administration

Date: October 25, 2007

Subject: Facilities Financing Overview

Purpose: To identify potential financial resources that could be available to finance the City's facilities needs, particularly a Public Safety Campus and expansion at the Maintenance Center and City Hall. It is important to recognize that a detailed financing plan based on the facility needs and timing will be developed based on the results of the upcoming feasibility study, as discussed later in this document.

Assumptions:

- The potential sources identified below reflect funding options using current potential revenue sources.
- Sources are assumed to be applied to councilmanic (non-voted) debt. If voted debt is an option, it would be in addition to these sources since it would be accompanied by a new excess levy (new revenue).
- Debt calculations assume 30 year bonds at 5% interest (note that the City's existing fiscal policy limiting G.O. bond maturities to 20 years will need to be revised as part of the debt management policy discussion).

Potential Sources:

Cash Resources

Available capital reserves: The Preliminary CIP staff report included an estimate of the increment of available funding from existing capital reserves that could provide a source to use towards part of the unmet facility needs (see Attachment A). As shown in the following chart, short term facility needs are already tapping into that available balance. These cash resources could provide a source for a portion of the upfront design and acquisition costs, prior to issuing long-term debt.

Commitments Against Capital Reserves

	REET 1	Building & Property Reserve	Facilities Expansion Reserve	Total
2008 Revised Ending Cash Balance	**5,921,872**	**2,411,002**	**800,000**	**9,132,874**
Less: City Hall Annex Renovation	1,800,000	0	0	**1,800,000**
Less: Target	1,500,000	0	0	**1,500,000**
Potential Available towards Facilities	**2,621,872**	**2,411,002**	**800,000**	**5,832,874**

Grant Funding: The City has received a $750,000 state grant for Phase I planning and design funding for a public safety campus that would provide a wide range of services to citizens that are engaged in the criminal justice system. The campus would include a police station, municipal court, municipal jail, probation services, and crime lab. The Kirkland Public Safety Campus would consolidate key services to manage transportation demand, decrease congestion, and reduce the cost and critical staff resources devoted to jail transport. The plan will also explore the option of integrating the campus location into land adjacent to the City's existing municipal court. The grant and local match are expected to be used to complete the site plans, final architectural drawings, and fund initial land acquisition.

Potential sale of 505 Market St. building: If a major expansion of City Hall is undertaken, it could result in the City selling the 505 Market St. building. The debt associated with the 505 building will be retired by the end of 2007. An earlier evaluation of facilities funding (January 2006) contained an estimate of proceeds from such a sale at $2 million, which could logically be put toward new facilities costs. If the space provided by the 505 building becomes part of the facilities solution, this funding source would not be available.

Other Sources: As of this draft, we are still researching whether there may be some cash resources available from the following sources:

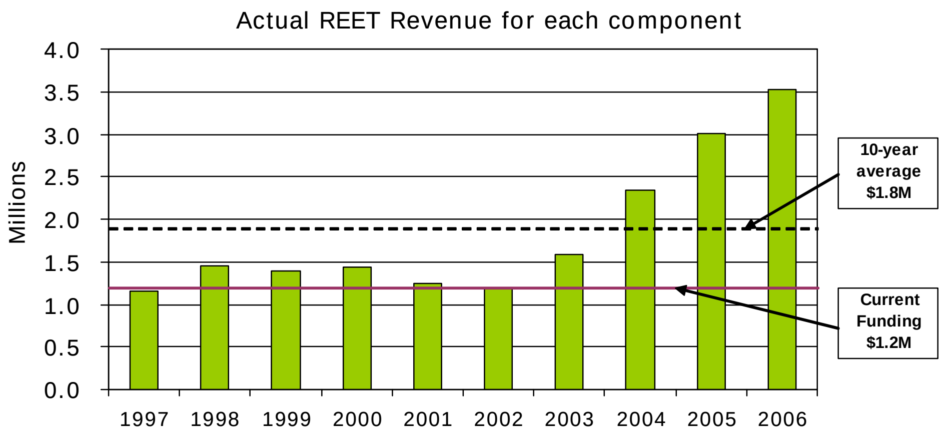
- Projected Sinking Fund Balances related to existing impacted facilities – depending on the timing of facilities expansions, there may be some projects planned to be funded from the facilities sinking fund that would be incorporated into the expansion projects. Sizing of this potential cash resource is dependent on the location and schedule for expansion and will be estimated as more detailed facilities needs become available.
- Any unspent portion of current near-term police facilities projects – based on current project estimates, approximately $800,000 in planned expenditures would be avoided if a new public safety facility is pursued. In that case, this funding could be redirected to that project.

