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# CITY OF KIRKLAND

## CITY COUNCIL

James Lauinger, Mayor • Joan McBride, Deputy Mayor • Dave Asher • Mary-Alyce Burleigh  
Jessica Greenway • Tom Hodgson • Bob Sternoff • David Ramsay, City Manager

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### AGENDA

#### KIRKLAND CITY COUNCIL SPECIAL STUDY SESSION

Peter Kirk Room  
Monday, April 6, 2009  
7:00 p.m.

COUNCIL AGENDA materials are available on the City of Kirkland website [www.ci.kirkland.wa.us](http://www.ci.kirkland.wa.us), at the Public Resource Area at City Hall or at the Kirkland Library on the Friday afternoon prior to the City Council meeting. Information regarding specific agenda topics may also be obtained from the City Clerk's Office on the Friday preceding the Council meeting. You are encouraged to call the City Clerk's Office (587-3190) or the City Manager's Office (587-3001) if you have any questions concerning City Council meetings, City services, or other municipal matters. The City of Kirkland strives to accommodate people with disabilities. Please contact the City Clerk's Office at 587-3190, or for TTY service call 587-3111 (by noon on Monday) if we can be of assistance. If you should experience difficulty hearing the proceedings, please bring this to the attention of the Council by raising your hand.

1. *CALL TO ORDER*
2. *ROLL CALL*
3. *STUDY SESSION*
  - a. Potential Annexation
4. *ADJOURNMENT*



**CITY OF KIRKLAND**  
City Manager's Office  
123 Fifth Avenue, Kirkland, WA 98033 425.587.3001  
[www.ci.kirkland.wa.us](http://www.ci.kirkland.wa.us)

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## MEMORANDUM

**To:** Dave Ramsay, City Manager

**From:** Marilynne Beard, Assistant City Manager  
Tracey Dunlap, Director of Finance and Administration  
Eric Shields, Director of Planning and Community Development  
Robin Jenkinson, City Attorney

**Date:** March 27, 2009

**Subject:** POTENTIAL ANNEXATION FOLLOW-UP

### RECOMMENDATION:

City Council receives an update on potential annexation items as requested in earlier Council meetings.

### BACKGROUND:

On March 3, the City Council held a study session on annexation. At that meeting, the Council received updated information regarding the financial outcomes of the annexation based on the adopted 2009-2010 Budget. A series of contingencies were identified by staff that could be factored into the annexation forecast based on Council direction. Council provided direction on the contingencies to include in the model and asked for additional information regarding the fire service impacts if another city (such as Bothell) annexed the area. A memo from Chief Jeff Blake discussing the fire service issue is included as Appendix A. A copy of the March 3 staff memo regarding financial outcomes is included as Appendix B as a reference. Council also asked for a special study session as a follow-up to the March 3 meeting.

On March 20, the City Council held their annual retreat. Based on a request from the Mayor made at the regular Council meeting on March 17, Council added the topic of annexation to their retreat agenda. At their retreat, the Council discussed the process and timing for proceeding with the annexation process assuming that a vote took place at the November 2009 general election. A staff report was provided outlining staff's understanding of the sequence and timing of events. In order to hold an annexation election in November (or to at least have that option), the City Council would need to approve a resolution of intent to annex no later than April 7. Council asked for a special study session on April 6 to discuss the revised financial analysis with a second special meeting to be held on April 7 (including a public hearing) so that they could consider a resolution of intent. A copy of the materials distributed discussing the annexation process produced for the retreat is included as Appendix C to this memo.

Since the Council retreat, staff has been drafting the necessary materials to submit with the Notice of Intention (NOI) that is filed with the Boundary Review Board. A draft of the text of the NOI is included as Appendix D. Note that there will be numerous attachments to the NOI, but those were not included in this packet. The final NOI materials will be completed in time for submittal to the Boundary Review Board by April 8.

The following sections provide the follow-up information requested by Council and an update on the annexation process.

### Financial Update

On March 3, 2009, the City Council was presented the updated annexation fiscal picture that incorporated 2009-2010 budget decisions. The "Base Case" reflected the Alternative Service Delivery option which assumes three police patrol districts and the alternate fire staffing configuration. A more detailed description of the base case assumptions is contained in the March 3, 2009 staff report.

In addition, a number of contingencies based on various economic and policy outcomes were identified in terms of potential positive/negative impacts to assist in determining the risks/benefits associated with annexation. The Council directed staff to revise the "base case" scenario to reflect the impact of several of these contingencies.

The following table lists all the contingencies presented to Council at the March 3, 2009 meeting and the items in with ✓ reflect the contingencies Council requested in this update.

	Contingency	Potential Annual Impact	
✓	Failure of the Voted Utility Tax	Existing City	\$2.3 million revenue loss
		PAA	\$1.1 million revenue loss
✓	Impacts of Current Economic Environment (Revenue loss for each 1% sales tax decline)	Existing City	\$150,000 revenue loss
		PAA	\$18,000 revenue loss
✓	Impact of 1% Sales Tax decrease on Credit	Combined	\$42,000 revenue loss
✓	Totem Lake Mall Redevelopment (Estimated net revenue gain)	Existing City Only	\$70,000-410,000 revenue gain
✓	Park Place Redevelopment (Estimated net revenue gain)	Existing City Only	\$560,000 revenue gain
✓	Gambling Tax Revenue	PAA Only	\$0.8-\$1.2 million revenue gain
✓	Flood Control Zone District Revenue for PAA (Stormwater Utility revenue/not Gen'l Fund)	PAA Only	\$53,000 revenue gain
✓	Regional Jail Cost Impacts	Existing City	\$670,000 cost increase
		PAA	\$335,000 cost increase
	Fire Station Debt Consolidation (If paid by economic stimulus package)	PAA Only	\$290,000 cost decrease
✓	Facilities – No Separate Public Safety Building (Decrease in debt service payment)	PAA Only	up to \$3.0 million cost decrease
	King County Funding	PAA Only	unknown
	Upzoning Opportunities in the PAA	PAA Only	unknown

This update presents three scenarios that are described in greater detail below:

- **Scenario 1:** the "Base Case" scenario as presented at the March 3, 2009 meeting;

- **Scenario 2:** the "Base Case" with selected contingencies incorporated, including gambling tax revenue from card games in the potential annexation area (PAA); and
- **Scenario 3:** the "Base Case" with selected contingencies incorporated, but excluding gambling tax revenue from card games in the PAA.

### *Financial Outcomes*

#### Scenario 1

The "Base Case" results show that the 2009-2010 budget decisions, particularly the increase in utility taxes, have improved the financial results in the PAA better than in the existing City. This is based, in part, on the fact that utility taxes are a much larger share of the revenues in the PAA than they are in the existing City. The actions taken to balance the budget in the future in the existing City would work as well or better in balancing the PAA.

The model summary sheet for the "base case" (Scenario 1) is included as Exhibit 1 after this memo.

#### Scenario 2

Scenario 2 reflects the following contingencies:

- No utility tax (either due to failure of a measure or decision not to take the measure to the voters)
- 5% reduction in sales tax revenue over the prior year in 2009 and 2010
- Totem Lake redevelopment completed in 2021
- ParkPlace redevelopment in 2014
- No separate public safety building
- Include regional jail costs
- Include gambling revenue from a social card game establishment in the PAA

The assumed failure of the voted utility tax and the reduction in the sales tax revenue by 5% in 2009 and 2010 have a net negative impact of approximately \$4.3 million on the current City and \$1.7 million on the PAA in 2011. The inclusion of the Totem Lake and Parkplace redevelopment only favorably impacts the City and not the PAA. The addition of the regional jail costs increases the total cost to the City by approximately \$0.7 million and the PAA by \$0.35 million in 2011.

The elimination of a separate public safety building reduces costs by \$0.6 million for the City and \$3 million for the PAA in 2011. Although expanded office space would be needed with or without annexation, it does prompt the need for additional square footage for staff, vehicles and equipment. The table on the following page summarizes the facilities assumptions with no annexation, under the "Base Case" with a separate public safety facility (Scenario 1), and if the public safety facilities needs are met on the City Hall campus (Scenarios 2 and 3).

## Estimated Facilities Costs (in 2005 dollars)

Facility Needs	No Annexation	With Annexation (Scen. 1 - Separate Public Safety Bldg.)	With Annexation (Scen. 2&3 - No Sep. Public Safety Bldg.)
City Hall Expansion (incl. public safety)	25,000,000	N/A	40,000,000
Public Safety/Jail Building	N/A	38,554,236	N/A
City Hall Space Needs	N/A	28,900,000	N/A
Maintenance Center Space Needs	4,564,000	7,763,000	7,763,000
<b>TOTAL</b>	<b>\$ 29,564,000</b>	<b>\$ 75,217,236</b>	<b>\$ 47,763,000</b>

Annual Facility Debt Service Paid by:	No Annexation	With Annexation (Scen. 1 - Separate Public Safety Bldg.)	With Annexation (Scen. 2&3 - No Separate Public Safety Bldg.)		
			10-Year	30-Year	Total
Existing City (30-Year)	2,482,106	2,582,249	-	1,942,052	1,942,052
PAA Share of Baseline (30-Year)	-	1,075,198	-	808,633	808,633
PAA Increment (10-Year)	-	5,290,711	2,507,128	-	2,507,128
<b>TOTAL</b>	<b>\$ 2,482,106</b>	<b>\$ 8,948,158</b>	<b>\$ 2,507,128</b>	<b>\$ 2,750,685</b>	<b>\$ 5,257,813</b>

The estimated revenues assume the inclusion of gambling revenue from social card games, which are currently prohibited in the City of Kirkland, at King County gambling tax rate of 11%. Legislation is currently under consideration in Olympia to allow a social card room to continue to operate after an annexation without having to allow the activity elsewhere in the City.

With the inclusion of the gambling taxes, the PAA breaks even in the early years, assuming use of the sales tax credit toward projected shortfalls. The facilities debt service is assumed to be structured to drop down after ten years to match the sales tax term. After that time, the deficits in the PAA are smaller than those in the existing City, so the logic that the actions taken to close the gap in the City will close the gap in the PAA holds.

The model summary sheet for Scenario 2 is included as Exhibit 2.

### Scenario 3

Scenario 3 is similar to Scenario 2 except that it excludes gambling revenue from a social card game establishment in the PAA. If gambling taxes from social card games are removed, the PAA shows a shortfall after application of the sales tax credit, but the shortfall is much smaller than that in the existing City. As a result, actions taken to close the gap in the existing City would close the gap in the PAA as well.

The model summary sheet for Scenario 3 is included as Exhibit 3.

### Summary of Financial Conclusion

The inclusion of the contingencies generally improves the PAA's fiscal outlook in the near-term, particularly due to the change in facilities assumptions, although the projections for the long-term are somewhat worse (due to jail costs, no utility tax increase, and to a smaller extent the reduction in sales tax revenue). However, the shortfall projected for the PAA is far smaller than that for the existing City, so the actions taken to balance the existing City will also balance the PAA. The City's existing financial issues were discussed by the City Council at the Council retreat and a series of potential strategies were presented. Further meetings will be held regarding these issues. Although the City's budget and the annexation are interrelated, the decision about whether to move forward with annexation will not make the City's financial situation significantly better or worse and will not eliminate City's budget gap.

## Legislative Update

The following bills related to annexation are still “alive” in the legislature. Following is a discussion of key elements that are relevant to Kirkland:

Substitute Senate Bill 5321, relating to extending the commencement period for annexation and eligibility for a local sales and use tax from 1/1/2011 thru 1/1/2021 has multiple sponsors, including Senator Tom. This bill passed out of the House Finance Committee with amendments to the House Rules Committee. Amendments adopted by the House Finance Committee include:

- A city or town with a prohibition or limitation on house-banked social card game licenses that annexes an area that is within a county that permits house-banked social card games may allow a house-banked social card game businesses that existed at the time of annexation to continue operating if the city or town is authorized to impose a tax under RCW 82.14.415 (sales and use tax for cities to offset municipal service costs to newly annexed areas) and can demonstrate that the continuation of the house-banked social card games businesses will reduce the credit against the state sales and use tax as provided in RCW 82.14.415(7). A city or town that allows a house-banked social card game business in an annexed area to continue operating is not required to allow additional house-banked social card game businesses.
- The maximum rate of tax imposed is 0.85 percent for an annexed area in which the population is greater than 10,000 and the area is annexed by a city with a population greater than 400,000 (i.e. Seattle). Except for these large cities, the maximum cumulative rate of tax a city may impose under subsection of this section is 0.2 percent for the total number of annexed areas the city may annex. Unless the city commenced annexation of any area prior to January 1, 2010, the maximum cumulative rate of tax a city may impose is 0.3 percent, beginning July 1, 2011.
- The maximum cumulative rate of tax a city may impose is 0.85 percent for the single annexed area the city may annex and the amount of tax distributed to a city shall not exceed five million dollars per fiscal year.

Engrossed Substitute Senate Bill 5808 provides for a new additional method of annexation by interlocal agreement. If a city, the county and fire district(s) serving an area all agree and all participate in a public involvement process, annexations may be approved through interlocal agreement that is not subject to referendum. This bill passed out of the House Local Government and Housing Committee to Rules.

This bill also contains provisions involving transfer of fire district employees, specifically:

- If any portion of a fire protection district is proposed for annexation both the fire protection district and the city must jointly inform the employees of the fire protection district about hires, separations, terminations, and any other changes in employment that are a direct consequence of annexation at the earliest reasonable opportunity.
- Upon transfer, unless an agreement for different terms of transfer is reached between the collective bargaining representatives of the transferring employees and the participating fire protection jurisdictions, an employee is entitled to the employee rights, benefits, and privileges to which that employee would have been entitled as an employee of the fire protection district, including rights to:
  - Compensation at least equal to the level of compensation at the time of transfer, unless the employee's rank and duties have been reduced as a result of the transfer;
  - Retirement, vacation, sick leave, and any other accrued benefit;
  - Promotion and service time accrual; and

- The length of terms of probationary periods, including no requirement for an additional probationary period if one had been completed before the transfer date.

ESSB 5808 also contains assurances that fire and emergency response times (consistent with response times recorded prior to the annexation as defined in the previous annual report for the fire protection district) will be maintained in newly annexed areas at least through the budget cycle, or the following budget cycle if the annexation occurs in the last half of the current budget cycle.

Second Substitute Senate Bill 5433 eliminates anti-supplanting language for county public safety sales and use tax and the multi-year lid lift and allows revenue from the public safety sales and use tax to be used for the additional purpose of fire protection. This bill passed out of the House Finance Committee with amendments to Rules. Amendments adopted by the House Finance Committee include:

- Requires cities and towns within King County to annex large potential annexation areas by January 1, 2015 in order to receive transportation improvement account and public works account grants and loans. If a city or town is located partially in King County, the date would be January 1, 2021.
- Allows cities and towns to impose utility taxes on water-sewer districts until January 1, 2015
- Allows for the creation of a rural infrastructure improvement and public safety (RIPS) district in the unincorporated areas of a county. Allows a RIPS district to impose a tax on utilities until January 1, 2015
- Limits the ferry district property tax rate in King County to 7.5 cents per thousand dollars of assessed value (currently, not to exceed 75 cents per thousand) and authorizes an additional property tax in King County at a rate of 7.5 cents per thousand dollars to fund transit projects
- Requires the state auditor to conduct a performance audit of King County
- Imposes the brokered natural gas use tax at the location where the gas is consumed
- Extends use of Real Estate Excise Tax funds to parks maintenance and operations

The Council legislative committee asked staff to prepare a summary of fiscal impacts of the potential annexation. Staff will provide a summary of impacts at the April 6 study session.

### **Process Update**

Since the Council retreat, staff has contacted a variety of other jurisdictions to learn more about the annexation process, the timing and the materials needed to proceed to an annexation vote (should the Council choose to move forward). Staff questions focused on meeting the timelines for the November election so that the City Council continues to have that option available.

- Official notification to special districts serving the PAA must be made by the City advising them that a notice of intention to annex is being submitted. In particular, any special purpose district that would have its service area reduced as a result of annexation (e.g. fire districts) needs to be notified and the City needs to immediately begin discussions with those agencies regarding transition. Staff has contacted all of the impacted special districts informally and followed up with a written notification. If the Council decides to proceed to the Boundary Review Board, staff will need to initiate discussions with the districts regarding transition.
- The deadlines associated with the November election require that a strict sequence of events occur. The King County Council will need to consider the matter of placing the

annexation measure on the ballot before the August 11 filing date. The County Council will be on hiatus during the early part of August. Consequently, the resolution of intent to be presented to the Kirkland City Council on April 7 will indicate a preference for the November 2009 General Election. This will allow the King County Council to consider the matter before they go on hiatus (at their July 27 meeting). The City will still need to take official action regarding holding an election in August before filing with the County Elections Office.

### **Summary and Next Steps**

If the City Council votes to place the annexation question on the November ballot, City staff will need to mobilize to prepare for the election process, begin negotiating the required interlocal agreements, and develop a detailed cash flow analysis and implementation plan to assist with determining the effective date. In addition, facilities expansion plans will need to move into the next phase. If the resolution of intent passes, staff will prepare an estimate of the resource needs to carry out these tasks in the short term and identify potential funding sources for consideration at a future meeting.

For the purposes of April 6 and 7, Council discussed the following sequence of events:

***April 6            Special Study Session            7:00 pm***

- Receive updated financial information
- Discuss other background materials as needed
- Provide direction for any additional information needed for April 7 special meeting

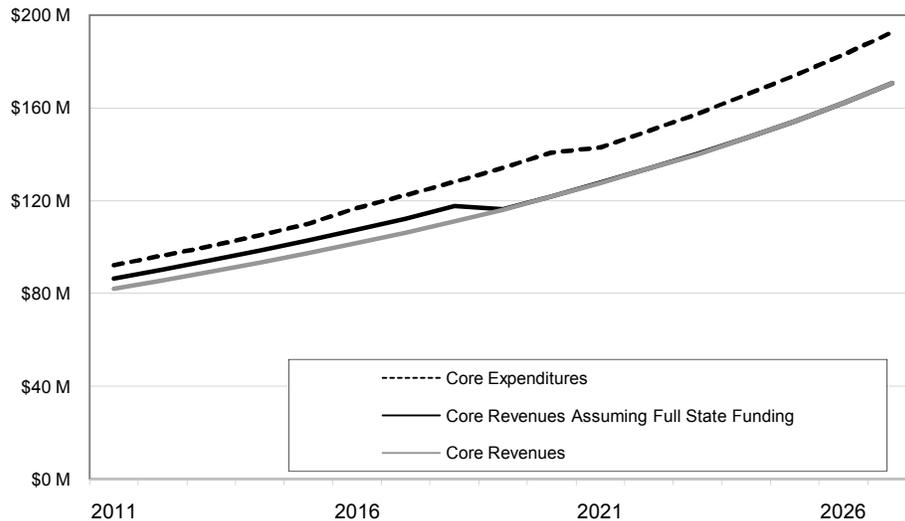
***April 7            Special Meeting            6:00 pm***

- 6:00 pm -- Continue study session on annexation
- 7:00 pm – Hold public hearing
- After completion of public hearing, consider and vote on resolution of intent
- Adjourn Special Meeting
- 7:30 pm (or after completion of special meeting, whichever is later) – Convene Regular Council meeting including approval of minutes from April 7 special meeting

If the resolution of intent is approved, a certified copy of the resolution and meeting minutes will be submitted with the notice of intent to annex to the Boundary Review Board on April 8. If the resolution of intent is not approved, then staff will proceed as directed by Council.

