



**CITY OF KIRKLAND**  
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## **MEMORANDUM**

**To:** David Ramsay, City Manager

**From:** Daryl Grigsby, Public Works Director  
Ray Steiger, P.E., Capital Projects Manager

**Date:** January 23, 2008

**Subject:** 10<sup>th</sup> STREET WEST UTILITY CONVERSION LOCAL IMPROVEMENT DISTRICT (LID)

### RECOMMENDATION:

It is recommended that City Council review the attached information regarding Local Improvement Districts (LID). It is further recommended that Council authorize the use of \$50,000 of capital contingency fund and direct staff to begin pre-formation activities associated with an LID request for 10<sup>th</sup> Street West.

### BACKGROUND DISCUSSION:

At their regular meeting of January 2, 2008, Council acknowledged receipt of an informational petition from the owners of 11 properties in the 1600 block of 10<sup>th</sup> Street West for the possible formation of a utility conversion LID (Attachment A). The petition came after Staff had met last October with some of the same property owners to discuss the possibility of constructing the conversion project and options that might be available for paying for the improvement. At that resident gathering, two project options were introduced – one where neighbors would join together and contract directly with Puget Sound Energy (PSE) and the other utilities to complete the desired improvements and a second option involving the formation of an LID.

An LID is a financing method governed by the laws of the State and is made available to property owners for the design and construction of improvements within a special assessment district (District) which will provide a special benefit to the property owners within that District. An LID is created under the sponsorship of a municipal government, must meet specific parameters, and must be approved by both the municipality and the benefiting property owners.

The LID process is available in order to finance capital improvements, not merely construct them. The LID process generally culminates in the sale of bonds to investors and the retirement of those bonds through ten years of amortized payments by the property owners within the District. The costs for LID administration, design, legal and appraisal services, interim financing interest, bond sales, bond counsel and underwriting, in addition to charges for staff time and construction, are all added to the total project costs that District participants are obligated to re-pay.

*The Process:*

The formation of an LID can be commenced either by a prescriptive petition submitted by property owners representing a majority of the area within the District or by the City Council's adoption of a resolution declaring its intent to form an LID; Kirkland has historically followed the resolution method for creating LID's. The resolution process begins with the receipt of an informational petition, as was done in this case. Upon the receipt of an informational petition, and prior to the adoption of a resolution, Staff will prepare preliminary cost estimates, assemble other statutorily required information such as the estimated assessments and assessment method and present this information to property owners for their consideration. Based on previous Council policy, if property owners representing at least 70% of the assessed value continue to support creating the LID, Staff will prepare a resolution of intent to create the LID and will return for its adoption by City Council.

State law allows LID assessments to be apportioned on several different bases such as gross area, foot frontage, and a zone termini system; whichever method of apportionment is used must fairly reflect the special benefits attributable to each individual property. A key requirement prior to formation of an LID is that the total amount of the assessments may not exceed the special benefit to individual properties. The amount of the special benefit is the difference between the fair market value of an individual property immediately after the improvement and the fair market value of that property before the improvement. Additionally, a second key requirement is that each property must be assessed its proportionate share in relation to the other properties within the District. Both of these criteria must be met prior to moving forward with the LID creation.

The LID process is not an expeditious one, and State law is very specific in outlining the steps and requirements that must be followed. By including the required public hearings, protest periods and legal notifications to the design, the before and after special benefits assessments (appraisals), and the legal and bond counsel elements, the entire process can take up to two years or longer (Attachment B.)

*What next?*

Over the past month, since receiving the petition, Staff has met with representatives from PSE, has engaged in conversations with consulting engineering firms and other Washington municipalities that perform LID's, and sought to engage the services an MAI (Member Appraisal Institute) appraiser; these are the only parties qualified to perform the benefit analysis. Through our discussions with the PSE representative, it was determined that the power serving the neighborhood is single-phase power and its conversion is fairly straightforward. The existing poles also contain services for Comcast and Verizon along with a number of existing street lights. While the physical components of the project are uncomplicated, the most onerous single aspect of the entire process could be the special benefits analysis element.