In total, identified cash resources fall in the $7.3-9.3 million range, assuming that no other expenditures are authorized against these balances.

<u>Revenues to Support Debt</u>

Revenues supporting current debt: The annual debt service on councilmanic bonds is currently being paid from a variety of general revenue sources (details on the specific debt issues, balances, and funding sources is included in Attachment B). The current outstanding principal balance on this debt is $11.1 million. As this debt is retired, the revenue streams currently dedicated to pay the debt service can be used for new debt without impacting General Fund operating revenues. In 2011, $350,000 becomes available as the maintenance center debt is retired and in 2015, another $750,000 becomes available as the parking garage and City Hall expansion debt is retired. By 2021, all of the outstanding non-voted G.O. debt will be retired. The City has the ability to structure debt and/or to combine the use of reserves and debt in order to take advantage of these revenue streams as they become available. By "wrapping" new debt service around the existing debt service resources as the debt retires, the City could issue up to $18.7 million in new bonds, and using approximately $4.2 million in reserves to make interest only payments until the existing debt retires. An example of this strategy is included as Attachment C.

Potential commitment of future REET1 revenues: As part of the March 2007 City Council Retreat, the current trends in REET collections reflect the strong real estate market, as shown in the graphic below. The preliminary CIP assumes an additional commitment of $300,000 (to a total of $1.0 million) for Parks projects.



If we were to commit additional receipts of $300,000 per year to facilities debt, which is supportable based on the ten year average, it would service approximately $4.5 million in borrowing. Based on receipts in recent years, a larger commitment might be possible, but it is important to recognize the cyclical nature of these revenues in contemplating such a commitment.

Court lease payments: The Municipal Court currently makes lease payments averaging about $210,000 per year (base rent) and the lease term ends in 2011. If the Court is incorporated into the Public Safety Campus and this revenue stream could be available to service additional debt after the end of the term or earlier if a sublet is secured. These revenues could support an additional $3.2 million in borrowing.

Other Sources: There may be additional options for servicing debt that are being researched further:

- Contribution/Participation of City utilities and other fee-generating activities – How much of the facilities needs will serve functions with dedicated revenues sources?

- Annexation Sales Tax Credit – As discussed in the Phase I annexation report (see excerpt in Attachment D), the analysis assumed that the facilities related to providing service in the potential annexation area would be eligible cost for inclusion in the 10-year annexation sales tax credit calculation. To determine how much of the facilities cost can be attributed to annexation, the more detailed assessment of facilities needs will have to be completed. Structuring debt to take advantage of the credit would require a 10-year amortization, which would need to be analyzed in concert with the "wrap around" scenario described above. Since the results of the public safety facility feasibility study that is currently in progress will impact both the overall costs and allocation between the existing City and the PAA, it is difficult to size how much debt the sales tax credit may support, but a revised estimate is expected to be developed once additional information becomes available.

Total debt that could be supported from identified revenues (before annexation) is in the range of $25 million, assuming use of $4.2 million in reserves to make initial interest only payments. Potential debt that may be supported by the annexation sales tax credit is currently under evaluation.