### FEBRUARY 2009 - SCENARIO 1 - "Base Case"

- 3 Patrol Districts
- Includes Voted Private Utility Tax Increase
- First Full Year of Annexation in 2011
- No Totem Lake Redevelopment



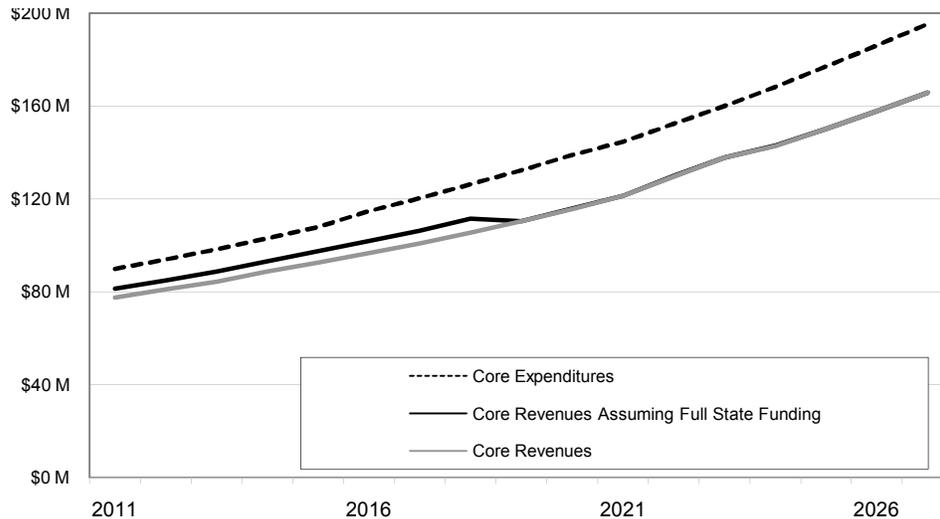
<b>Current Kirkland</b>	<b>2011</b>	<b>2016</b>	<b>2021</b>	<b>2026</b>
Core Expenditures (000's)	66,557	84,858	109,107	141,116
Facility Debt Service (000's)	2,585	2,585	2,574	2,550
<b>Subtotal Expenditures</b>	<b>69,142</b>	<b>87,443</b>	<b>111,680</b>	<b>143,666</b>
Core Resources (000's)	64,765	79,617	98,551	123,438
State Sales Tax Credit ('000's)	0	0	0	0
<b>Subtotal Revenues</b>	<b>64,765</b>	<b>79,617</b>	<b>98,551</b>	<b>123,438</b>
<b>Net Resources (000's)</b>	<b>(4,377)</b>	<b>(7,826)</b>	<b>(13,129)</b>	<b>(20,228)</b>
<b>Deficit as % of Expenditures</b>	<b>-7%</b>	<b>-9%</b>	<b>-12%</b>	<b>-14%</b>

<b>Increment from PAAs</b>	<b>2011</b>	<b>2016</b>	<b>2021</b>	<b>2026</b>
Core Expenditures (000's)	16,786	23,188	30,088	38,255
Facility Debt Service (000's)	6,360	6,360	1,087	1,111
<b>Subtotal Expenditures</b>	<b>23,145</b>	<b>29,548</b>	<b>31,175</b>	<b>39,366</b>
Core Resources (000's)	17,315	22,142	29,107	38,592
State Sales Tax Credit ('000's)	4,240	5,691	0	0
<b>Subtotal Revenues</b>	<b>21,555</b>	<b>27,833</b>	<b>29,107</b>	<b>38,592</b>
<b>Net Resources (000's)</b>	<b>(1,590)</b>	<b>(1,714)</b>	<b>(2,069)</b>	<b>(774)</b>
<b>Deficit as % of Expenditures</b>	<b>-9%</b>	<b>-7%</b>	<b>-7%</b>	<b>-2%</b>

<b>Entire City</b>	<b>2011</b>	<b>2016</b>	<b>2021</b>	<b>2026</b>
Core Expenditures (000's)	83,343	108,046	139,195	179,371
Facility Debt Service (000's)	8,944	8,944	3,661	3,661
<b>Subtotal Expenditures</b>	<b>92,287</b>	<b>116,990</b>	<b>142,856</b>	<b>183,032</b>
Core Resources (000's)	82,081	101,759	127,658	162,030
State Sales Tax Credit ('000's)	4,240	5,691	0	0
<b>Subtotal Revenues</b>	<b>86,320</b>	<b>107,450</b>	<b>127,658</b>	<b>162,030</b>
<b>Net Resources (000's)</b>	<b>(5,967)</b>	<b>(9,540)</b>	<b>(15,198)</b>	<b>(21,002)</b>
<b>Deficit as % of Core Expenditures</b>	<b>-7%</b>	<b>-9%</b>	<b>-11%</b>	<b>-12%</b>

## APRIL 2009 - SCENARIO 2

- 3 Patrol Districts
- No Increase in Private Utility Tax
- First Full Year of Annexation in 2011
- Totem Lake Redevelopment in 2021
- 5% Sales Tax Revenue Loss in 2009 & 2010
- Parkplace Redevelopment in 2014
- Includes Gambling Revenue
- Includes Regional Jail
- No Separate Public Safety Building



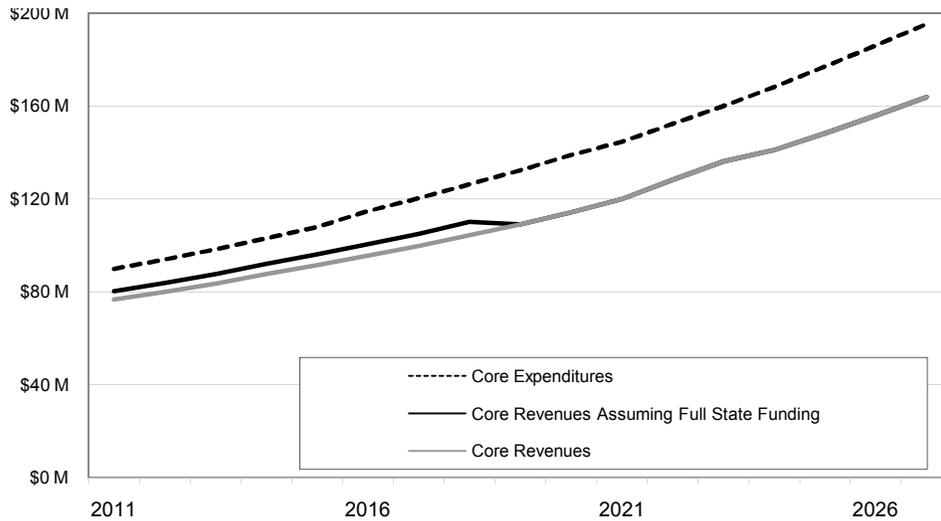
<b>Current Kirkland</b>	<b>2011</b>	<b>2016</b>	<b>2021</b>	<b>2026</b>
Core Expenditures (000's)	67,277	85,713	111,164	143,956
Facility Debt Service (000's)	1,942	1,942	1,937	1,922
<b>Subtotal Expenditures</b>	<b>69,219</b>	<b>87,655</b>	<b>113,102</b>	<b>145,878</b>
Core Resources (000's)	60,445	74,868	92,695	119,662
State Sales Tax Credit ('000's)	0	0	0	0
<b>Subtotal Revenues</b>	<b>60,445</b>	<b>74,868</b>	<b>92,695</b>	<b>119,662</b>
<b>Net Resources (000's)</b>	<b>(8,775)</b>	<b>(12,787)</b>	<b>(20,406)</b>	<b>(26,216)</b>
<b>Deficit as % of Expenditures</b>	<b>-13%</b>	<b>-15%</b>	<b>-18%</b>	<b>-18%</b>

<b>Increment from PAAs</b>	<b>2011</b>	<b>2016</b>	<b>2021</b>	<b>2026</b>
Core Expenditures (000's)	17,144	23,614	30,594	39,058
Facility Debt Service (000's)	3,316	3,316	814	828
<b>Subtotal Expenditures</b>	<b>20,460</b>	<b>26,930</b>	<b>31,408</b>	<b>39,887</b>
Core Resources (000's)	17,116	21,827	28,604	37,893
State Sales Tax Credit ('000's)	3,344	5,047	0	0
<b>Subtotal Revenues</b>	<b>20,460</b>	<b>26,874</b>	<b>28,604</b>	<b>37,893</b>
<b>Net Resources (000's)</b>	<b>0</b>	<b>(56)</b>	<b>(2,804)</b>	<b>(1,994)</b>
<b>Deficit as % of Expenditures</b>	<b>0%</b>	<b>0%</b>	<b>-9%</b>	<b>-5%</b>

<b>Entire City</b>	<b>2011</b>	<b>2016</b>	<b>2021</b>	<b>2026</b>
Core Expenditures (000's)	84,422	109,327	141,759	183,014
Facility Debt Service (000's)	5,258	5,258	2,751	2,751
<b>Subtotal Expenditures</b>	<b>89,679</b>	<b>114,585</b>	<b>144,509</b>	<b>185,765</b>
Core Resources (000's)	77,560	96,695	121,300	157,555
State Sales Tax Credit ('000's)	3,344	5,047	0	0
<b>Subtotal Revenues</b>	<b>80,905</b>	<b>101,741</b>	<b>121,300</b>	<b>157,555</b>
<b>Net Resources (000's)</b>	<b>(8,775)</b>	<b>(12,843)</b>	<b>(23,210)</b>	<b>(28,210)</b>
<b>Deficit as % of Core Expenditures</b>	<b>-10%</b>	<b>-12%</b>	<b>-16%</b>	<b>-15%</b>

APRIL 2009 - SCENARIO 3

- 3 Patrol Districts
- No Increase in Private Utility Tax
- First Full Year of Annexation in 2011
- Totem Lake Redevelopment in 2021
- 5% Sales Tax Revenue Loss in 2009 & 2010
- Parkplace Redevelopment in 2014
- **Excludes** Gambling Revenue
- Includes Regional Jail
- No Separate Public Safety Building



<b>Current Kirkland</b>	<b>2011</b>	<b>2016</b>	<b>2021</b>	<b>2026</b>
Core Expenditures (000's)	67,277	85,713	111,164	143,956
Facility Debt Service (000's)	1,942	1,942	1,937	1,922
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<b>Net Resources (000's)</b>	<b>(8,775)</b>	<b>(12,787)</b>	<b>(20,406)</b>	<b>(26,216)</b>
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<b>Increment from PAAs</b>	<b>2011</b>	<b>2016</b>	<b>2021</b>	<b>2026</b>
Core Expenditures (000's)	17,144	23,614	30,594	39,058
Facility Debt Service (000's)	3,316	3,316	814	828
<b>Subtotal Expenditures</b>	<b>20,460</b>	<b>26,930</b>	<b>31,408</b>	<b>39,887</b>
Core Resources (000's)	16,098	20,619	27,169	36,188
State Sales Tax Credit ('000's)	3,721	5,047	0	0
<b>Subtotal Revenues</b>	<b>19,819</b>	<b>25,665</b>	<b>27,169</b>	<b>36,188</b>
<b>Net Resources (000's)</b>	<b>(641)</b>	<b>(1,265)</b>	<b>(4,239)</b>	<b>(3,699)</b>
<b>Deficit as % of Expenditures</b>	<b>-4%</b>	<b>-5%</b>	<b>-14%</b>	<b>-9%</b>

<b>Entire City</b>	<b>2011</b>	<b>2016</b>	<b>2021</b>	<b>2026</b>
Core Expenditures (000's)	84,422	109,327	141,759	183,014
Facility Debt Service (000's)	5,258	5,258	2,751	2,751
<b>Subtotal Expenditures</b>	<b>89,679</b>	<b>114,585</b>	<b>144,509</b>	<b>185,765</b>
Core Resources (000's)	76,543	95,486	119,864	155,850
State Sales Tax Credit ('000's)	3,721	5,047	0	0
<b>Subtotal Revenues</b>	<b>80,263</b>	<b>100,533</b>	<b>119,864</b>	<b>155,850</b>
<b>Net Resources (000's)</b>	<b>(9,416)</b>	<b>(14,052)</b>	<b>(24,645)</b>	<b>(29,915)</b>
<b>Deficit as % of Core Expenditures</b>	<b>-11%</b>	<b>-13%</b>	<b>-17%</b>	<b>-16%</b>

**CITY OF KIRKLAND****Fire & Building Department**

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**MEMORANDUM**

**To:** Dave Ramsay, City Manager

**From:** Jeff Blake, Fire Chief

**Date:** March 4, 2009

**Subject:** Annexation - Fire Department Impacts

Annexation is a significant concern for the Fire Department in several ways. I will outline those concerns and the impacts of an annexation or no annexation on the department. Both scenarios will have impacts on our organization; proceeding with an annexation having a positive impact and not doing annexation having a negative impact.

As you are aware the City and Fire District #41 have had a long contractual relationship, 40+ years, providing joint services to the city and fire district area. In these 40 years, joint planning, staffing, and service has been built on treating the entire service area as a single agency responsibility. Locating fire stations to best serve our citizens was a key aspect of the planning that has occurred. If we change the service area those plans for service will have to change as well. As an example, the Totem Lake fire station is located on the border of the city in the fire district and provides service without regard to jurisdictional boundaries because we have based this on the overall service area needs. Hiring of firefighters to provide services throughout the area has also been done with a single area of responsibility methodology. Apparatus purchase, and specialty services like technical rescue, hazardous materials response, and water rescue have used the single agency methodology as well. All this leads to the question of what happens and how will we operate if for some reason our joint operation ends. Even if we were to find a new partnership in the delivery of services, our costs will likely increase significantly due to the need to make purchases of equipment to provide these services with a new partner. And the costs will increase drastically if we were to provide these on our own because other partnerships aren't available.

Under a doing annexation scenario, the impacts are more positive from the Department's perspective. We would need to add some additional staff, potentially modify our existing Totem Lake fire station to accommodate these additional personnel and purchase apparatus to provide service to the area currently being served by Woodinville Fire. This is seen as a positive impact on our organization; it is a lot of work to be done, however, it is in a growth mode. Long term, 15 to 20 years, there may be a need to add a fire station in the northeast section of the city, if growth and population density increases demand for services beyond the capacity of the current resources. Again, this is typical analysis which would be done for the existing city and could easily be extended to the annexed area, not currently served by us now.

Under a not doing annexation scenario, the impacts are negative from the Department's perspective. The loss of the service area of Fire District #41 would mean the loss of jobs for many firefighters; there is currently no guarantee of employment for firefighters if another agency takes control of fire and medical services through annexation. This would be the case in a Bothell annexation scenario of the PAA and emergency services being provided by Bothell. Because of the number of responses into the city by the Totem Lake fire station, the loss of jobs would not be a straight number currently hired to staff fire district stations, subtracted from our current number of personnel. Many of the firefighters working in the fire district stations would need to be retained by the city in order to provide the current level of service in the city. Currently a large portion of the incidents responded to in our city are from firefighters working in fire district fire stations. And it is unlikely a new agency taking over responsibility for the area of Fire District #41 would respond to the incidents in our city, at the current service levels. Automatic Aid is a way of doing business in our region; however, it is based on a balanced regional approach. Fire departments monitor to see if agencies are giving and receiving at a balanced rate. When an agency becomes too reliant on a neighboring fire department, the chiefs discuss the need to bring that balance back to given and received automatic aid.

In the case of the Totem Lake Station being staffed by another agency; they would likely find they are responding into Kirkland, more than their own area and would come to us looking for relief of the burden we are placing on them. Over the past 8 years, the Totem Lake station has responded to 9774 incidents, 3.34 per day which is 73% of the total incidents responded to by the station into the city; no other agency would want to support this service level without a reciprocal amount of service being provided to them. We would not be in a position to provide that type of response for others, due to the location of our other fire stations.

It is also unlikely another agency would staff the Totem Lake station, due to the location and availability to support their other operations. Because of this, the City would need to locate and construct a fire station in the northern portion of the city to address the workload in the Totem Lake area. A good scenario would be for Kirkland to purchase the Totem Lake Station from the agency annexing the PAA and using it to serve North Kirkland.

In the PAA we have 8 firefighters on duty per day; if we do not annex we would still need at least 4 firefighters on duty per day to address the workload in the northern portion of the city. It takes 37 FTEs to have 8 on duty per day and 19 FTEs to have 4 on duty per day. Without annexation we would need 18 FTEs less, based on the workload in the city; this represents a 22% reduction in total workforce. There are two aspects to this staffing issue; first and foremost is the loss of employment of our employees. (In a perfect world, those losing their jobs would be hired by the agency annexing the PAA.) These are dedicated and highly trained emergency responders, who would represent a real loss to the City; not to mention the impact on them and their families.

The other aspect of the staffing issue is cost for the FTEs to provide services in the city. While we would be decreasing the total number of FTEs, we would still have a cost which would be 22% higher because of the loss of the cost sharing with Fire District 41. We would also have either land and construction cost for a new fire station in the north end of the city or the purchase price of the Totem Lake station if it were made available for sale. One of the assets of the Totem Lake fire station is its fueling station for city vehicles; a new facility would likely need to have this included in the costs of construction. We could expect costs to be in the range of 6 - 9 million dollars for either of these facility options; new construction or purchase of

the Totem Lake facility. There would also be the need to purchase apparatus for the facility, as the current asset would be transferred to the agency annexing the PAA.

In order to maintain the current levels of service in the city, we would have to retain a large portion of the current cost of staffing and operating the fire district stations, due to the workload within the city.

The retained costs with a Bothell annexation are approximately;

	One Time Costs	Ongoing (per year)	Comments
19 FTEs'		2.18 million	2009 costs
Station Operational Costs		\$40,000	2009 costs
Fire Station Options	6-9 million		Estimate only
Apparatus	\$700,000	\$132,000	Estimate only
Total	6.7 – 9.7 million	2.35 million	

The operational costs for the fire district stations are approximately \$5.7 million per year. As shown in the table above we would have a retained ongoing cost of \$2.35 million per year to maintain the current levels of service within the city. In addition, we would have an estimated 6.7 to 9.7 million dollars of capital expense.

2009 Fire Services Budget	\$14,277,616
Less Revenue from Fire District	\$3,650,501
City Net Costs	\$10,627,115
Retained Costs with Annexation by Bothell	\$2,350,000
Costs for Current Level of Services	\$12,977,115
Current Budgeted For Fire Services	\$10,627,044
Funding Needed	\$2,350,071
Percent Over Current Budget Funding	22%

In addition to the above retained costs, the city would have a loss of revenue from the overhead charged by the city to the fire district; the amount of overhead to be paid this year is \$182,529. This has been used to fund support departments administration of the fire service contract with the fire district.

I also do not see how we could reduce the costs of administrative personnel, such as deputy chiefs, fire prevention bureau, PIO, or our training division staff. These positions are not added based on the number of personnel we have, rather their need comes from functional responsibilities we have in order to deliver services. As an example, we have not increased the number of training staff for 10 years; however, the number of personnel has grown considerably in the same timeframe. This is due in part to our regional efforts, where functional responsibilities have grown and then shared with a combined staff from our regional fire training division to address our training needs and requirements. So I do not believe we could look for any savings to come from these areas of the department.

There are some other costs which would go down, i.e. dispatch services, apparatus maintenance, regional training, etc. These types of costs are based on the numbers of alarms,

apparatus, or personnel we have, so there would be some reductions realized. There would also be a loss of revenue from the Medic One levy, and grant funding based on number of personnel, etc. I have not been able to identify all of the details of a no annexation expense; however, these are examples of what we could expect.

If the council decided not to annex and give up the PAA for annexation by Bothell, I would strongly urge us all to try and gain agreement from Bothell to hire our employees who would otherwise lose their jobs as a result of this action. It would seem it is the least we could do for these employees who are dedicated to the City of Kirkland and highly trained firefighters.

In addition to the employment and retained costs of not doing annexation, we should not underestimate the effects such an action would have on the morale of the fire department. The Department fully understands we are faced with many unknown issues about annexation if it moves forward. We also want it known we are here to fully support a successful annexation process, as we see this as the best alternative for the department and our employees. Thank you for allowing me to give input on this annexation issue; it is truly one of significant concern and interest to the Fire Department.



**CITY OF KIRKLAND**  
**Department of Finance & Administration**  
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## **MEMORANDUM**

**To:** David Ramsay, City Manager

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

**Date:** February 18, 2009

**Subject:** 2009 Annexation Update

### **Introduction/Purpose of the Update**

On April 15, 2008, the City Council decided to suspend deliberations related to the Potential Annexation Area (PAA) until the financial challenges of the 2009-2010 budget were addressed. With the adoption of the budget on December 16, 2008, staff began the process of updating the annexation financial model to determine the impacts of the 2009-2010 budget decisions on the annexation fiscal picture. The update presents two scenarios:

- A "base case" for annexation that assumes the "Alternative Service Delivery" scenario last discussed on 4/15/08, updated to reflect more recent financial assumptions, and
- An alternative that reflects the original service delivery assumptions for the public safety functions.

In addition, a number of contingencies based on various economic and policy outcomes have been identified in terms of potential positive/negative impacts to assist in determining the risks/benefits associated with annexation. These contingencies can be added to or subtracted from the two scenarios presented to provide context for the policy evaluation of different annexation assumptions.

### **Updated Financial Model**

#### *Background*

At the end of the first phase of the annexation analysis (late 2006/early 2007), the financial model projected that there was a financial gap in both the existing City and the PAA. The gaps were roughly proportionate and scenarios were generated that illustrated potential actions that would close the gap. These scenarios indicated that the actions taken to close the gap in the existing City would also close the gap in the PAA.

In late 2007, the financial results were updated to take into account new information, including:

- The adopted 2007/08 budget,

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- The costs of adding a fire engine company due to the expected relocation of the Kingsgate fire station,
- The costs of maintaining O.O. Denny Park if the Finn Hill Park District dissolved,
- Assumption of the anticipated Fire District 41 debt associated with station consolidation, and
- Updated facilities cost estimates.

These changes added sufficient costs to the PAA that the logic that the actions taken to balance the existing City's budget would balance the PAA no longer held true. To further evaluate the financial feasibility of annexation, the City Council requested that options be generated for consideration that included an Alternative Service Delivery (ASD) approach for the PAA that would reduce costs.

In April 2008, the Alternate Service Delivery approach for serving the entire PAA was presented that reflected the following key changes:

- Assumption that the City will not assume responsibility for O.O. Denny Park,
- Adjustment to Police patrol districts from 4 to 3 in the PAA,
- Change in minimum Fire staffing configuration, and
- Overall reduction in staffing needs of approximately 20.7 FTEs (13 percent).