The special benefit analysis of the process requires an MAI appraiser to perform a "before and after" analysis through property appraisals on each property benefiting by the proposed improvements. This is being done in order to make a determination as to whether or not the costs to complete the improvements will be greater than the special benefit gained by the individual property owners. For this element, Staff has talked to Ms. Deborah Foreman of Allen, Brackett and Shed, Bellevue, WA. Ms. Foreman is an MAI Appraiser and has up-to-date experience with LID assessments and special benefits; she has provided Staff with an overview of anticipated appraisal costs associated with the proposed 10<sup>th</sup> Street West LID.

Based on information provided by PSE, Verizon and Comcast, estimates for construction and restoration costs, and "soft" costs (i.e., engineering/inspection, appraisal services, legal, bonding, etc.), the total estimated project cost is approximately \$400,000. The breakdown of the overall LID costs are included in this memo as a preliminary cost

estimate (Attachment C). PSE, through a new Schedule 73 in their tariffs with the Washington State Transportation and Utilities Commission, would participate in the cost of construction to a level of approximately \$100,000 which would leave a total amount for assessment distribution among the properties of approximately \$300,000. As stated above, this net amount is the sum that would be apportioned among the members of the District in a manner that is equitably distributed.

By directing Staff to begin the pre-formation activities certain expenses will be incurred. As shown in Attachment C under "soft costs", the amount required to determine the individual special benefits is \$33,000 and the amount for initial engineering costs is expected to be \$17,000. In the event the LID is not successful, these costs will not be recovered. If however, the LID is created, these initial costs will be reimbursed as a part of the project assessments. Based on an initial estimated schedule, Staff would return to City Council in the Spring of 2008 with a resolution of intent to create the LID.

Attachment: (4)