Process to Define Facilities Needs:

This discussion identifies potential revenue sources that represent the "means" for pursuing the City's facilities requirements, but an equally important component is to identify the specific facilities "needs". As discussed earlier, a Public Safety Campus feasibility study is underway which is expected to better define the space needs related to public safety, with and without annexation. Based on the outcome of that effort, the City will need to determine how the public safety options relate to meeting the needs at the Maintenance Center and City Hall, again with and without annexation. A full financing strategy can only be developed by marrying the means and the needs, given the number of variables involved, especially related to the sizing of facilities and the timing of needs. As the needs become more focused, specific strategies can be developed regarding the size and timing of debt issues and cash resources. Several of the key decision points include:

- Should a separate public safety campus be planned, regardless of annexation? Initial City Council direction was to evaluate this option, in addition to serving existing city needs on the City Hall site. Note that this assumption differs from that reflected in the Phase I annexation study and will need to be evaluated as specific options are identified further.
- What size jail facility should be planned for?
- What are the cost and timing considerations for the public safety facility with and without annexation?
- What are the cost and timing considerations for the maintenance center expansion, with and without annexation?
- What are the cost and timing considerations for the City Hall expansion, with and without annexation?

Summary:

Resource	Total
Available Capital Reserves	$5,832,874
Public Safety Grant	750,000
Potential 505 Market Sale	2,000,000
Potential Savings on Police Projects	800,000
Debt Supported by Retiring GO Sources	18,700,000
Less: Reserves for Interest Only Payments	(4,200,000)
Debt Supported by $300,000 of REET	4,500,000
Debt Supported by $210,000 Court Lease	3,200,000
Potential Available towards Facilities	$31,582,874

Initial estimates based on current assumptions are that identified revenue sources could support facilities costs of $25-32 million (before factoring in potential annexation sales tax credit revenue), made up of a combination of debt and cash resources. More detailed estimates and strategies will be developed as needs are identified and further costs become available.

Note that any increases in operating costs associated with new or expanded facilities will need to be factored into the operating budget.

The debt management policy discussion is expected to occur at the Finance Committee meetings in late 2007 and early 2008, with recommended changes expected to be available for consideration by the full City Council well in advance of any potential debt issues.

Attachment A

CITY OF KIRKLAND
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MEMORANDUM

To: Dave Ramsay, City Manager

From: Tracey Dunlap, Director of Finance and Administration
Sandi Hines, Financial Planning Manager

Date: July 5, 2007

Subject: Report on Capital Reserves – Uses and Balances

The Finance Committee reviewed draft Capital Improvement Program (CIP) information at their May 29 and June 26 meetings. As part of the discussion regarding funding sources, the Finance Committee requested to see what capital-related reserves we use and their current balances. The table below shows two perspectives of the reserves. First, the reserve balances are shown based on budget amounts. When the 2007-08 budget was developed, the estimated starting balance was calculated and netted against the planned uses for CIP projects, McAuliffe debt service and the balloon payment on the 505 Market Building and the planned additions of interest income, revenue, and operating transfers. The net result is the projected 2008 Budgeted Ending Balance. This balance was displayed in the reserve section of the budget document, as well as used for fiscal notes. This budgeted ending balance is then netted of any Council authorized uses and additions that have occurred to-date.

The second look at reserves is from the actual cash balance. The actual cash balance forward into 2007 is net of the planned uses and additions, as described above. Also, the Council authorized uses and additions are netted against the cash balance to give a revised ending cash balance as of a point in time (in this case, June 2007).

	REET 1	**General Capital Contingency**	**Building & Property Reserve**	**Facilities Expansion Reserve**[1]	**Total**
2008 Budgeted Ending Balance	6,673,678	3,312,834	2,421,002	800,000	**13,207,514**
2007 Authorized Uses	791,394	0	10,000	0	**801,394**
2007 Authorized Additions	0	0	0	0	**0**
2008 Revised Ending Budget Balance	**5,882,284**	**3,312,834**	**2,411,002**	**800,000**	**12,406,120**
2007 Beginning Cash Balance[2]	8,536,539	4,075,350	2,421,002	800,000	**15,832,891**
2007-08 Planned Uses[3, 4]	5,229,273	0	0	0	**5,229,273**
2007-08 Planned Additions[3]	3,406,000	394,174	0	0	**3,800,174**
2007 Authorized Uses	791,394	0	10,000	0	**801,394**
2007 Authorized Additions	0	0	0	0	**0**
2008 Revised Ending Cash Balance	**5,921,872**	**4,469,524**	**2,411,002**	**800,000**	**13,602,398**