These service level adjustments produced a gap in the PAA that is roughly proportionate to the gap in the existing City, which returned the discussion to the earlier logic – that the actions taken to balance the budget in the existing City should also balance the PAA.

The 2009 update reflects the following changes since the April 2008 analysis:

- Incorporated the 2009-2010 Adopted Budget decisions, including the increases in the business license fee and public and private utility taxes, expenditure reductions, transition to NORCOM, and changes in the City's fund structure,
- Reduced in baseline sales tax due to no growth in receipts from 2006 to 2007, a 9% decline in 2008, and recognizing the impacts of the new Redmond Costco store and relocation of Toyota of Kirkland from the existing City to the PAA,
- Adjusted near-term existing City land use and development assumptions to better reflect the impacts of the current economic slowdown,
- Changed the first full year that annexation is effective to 2011 to reflect the time that has passed since the last update (was 2010 in the prior analysis),
- Adjusted inflation assumptions to be consistent with the 2009-2010 budget, with a return to more long-term trends beginning in 2012 for wage growth (5%) and benefit growth (6%).
- Removed assumed impacts from the redevelopment of Totem Lake Mall. Given the delays in the project, the current scenario does not include the projected impacts which had been reflected in the previous version beginning in 2011 (see further discussion in the *Contingencies* section later in this document regarding the potential impacts of both the Totem Lake and Park Place redevelopment).

#### *Updated Assumptions*

The 2009 model scenarios assume that the City will annex all three areas in the PAA, including the full Kingsgate area. The "base case" reflects the Alternative Service Delivery option

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presented at the April 15, 2008 Study Session. The assumptions are similar to those summarized above, with minor updates to the PAA staffing estimates to reflect new input from selected departments and the impacts of the service level reductions. As a reminder, the public safety staffing assumptions under the Alternative Service Delivery approach reflect:

- *Police Patrol Districts* - To achieve staffing economies in the Police Department, the department reduced the number of patrol districts serving the area from four to three. The patrol district boundaries were revised based on the population of each of the districts, projected calls for service within the districts, and the ease of transportation access within the district. Currently, the police department handles just under 38,000 calls for service (incidents) each year. These calls for service include both when the officer is dispatched to an incident by the Dispatch Center and when the officer observes a potential incident and initiates a response. These incidents include traffic stops, arrests, and on-view contacts. Based on historical data, the department projects approximately 26,000 calls for service (incidents) each year in the PAA. Approximately one-third of these calls will require a minimum of two officers to sufficiently handle the call (such as domestic violence calls).

The revised boundaries for the three patrol districts in the PAA reflect the geographic constraints associated with the area. The challenges include the lack of east to west arterials and the high volume of traffic on north-south arterials and I-405. In addition, NE 132nd Street is the one clear direct route for officer response from one district to another. The map in Attachment A illustrates the proposal for the three patrol district boundaries.

- *Fire Staffing Configuration* - The alternative service delivery plan includes a proposed change to the current firefighter staffing requirements for the Totem Lake station. Currently, the Fire Department requires a total of five positions to staff an engine company and a medical aid unit -- three firefighters for the engine company and two for the medical aid unit. This reflects a service level enhancement approved several years ago that allows for the Totem Lake Station to respond to two separate aid calls simultaneously or one fire and one aid call simultaneously. Under the alternative service delivery plan, the Totem Lake Station would be reduced to a total of four staff that have the flexibility to work as part of either the engine company or the aid unit. The station would be equipped with both an aid vehicle and a fire engine.

With this level of staffing, the station personnel retain the ability to respond to two medical emergency calls at the same time or one fire call. Also, it gives the station the ability to staff an engine company with four firefighters in the event of a fire emergency, giving the team greater capacity to handle fire related actions. However, the station staff would require automatic aid assistance to respond to simultaneous medical and fire calls. It should be noted that the Fire Department is considering this change in staffing configuration on a citywide basis because it does offer increased flexibility in staffing. This alternative staff configuration at the Totem Lake Station would result in an overall reduction in three staff positions—one for each of the three shifts needed for 24/7 coverage.

For the alternative case, the Public Safety staffing levels are returned to the earlier service levels assumptions, specifically four Police Patrol Districts and the independent Aid Car staffing

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model in Fire. Both scenarios assume that OO Denny Park maintenance will continue to be done by the Finn Hill Park District.

### *Financial Outcomes*

The "Base Case" results reflect the Alternative Service Delivery assumptions. The projected core expenditures in the PAA are lower than in the previous analysis due to a number of factors:

- The current escalation of salaries and benefits from 2008-2011 is lower than that projected earlier by the model;
- Development assumptions were reduced in the early years of the projection to reflect current economic conditions, which results in slower growth in related staffing;
- The earlier model assumed growth in FTEs between 2008 and 2011, which was higher than what actually occurred;
- Other adjustments due to updating the assumptions to the 2009-2010 budget related to hourly labor and the relationship of labor costs to non-labor costs.

Similarly, the revenues in the PAA have increased since the last update due to the increases in utility tax rates and the revenues from the relocation of the Toyota dealership to the Graham Steel site; however, a significant portion of these increases have been offset by lower sales tax collection assumptions, reductions in development activity, and reduced property tax growth.

The results show that the 2009-2010 budget decisions, particularly the increase in utility taxes, have improved the financial results in the PAA better than in the existing City. This is based, in part, on the fact that utility taxes are a much larger share of the revenues in the PAA than they are in the existing City. The actions taken to balance the budget in the future in the existing City would work as well or better in balancing the PAA.

The "Alternative Case" results reflect higher FTE assumptions for Police and Fire (13 additional public safety FTEs). In this case, the shortfall in the PAA is larger than that in the existing City, so that the budget-balancing actions for the existing City would not balance the PAA until much later in the projection period.

The table on the following page summarizes the results for both scenarios. The ASD model results from April 15, 2008 are provided for context in Attachment B. The model summary sheet for the "base case" is included as Attachment C and the "alternative case" is shown in Attachment D.

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**Summary of Overall Results (Dollars in thousands)*****Alternative Service Delivery (3 District) - "Base Case"***

	2011	2016	2021	2026
<i>Current Kirkland</i>				
Net Resources	\$ (4,369)	\$ (6,916)	\$ (11,936)	\$ (18,003)
(Deficit)/Surplus as % of Expenditures	-7%	-8%	-11%	-13%
<i>Potential Annexation Area (PAA)</i>				
Net Resources	\$ (1,609)	\$ (1,383)	\$ (2,048)	\$ (858)
(Deficit)/Surplus as % of Expenditures	-10%	-6%	-7%	-2%
<i>Total (Current City &amp; PAA)</i>				
Net Resources	\$ (5,978)	\$ (8,299)	\$ (13,983)	\$ (18,861)
(Deficit)/Surplus as % of Expenditures	-7%	-8%	-10%	-10%

***Restored Service Level (4 District) - "Alternative Case"***

	2011	2016	2021	2026
<i>Current Kirkland</i>				
Net Resources	\$ (4,365)	\$ (6,912)	\$ (11,931)	\$ (17,997)
(Deficit)/Surplus as % of Expenditures	-7%	-8%	-11%	-13%
<i>Potential Annexation Area (PAA)</i>				
Net Resources	\$ (3,128)	\$ (3,841)	\$ (5,183)	\$ (4,864)
(Deficit)/Surplus as % of Expenditures	-17%	-15%	-16%	-11%
<i>Total (Current City &amp; PAA)</i>				
Net Resources	\$ (7,494)	\$ (10,753)	\$ (17,114)	\$ (22,861)
(Deficit)/Surplus as % of Expenditures	-9%	-10%	-12%	-12%

To provide a different perspective, we have rearranged the PAA results of the two scenarios in the table below to compare "core resources" to "core expenditures", which essentially indicates the balance between operating sources and uses (excluding facilities and the state sales tax credit). The table shows both the operating balance, as well as the overall balance.

**Summary of Model Potential Annexation Areas (PAA) Results*****Alternative Service Delivery (PAA Only) - "Base Case"***

	2011	2016	2021	2026
Core Expenditures	\$ 16,786	\$ 23,096	\$ 29,959	\$ 38,457
Core Revenues	\$ 17,316	\$ 22,028	\$ 28,986	\$ 38,698
<b>Core Net Resources</b>	<b>\$ 530</b>	<b>\$ (1,068)</b>	<b>\$ (973)</b>	<b>\$ 241</b>
Facilities Cost	\$ 6,379	\$ 6,370	\$ 1,075	\$ 1,099
State Sales Tax	\$ 4,240	\$ 6,055	\$ -	\$ -
<b>Total Net Resources</b>	<b>\$ (1,609)</b>	<b>\$ (1,383)</b>	<b>\$ (2,048)</b>	<b>\$ (858)</b>

***Restored Public Safety Level of Service (PAA Only) - "Alternative Case"***

	2011	2016	2021	2026
Core Expenditures	\$ 18,304	\$ 25,554	\$ 33,094	\$ 42,462
Core Revenues	\$ 17,315	\$ 22,028	\$ 28,986	\$ 38,697
<b>Core Net Resources</b>	<b>\$ (989)</b>	<b>\$ (3,526)</b>	<b>\$ (4,108)</b>	<b>\$ (3,765)</b>
Facilities Cost	\$ 6,379	\$ 6,370	\$ 1,075	\$ 1,099
State Sales Tax	\$ 4,240	\$ 6,055	\$ -	\$ -
<b>Total Net Resources</b>	<b>\$ (3,128)</b>	<b>\$ (3,841)</b>	<b>\$ (5,183)</b>	<b>\$ (4,864)</b>

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*Service Level Outcomes*

One of questions raised based on the alternative service delivery option is how we can provide differing levels of service between the existing City and the PAA. There are certain services where the impacts of service delivery could likely be contained to the PAA, although the long-term goal would be to levelize services throughout the City over time. For example, the Parks Department could establish a level of parks maintenance for the parks in the annexation area that differs from the level that is provided to current City parks. Although that service level would likely represent an improvement over the level of service that is currently provided by King County, the PAA parks could be maintained at a lower level of service for an indefinite period of time. Similarly, it would take longer to complete neighborhood plans for the PAA and it may take longer to respond to requests for neighborhood traffic calming in that area.

There are other services where it would be difficult to distinguish the level of service impacts between the existing City and the PAA. For example, it would be challenging and undesirable to treat customers coming into City Hall for permit services or planning information differently depending on whether their project was in the PAA or existing City. The City would likely respond to a report of a pot hole in the same manner, regardless of its location, given the liability implication of not fixing the problem. 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.

Staffing levels in the Police Department provide an established level of response to calls for service. Any call that is a report of a "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 patrol districts for back-up. In fact, Kirkland officers currently provide back-up service to the King County Sheriff's Office in the PAA, thereby reducing coverage within the current City limits during the back-up engagement.

The Police Department projects that the PAA will generate approximately 26,000 annual calls for service. There will be some service impacts to both the existing City and the PAA associated with adopting a three district plan, but these impacts should be manageable. The response in the PAA should still represent a significant improvement from King County and the system will be designed with the objective of managing any impacts in the existing City. The most noticeable result of the three-district plan would be the need to have a more refined system of prioritizing calls for service. The response to life-threatening or in-progress crimes will be enhanced in the PAA. However, lower priority calls may likely to have longer response times than is current practice within the City. Another impact of adopting a three-district plan would be the increased demand for backup support. Specifically, we anticipate that there will be an increase in the need for current City officers to assist the PAA officers with backup emergency calls. To manage this demand for assistance, the boundaries of the current north districts borders would be redrawn to aid in reducing the work load and coverage area in these districts. Doing this reduces the area and population in the north districts and gives this area to the two remaining south districts. This should spread the impact of increased calls to all districts and would be monitored for issues. Under a three district plan, there will be an increased number of hours where a command staff person is on duty, but there will still be times during weekends or late evenings when a sergeant or corporal is the highest ranking staff member.

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Listed below are several impacts of reducing the number of districts and staff covering the PAA. Emergency assistance and the preservation of life would always be our top priority. As mentioned above, the Police Department's greatest challenge will be in providing a standard level of service for lower priority response calls. Some of the possible methods of prioritizing and handling the additional calls for service include:

1. Limiting the types of calls officers are required to handle (e.g. non follow-up calls handled as mail out reports, raising the dollar threshold on reporting non-injury accidents, barking dog complaints and others).
2. Offering internet-based reporting by victims; easy to use question/answer templates for reporting non follow-up case types which allow officers to be available for other calls. This can be done on the internet, by setting up a reporting station at various locations in the City (fire stations, police department, and community center).
3. Working a different schedule with patrol that allows for different staffing levels for peak times. In the past, the twelve-hour work schedule limited scheduling flexibility. Effective February 16, 2009, the City and the union agreed to change to a more flexible scheduling plan that should assist with this issue.

As described earlier, the change in the Fire staffing model retains the ability to respond to two medical emergency calls at the same time or one fire call. Also, it gives the station the ability to staff an engine company with four firefighters in the event of a fire emergency, giving the team greater capacity to handle fire related actions. However, the station staff would require automatic aid assistance to respond to simultaneous medical and fire calls.

### **Contingencies**

*Voted Utility Tax* - The 2009-2010 Budget assumes passage of a voted utility tax increase on private utilities of 1.5%, which is reflected in the base case. This assumption is one of the key factors in the improvement of the PAA projection, as utility tax is one of the largest revenue sources in the PAA. Voter rejection of the measure represents a potential annual downside risk of \$2.3 million for the existing City in 2011 and \$1.1 million for the PAA in 2011, or a total annual revenue risk starting at \$3.4 million and growing over time.

*Impacts of Current Economic Environment* – The primary risks associated with the current economic environment involve additional losses of sales tax revenue and lower than expected development activity. The model scales development-related staffing to match development revenues (at the appropriate cost recovery level), so a lower level of development revenue would also result in lower costs of development-related staffing.

In terms of sales tax, lower sales tax collections impact the existing City much more severely than the PAA. The projected sales tax in 2011 generated by the existing City is \$15.0 million, so a 1% decline in taxable retail sales would result in a loss of \$150,000. In contrast, the projected sales tax in the PAA in 2011 is \$1.8 million, so a 1% decline equates to \$18,000. Given that sales tax is a much smaller part of the PAA tax base, the risk to the annexation scenario of a decline is much less than the impact on the existing City, so it should not have a significant adverse impact on the PAA outcome.

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In terms of the state sales tax credit, each 1% reduction in the combined sales tax revenues decreases the credit by \$42,000 beginning in 2011. To illustrate the impact, the sales tax credit in the April 2008 model (2010) was \$4.9 million and the 2011 credit is currently \$4.2 million. Further description of the state sales tax legislation and pending bills is provided later in this report.

While data is not available to determine the impact of streamlined sales tax on the PAA revenues, given that sales tax is not a major revenue driver, we recommend no adjustment to recognize potential impacts.

*Totem Lake Mall* – Prior versions of the annexation model assumed that redeveloped Totem Lake Mall would be completed by 2011. Given the delays that have occurred in commencement of the project and the current economic climate, this update does not assume a completion date for redevelopment of the mall. If the mall is redeveloped under the original assumptions underlying the development agreement in 2006, the net revenue generated by the project (after debt service on the public facilities) was projected at \$410,000 when construction was complete in 2011 and growing thereafter. Recent discussions have indicated that there may be changes in the design that would reduce the net revenue by as much as \$340,000, generating an initial net revenue to the City of \$70,000. Once the final scope and funding of the project is known, the cash flow projections supporting the development agreement will need to be revisited to assess the net benefits of the project.

*Park Place* – With the approval of the zoning changes related to the redevelopment of Park Place in December 2008, the design review process is about to get underway. The current schedule contemplates the early stages of construction beginning as early as 2010. The final configuration of the development is not yet known, however, preliminary financial analysis estimates that the redeveloped area would generate a net annual revenue to the City of \$560,000 when the project is completed in 2014 (after funding of the direct impacts).

*Gambling Tax Revenue* – The Caribbean Casino operates in the Kingsgate area and contains a social card room that is prohibited under Kirkland's current zoning. Since the model was last updated, the gambling taxes paid to King County by the casino have increased significantly, from the 2006 figure of \$580,000 to a 2008 figure of \$820,000. King County's gambling tax rate is 11%. The City currently has a higher rate on social card games of 20% (although they are prohibited in the City limits). If this rate were applied to the 2008 receipts, the revenue would be \$1.49 million. However, this figure assumes that the higher City of Kirkland rate of 20% would be applicable to all revenue, although a more likely scenario is a blended rate that more closely reflects the actual activities being taxed (for example, Kirkland's rate for bingo, raffles, etc. is 5%). It would be prudent to assume conservative potential revenue in the range of \$800,000 (assuming the King County rate of 11%) to \$1.2 million (recognizing the City's higher rate for card rooms, but factoring in that it would not apply to all revenues). See the legislative update later in this memo for an update on pending legislation to allow such uses to be "grandfathered" upon annexation.

*Flood Control Zone District* – The King County Flood Control Zone District (KCFCZD) was created in 2008 with the purpose of addressing major-river flooding problems that impact the regional economy. In establishing the KCFCZD, the Board of Supervisors set aside 1 cent of the 10 cents per \$1,000 of assessed value levied for a sub-regional opportunity fund to address local flooding problems unrelated to large rivers. Approximately \$53,000 per year will be allocated to the Kirkland PAA that includes Juanita, Kingsgate and Finn Hill areas (there is

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currently \$106,000 that would be allocated to King County as of January 1, 2009). The actual amount available will vary slightly based on assessed property value in the area, and on actual payments received. The levy will be collected for 10 years, and can be renewed. The amount of the levy can be adjusted downward, but cannot be adjusted upwards without voter approval.

These revenues could be used for flood control, stormwater and cooperative watershed management actions, as long as such actions are performed under a comprehensive plan, which means this revenue would be applied to the stormwater utility. While the stormwater utility is not included in the fiscal model, we wanted to acknowledge that we will receive an additional share of the Flood Control Zone District funding if we annex the PAA.

*Regional Jail* - The City's investment in and use of a regional jail facility will be under study for at least another year before we can determine our level of participation in the project. However, initial projections (for the existing City only) indicate that the incremental annual cost increase due to new bed-day costs, assuming the City continues to operate a 12-bed facility, would be \$670,000. Based on the 2007 Jail Staffing study, the PAA would increase the bed-days by approximately 50%, increasing the PAA cost by as much as \$335,000.

*Fire Station Consolidation Debt* - The financial model assumes that the City of Kirkland will assume responsibility for debt issued by Fire District #41 for the station consolidation, estimated at \$290,000 per year in the model. The economic stimulus package includes a provision for competitive "firefighter assistance grants" of up to \$15 million for modifying, upgrading, or constructing State and local fire stations. If the station consolidation qualifies for this program, it could eliminate the need to issue new debt to finance the project.

*Facility Expansion Options* - At the January 6, 2009 meeting, Council asked staff to explore options for facilities expansions. A significant expense included in the original financial model related to the construction of a new public safety facility and improvements needed to City Hall and to the Maintenance Center to accommodate new staff. Council asked staff to determine whether it is possible to construct a new public safety facility on the existing City Hall site in order to avoid the cost of constructing a new, stand-alone facility that would require acquisition of land and/or an existing building.

Since the original annexation financial model was developed some changes have occurred that affect facilities needs:

- Under the alternative service delivery model, staff projections for annexation were decreased.
- The City's Communications Center will move to NORCOM in July 2009.
- The former Hopelink building is now available for City staff and/or meeting rooms.

After reviewing architect Jim McClaren's original space requirements with facilities staff and the architect, we determined that we could change the assumptions in the study and build on the existing City Hall site. For instance, the original staffing estimates are higher than the most recent staff estimates prepared in 2008. The study assumed a 75-bed, full-service jail. The City is now exploring regional alternatives and has determined that a small full-service jail is not the most cost-effective option. The original design included some spaces that could be located outside of City Hall proper such as a gun range. In addition, one or more departments could remain off-site or relocate to the City Hall Annex (e.g. Parks or Human Resources staff currently located at the 505 Market building).

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The downsides of this alternative relate to our ability to expand to meet long term needs and to consolidate public safety functions on one site. However, if the addition to City Hall is constructed to essential building standards (required for public safety facilities such as EOC's and jails) then other functions could eventually be moved off-site to a standard office building. At some point in the future, the City may still build a separate public safety facility. The facilities assumptions assuming no annexation, annexation with a separate public safety facility, and an estimate with annexation but with the public safety facilities located on the City Hall campus (increasing the City Hall project cost) are summarized below.