# 10th Street West LID Supporters

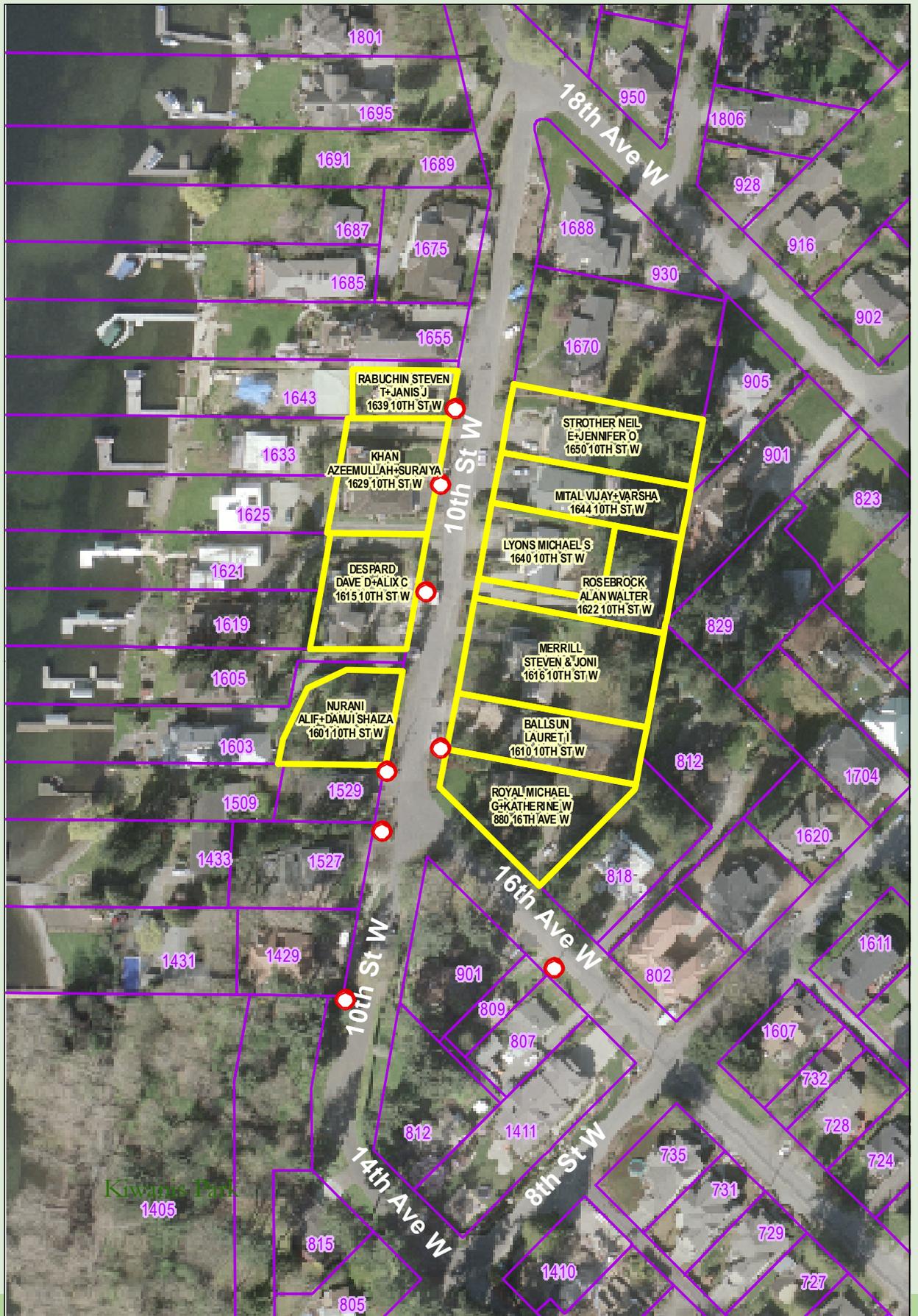


Vicinity Map



## Legend

-  PowerPoles
-  LID Supporters





**10<sup>th</sup> St. W. LID**

Construction Estimate

**1. Project Extents = (approx.) 700-feet**

- a. Existing poles (with and without street lights)
- b. Single phase power (PSE)
- c. Verizon phone line
- d. Comcast cable

**2. Street Lights**

- a. Replace existing pole mounted cobra head lighting

**3. Aerial service lines (private property)**

- a. There will be additional private property costs for individual property owners with homes that are not currently served by buried service lines

	Unit	\$/Unit	Total
<b>Power line conversion construction (PSE):</b>	<b>700</b>	<b>\$ 250</b>	<b>\$ 175,000</b>
<b>Trenching, Backfill and Restoration (District):</b>	<b>700</b>	<b>\$ 100</b>	<b>\$ 70,000</b>
<b>Replacement Lighting (District):</b>	<b>3</b>	<b>\$ 3,000</b>	<b>\$ 9,000</b>
<b>Soft costs (District):*</b>	<b>60%</b>		<b>\$ 152,000</b>
Special Benefit Analysis (11x3,000=\$33,000)			
Engineering			
Legal			
Bond Counsel			
Publication/Legal Notices			
Interim interest			
Staff			
Other			
	<b>Subtotal</b>	<b>\$</b>	<b>406,000</b>
<b>PSE Contribution (60% of line conversion only):</b>		<b>\$</b>	<b>(105,000)</b>
	<b>TOTAL</b>	<b>\$</b>	<b>301,000</b>

\* Soft costs include things like engineering and design, legal, appraisal, advertisement, certified mailing, contract administration and inspection, permit, filing and recording fees, and financial advisor/bonding costs, etc.

# FISCAL NOTE

Source of Request							
Daryl Grigsby, Public Works Director							
Description of Request							
Request funding of \$50,000 for the individual special benefit analysis and initial engineering costs related to the proposed utility conversion Local Improvement District (LID) for the 11 properties in the 1600 block of 10th Street West. The individual special benefit analysis to be conducted by an MAI (Member Appraisal Institute) is estimated at \$33,000 and initial engineering costs estimated at \$17,000. In the event the LID is not successful, these costs will not be recovered. If however, the LID is created, these initial costs will be reimbursed as a part of the project assessments.							
Legality/City Policy Basis							
Fiscal Impact							
<b>One-time use of \$50,000 of the General Capital Contingency Fund.</b> The contingency is able to fully fund this request.							
Recommended Funding Source(s)							
<b>Reserve</b>	Description	2008 Est End Balance	Prior Auth. 2007-08 Uses	Prior Auth. 2007-08 Additions	Amount This Request	Revised 2008 End Balance	2008 Target
	General Capital Contingency	3,312,834	0	0	50,000	3,262,834	5,822,280
	There are no prior 2007-08 Authorized Uses of this reserve.						
<b>Revenue/Exp Savings</b>							
<b>Other Source</b>							
Other Information							

Prepared By	Sri Krishnan, Sr. Financial Analyst	Date	January 25, 2008
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