[1] Balance available net of 2006 CIP projects: IT Dept. Reconfiguration, Police Evidence Storage/Lab, and Police Dept. Safety Improvements

[2] 2007 actual beginning cash balance

[3] Planned uses and additions based on Revised 2006-11 CIP; does not include or assume Preliminary 2008-13 CIP

[4] Includes balloon payment for 505 Market building of $1.75 million

Two other capital-related reserves are the REET 2 reserve and the Street Improvement Reserve. Both of these reserves are dedicated to the Transportation CIP. Council has dedicated the second quarter of the 1 percent REET revenue (i.e. REET 2) to solely fund transportation capital improvements. The Street Improvement reserve is made up mostly of excess gas tax revenue received over budget. Gas tax revenues are restricted for the purposes of maintaining and improving the streets.

The City faces the challenge of multiple facility needs over the coming years including City Hall expansion, Maintenance Center expansion, and a potential Public Safety campus. Capital reserves will play a small part in helping to fund these needs. A more detailed financing plan will be done as needs assessments are completed. Based on the chart above, actual cash balances in the capital-related reserves are $1.2 million greater than the budgeted balances. This increment of available funding would a source to use towards part of the unmet facility needs. As shown in the following chart and described below, short term facility needs are already tapping into that available balance.

Commitments Against Capital Reserves

	REET 1	General Capital Contingency[1]	Building & Property Reserve	Facilities Expansion Reserve	Total
2008 Revised Ending Cash Balance	**5,921,872**	**4,469,524**	**2,411,002**	**800,000**	**13,602,398**
Less: City Hall Annex Renovation	1,800,000	0	0	0	**1,800,000**
Less: Target	1,500,000	8,189,400	0	0	**9,689,400**
Uncommitted Balance	**2,621,872**	**(3,719,876)**	**2,411,002**	**800,000**	**2,112,998**
Potential Available towards Facilities	**2,621,872**	**0**	**2,411,002**	**800,000**	**5,832,874**

[1] Target set at 10% of the non-utility funded Preliminary 2008-2013 CIP

The **REET 1 Reserve** has been committed in the Preliminary 2008-2013 CIP to fund the renovation of the City Hall Annex building at $1.8 million. This renovation is part of the short term strategy of addressing space needs at City Hall. The target (minimum balance) for the REET 1 reserve is set equal to one year's allocation of CIP funding (i.e. $1 million for Parks and $.5 million for Transportation).

The **General Capital Contingency** is a reserve that is available to fund general capital projects (i.e. non-utility projects) when the scope or cost of the project exceeds the budgeted amount. The target established by fiscal policy is ten percent of the funded six-year Capital Improvement Program (CIP) less utility projects. The target listed in the table is the updated target based on the Preliminary 2008-2013 CIP and is substantially larger than the previous target of $5,822,280. This reserve is not recommended to be used towards funding facility needs because it is intended to cover unexpected cost and scope changes on CIP projects. Also, using the Preliminary CIP as the basis for the target, this reserve is significantly under the updated target as set by Council policy.

The **Building and Property Reserve** balance of $2.4 million is available as a funding source for facility needs. This reserve does not have a target and has been used for such projects in the past as land acquisition and building improvements. Examples of past projects include all or partial funding for the Carter house, McAuliffe property, 505 Market building and costs related to the historic church relocation (now known as Heritage Hall).

The **Facilities Expansion Reserve** does not have a predetermined target; however the Council made strides in the past year to bring this reserve to $2 million. The 2006 CIP had identified three facilities projects to be partially funded from this reserve in the amount of $1.2 million. These projects include the Police Evidence Storage/Processing Lab (Phase 1 &2) at the Municipal Court (total cost of $685,000), Police Department Safety Improvements (Phase 1) at City Hall (total cost $998,000) and the Information Technology Department Reconfiguration (total cost $201,000). Of these projects, the project improvements at the Court for Police evidence storage and processing lab and the reconfiguration of the IT Department are expected to be completed as planned. The Police Department Safety Improvement project included safety improvements for the jail booking area as well as some improvements to general office space. Most of the safety improvements for the jail area are being completed, but the general office space improvements are on hold and will be evaluated with more middle to longer term solutions. The estimated amount of unspent budget from this project that would be available towards all facilities needs is $498,000.