#### Estimated Facilities Costs (in 2005 dollars)

Facility Needs	No Annexation	With Annexation (Separate Public Safety Building)	With Annexation (No Separate Public Safety Building)
City Hall Expansion (incl. public safety)	25,000,000	N/A	40,000,000
Public Safety/Jail Building	N/A	38,554,236	N/A
City Hall Space Needs	N/A	28,900,000	N/A
Maintenance Center Space Needs	4,564,000	7,763,000	7,763,000
<b>TOTAL</b>	<b>\$ 29,564,000</b>	<b>\$ 75,217,236</b>	<b>\$ 47,763,000</b>

Annual Facility Debt Service Paid by:	No Annexation	With Annexation (Separate Public Safety Building)	With Annexation (No Separate Public Safety Building)
Existing City	2,482,106	2,576,861	2,576,861
PAA Share of Baseline		1,072,955	1,072,955
PAA Increment	-	5,305,903	2,507,128
<b>TOTAL</b>	<b>\$ 2,482,106</b>	<b>\$ 8,955,719</b>	<b>\$ 6,156,944</b>

The total amount of facility debt service assumed in the financial model is \$2.5 million for the existing City and \$6.4 million for the PAA (during the first ten years), for a total of \$8.9 million, and includes the public safety building, City Hall expansion and Maintenance Center expansion. By eliminating the separate public safety building, debt service could be reduced by up to \$2.8 million for the PAA, depending on how the costs were allocated. This assumption change significantly improves the PAA scenarios, especially during the first ten years.

It should be noted that the state sales tax incentive was largely used to pay facility debt costs so as to mitigate the impact on the operating budget after the ten year eligibility lapsed. If the total PAA budget including facilities does not require the full state sales tax credit amount, then the sales tax credit would be reduced accordingly. Note that the elimination of a separate stand alone building will generate some operating savings, although the extent is difficult to identify with the information currently available.

Note that in December 2007, a variety of financing options were identified as available for the existing City share of facilities expansions (up to \$31 million). While no specific decisions were made, it would be reasonable to include a portion of the resources (approximately \$15 million) toward the existing City's share of the required facilities expansions, which would offset a portion of the debt service costs allocated to the existing City.

*King County Funding* – In 2007, King County offered the City \$2.5 million in funding, of which \$1.0 million was for capital and \$1.5 million was for general purposes. This offer expired in March of 2008. While it may be unlikely that this level of funding might still be available, staff could pursue some level of funding that could assist with transition costs and/or capital needs.

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*"Upzoning" Opportunities in Commercial Areas* – Work on annexation zoning was not completed when the Council decided to suspend work on annexation in 2008. Staff had finished an extensive comparison of the Kirkland and King County Zoning regulations and prepared draft regulations that would utilize the format and general regulations of the Kirkland code, while creating zoning districts that reflect the development patterns in the annexation area.

There are five commercial districts within the annexation area. The districts all have well established development patterns and, except for the Totem Lake industrial area, they are relatively isolated from other commercial areas. Commercial expansion of all districts is constrained by adjacent single family neighborhoods. Other than Totem Lake, each district primarily provides goods and services to the surrounding neighborhoods. Commercial uses serving a broader market area are more likely to locate in larger business districts with better access – such as Totem Lake.

The Kingsgate, Juanita, North Finn Hill and South Finn Hill districts are developed with a core of commercial uses surrounded by multi-family. Existing zoning reflects this development pattern. The King County Comprehensive Plan, however, does not differentiate between commercial and multi-family. Instead, each of these districts is designated as a "Business Center." In preparing annexation zoning, consideration was given to rezoning some of the Business Center land from multi-family to commercial. This would also involve amending the zoning regulations to allow residential uses on the ground floor of commercial zones in order to prevent existing multi-family uses from becoming non-conforming. Draft zoning maps were reviewed by the City Council as a whole in February 2008 and then by the Council Annexation Subcommittee in April. Based on those meetings, two draft versions of the zoning were created for each business district (see Attachment E). The Annexation Subcommittee version adds additional properties to be rezoned commercial. This would need further review by the full Council if annexation is pursued.

The business area east of Totem Lake is somewhat different than the other neighborhood oriented districts. This area is now zoned Light Industrial and is developed with a variety of uses ranging from auto dealers, to warehouses to offices. The area would be rezoned to correspond to zoning immediately to the west in Kirkland - Totem Lake 7. To better reflect the existing development pattern, a greater range of commercial uses would be permitted.

In summary, there are a number of contingencies that could positively or negatively impact annexation. The table that follows summarizes the range of potential impacts, if available.

Contingency	Potential Annual Impact	
	Failure of the Voted Utility Tax	Existing City
	PAA	\$1.1 million revenue loss
Impacts of Current Economic Environment (Revenue loss for each 1% sales tax decline)	Existing City	\$150,000 revenue loss
	PAA	\$18,000 revenue loss
Impact of 1% Sales Tax decrease on Credit	Combined	\$42,000 revenue loss
Totem Lake Mall Redevelopment (Estimated net revenue gain)	Existing City Only	\$70,000-410,000 revenue gain
Park Place Redevelopment (Estimated net revenue gain)	Existing City Only	\$560,000 revenue gain
Gambling Tax Revenue	PAA Only	\$0.8-\$1.2 million revenue gain
Flood Control Zone District Revenue for PAA (Stormwater Utility revenue/not Gen'l Fund)	PAA Only	\$53,000 revenue gain
Regional Jail Cost Impacts	Existing City	\$670,000 cost increase
	PAA	\$335,000 cost increase
Fire Station Debt Consolidation (If paid by economic stimulus package)	PAA Only	\$290,000 cost decrease
Facilities – No Separate Public Safety Building (Decrease in debt service payment)	PAA Only	up to \$2.8 million cost decrease
King County Funding	PAA Only	unknown
Upzoning Opportunities in the PAA	PAA Only	unknown

### Balanced Budget Model

The financial model is intended to provide a long-term projection of the potential financial impacts of annexation, assuming a similar level of service is provided in the PAA and the existing City soon after the effective date of annexation. A different approach to developing an expenditure budget for the PAA is to match expenditures to estimated available revenues, or a "balanced budget" approach. While the model indicates that there will be a shortfall between revenues and expenditures, in reality, the City is required to adopt a balanced budget every two years and will continue to do so.

This "balanced budget" approach would determine the levels of service possible under a scenario where expenditures are matched to the revenues available (balanced budget). The process would mirror a typical budget process, where departments develop their needs and recommended service levels, they are reviewed by the City Manager's Office and prioritized within revenue constraints, and then the resulting balanced PAA budget would be presented to the City Council for consideration. This information would include an articulation of the levels of service as compared to the current City of Kirkland and the current King County standards in the PAA.

It is important to recognize that the state sales tax credit is only available toward costs to provide services in the PAA that are in excess of revenues generated. The scenarios generated assume that the sales tax credit will generally be reserved toward the incremental facilities costs needed to accommodate the staff additions required to serve the PAA. An alternative approach might be that, once a balanced scenario is generated, the City can make explicit

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decisions on what additional service levels, if any, should be funded by the sales tax credit during the first 10 years.

### **State Sales Tax Credit Refresher**

Council requested a "refresher" on the rules and mechanics of the state sales tax incentive provided for annexations.

#### *Summary of 2006 Legislation*

The following excerpt from Senate Bill Report (SB 5321) that amends the original legislation provides a useful recap of the key provisions of **original** legislation:

**"Background:** *In 2006 legislation was enacted allowing a city to impose a sales and use tax to provide, maintain, and operate municipal services within a newly annexed area. The tax is a credit against the state sales tax, so it is not an additional tax to a consumer. The tax is for cities that annex an area where the newly received revenues received from the annexed area do not offset the costs of providing services to the area.*

*There are several requirements that have to be met before a city may impose the tax. The city must:*

- *Have a population less than 400,000;*
- *Be located in a county with a population greater than 600,000;*
- *Annex an area consistent with its comprehensive plan;*
- *Commence annexation of an area having a population of at least 10,000 prior to January 1, 2010; and*
- *Adopt a resolution or ordinance stating that the projected cost to provide municipal services to the annexation area exceeds the projected general revenue the city would otherwise receive from the annexed area on an annual basis.*

*The tax rate is 0.1 percent for each annexation area with a population between 10,000 and 20,000 and 0.2 percent for an annexation area over 20,000. The maximum cumulative tax rate a city can impose is 0.2 percent. The tax must be imposed at the beginning of a fiscal year and must continue for no more than ten years from the date it is first imposed. All revenue from the tax must be used to provide, maintain, and operate municipal services for the annexation area. The revenues may not exceed the difference of the amount the city deems necessary to provide services for the annexation area and the general revenue received from the annexation. If the revenues do exceed the amount needed to provide the services, the tax must be suspended for the remainder of the fiscal year. Prior to March 1 of each year, the city must notify the Department of Revenue of the maximum amount of distributions it is allowed to receive for the upcoming fiscal year."*

Some additional points of clarification:

- The credit applies to sales taxes collected within the existing city limits and within the boundaries of the annexation area.
- State funding for annexations is available to those cities that have "commenced" the annexation process by January 1, 2010. In this context, "commenced" was determined

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by the Department of Revenue to be the point when the Council has passed a resolution declaring its intent to annex. At the request of the City, Representative Larry Springer has agreed to request an Attorney General's (AG) opinion to clarify the term "commence." Based on an "informal" AG letter, staff has assumed that, at a minimum, the City must adopt an annexation resolution and file a certified copy of the resolution with the King County Council to commence annexation. It is important to confirm this interpretation, as the annexation decision will be predicated on qualifying for the state sales tax credit.

- The revenue cannot be used for infrastructure (capital) expenditures. In the most recent financial model, staff assumed that the credit would be used to pay debt service (in the form of a rental charge) on facilities expansions needed to house new staff. The debt would be structured so that the state sales tax would be used first for the annexation area's share of the facilities expansion. In doing so, after ten years, the impact to the operating budget is mitigated.

### *Phasing of Annexation Under Current Legislation*

The 2006 populations of Kirkland's annexation areas are as follows:

Kingsgate	11,700
Juanita	5,600
Finn Hill	15,300

Both the Kingsgate and Finn Hill areas individually meet the 10,000 population threshold for eligibility for the 0.1 percent sales tax credit. In order to be eligible for the 0.2 percent sales tax credit, Kirkland would have to annex both Juanita and Finn Hill, or Kingsgate and Finn Hill or all three annexation sub-areas.

Assuming all three areas are annexed at once, revenue from the state sales tax was initially estimated at \$4.9 million per year beginning in 2010. Updates based on recent sales tax performance were included in the financial model and the sales tax credit figure in the first year of annexation is estimated at \$4.2 million.

### *Current Legislative Activity*

Under SB 5321, the requirement that a city have a population less than 400,000 in order to impose the sales and use tax is eliminated (making Seattle eligible for sales tax credit funds). Any city with a population greater than 400,000 that annexes an area with a population of at least 10,000 may impose the sales and use tax at a rate of 0.0034 percent for each annexed area. The 0.0034 percent rate is also the cumulative rate maximum if a city annexes multiple areas.

The legislation also extends the deadline for qualifying for the sales tax credit, adding a period from January 1, 2011 through January 1, 2021. Consequently, annexations that commence before January 1, 2010 would still be eligible for funding under the current law. If the January 2010 date was not met, then a new funding cycle would not be available until 2011. This bill provides for an extension but recognizes the current budget difficulties faced by the state and moves the sales tax credit out of the coming biennium to the next.

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A question has been raised based on the draft language in the following section (emphasis added):

*(5) The tax imposed by this section shall only be imposed at the beginning of a fiscal year and shall continue for no more than ten years from the date that **each increment** of the tax is first imposed. Tax rate increases due to additional annexed areas shall be effective on July 1st of the fiscal year following the fiscal year in which the annexation occurred, provided that notice is given to the department as set forth in subsection (((8))) (9) of this section.*

The question is whether this would allow a City annexing over 20,000 to impose the sales tax increments at two 0.1% increments at two different points in time, for example, the first 0.1 percent from 2010-2020 and the second 0.1% from 2013-2023 to better match how costs would be incurred. One of the drafters of the bill has indicated that the language was intended to address a situation where two annexations between 10,000 and 20,000 occur at two different points in time, allowing them to qualify for a total of .2% sales tax credit during the period of overlap. It is unclear if the first circumstance would also qualify. We should have a better idea of whether this bill will survive by the March 3 Study Session, as it needs to pass out of the originating committee by February 25.

#### *Sales Tax Credit Mechanics*

The 10-year state sales tax credit is an integral part of the annexation financial analysis. The State has not issued formal guidance as to how the state sales tax credit will be administered and what specific documentation will be required to demonstrate shortfalls, however, meetings have been initiated with the State Auditor's Office to discuss the issue. At this stage, we are monitoring the experiences of Auburn and Renton, who had annexations that qualify for the credit and will be subject to audit of the sales tax credit for 2008. Auburn's experience to date has provided two insights: (1) that detailed record-keeping will be necessary to demonstrate qualifying costs, and (2) that timing is critical to maximize the credit. We will continue to stay in contact with both jurisdictions, and others considering this option, to track their "lessons learned".

#### **Refresher on Validation**

Below is an excerpt from the King County Elections website describing validation requirements. This relates to annexation because the City is planning to place the question of assuming the City's voted indebtedness on the ballot with the annexation question, triggering the bond validation requirement.

*"Passing a levy or bond issue isn't always a simple matter of majority rules. State law makes bond issues and some types of levies tougher to pass by requiring a "super majority. Other levies such as levy lid lifts and levies for schools only require a simple majority.*

*State Constitution (Article 7 Section 2) mandates the validation requirements for excess levies and bond issues.*

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***Levy Validation (excluding school levies)***

*To validate, levies must pass with a 60% favorable majority. They must also win a minimum number of YES votes based on the number of people who voted in the previous November General Election within the school or fire, etc., district. That minimum number of YES votes is determined by taking 60% of 40% of the people who voted in the most recent General Election.*

*Example: If there were 10,000 votes cast in the last General Election:*

10,000

x 40%

4,000

x 60%

2,400= Minimum number of "yes" votes required to validate.

*To pass the levy, the district needs to have at least 2,400 YES votes, even if only a total of 2,500 people vote on the levy.*

***Levy Validation for Schools***

*To validate a school levy, a simple majority is required.*

***Bond Validation***

*Bond issues must validate two ways. They must pass with a 60% favorable majority, or 60% of ballots cast are "Yes" votes. In addition, they have a voter turnout requirement that levies don't have. The turnout must equal 40% of the voters who cast ballots in the last General Election. So, a bond measure could get the required number of YES votes, but could still fail if not enough people vote in the election.*

*Example: 10,000 people voted in the XYZ School District in last year's November General Election.*

*To pass this bond issue, the XYZ District must also ensure that at least 4,000 people vote in the bond election. Of those, at least 2,400 must vote YES."*

An evaluation of the 2003-2006 election returns from the PAA completed in 2006 indicates that the voting patterns in the annexation area are very similar to voting patterns of the current residents of Kirkland. Annexation area vote results were generally within one to two percentage points of the City of Kirkland results. In the absence of PAA specific validation data (the area falls within 3 voting districts making it difficult to extract specific statistics), an estimate based on the City's validation statistics is provided in the following table.

### 2008 Validation Statistics

City of Kirkland population	48,410	PAA Population (Note 1)	33,016
Active Registered voters (.61028%)	29,544	Active Registered voters (.61028%)	20,149
Total votes cast 11/04/08 (84%)	24,790	Total votes cast 11/04/08 (84%)	16,925
40% of votes cast minimum to validate (40%)	9,916	40% of votes cast minimum to validate (40%)	6,770
60% of 40% minimum yes votes required (60%)	5,950	60% of 40% minimum yes votes required (60%)	4,062

Note 1: Assuming growth is consistent with the City of Kirkland average growth rate of 101.1%, the 2008 population in the PAA is estimated at 33,016.

Under the assumption of similar voting patterns in the PAA, there would need to be 6,770 votes cast in 2009 to validate, this is 40% of the estimated number of votes cast in the 2008 election. Of these 6,770 votes required for validation purposes, 60% (or approximately 4,062 of the 6,770) would need to vote yes to actually pass annexation. Validation is only required if the annexation ballot includes a "yes" or "no" vote on whether annexation area residents are willing to share in the City's bonded indebtedness.

### City of Bothell Study of Kirkland's PAA

In 2008, the City of Bothell commissioned a study at the urging of King County regarding the feasibility of Bothell's annexation of Kirkland's PAA. King County's request came after the Kirkland City Council deferred a decision on annexation until after the 2009/2010 Budget was completed. The City of Bothell contracted with Nesbitt Planning and Management Inc. to conduct a financial feasibility study for extending city operations to Kirkland's potential annexation area (PAA). Bothell staff presented the report to their City Council at a study session on January 13 and held a follow-up study session on February 10. Following is a high-level summary comparing Bothell's financial analysis to Kirkland's analysis of the same area.

#### *Study Scope and Methodology*

The Nesbitt study utilized a methodology similar to the one used by Randy Young and Associates when they completed the 2002 Kirkland annexation study. The methodology essentially uses the City budget as a base, identifies fixed versus variable costs, and then uses "cost drivers" to extrapolate the marginal cost of serving the annexation area. Cost drivers are factors such as population, calls for service and permits issued. Subsequent Kirkland studies used a more direct approach with departments preparing annexation budgets. Both approaches resulted in a deficit position for annexation for Kirkland.

The Nesbitt study relied heavily on data produced for Kirkland's most recent annexation study completed in 2007-2008. The Nesbitt study did not include a detailed analysis of capital needs in the annexation area and did not include an analysis of additional facilities' costs needed to house new staff.

Kirkland's study included a twenty year forecast for existing Kirkland, the PAA and the combined larger city in order to understand the relative growth patterns for each area alone and together.

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This approach was used to address the question of whether the annexation would have a long term positive or negative impact on the existing city's financial position.

The difference in the forecast horizon is one of the most striking differences between the scope of the two studies. Kirkland's study projected annexation costs and revenues out twenty years in order to fully understand the long term potential impact of the loss of the state sales tax subsidy after ten years. The Kirkland Council specifically asked for a "steady state" analysis. The Nesbitt study extended the analysis out for four years. In the fourth year, the one-time capital equipment costs were amortized which resulted in a neutral financial outcome assuming continued receipt of the state sales tax. As a reminder, a city is only be eligible for the state sales tax to the extent that a deficit can be demonstrated (i.e. the deficit amount is the maximum amount of state sales tax available per year). If the analysis were extended out past ten years, it appears as though Bothell would have a negative financial position similar to that shown by Kirkland's analysis.

#### *Revenue and Expenditure Assumptions*

Bothell's revenue estimates were calculated using similar assumptions as those used for Kirkland's study for items such as property tax, utility tax and sales tax. Aside from fundamental differences in the two cities' existing tax structures, a few differences were noted:

- Bothell assumed gambling tax revenue would be available using the 11 percent tax rate currently imposed by King County (\$580,000 based on the 2006 King County receipts).
- The Toyota dealership planning to relocate from incorporated to unincorporated King County is included in the Bothell analysis as contingent revenue (\$350,000 for 2009).

The Nesbitt report projects expenditures by taking the 2009 adopted budget for Bothell and extending it based on selected "drivers." A total of just under one hundred new FTE's resulted from the Nesbitt analysis methodology. City of Bothell staff disagreed with the consultant's staffing level and recommended additional police and fire personnel based on their own estimate of staff needed to serve the area at Bothell's level of service. An additional 13.74 FTE's and related costs were recommended by Bothell Police and Fire for an added expense of \$2.3 million for 2009.

A direct comparison of Bothell and Kirkland annexation staffing levels would be difficult given the different service systems provided by the two cities and differences in organizational structure. For instance, fewer overall police staff is recommended, however, Bothell currently has a higher ratio of police personnel per capita than Kirkland, so the base is different. Likewise, Bothell's deployment of fire and emergency medical personnel takes into account the location of existing fire stations in addition to stations that would transfer to Bothell from Fire District #41. Also, Kirkland's Fire department includes building staff and it is not clear where these staff are in the Bothell study without further analysis and discussion with Bothell staff. The following table summarizes estimated staffing reflected in the both cities' annexation analysis.

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	Bothell	Kirkland	Difference
Judicial	2.95	6.70	3.75
Executive	1.97	1.00	(0.97)
Finance/City Clerk	3.14	4.00	0.86
Legal	1.40	1.50	0.10
Human Resources	1.50	1.80	0.30
Facilities	0.98	1.25	0.27
Information Services	2.25	7.50	5.25
Police	47.89	52.50	5.25
Fire/Building*	26.50	19.00	(7.50)
Public Works**	9.00	15.50	6.50
Parks	8.39	10.45	2.06
Community Development	6.75	9.00	2.25
Total	112.72	130.20	18.12

\*Includes addition of engine company to Kirkland Fire for area currently served by Woodinville Fire and Life Safety

\*\*Kirkland Public Works FTE excludes CIP project engineers that would be funded from the CIP

As noted earlier, the other major difference between Kirkland and Bothell's expenditure estimates lies in assumptions about facility costs. Kirkland's study included debt service for facilities needed to house new staff. Bothell's study does not yet take into consideration marginal facilities costs that should be attributed to the annexation area.

The table that follows summarizes Bothell's financial analysis before factoring in the state sales tax incentive funding (estimated at \$3.1 million for 2009).

Unrestricted Operating Revenue	14,238,000
Toyota Dealership	350,000
Card Room	580,000
<b>Subtotal Revenue</b>	<b>15,168,000</b>
Nesbitt Report Estimated Expenditures	14,613,000
Fire and Police Recommended FTE Adds	2,252,359
<b>Subtotal Operating Expenditures</b>	<b>16,865,659</b>
<b>Net Operating Costs</b>	<b>(1,697,659)</b>

The most comparable figure for Kirkland would be the last estimate provided in April 2008 that reflected the baseline analysis with the alternative service delivery model, since that version reflects assumption similar to those used by Bothell. At that time, Kirkland's projected net cost in the annexation area resulted in a deficit of about \$405,000 for 2010 excluding facilities costs and the state sales tax incentive. Kirkland's "bottom line" after considering facilities costs and the state sales tax resulted in a 2010 deficit amount of \$1.554 million. If Kirkland assumed

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gambling tax revenue were available at the King County tax rate of 11% as assumed by Bothell, that deficit would be reduced to just under \$1 million. With the revenue changes in the 2009 update under the 3-District scenario, the deficit would fall even further.

At the January 13 meeting the Bothell City Council directed staff to return with additional analysis and information:

- Estimated capital needs and costs,
- Clarification regarding the term "commence" in the state sales tax incentive legislation,
- An analysis of the differing staffing levels recommended for the north Bothell annexation compared to the south Bothell – the "SOBA" (Bothell is also considering annexation of an area to the north – the "NEWBA"),
- Information regarding potential county financial support (King and Snohomish),
- Comparison of density of the two annexation areas including commercial development potential,
- Kirkland's timetable for deciding whether to retain or relinquish its Potential Annexation Area,
- Discussion of NEWBA versus SOBA pros and cons.

At their February 10 study session, the City Council received updated information (see Attachment F for the Bothell staff report). During the study session, Mayor Lamb clarified Bothell's position relative to Kirkland's intentions:

- Bothell understands that they cannot begin annexation proceedings of Kirkland's PAA without action on Kirkland's part to relinquish the area. Bothell is not interested in working counter to Kirkland's wishes.
- Bothell will suspend significant additional staff work on analyzing the SOBA until the Kirkland City Council holds its March 3 meeting and indicates whether they intend to pursue the annexation or relinquish the area. Mayor Lamb noted that Kirkland has studied the potential annexation for five years and so he did not anticipate definitive direction on March 3.
- Bothell will perform additional study on the feasibility and time frame for annexing all of Bothell's assigned annexation areas in Snohomish and King Counties.

At both meetings, the Bothell City Manager concluded that both the north and south annexations were "financially feasible" although the north annexation showed a better financial outcome than the SOBA. Presumably, they would achieve a uniform level of service across the entire City over time and believe that the amount of the deficit is manageable (i.e. they could still provide an acceptable level of service in the annexed areas).

If Bothell were to annex Kirkland's PAA, there would be significant impacts to the City of Kirkland budget because Bothell would take over the area served by King County Fire District #41 (FD 41), which is currently served under contract by the City of Kirkland. Without the FD 41 service area, the location and staffing of fire stations would need to be re-evaluated. A detailed analysis of these impacts would need to be conducted if this option is pursued.

February 18, 2009

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## **Gambling Legislation Update**

The annexation financial model assumed that the casino currently located in the Kingsgate area would close based on Kirkland's prohibition on house-banked card rooms. Current land use law requires an "all or nothing" approach to card rooms. Card rooms are either prohibited throughout the City or must be allowed in any area of the City (consistent with other zoning regulations limiting their location). In their legislative agenda, the City Council indicated support for legislation that would allow existing casinos in annexation areas to be "grandfathered" in (i.e. allowed to continue to operate) without having to allow additional card rooms throughout the city.

HB 2162 was introduced on February 11<sup>th</sup> and referred to the Commerce and Labor Committee. The Commerce and Labor Committee passed the Substitute House Bill out of committee on February 20<sup>th</sup>. The bill allows for local control of gambling establishments and specifically allows a city that annexes an area where gambling establishments are allowed and currently licensed to continue to allow the establishment to operate without having to allow additional casinos. The legislation would allow the Kirkland City Council to decide whether to immediately extend its ban on card rooms to the annexation area or allow the existing casino to continue to operate. If gambling is prohibited in the newly annexed area, the City could not impose its ban on the existing casino for at least three years.

## **Summary and Options for Next Steps**

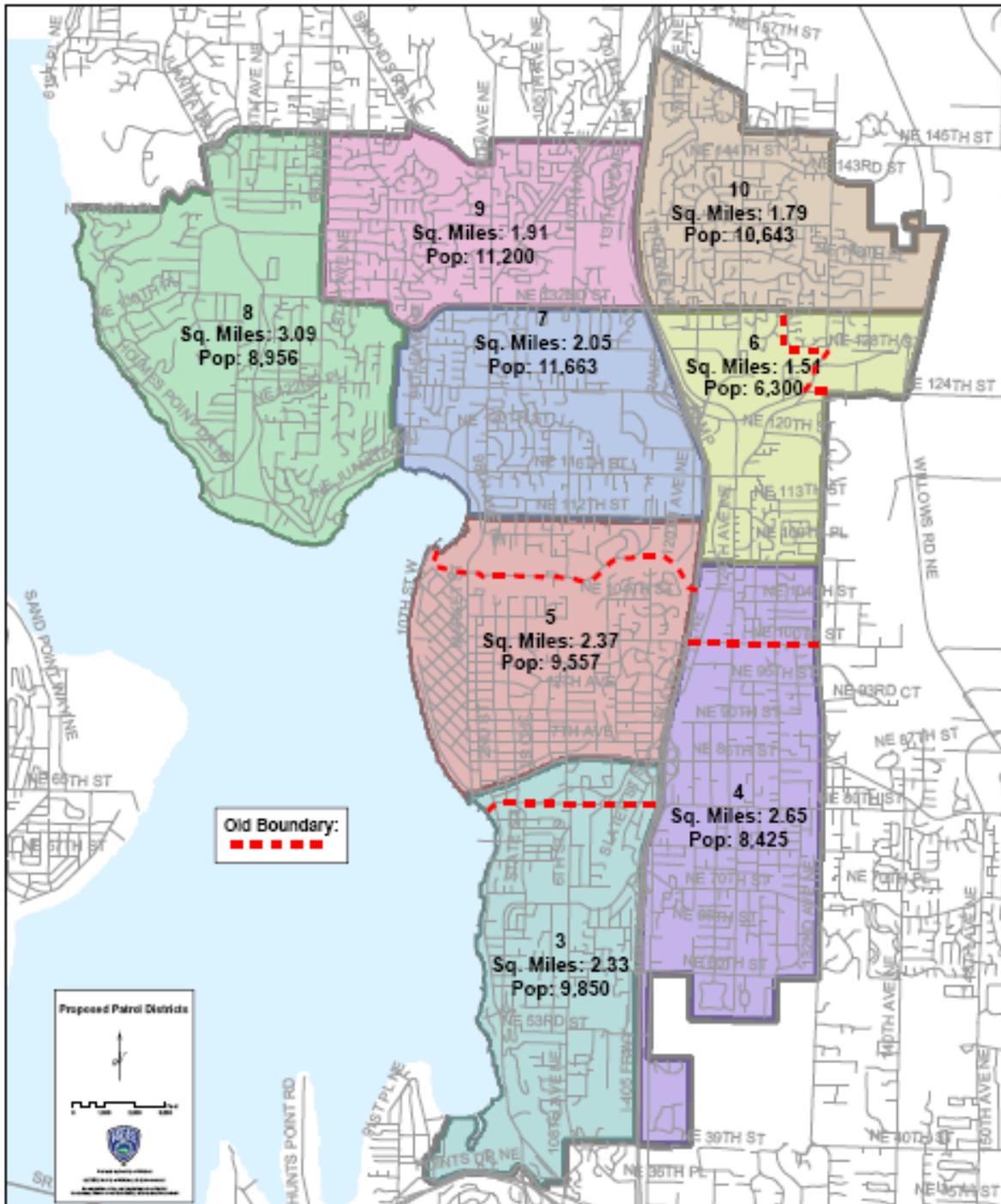
The results of this update reflect that there were positive impacts for annexation resulting from the Council's actions to balance the 2009-2010 budget and create a more sustainable revenue stream by decreasing reliance on sales tax and increasing reliance on utility taxes (assuming passage of the private utility tax increase). In addition, the recognition that initial service levels may vary in the PAA, as represented by the Alternate Service Delivery model, also helps produce a workable scenario. The contingency related to locating the required public safety facilities on the City Hall campus, rather than in a separate facility, also improves the annexation scenarios.

There are three potential options for next steps:

1. Direct staff to proceed with the Boundary Review Board process and bring back information on recommended election dates.
2. Discontinue the evaluation process and determine whether the City would consider relinquishing the PAA to Bothell.
3. Identify additional follow up information required to make a decision and outline a process and timeline for making that decision. Note that, if annexation is likely to occur at some point in time, qualifying to receive the state sales tax credit is a significant benefit toward easing the transition process. Given the current interpretation of "commence" and existing terms of the legislation, a resolution calling for the election would need to be passed before December 31, 2009.

If the decision is made to proceed with annexation, a detailed cash flow analysis will be developed to determine the optimal effective date from a revenue perspective, as well as a plan for funding the transition needs in advance of that date.

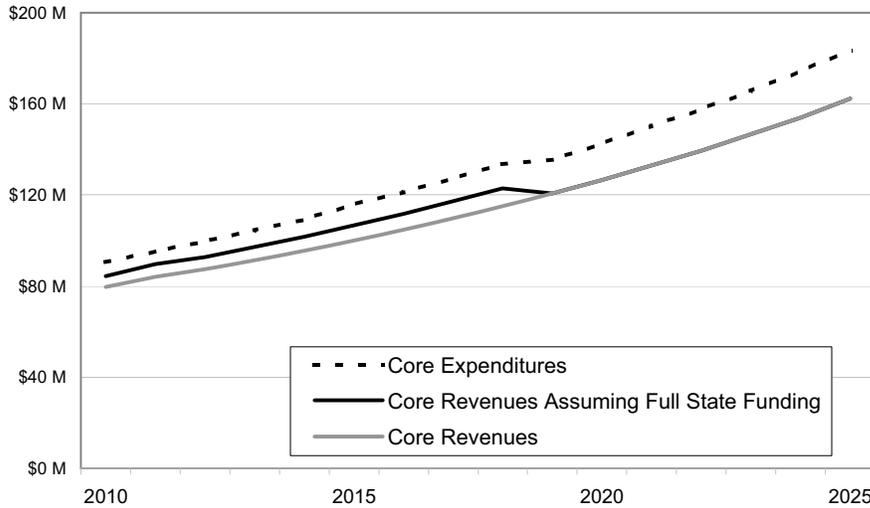
### Proposed Patrol Districts



**Scenario: Phase-II Baseline With Annexation & Alternative Service Delivery (ASD)**

<b>Tax Policies</b>	<b>Expenditure Management Policies</b>	<b>Development</b>
No change in tax policy 1% property tax limit	Hiring rate reflects current policies Alternative Service Delivery (ASD) & 3 Police districts in PAA	Baseline

**Plus Additional Costs**



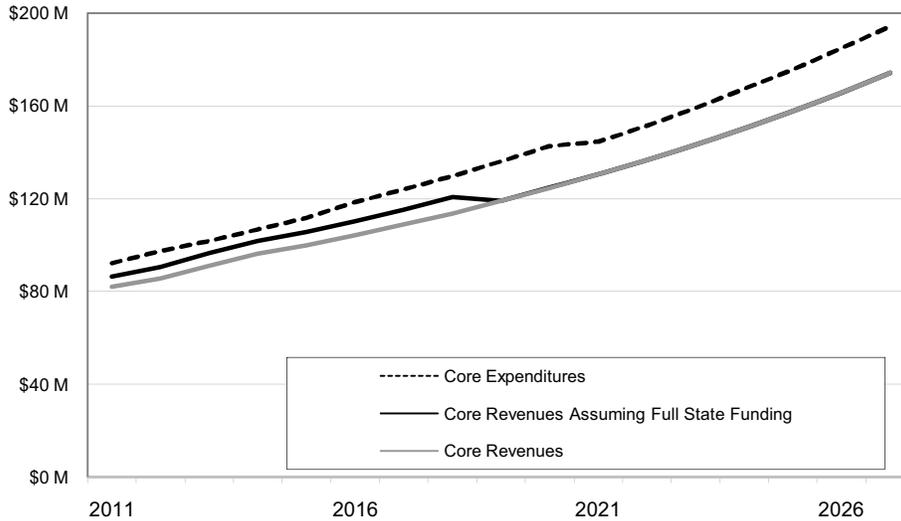
<b>Current Kirkland</b>	<b>2010</b>	<b>2015</b>	<b>2020</b>	<b>2025</b>
Core Expenditures (000's)	64,906	83,567	107,443	138,110
Facility Debt Service (000's)	2,295	2,303	2,288	2,254
<b>Subtotal Expenditures</b>	<b>67,201</b>	<b>85,869</b>	<b>109,731</b>	<b>140,365</b>
Core Resources (000's)	62,741	78,551	97,907	122,627
State Sales Tax Credit ('000's)	0	0	0	0
<b>Subtotal Revenues</b>	<b>62,741</b>	<b>78,551</b>	<b>97,907</b>	<b>122,627</b>
<b>Net Resources (000's)</b>	<b>(4,460)</b>	<b>(7,318)</b>	<b>(11,824)</b>	<b>(17,738)</b>
<b>Deficit as % of Expenditures</b>	<b>-7%</b>	<b>-9%</b>	<b>-11%</b>	<b>-13%</b>

<b>Increment from PAAs</b>	<b>2010</b>	<b>2015</b>	<b>2020</b>	<b>2025</b>
Core Expenditures (000's)	17,149	24,053	31,821	42,240
Facility Debt Service (000's)	6,078	6,070	993	1,027
<b>Subtotal Expenditures</b>	<b>23,227</b>	<b>30,123</b>	<b>32,814</b>	<b>43,267</b>
Core Resources (000's)	16,744	21,516	28,638	39,543
State Sales Tax Credit ('000's)	4,929	6,527	0	0
<b>Subtotal Revenues</b>	<b>21,673</b>	<b>28,043</b>	<b>28,638</b>	<b>39,543</b>
<b>Net Resources (000's)</b>	<b>(1,554)</b>	<b>(2,080)</b>	<b>(4,175)</b>	<b>(3,724)</b>
<b>Deficit as % of Expenditures</b>	<b>-9%</b>	<b>-9%</b>	<b>-13%</b>	<b>-9%</b>

<b>Entire City</b>	<b>2010</b>	<b>2015</b>	<b>2020</b>	<b>2025</b>
Core Expenditures (000's)	82,056	107,620	139,264	180,351
Facility Debt Service (000's)	8,373	8,373	3,281	3,281
<b>Subtotal Expenditures</b>	<b>90,428</b>	<b>115,992</b>	<b>142,545</b>	<b>183,632</b>
Core Resources (000's)	79,485	100,068	126,545	162,170
State Sales Tax Credit ('000's)	4,929	6,527	0	0
<b>Subtotal Revenues</b>	<b>84,414</b>	<b>106,594</b>	<b>126,545</b>	<b>162,170</b>
<b>Net Resources (000's)</b>	<b>(6,014)</b>	<b>(9,398)</b>	<b>(15,999)</b>	<b>(21,462)</b>
<b>Deficit as % of Core Expenditures</b>	<b>-7%</b>	<b>-9%</b>	<b>-11%</b>	<b>-12%</b>

**FEBRUARY 2009 SCENARIOS**

**3-District, 7.5% Private Utility Tax  
Annexation in 2010**

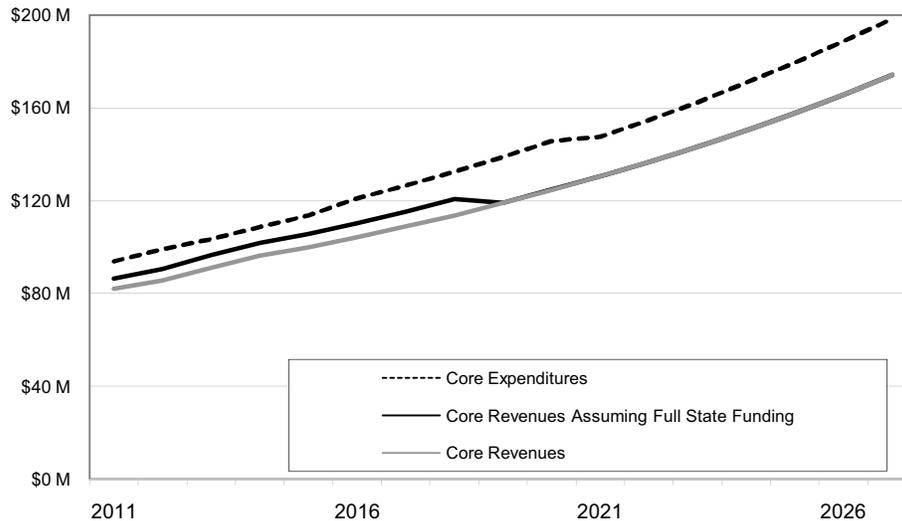


<b>Current Kirkland</b>	<b>2011</b>	<b>2016</b>	<b>2021</b>	<b>2026</b>
Core Expenditures (000's)	66,557	86,486	110,911	142,603
Facility Debt Service (000's)	2,577	2,586	2,575	2,551
<b>Subtotal Expenditures</b>	<b>69,134</b>	<b>89,072</b>	<b>113,486</b>	<b>145,153</b>
Core Resources (000's)	64,765	82,156	101,551	127,150
State Sales Tax Credit ('000's)	0	0	0	0
<b>Subtotal Revenues</b>	<b>64,765</b>	<b>82,156</b>	<b>101,551</b>	<b>127,150</b>
<b>Net Resources (000's)</b>	<b>(4,369)</b>	<b>(6,916)</b>	<b>(11,936)</b>	<b>(18,003)</b>
<b>Deficit as % of Expenditures</b>	<b>-7%</b>	<b>-8%</b>	<b>-11%</b>	<b>-13%</b>

<b>Increment from PAAs</b>	<b>2011</b>	<b>2016</b>	<b>2021</b>	<b>2026</b>
Core Expenditures (000's)	16,786	23,096	29,959	38,457
Facility Debt Service (000's)	6,379	6,370	1,075	1,099
<b>Subtotal Expenditures</b>	<b>23,164</b>	<b>29,466</b>	<b>31,033</b>	<b>39,556</b>
Core Resources (000's)	17,315	22,028	28,986	38,698
State Sales Tax Credit ('000's)	4,240	6,055	0	0
<b>Subtotal Revenues</b>	<b>21,555</b>	<b>28,083</b>	<b>28,986</b>	<b>38,698</b>
<b>Net Resources (000's)</b>	<b>(1,609)</b>	<b>(1,383)</b>	<b>(2,048)</b>	<b>(858)</b>
<b>Deficit as % of Expenditures</b>	<b>-10%</b>	<b>-6%</b>	<b>-7%</b>	<b>-2%</b>

<b>Entire City</b>	<b>2011</b>	<b>2016</b>	<b>2021</b>	<b>2026</b>
Core Expenditures (000's)	83,343	109,582	140,870	181,059
Facility Debt Service (000's)	8,956	8,956	3,650	3,650
<b>Subtotal Expenditures</b>	<b>92,298</b>	<b>118,538</b>	<b>144,520</b>	<b>184,709</b>
Core Resources (000's)	82,081	104,183	130,537	165,848
State Sales Tax Credit ('000's)	4,240	6,055	0	0
<b>Subtotal Revenues</b>	<b>86,320</b>	<b>110,238</b>	<b>130,537</b>	<b>165,848</b>
<b>Net Resources (000's)</b>	<b>(5,978)</b>	<b>(8,299)</b>	<b>(13,983)</b>	<b>(18,861)</b>
<b>Deficit as % of Core Expenditures</b>	<b>-7%</b>	<b>-8%</b>	<b>-10%</b>	<b>-10%</b>

## FEBRUARY 2009 SCENARIOS

4-District, 7.5% Private Utility Tax  
Annexation in 2010

<b>Current Kirkland</b>	<b>2011</b>	<b>2016</b>	<b>2021</b>	<b>2026</b>
Core Expenditures (000's)	66,554	86,482	110,907	142,597
Facility Debt Service (000's)	2,577	2,586	2,575	2,551
<b>Subtotal Expenditures</b>	<b>69,130</b>	<b>89,068</b>	<b>113,481</b>	<b>145,147</b>
Core Resources (000's)	64,765	82,156	101,551	127,150
State Sales Tax Credit ('000's)	0	0	0	0
<b>Subtotal Revenues</b>	<b>64,765</b>	<b>82,156</b>	<b>101,551</b>	<b>127,150</b>
<b>Net Resources (000's)</b>	<b>(4,365)</b>	<b>(6,912)</b>	<b>(11,931)</b>	<b>(17,997)</b>
<b>Deficit as % of Expenditures</b>	<b>-7%</b>	<b>-8%</b>	<b>-11%</b>	<b>-13%</b>