As facilities needs become more defined, a more detailed financing plan will be prepared. Based on initial estimates, reserves are expected to play a roll in getting projects started, but the overall financing will require a combination of cash reserves and long-term debt financing.

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MEMORANDUM

To: David Ramsay, City Manager

From: Tracey Dunlap, Director of Finance & Administration

Date: July 5, 2007

Subject: Debt Management Policies and Related Issues

Background

As discussed at the City Council retreat in March 2007, one of the tools available to the City to make progress on capital improvements is the increased use of long-term debt for large projects with long useful lives. As part of that discussion, the City Council requested further information regarding formation of a debt management policy and related issues. This issue paper is organized to provide a refresher on the various bond funding mechanisms, the City's current debt position, an updated look at bond ratings and their affect on the City's financial status, and options related to debt management policies.

Use of City Bonded Debt

The two most common types of tax supported debt issued by cities to fund capital projects are Limited Tax and Unlimited Tax General Obligation Bonds. General Obligation bonds are the most secure type of debt a City can issue because they pledge the "full faith and credit" of the City based on our ability to levy taxes to repay the debt. As a result of the low risk nature of general obligation debt, it has a lower cost (i.e. can be issued at lower interest rates).

Unlimited Tax General Obligation (UTGO) Bonds provide new revenue to fund the debt service as they represent debt that is approved by voters for a specific purpose. Citizens have agreed to levy property taxes to repay the debt over a period of years.

Limited Tax General Obligation (LTGO) Bonds (Councilmanic or non-voted bonds) can be issued with approval of City Council. The debt is repaid from general revenues of the City. It is still based on the City's ability to tax citizens to repay debt. However, it does not provide any additional revenue to fund debt service payments and must be paid from existing revenue sources.

The City's utility funds have different debt funding options available, including revenue bonds and other loan programs such as the State's Public Works Trust Fund (PWTF), both of which have been used by the City to finance utility infrastructure improvements in the past. The debt service on these instruments is supported by the revenues of each utility and does not have a claim on the City's tax revenues. Since utility rates represent the primary source for paying this debt service and the utility enterprises are expected to be self sufficient, use of these debt instruments is evaluated as part of the master planning process and utility rate studies and will not be addressed as part of this discussion.

Attachment A summarizes the City's current debt outstanding (LTGO of $11 million and UTGO of $10 million) and the City's remaining debt capacity. As the table shows, the legal limits on the City's remaining debt capacity are quite large ($120 million for LTGO and $635 million for UTGO). However, there are practical limits in terms of affordability (for LTGO which is paid for from existing revenues) and political realities (for UTGO which requires a 60% majority vote).

Bond & Credit Ratings

When the City issues debt, a thorough review of the City's financial condition is completed by bond rating agencies. Based on their findings, the bonds are given a rating. The City's bond rating is a reflection of its creditworthiness and affects the cost to the City of issuing debt. The City of Kirkland uses two agencies – Moody's Investor Service and Standard & Poor's (S&P) – to rate its credit and bonds. For the 2004 Water and Sewer Revenue Bonds, the City's underlying rating was AA- (S&P) and A1 (Moody's).

Standard & Poor's has identified the "Top 10 Management Characteristics of Highly Rated Credits In U.S. Public Finance" [1] as:

1. An established rainy day/budget stabilization reserve,
2. Regular economic and revenue reviews to identify shortfalls early,
3. Prioritized spending plans and established contingency plans for operating budgets,
4. A formalized capital improvement plan in order to assess future infrastructure requirements,
5. Long-term planning for all liabilities of a government, including pension obligations, other post employment benefits and other contingent obligations would be optimal and allow for comprehensive assessment of future budgetary risks,
6. A debt affordability model in place to evaluate future debt profile,
7. A pay-as-you-go financing strategy as part of the operating and capital budget,
8. A multiyear financial plan in place that considers the affordability of actions or plans before they are part of the annual budget,
9. Effective management and information systems,
10. A well-defined and coordinated economic development strategy.

Upon inspection, Kirkland exhibits all of these characteristics, with number 6 – the debt affordability model – representing an area where additional evaluation is warranted as part of a debt financing plan.

Another credit rating agency, FitchRatings, indicates that typical policies limit direct debt based on one or more of the following measures[2]:

- 2-5% of full market value,
- Direct debt of $2,000-3,000 per capita,
- Debt service 8-12% of budgeted expenditures,
- Amortization to 50% or more within 10 years.

It is important to note that Fitch views the appropriateness of such limits in the context of the issuer's overall risk profile. The City's current placement against selected measures, as well as those of selected surrounding jurisdictions, are summarized in the table on the following page. The City compares favorably to Moody's median values and most of the other jurisdictions.

[1] Standard & Poor's Public Finance Publication Date January 11, 2006.
[2] FitchRatings Public Finance Tax Supported Special Report, "To Bond or Not To Bond", June 21, 2005.

General Obligation Debt Comparison

Prepared by D.A. Davidson Fixed Income Capital Markets

Measure	Moody's 2006 Medians[1]	Kirkland	Redmond[3]	Renton	Bellevue	Lynnwood
Net Direct Debt (% of Value)	0.71%	0.22%	0.41%	0.67%	0.77%	0.24%
Net Direct Debt Per Capita	n.a.	$506	$897	$861	$1,578	$266
Debt Service as % of GF Revenues[2]	8.73%	1.35%	4.35%	5.71%	5.61%	1.60%

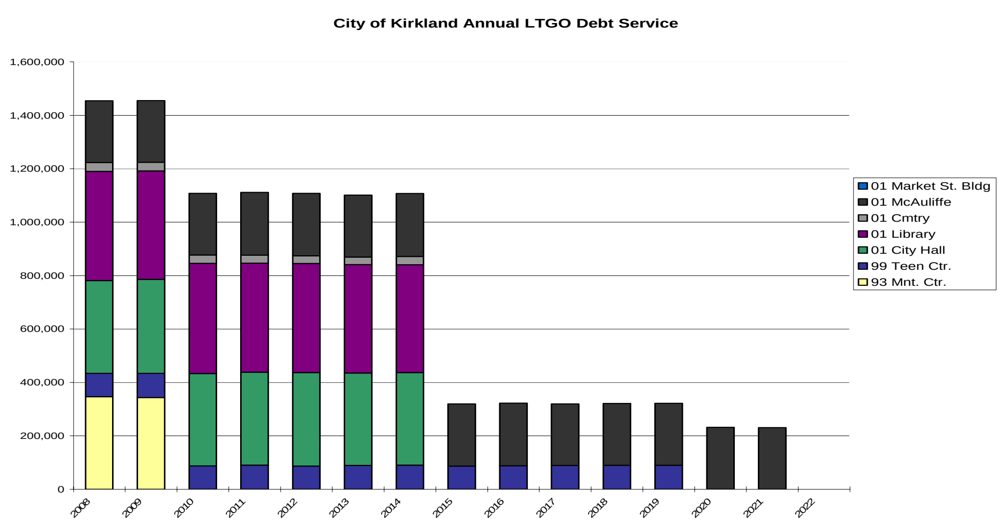
[1] For populations between 50,000 and 100,000

[2] Does not include debt supported by voter approved excess levies

[3] Includes lease revenue issue which was done in 2004 for city hall project by Redmond Community Properties (a 63-20 entity)

Status of Current Indebtedness

Attachment B provides the annual debt service on the City's outstanding indebtedness, with subtotals by type of debt. The graphic below shows the annual debt service on councilmanic bonds by year, which is currently being paid from a variety of general revenue sources. As this debt is retired, the revenue streams currently dedicated to pay the debt service can be used for new debt without impacting General Fund operating revenues. In 2011, $350,000 becomes available as the maintenance center debt is retired and in 2015, another $750,000 becomes available as the parking garage and City Hall expansion debt is retired. The City has the ability to structure debt and/or to combine the use of reserves and debt in order to take advantage of these revenue streams as they become available. By 2015, this $1.1 million could support over $13.5 million in new borrowing (assuming 20 years and 5% interest); although, if this revenue is used for this purpose, it is not available to meet other potential general fund needs.