<b>Increment from PAAs</b>	<b>2011</b>	<b>2016</b>	<b>2021</b>	<b>2026</b>
Core Expenditures (000's)	18,304	25,554	33,094	42,462
Facility Debt Service (000's)	6,379	6,370	1,075	1,099
<b>Subtotal Expenditures</b>	<b>24,683</b>	<b>31,924</b>	<b>34,169</b>	<b>43,562</b>
Core Resources (000's)	17,315	22,028	28,986	38,698
State Sales Tax Credit ('000's)	4,240	6,055	0	0
<b>Subtotal Revenues</b>	<b>21,555</b>	<b>28,083</b>	<b>28,986</b>	<b>38,698</b>
<b>Net Resources (000's)</b>	<b>(3,128)</b>	<b>(3,841)</b>	<b>(5,183)</b>	<b>(4,864)</b>
<b>Deficit as % of Expenditures</b>	<b>-17%</b>	<b>-15%</b>	<b>-16%</b>	<b>-11%</b>

<b>Entire City</b>	<b>2011</b>	<b>2016</b>	<b>2021</b>	<b>2026</b>
Core Expenditures (000's)	84,858	112,036	144,001	185,059
Facility Debt Service (000's)	8,956	8,956	3,650	3,650
<b>Subtotal Expenditures</b>	<b>93,814</b>	<b>120,992</b>	<b>147,651</b>	<b>188,709</b>
Core Resources (000's)	82,081	104,183	130,537	165,848
State Sales Tax Credit ('000's)	4,240	6,055	0	0
<b>Subtotal Revenues</b>	<b>86,320</b>	<b>110,238</b>	<b>130,537</b>	<b>165,848</b>
<b>Net Resources (000's)</b>	<b>(7,494)</b>	<b>(10,753)</b>	<b>(17,114)</b>	<b>(22,861)</b>
<b>Deficit as % of Core Expenditures</b>	<b>-9%</b>	<b>-10%</b>	<b>-12%</b>	<b>-12%</b>

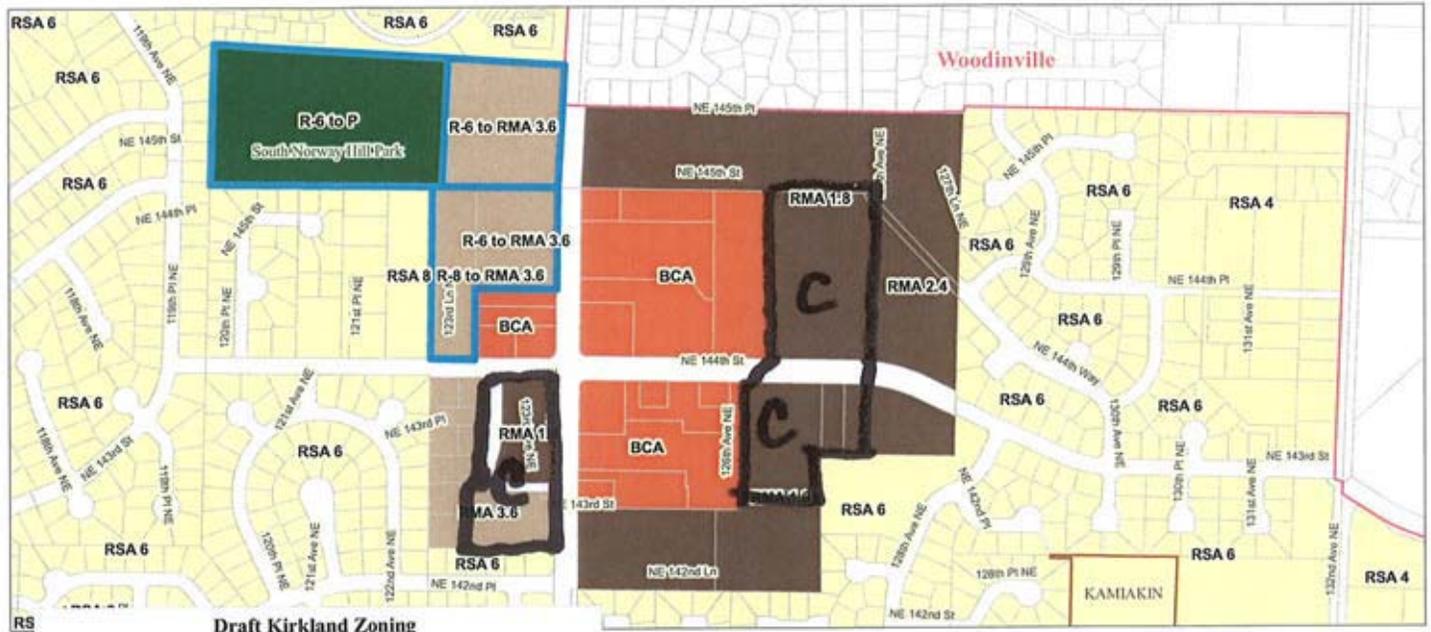


# KINGSGATE COMMERCIAL CENTER

E-Page #42

Appendix B

## 2/19/08 COUNCIL MEETING



**C** = Designate commercial

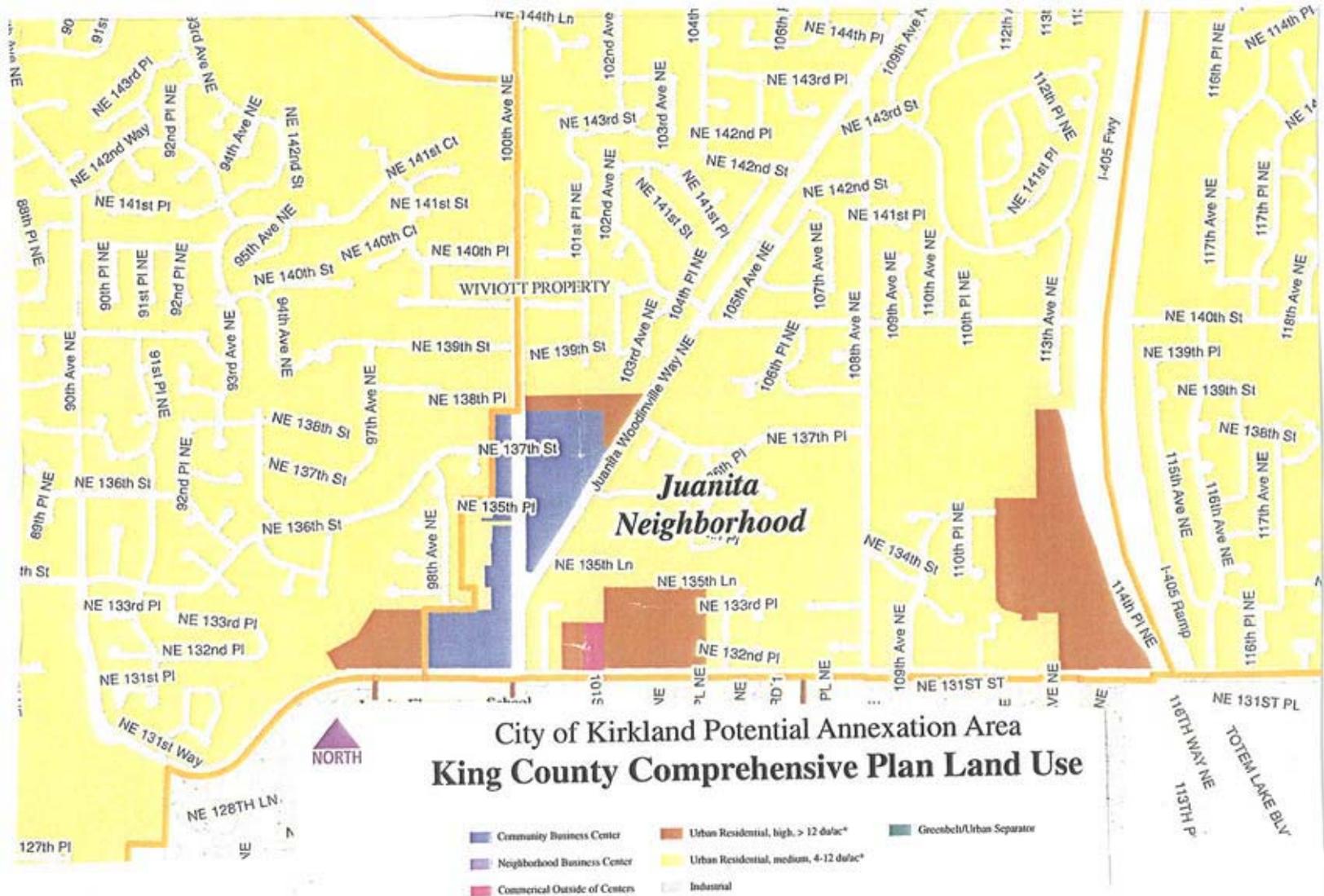
## 4/8/08 COUNCIL ANNEXATION COMMITTEE



**C** = Designate commercial

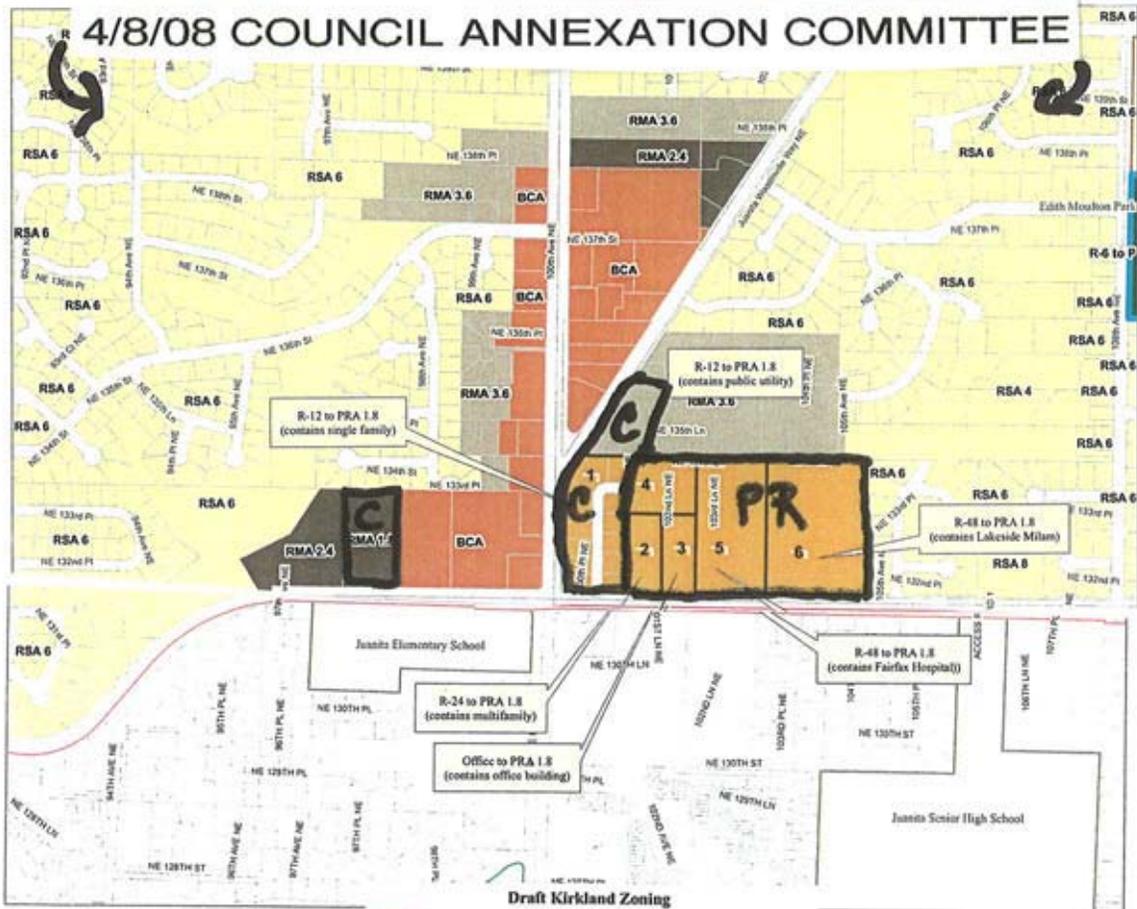
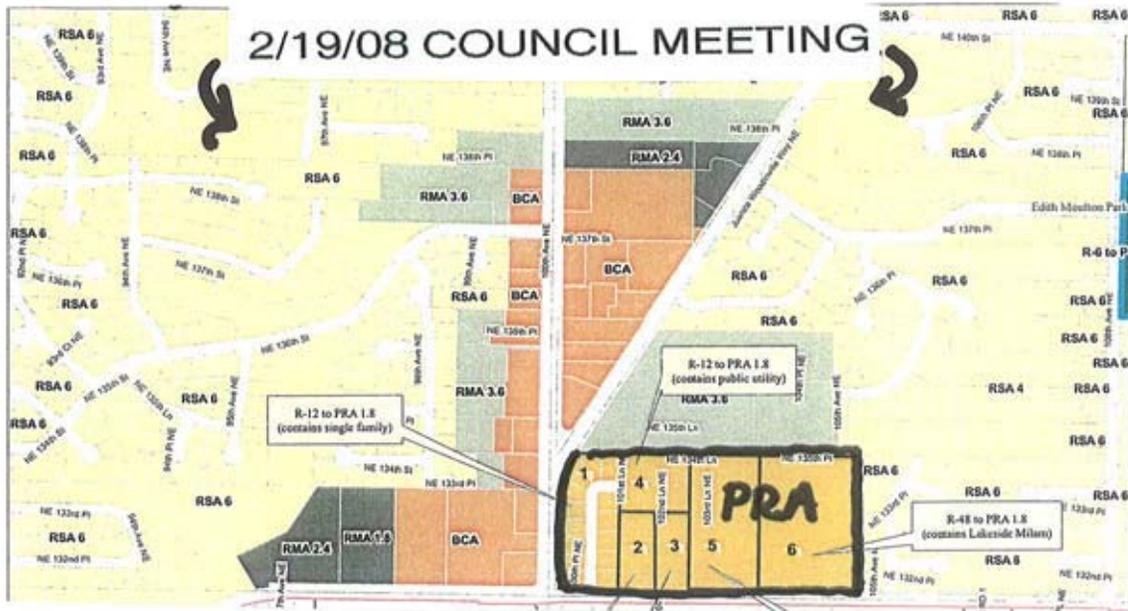
# JUANITA COMMERCIAL CENTER

## EXISTING COMP PLAN



# JUANITA COMMERCIAL CENTER

Appendix B



Note: Numbers in office area (orange) correspond to table in the staff memo

**C** = Designate Commercial

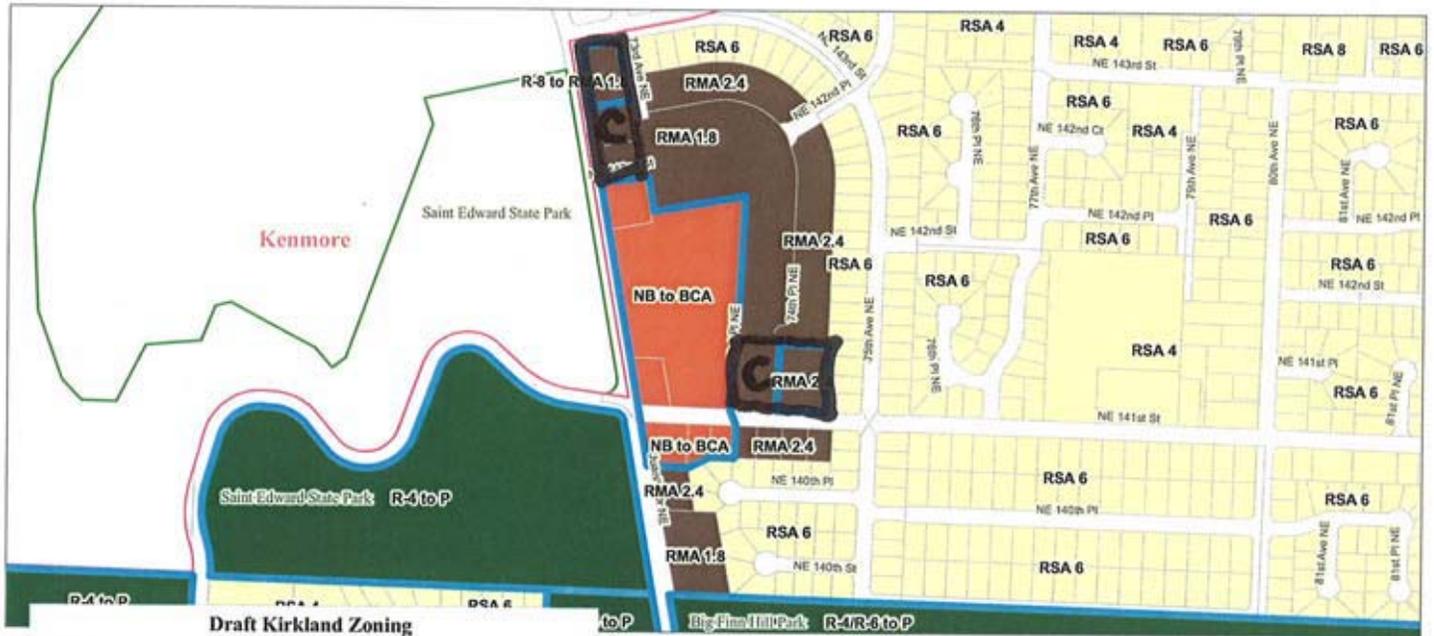
**PRA** = Designate Professional Office/Residential