Debt Management Policies

It is strongly recommended by various credit rating agencies and government finance organizations that cities have a formal written debt policy to ensure the correct use and issuance of debt. Such policies help protect the City against financial downfall, as well as provide its bond purchasers with assurance of returned money. Currently, the City of Kirkland has debt management policies incorporated into the Fiscal Policies that are part of the biennial budget (Attachment C). The Government Finance Officers Association (GFOA) describes a debt policy as:

> "…written guidelines and restrictions that affect the amount and type of debt issued by a state or local government, the issuance process, and the management of a debt portfolio… [it] improves the quality of decisions, provides justification for the structure of debt issuance, identifies policy goals, and demonstrates a commitment to long-term financial planning, including a multi-year capital plan" (GFOA, 2003).

Attachment D summarizes the GFOA recommended practices regarding debt management policies. In addition, we reviewed several examples of debt policies with varying degrees of complexity. The majority of the sample policies and articles indicate that a formal debt policy should include:

- The uses of debt
- Legal limitations of issuing debt including City and legislative policy/law
- Allowable types of debt
- Methods of sale
- Professional consultation
- Disclosure

In reviewing the City's existing debt management policies, it appears that an update is warranted to ensure that the policies are current and address all of the common criteria. Staff recommends that the Council Finance Subcommittee undertake a review and update of these policies, to be brought forward for consideration by the full City Council upon completion. An opportune time to address these policies would be as part of the development of the financing plan for City facilities that are currently unfunded in the CIP.

CITY OF KIRKLAND, WASHINGTON

Limited Tax General Obligation Bonds

Debt Capacity Analysis

$1,450,000 Overall Debt Service Target After 2014

Net Debt Service Schedule

Date	Principal	Interest	Total P+I	Existing D/S	Net New D/S	Resource Increase *(1)*
12/01/2007	-	-	-	916,484.38	916,484.38	
12/01/2008	-	841,446.50	841,446.50	1,454,210.00	2,295,656.50	841,446.50
12/01/2009	-	841,446.50	841,446.50	1,455,347.50	2,296,794.00	842,584.00
12/01/2010	-	841,446.50	841,446.50	1,108,010.00	1,949,456.50	495,246.50
12/01/2011	-	841,446.50	841,446.50	1,111,895.00	1,953,341.50	499,131.50
12/01/2012	-	841,446.50	841,446.50	1,108,122.50	1,949,569.00	495,359.00
12/01/2013	-	841,446.50	841,446.50	1,101,475.00	1,942,921.50	488,711.50
12/01/2014	-	841,446.50	841,446.50	1,107,235.00	1,948,681.50	494,471.50
12/01/2015	295,000.00	841,446.50	1,136,446.50	319,605.00	1,456,051.50	1,841.50
12/01/2016	300,000.00	829,351.50	1,129,351.50	322,667.50	1,452,019.00	(2,191.00)
12/01/2017	315,000.00	816,901.50	1,131,901.50	319,822.50	1,451,724.00	(2,486.00)
12/01/2018	325,000.00	803,671.50	1,128,671.50	321,397.50	1,450,069.00	(4,141.00)
12/01/2019	340,000.00	789,826.50	1,129,826.50	322,137.50	1,451,964.00	(2,246.00)
12/01/2020	450,000.00	775,172.50	1,225,172.50	232,037.50	1,457,210.00	3,000.00
12/01/2021	460,000.00	755,597.50	1,215,597.50	231,275.00	1,446,872.50	(7,337.50)
12/01/2022	710,000.00	735,449.50	1,445,449.50	-	1,445,449.50	(8,760.50)
12/01/2023	745,000.00	704,209.50	1,449,209.50	-	1,449,209.50	(5,000.50)
12/01/2024	775,000.00	670,759.00	1,445,759.00	-	1,445,759.00	(8,451.00)
12/01/2025	810,000.00	635,961.50	1,445,961.50	-	1,445,961.50	(8,248.50)
12/01/2026	850,000.00	599,592.50	1,449,592.50	-	1,449,592.50	(4,617.50)
12/01/2027	885,000.00	561,427.50	1,446,427.50	-	1,446,427.50	(7,782.50)
12/01/2028	925,000.00	521,691.00	1,446,691.00	-	1,446,691.00	(7,519.00)
12/01/2029	970,000.00	479,603.50	1,449,603.50	-	1,449,603.50	(4,606.50)
12/01/2030	1,010,000.00	435,468.50	1,445,468.50	-	1,445,468.50	(8,741.50)
12/01/2031	1,060,000.00	389,513.50	1,449,513.50	-	1,449,513.50	(4,696.50)
12/01/2032	1,105,000.00	341,283.50	1,446,283.50	-	1,446,283.50	(7,926.50)
12/01/2033	1,155,000.00	291,006.00	1,446,006.00	-	1,446,006.00	(8,204.00)
12/01/2034	1,210,000.00	237,991.50	1,447,991.50	-	1,447,991.50	(6,218.50)
12/01/2035	1,265,000.00	182,452.50	1,447,452.50	-	1,447,452.50	(6,757.50)
12/01/2036	1,325,000.00	124,389.00	1,449,389.00	-	1,449,389.00	(4,821.00)
12/01/2037	1,385,000.00	63,571.50	1,448,571.50	-	1,448,571.50	(5,638.50)
Total	**$18,670,000.00**	**$18,476,463.00**	**$37,146,463.00**	**$11,431,721.88**	**$48,578,184.88**	