# NORTH FINN HILL COMMERCIAL CENTER

Appendix B

## 2/19/08 COUNCIL MEETING



= Designate commercial

## 4/8/08 COUNCIL ANNEXATION COMMITTEE

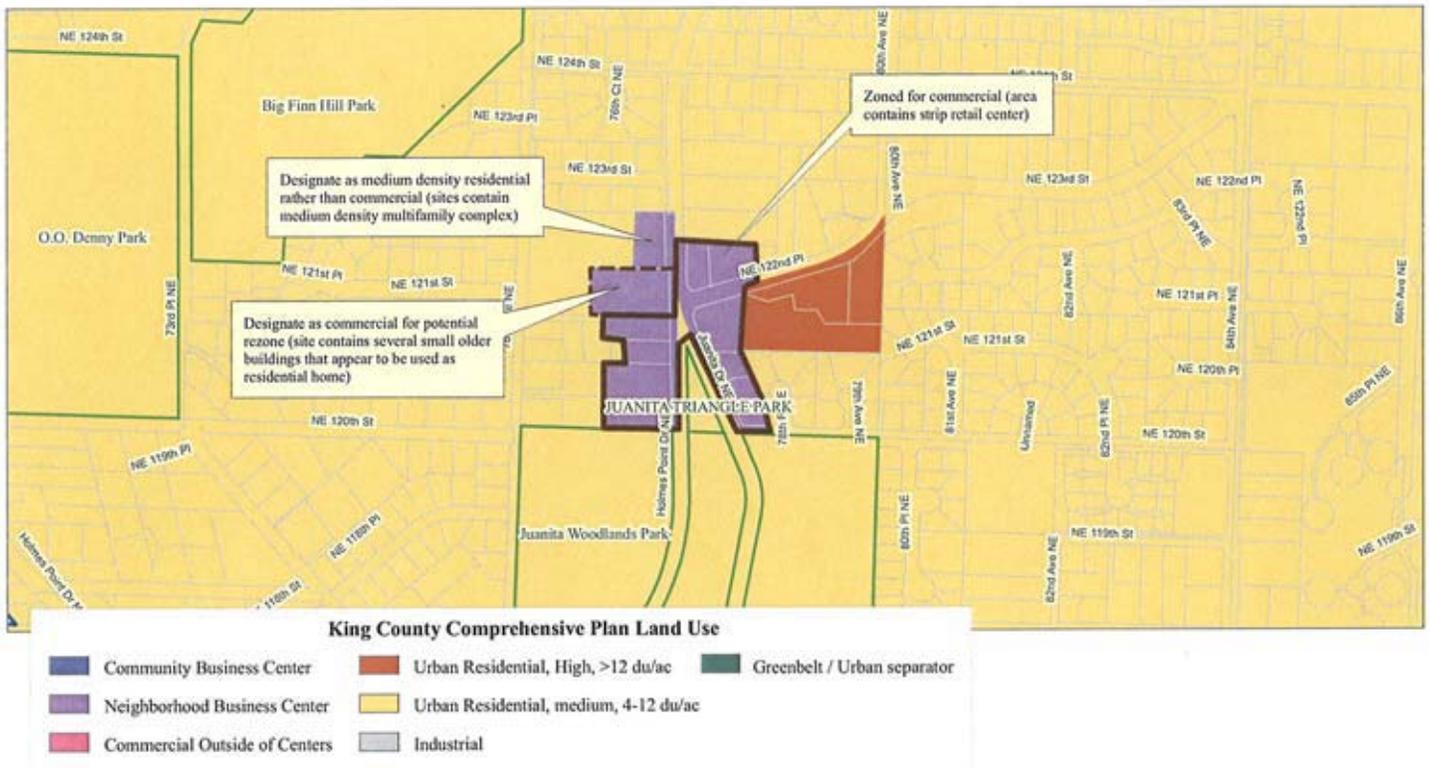


= Designate commercial

# SOUTH FINN HILL COMMERCIAL CENTER

## EXISTING COMP PLAN

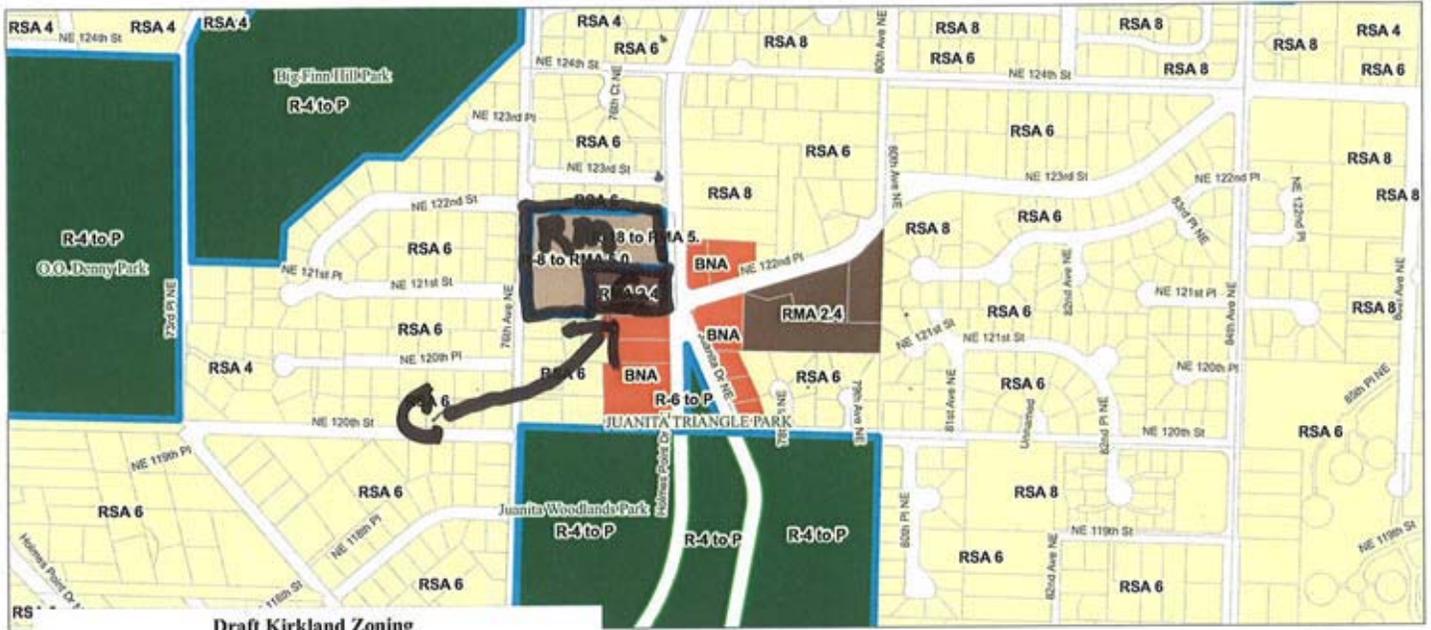
### South Finn Hill Neighborhood Business Center Proposed Changes To King County Comprehensive Plan Land Use Map



# SOUTH FINN HILL COMMERCIAL CENTER

Appendix B

## 2/19/08 COUNCIL MEETING



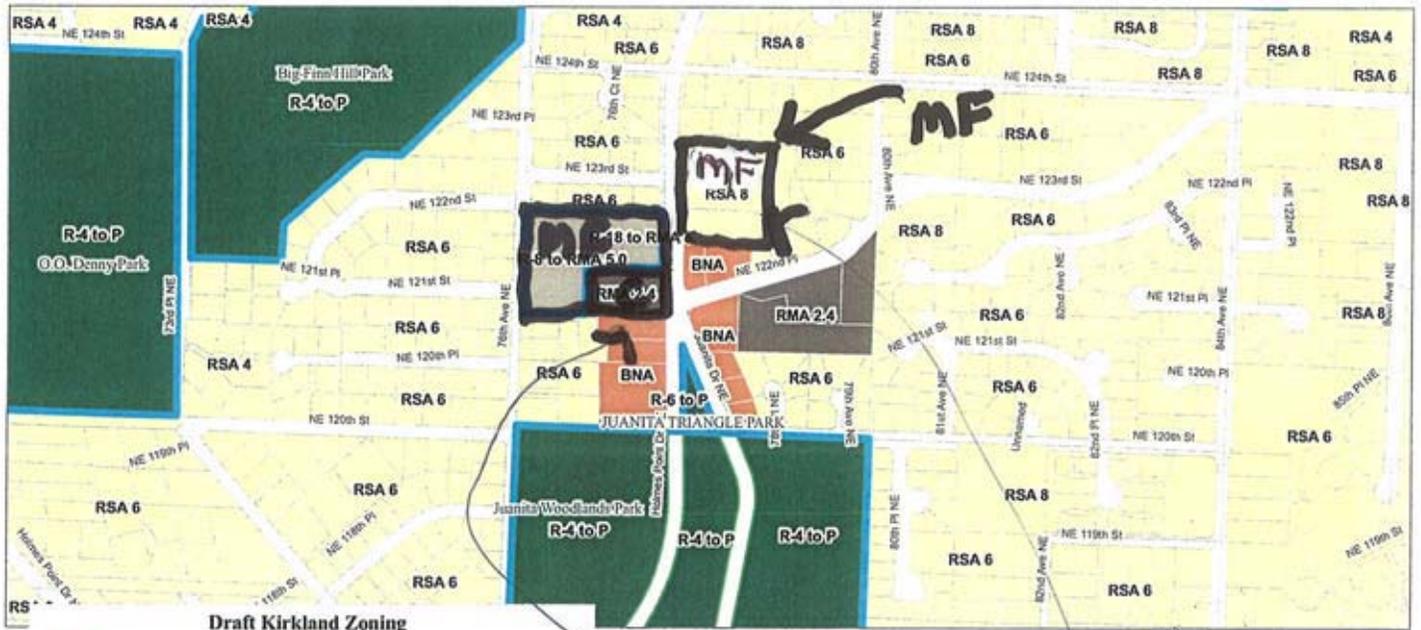
Draft Kirkland Zoning

- Commercial
- Medium Density Residential
- Office
- Low Density Residential
- High Density Residential
- Park/Open Space

C = Designate commercial

Rm = Designate multifamily

## 4/8/08 COUNCIL ANNEXATION COMMITTEE



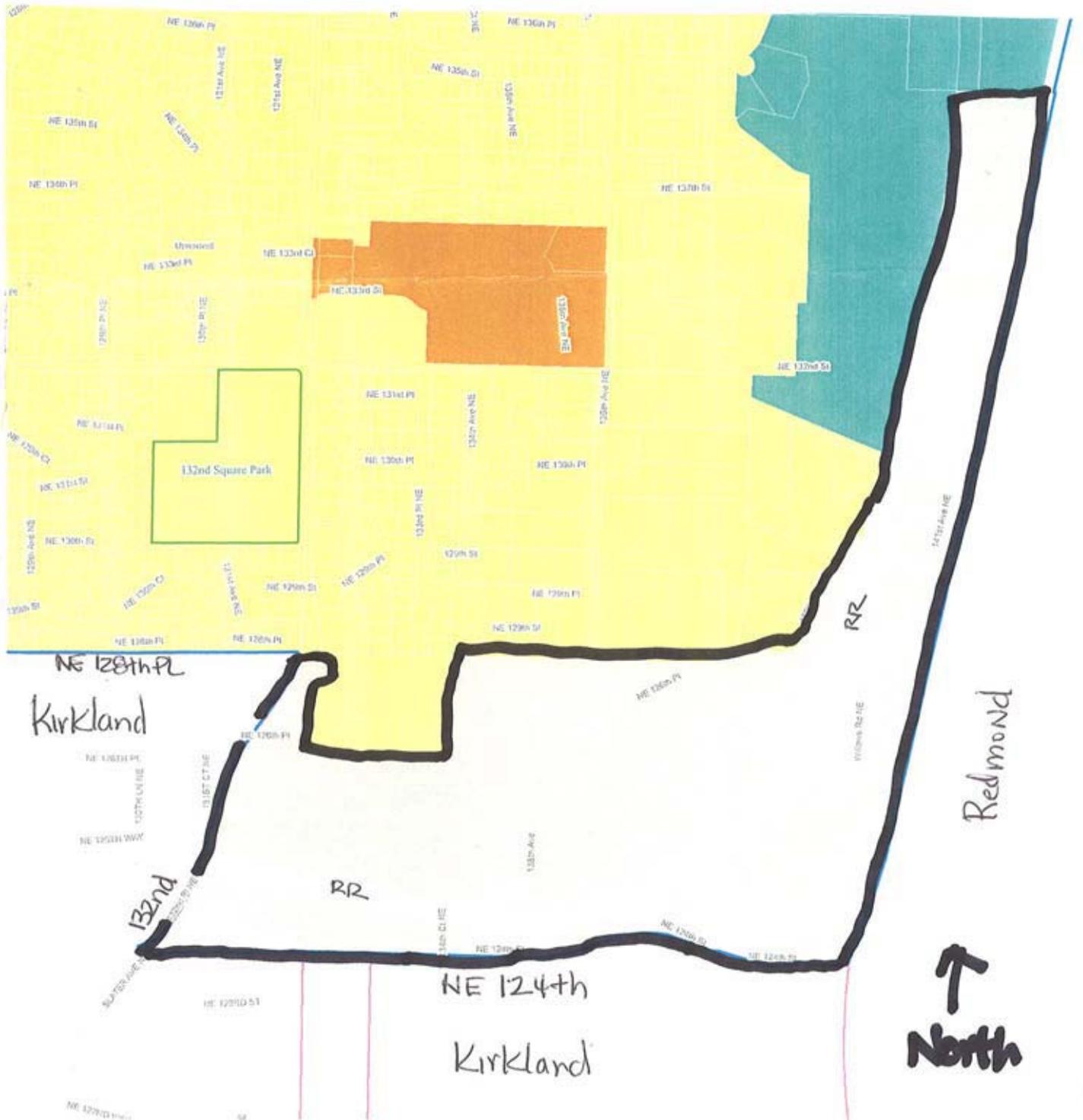
Draft Kirkland Zoning

- Commercial
- Medium Density Residential
- Office
- Low Density Residential
- High Density Residential
- Park/Open Space

C = Designate Commercial

MF = Designate multifamily

# TOTEM LAKE INDUSTRIAL AREA



Bothell City Council  
**AGENDA BILL SUMMARY**

Meeting Date: 10 Feb 2009  
 Type: Study Session Item  
 Subject: **Continued Study Session to Consider Potential South of Bothell Annexation (SOBA)**  
 Budget Impact and Source of Funds: Work on the potential South of Bothell Annexation has been programmed and funded in the 2009-10 budget.  
 Contact Person / Department: Steve Anderson, Deputy City Manager / Executive Department

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**EXECUTIVE SUMMARY:**

This Study Session provides for continued Council discussion from its January 13 meeting regarding the potential South of Bothell Annexation (SOBA). To assist Council, a staff report (see Attachment 1) has been prepared which includes the following:

- Responses to questions raised by Council at its January 13 Study Session;
  - An explanation of the revised revenue / expenditure spreadsheet distributed to Council on January 20;
  - An update on the NEWBA annexation; and
  - A discussion of an alternative annexation scenario in which annexation of Bothell's existing PAA would be pursued concurrent with the NEWBA.
- 

**COUNCIL PROCESS:**

Study Session

- Presentation by Steve Anderson, Deputy City Manager
  - Council discussion: no action necessary
- 

**HISTORY:**

- July 15, 2008: City Council approves Resolution 1225 (2008) expressing interest in annexation of the Finn Hill, Upper Juanita and Kingsgate areas.
  - January 13, 2009: Council conducts Study Session regarding the SOBA.
- 

**RECOMMENDED ACTION:**

This item is a Study Session: no action is necessary at this time.

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**ATTACHMENTS:**

1. Staff report
  2. Letter dated January 29, 2009, from City Manager Stowe to Snohomish County Executive Reardon
  3. Spreadsheets projecting revenues and expenditures out 12 years based on 3-year and 10-year amortization schedules (previously distributed on January 13, 2009)
  4. Map depicting adopted Bothell MUGA and PAA, and Finn Hill, Upper Juanita and Kingsgate unincorporated areas within Kirkland's PAA
- 

Approved by Robert S. Stowe, City Manager, on February 4, 2009

Bothell City Council  
**AGENDA STAFF REPORT**  
**Attachment 1 to AB**

Subject: Continued Study Session to Consider Potential South of Bothell Annexation (SOBA)

Meeting Date: February 10, 2009

Staff Contact: Steve Anderson, Deputy City Manager

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This staff report consists of four parts:

1. Responses to questions raised by Council at its January 13, 2009, Study Session
2. An explanation of the revised revenue / expenditure spreadsheet distributed to Council on January 20, 2009;
3. An update on the NEWBA annexation; and
4. A discussion of an alternative annexation scenario in which annexation of Bothell's existing PAA would be pursued concurrently with the NEWBA.

**Responses to questions raised by Council at its January 13, 2009, Study Session**

1. **How does the SOBA compare with the NEWBA in development and redevelopment potential?**

Staff has requested from King County and Snohomish County data from each county's Buildable Lands reports which would provide some quantifiable indication of the development and redevelopment potential within the SOBA and the NEWBA.

In the meantime, some preliminary observations can be derived from population densities, aerial photos and windshield surveys of the two areas.

The NEWBA totals 3,602 acres and contains an estimated population of 21,980, for an average density of 6.1 persons per acre.

The SOBA (comprising unincorporated South Norway Hill and Brickyard within Bothell's adopted PAA plus unincorporated Finn Hill, Upper Juanita and Kingsgate currently within Kirkland's PAA) totals 5,138 acres and contains an estimated population of 36,056, for an average density of 7.02 persons per acre.

Both the NEWBA and the SOBA are substantially more dense in terms of population than the area within the current Bothell city limits. The existing Bothell corporate boundaries total 7,735 acres and contain an estimated population of 32,860, for an average density of 4.25 persons per acre.

The disparity in density between the City and the two potential annexation areas can be misleading. It does not mean that the residential areas in the NEWBA and the SOBA are

Agenda Staff Report

Subject: Continued Study Session to Consider Potential South of Bothell Annexation (SOBA)

Meeting Date: February 10, 2009

Staff Contact: Steve Anderson, Deputy City Manager

fundamentally different from those in Bothell in terms of character and intensity of development.

Rather, the difference in density is largely explained by the fact that Bothell has two employment centers - in the North Creek and Canyon Park business parks - which are geographically very large and contain few dwelling units. There are no comparable areas in either the NEWBA or the SOBA.

From analysis of recent aerial photos and windshield surveys, the .9-person-per-acre difference between the NEWBA and the SOBA is likely attributable to a slightly lower level of development within the NEWBA. Taking into account the development potential in the many already-approved subdivisions within the NEWBA which are currently lying fallow and in land in the NEWBA likely to be subdivided once the housing sector recovers, the density gap between the NEWBA and the SOBA will probably disappear over the next several years.

As to redevelopment potential, this is an attribute more relevant to commercial areas than to residential areas, since single family and multi-family housing is rarely razed and redeveloped to any substantial degree.

The commercially-zoned areas in both the NEWBA and the SOBA are nearly fully developed, although in both cases they contain some older commercial buildings which under-utilize the properties they occupy, even under current zoning. In the NEWBA, these buildings are found primarily along the Bothell-Everett Highway: in the SOBA, they are located mainly along Juanita Drive, 100<sup>th</sup> Avenue NE, 124<sup>th</sup> Avenue NE and NE 124<sup>th</sup> Street.

Commercial redevelopment potential is greater in the SOBA than the NEWBA because the former contains more land in commercial use. When such redevelopment might occur is not predictable with any certainty.

## **2. What are the projected capital expenses in the SOBA?**

An analysis prepared by the City of Kirkland in September 2007 identified \$18.8 million of road and storm water projects in the SOBA. In November 2007, King County responded with an offer of completion of certain road and surface water management projects. Staff will obtain a copy of the September 2007 project list to determine if any of the projects have been completed or are funded and will be completed by King County in the near term.

Staff is also checking all bridge inspection records to determine if all bridge deficiencies are included in the \$18.8 million figure.

There is a large drainage project identified as "Billy Creek" that is under study by King County Water and Land Resource Division. Staff will confirm the scope of the project and if the solution included in the \$18.8 million figure is still accurate.

In general, the overall conditions of the existing roadway pavements are comparable in the NEWBA, the SOBA, and current City limits. Neither annexation should require an immediate expenditure of City overlay funding that would be detrimental to the existing City residents.

Agenda Staff Report  
Subject: Continued Study Session to Consider Potential South of Bothell Annexation (SOBA)  
Meeting Date: February 10, 2009  
Staff Contact: Steve Anderson, Deputy City Manager

**3. Would King County offer a financial incentive for the SOBA? Would Snohomish County offer one for the NEWBA?**

King County has in the past offered Kirkland a one-time payment of \$2.5 million if it would annex its northern PAA, comprising Finn Hill, Upper Juanita and Kingsgate. The City's financial analysis at this point assumes that King County will be willing to provide Bothell the same amount as the result of annexation.

Snohomish County has not historically offered financial incentives to its cities to annex unincorporated territory. Nevertheless, insofar as an annexation as large as the NEWBA would relieve the County of substantial service responsibilities, the City Manager has transmitted a letter to Snohomish County Executive Reardon suggesting that such an incentive would be mutually beneficial to the County and the City (see **Attachment 2**).

**4. What is Kirkland's timetable for deciding whether to retain or relinquish its Potential Annexation Area (PAA)?**

The Kirkland Council is scheduled to resume discussion of retention or relinquishment of its PAA, and annexation of the PAA, at its March 3 meeting. Staff has received no indication that the Kirkland Council would discuss this topic before then. It is also not known if Kirkland will provide any definitive response related to annexation at this meeting.

**5. Why have the Police and Fire departments projected higher expenses within the SOBA than the Nesbitt fiscal analysis forecasted?**

**Fire Department response.** There are two reasons the Fire Chief's staffing figures differ from the consultant's.

First, although the consultant's figures are based on comparative analysis, i.e. assessed valuation, population, calls for service, etc., the Chief believes the consultant did not take the physical characteristics of the area to be covered into consideration.

The City of Kirkland Fire Department completed a study that determined they could cover their PAA from two stations, instead of the three currently in place. The Kirkland Fire Department concluded that to cover the area with two stations, one of them would have to be strategically relocated.

Since the proposed annexation includes an area currently covered by a Woodinville fire station, as well as the three from Kirkland, the Chief is confident that responding to the area from two stations will provide the same level of service the citizens in the annexation area now receive.

Second, taking into account the City's contractual obligations with our Fire Department personnel for vacation, holiday and other leaves, 11.99 FTEs (rounded to 12) are necessary to staff one fire engine 24/7 at each station. Although the consultant's model suggests fewer personnel, the Chief's analysis indicates the City would need 24 FTE's to staff the two stations necessary to provide service to the SOBA.

Agenda Staff Report

Subject: Continued Study Session to Consider Potential South of Bothell Annexation (SOBA)

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Please note that the Chief's proposal recommends 20 FTEs. He believes that the Department can reassign four FTEs from the Downtown Firehouse to assist in staffing the two stations in the SOBA. Some of the call volume currently handled by the Downtown crews could be covered by one of these stations, recognizing to some degree the consultant's analysis.

**Police Department response.** The Police Chief is recommending additional personnel to ensure that the City's level of service provided to the SOBA will be the same as currently provided to the City of Bothell.

He is concerned that the consultant's recommended staffing level could detract from the level of service currently received by Bothell citizens. The Chief is also recommending additional staffing to ensure the Department's supervisory structure is able to retain both a manageable span of control and a desired level of quality in its service delivery.

As was stated in the Fire Chief's response to this question, the SOBA has difficult transportation routes (particularly east/west routes), making police response times challenging, thus emphasizing the need to keep officers in their districts.

Historically, police activity has been higher in the Kingsgate area than the other two SOBA areas (Juanita, Finn Hill), necessitating assigning two officers to that district. Also, the Kingsgate area has unique characteristics, such as larger business districts, a card room, and a hospital and emergency room nearby.

The Department is aware that Kingsgate will also be home to an automobile dealership, which will result in additional calls for service. The only new police service the Chief is recommending in addition to what current citizens have now would be a tracking K-9 unit. This unit would be necessary due to the number of events needing that type of service.