Notes:

(1) New LTGO debt service increment above FY 2008 budget.

Attachment D

Excerpts from Kirkland Long-Term Fiscal Model Final Summary of Findings Page 16-17 (Contained in Consolidated Summary of Phase 1 Fiscal Analysis dated February 20, 2007)

Facility Needs

- The City of Kirkland has facility needs regardless of the decision on annexation, though the annexation decision would dramatically increase those needs. An annexation scenario increases total facility needs by approximately $50 million:
  - **Base City Facility Needs -- $29.6 million**
    - City Hall expansion and public safety: $25 million
    - Maintenance facility expansion: $4.6 million
  - **City Needs with Annexation -- $80.7 million**
    - City Hall expansion: $28.9 million
    - New public safety and jail facilities: $44.0 million
    - Maintenance facility expansion: $7.8 million
- The 2005 annexation analysis included a $1.6 million per year charge for facility impacts resulting from annexation based on the debt service for a 30-year bond to pay for specific improvements. The cost was determined based on a "fair share" of new facilities using the number of FTE's to allocate costs. The analysis assumed a PAA facility cost allocation of $ 25.6 million, comprised of the following shares for specific improvements:
  - City Hall expansion: $6.6 million
  - Maintenance center expansion: $3.2 million
  - New public safety building: $15.8 million
- The $50 million estimate likely overstates the "true incremental cost" for two reasons:
  - The property owners in the PAA's will, upon annexation, contribute to existing voted-G.O. debt. This will reduce existing City taxpayer burden. From an equity perspective this can be considered an offset against the incremental cost of facilities due to annexation. The present value of these taxpayer savings is approximately $2.2 million.
  - Regardless of the annexation decision, the City will need to address the base City facility needs. For the purposes of analysis, one could assume that this base need would be funded through a new voted G.O. bond. If this were done, the millage rate to repay these bonds could be applied to the PAA annexation areas to develop a credit that would reflect a balanced base City situation. This credit would be worth approximately $10.5 million.
- Adjusting the incremental estimate to account for these credits results in a PAA facility cost impact of $38 million. As a result, the annual facility cost impacts could range from a low of $1.6 million per year for a "fair share" approach to a high of $2.7 million per year for an incremental approach.
- There are a number of issues that will influence how facility impacts might be viewed, in particular the eligibility of these costs for sales tax credit and how one interprets potential changes in annexation economics resulting from policy changes to address base fiscal challenges.