**6. What advantages and disadvantages has staff identified for the SOBA and NEWBA?**  
*(Please note that the responses below do not include or reiterate the financial analysis conducted on these two areas)*

**NEWBA Pros:**

- A substantial number of citizens in the NEWBA have evidenced support for annexation to become part of Bothell. NEWBA residents are currently within Bothell's MUGA.
- Staff is familiar with the proposed annexation area: the area involves the same drainage basins; has predominantly Bothell postal addresses; and is predominantly within the Northshore School District.
- Due to the above, the area may have "built-in" citizen support for current and future city projects. Since they already identify with Bothell, NEWBA citizens may be more willing than SOBA residents to vote for the good of the city on financial issues.
- Fire already provides service to roughly half of this area through contract with Fire District 10. Providing service to the remainder is less of an impact than starting new

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with the entire area. Fire and Police do not anticipate problems in protecting the NEWBA. There are multiple north/south access points into the NEWBA, providing faster access for emergency response. Needed new police officers could be housed in the current police facility rather than needing a satellite station.

- The new Public Works maintenance facility is being built very close to our existing northern boundary, which makes it advantageously located to serve the NEWBA.

**NEWBA Cons:**

- Neighboring fire jurisdictions are dispatched by a different dispatch center than the City of Bothell, making mutual aid requests slower due to incompatible technology. Even with improved station locations, some areas of the NEWBA will be in the five-minute or more response range, near the limit of acceptable response time. Neighboring fire jurisdictions are under a different medical license than King County, sometimes causing minor confusion on EMS-related calls.
- The large number of multi-family dwellings along the SR 527 corridor could generate more police activity.
- There is little opportunity for sales-tax-generating commercial development, as most of the NEWBA is zoned for residential uses.

**SOBA Pros:**

- Numerous existing fire stations. Depending upon what facilities are acquired, annexation could provide multiple fire station location options. Neighboring fire jurisdictions are able to provide adequate mutual aid into the SOBA. Neighboring fire jurisdictions are dispatched from the same dispatch center, providing faster response to requests for automatic or mutual aid. Neighboring fire jurisdictions are under the same medical program, making for easier cooperative work on EMS calls. Annexation would solve an existing City response time issue near Simonds Rd.
- SOBA has extensive Lake Washington waterfront and additional park lands that could enhance the City's appeal and attraction.
- SOBA would give Bothell a larger presence on the Eastside and in King County, and thus more influence on transportation and other regional issues. The City would extend into additional County and State legislative districts.
- The Bothell Public Works Department enjoys a good working relationship with the Kirkland Public Works Department: both departments are full service and like-minded. Bothell has a good working relationship with the Northshore Utility District.

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#### **SOBA Cons:**

- SOBA citizens may not as readily identify with Bothell as much as they do with Kirkland. Most of the SOBA has Kirkland postal addresses and is in the Lake Washington School District. Accordingly, SOBA citizens may not frequent downtown Bothell, and may not be as supportive of future funding measures to achieve Bothell citizens' current Vision for Downtown.
  - Public Works would need to perform analysis of property along the waterfront to assess the potential for landslides.
  - There might not be time enough to "commence" annexation, especially if Kirkland does not release the PAA, thereby failing to qualify for the State STI.
7. **How do the SOBA and NEWBA compare in number, type and size of parks, bridges and other public facilities?**

Staff will provide this information at the February 10 Study Session, if not earlier.

#### **Explanation of revised revenue / expenditure spreadsheet comparing NEWBA and SOBA**

At the Council's January 13, 2009, Study Session, staff presented comparative financial information for the NEWBA and the SOBA.

In our continuing analysis of these two annexation opportunities, staff discovered that the estimated State Sales Tax Incentive (STI) figures were overstated for both the NEWBA and SOBA, and that the consultant's one-time annexation start-up cost amortization figures did not include associated interest.

Additionally, the consultant's study for each area assumed one-time costs being amortized over a three-year period, and the financial information presented to Council on January 13 incorporated three-year NEWBA and SOBA amortization schedules. As staff explained at the prior study session, the length of the amortization schedule is a Council policy decision.

The Finance Director has recommended applying a less aggressive ten-year amortization schedule to absorb the decrease in the estimated STI, as well as the addition of amortization interest over the same period.

Consequently, staff distributed a revised spreadsheet and memo to Council on January 20 which reflects the adjusted STI, as well as amortization interest (4%) for both the NEWBA and SOBA annexation areas, based on both a three-year and a ten-year amortization schedule (see **Attachment 3**). This spreadsheet is provided again as part of this packet.

#### **Update on NEWBA**

At the urging of the Snohomish County Boundary Review Board (BRB) and to allow additional time to address two issues of interest to the City, Bothell staff has requested a 120-day extension to the

Agenda Staff Report  
Subject: Continued Study Session to Consider Potential South of Bothell Annexation (SOBA)  
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BRB's statutory deadline for acting on the NEWBA. The original deadline for BRB action, based on the City's November 2008 submittal, was March 24, 2009: the extension would move the deadline to July 22, 2009. State law allows the BRB and a municipality to mutually decide on extensions of statutory deadlines.

The BRB asked the City to request an extension because the County Assessor's office required several iterations of review of the legal description before it was determined to be satisfactory. Since the BRB's policy is not to begin the 45-day comment period on a proposed annexation until the County Assessor approves the legal description, the BRB found itself with too little time to accommodate the comment period, hearing and decision prior to the original March 24 deadline.

The extension is advantageous to the City as well, as it provides more time to resolve the Bothell - Mill Creek minor MUGA boundary discrepancy described in the agenda bill for the prior Study Session (Mill Creek will be sending a letter to the BRB supporting Bothell's adopted MUGA boundary), and to achieve adoption by the City and County councils of a master annexation interlocal agreement.

**Alternative scenario: pursue annexation of adopted PAA concurrent with NEWBA**

It has been suggested that as an alternative to pursuing annexation of unincorporated Finn Hill, Upper Juanita and Kingsgate, currently within Kirkland's PAA, the Council may be interested in considering the NEWBA combined with annexing all of the unincorporated areas that comprise Bothell's PAA within King County.

Successfully doing so would expand incorporated Bothell out to the boundaries the City first established in the early 1990's (except for the Bothell - Brier MUGA boundary) as representing that area to which the City would logically provide urban services and in which the City desired to control or influence land use and infrastructure.

The unincorporated territory that comprises Bothell's PAA amounts to 1,003 acres and contains an estimated population (as of 2006) of 4,576. This territory is distributed geographically among three small "islands" on Westhill; one small island on Maywood Hill; two larger areas on the west and southwest slopes of Westhill; two large contiguous areas on south Norway Hill and east of I-405 in the Brickyard area; a small pocket on 124<sup>th</sup> Avenue NE; and one larger pocket on the northeast corner of Bloomberg Hill (see **Attachment 4**).

Unfortunately, under state law, each annexation must be capable of being described by one legal description which encloses the entire annexation: consequently, the various separated unincorporated areas which make up Bothell's PAA must each be processed as its own annexation.

If Council were to pursue annexation of all of the unincorporated territory comprising Bothell's PAA, staff estimates that nine (and possibly ten) annexations would need to be processed.

While this may appear to be a daunting number, state law does provide a streamlined process for annexing the islands: this process involves neither a petition nor an election. Even for the larger unincorporated areas, there are procedural options which could expedite certain steps of the annexation process.

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As to support for annexation within those areas, on the basis of inquiries over the past several years staff believes that citizen interest in annexing to Bothell is substantial and widespread throughout the PAA.

With respect to the financial aspects of annexing the PAA, the 2006 Nesbitt analysis divided the PAA and MUGA into smaller subareas and calculated likely revenues and costs. Staff has updated those numbers for 2009 as follows:

PAA Subarea	Unrestricted revenue	Operating costs	Net
Central infill (three islands on Westhill plus one island on Maywood Hill, totaling 23 acres)	\$21,097	\$105,180	-\$84,083
Westhill (two large pockets on Westhill, totaling 289 acres)	\$625,464	\$558,991	\$66,473
Waynita (south Norway Hill, totaling 475 acres)	\$1,056,712	\$915,895	\$140,817
Brickyard (east of I-405, straddling NE 160 <sup>th</sup> Street, totaling 183 acres)	\$512,533	\$764,625	-\$252,092*
Hollyhills (pocket on northeast portion of Bloomberg Hill, totaling 33 acres)	\$99,280	\$141,816	-\$42,536
<b>Total</b>	<b>\$2,315,086</b>	<b>\$2,486,507</b>	<b>-\$171,422</b>

\* According to the Nesbitt report, the gap in the Brickyard subarea is primarily attributable to the expected cost of maintaining East Norway Hill Park, which could be viewed as a city-wide benefit.

Please note that the annexation sales tax incentive (STI) could be utilized to bridge the gap where there is a net deficit between revenue and costs, provided the annexations could be "commenced" before January 1, 2010. If "commencement" is construed as a Council action initiating consideration of an annexation - such as the resolution the Council adopted to formally initiate the NEWBA annexation - then all of the annexations within the PAA could be commenced by that deadline.

Should the Council decide to pursue this alternative, staff recommends the following approach:

1. A two- to three-month outreach effort to advise citizens within the PAA of the City's interest in annexation. During this time staff can be compiling other information, such as legal descriptions, that would be needed later for processing the annexations.
2. Following the outreach, Council adoption of resolutions formally initiating the various annexations.

Activities subsequent to the above for each annexation would include:

- Preparation of a Notice of Intention to submit to the King County Boundary Review Board, followed by a Board hearing (if jurisdiction is invoked) and decision.
- Scheduling of an election (not required for the island annexations).
- Further outreach prior to the election.
- The election itself.
- Adoption of annexation ordinances.

January 29, 2009

The Honorable Aaron Reardon  
Snohomish County Executive  
3000 Rockefeller Avenue  
M/S 407  
Everett, WA 98201



Dear Executive Reardon:

In response to a citizen petition filed with Bothell City Council last year, the Council is currently evaluating the merits of a possible annexation via public vote of the City's Municipal Urban Growth Area (MUGA) in Snohomish County. The City has already filed its Notice of Intent with the Boundary Review Board for annexation for the area shown on the attachment. This area currently includes a resident population of over 20,000 people. In addition, we are currently working with County staff on a Master Interlocal Agreement addressing such issues of governance transition, permitting, and transference of capital mitigation dollars.

The Bothell City Council is also evaluating a potential annexation of even greater size in terms of population in unincorporated King County. The financial studies, which we have conducted for both of these potential annexation areas, indicate the need for financial assistance from the State in the form of the State's Sales Tax Incentive program to offset operating expenses and the need for a funding source to pay for infrastructure and other capital investments needed in both unincorporated areas.

King County has recognized for years the financial strain it has placed upon its resources in an attempt to provide urban level services to unincorporated areas. King County has also recognized that in order to promote a financial solution for itself and encourage cities to assume the costly support of these areas via annexation, a financial incentive package needed to be created and offered to cities. If Bothell decides to move forward with the proposed annexation to the south in King County, it is anticipated that King County will financially contribute toward the annexation via an interlocal agreement. For reference, King County offered the City of Kirkland an amount of \$2.5 million to offset some much needed operational and capital costs associated with a proposed annexation in 2008 of the same area as Bothell is currently evaluating today.

Having served Snohomish County cities since 1990, I believe the same financial drain on Snohomish County resources is occurring in order to provide an urban level of service to its unincorporated areas. I am confident that you would find an ultimate savings in focusing County resources toward the provision of regional services if cities could be encouraged to annex areas within their MUGA's with the assistance of one-time funds provided by Snohomish County.

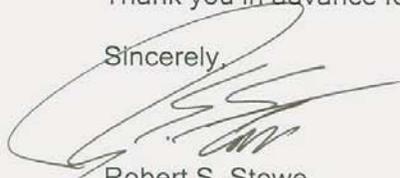
18305 101st Ave. NE  
Bothell, WA 98011  
425.486.3256  
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The Honorable Aaron Reardon  
Page 2  
January 29, 2009

As Bothell continues its evaluation of which annexation makes the most financial sense, I am respectfully requesting that Snohomish County consider making a similar financial incentive package available. I would be happy to meet with you to further discuss this request or to assemble other cities to meet with you on this important matter.

Thank you in advance for considering this request.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Stowe", written over a light blue circular stamp or watermark.

Robert S. Stowe  
City Manager

c: Bothell City Council



**MEMORANDUM**  
**Office of the City Manager**



**DATE:** February 4, 2009  
**TO:** Mayor & Council  
**CC:** Robert S. Stowe, City Manager  
**FROM:** Stephen L. Anderson, Deputy City Manager  
**SUBJECT:** Annexation Areas

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At your January 13, 2009 study session, staff presented financial information regarding the potential annexation areas described as North, East and West of Bothell Area (NEWBA) and South of Bothell Area (SOBA).

In staff's continuing analysis of these two annexation opportunities, we discovered that the estimated State Sales Tax Incentive (STI) figures were overstated for both the NEWBA and SOBA, and that the consultant's one-time annexation start up cost amortization figures did not include associated interest. The attached spreadsheets reflect the adjusted STI, as well as amortization interest (4%) for both the NEWBA and SOBA annexation areas.

The consultant's study for each area depicted one-time costs being amortized over a three-year period. As we explained at your study session, the amortization schedule is a Council policy decision.

The financial information presented to you on January 13, included the consultant's three-year NEWBA and SOBA amortization schedules. The attached spreadsheets include both a three-year and a ten-year amortization schedule. The Finance Director's January 20, 2009 memo to the Council recommended applying a less aggressive ten-year amortization schedule to absorb the decrease in the estimated STI, as well as the addition of amortization interest over the same period.

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SOBA Revenues / Expenses  
3 year Amortization Analysis

EXHIBIT 2  
Revised 2/4/2009 1:48 PM

Revenue Sources:	Unrestricted Op Revenues as per Nesbitt Study	OP Rev	OP Rev + Sales Tax Incentive	OP Rev + Sales Tax Incentive + Dealership - Norway Hill	Op Revs + Sales Tax Incentive + Dealership + Card Room - Norway Hill	YEAR 1 2009	YEAR 2 2010	YEAR 3 2011	YEAR 4 2012	Comparison of Year 1 SOBA to NEWBA	
										SOBA YEAR 1 2009	NEWBA YEAR 1 2009
Unrestricted OP Revenue <sup>8</sup>	\$14,238,000	\$14,238,000	\$14,238,000	\$14,238,000	\$14,238,000	\$15,092,280	\$15,997,817	\$16,957,686		\$14,238,000	\$7,647,000
Dealership <sup>2</sup>				\$350,000	\$350,000	\$371,000	\$393,260	\$416,856		\$350,000	NA
Card Room (11%) <sup>3</sup>					\$580,000	\$614,800	\$651,688	\$690,789		\$580,000	NA
<b>Sub-total Revenues</b>	<b>\$14,238,000</b>	<b>\$14,238,000</b>	<b>\$14,238,000</b>	<b>\$14,588,000</b>	<b>\$15,168,000</b>	<b>\$16,078,080</b>	<b>\$17,042,765</b>	<b>\$18,065,331</b>		<b>\$15,168,000</b>	<b>\$7,647,000</b>
Operating Expenses per Nesbitt <sup>8</sup>	\$14,613,000	\$14,613,000	\$14,613,000	\$14,613,000	\$14,613,000	\$15,470,000	\$16,708,500	\$17,700,600		\$14,613,000	\$7,034,852
Fire and Police Expense Adds <sup>5,8,12</sup>			\$2,252,359	\$2,252,359	\$2,252,359	\$1,883,999	\$2,015,879	\$2,156,991		\$2,252,359	
3 year Deficit Amortization Amount <sup>7</sup>		\$2,003,680	\$2,003,680	\$2,003,680	\$2,003,680	\$2,003,680	\$2,003,680			\$2,003,680	\$1,736,000
Norway Hill Deficit <sup>6</sup>				\$175,282	\$175,282	\$185,799	\$196,947	\$208,764		\$175,282	\$0
<b>Sub-total Expenses</b>	<b>\$14,613,000</b>	<b>\$16,616,680</b>	<b>\$18,869,039</b>	<b>\$19,044,321</b>	<b>\$19,044,321</b>	<b>\$19,543,478</b>	<b>\$20,925,006</b>	<b>\$20,066,354</b>		<b>\$19,044,321</b>	<b>\$8,770,852</b>
<b>Net after Expenses</b>	<b>-\$375,000</b>	<b>-\$2,378,680</b>	<b>-\$4,631,039</b>	<b>-\$4,456,321</b>	<b>-\$3,876,321</b>	<b>-\$3,465,398</b>	<b>-\$3,882,241</b>	<b>-\$2,001,024</b>		<b>-\$3,876,321</b>	<b>-\$1,123,852</b>
State Sales Tax Incentive (STI) <sup>10</sup>			\$3,064,708	\$3,064,708	\$3,064,708	\$3,092,290	\$3,290,197	\$3,510,640		\$3,064,708	\$2,990,000
<b>Net after utilizing STI funding</b>	<b>-\$375,000</b>	<b>-\$2,378,680</b>	<b>-\$1,566,331</b>	<b>-\$1,391,613</b>	<b>-\$811,613</b>	<b>-\$373,108</b>	<b>-\$592,044</b>	<b>\$0</b>		<b>-\$811,613</b>	<b>\$0</b>
<b>STI funds unused &amp; available<sup>11</sup></b>								<b>\$1,509,616</b>			<b>\$1,866,148</b>

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SOBA Revenues / Expenses  
3 year Amortization Analysis

EXHIBIT 2  
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<sup>1</sup> Not used

<sup>2</sup> Dealership relocation expected to generate between \$200,000 and \$500,000; used estimate of \$350,000

<sup>3</sup> City currently bans card rooms. Options might include Interlocal Agreement with King County or pre-annexation agreement with operator

<sup>4</sup> Not used

<sup>5</sup> Fire and Police Expense Adds recommended by Chiefs

<sup>6</sup> Norway Hills - reflects Waynita net Revenue of \$76,500 and Brickyard deficit of -\$233,100, for net negative figure of -\$156,600. Then updated to 2009 figure of -\$175,282

<sup>7</sup> Nesbitt Study amortization amount did not include interest. Applied simple interest at 4%.

<sup>8</sup> Multiplier of 1.06 percent applied to revenues. Multiplier applied to Expenses based on Puget Sound Economic Forecaster

<sup>9</sup> NEWBA Operating Expenses \$6,332,000 (Nesbitt crosswalk) were increased by 1.111% to adjust for inflation to become \$7,034,852.

<sup>10</sup> STI funds for SOBA Year 1 - 2009 reflect \$2,714,000 for current city boundary plus \$350,708 for the annexed area. Puget Sound Economic Forecaster was used to account for subsequent years' changes.

<sup>11</sup> STI funds unused are available only towards increased/unforeseen annexation-related expenses

<sup>12</sup> Fire and Police Adds for Years 2-12 do not include one-time expenses, and do include the multiplier of 1.07 percent

King County offered Kirkland a one-time payment of \$2,500,000 as incentive to annex this area. These monies may be dedicated to future needs. The agreement between King County and Kirkland has expired.

Comparison of NEWBA to SOBA  
Years 1 - 11 3 Year Amortization Analysis

EXHIBIT 2  
2/4/2009 1:43 PM

Revenue Sources:	Op Revs + Sales Tax Incentive + Dealership + Card Room - Norway Hill								
	SOBA YEAR 1 2009	NEWBA YEAR 1 2009	SOBA YEAR 2 2010	NEWBA YEAR 2 2010	SOBA YEAR 3 2011	NEWBA YEAR 3 2011	SOBA YEAR 4 2012	NEWBA YEAR 4 2012	
Unrestricted OP Revenue <sup>8</sup>	\$14,238,000	\$7,647,000	\$15,092,280	\$8,105,820	\$15,997,817	\$8,592,169	\$16,957,686	\$9,107,699	
Dealership <sup>2</sup>	\$350,000	NA	\$371,000	NA	\$393,260	NA	\$416,856	NA	
Card Room (11%) <sup>3</sup>	\$580,000	NA	\$614,800	NA	\$651,688	NA	\$690,789	NA	
<b>Sub-total Revenues</b>	<b>\$15,168,000</b>	<b>\$7,647,000</b>	<b>\$16,078,080</b>	<b>\$8,105,820</b>	<b>\$17,042,765</b>	<b>\$8,592,169</b>	<b>\$18,065,331</b>	<b>\$9,107,699</b>	
Operating Expenses per Nesbitt <sup>8</sup>	\$14,613,000	\$7,034,852	\$15,470,000	\$7,414,424	\$16,708,500	\$7,819,166	\$17,700,600	\$8,251,578	
Fire and Police Expenses Adds <sup>5,8,12</sup>	\$2,252,359		\$1,883,999		\$2,015,879		\$2,156,991		
3 year Deficit Amortization Amount	\$2,003,680	\$1,736,000	\$2,003,680	\$1,736,000	\$2,003,680	\$1,736,000	NO DEF AMORT		
Norway Hill Deficit <sup>6</sup>	\$175,282		\$185,799		\$196,947		\$208,764		
<b>Sub-total Expenses</b>	<b>\$19,044,321</b>	<b>\$8,770,852</b>	<b>\$19,543,478</b>	<b>\$9,150,424</b>	<b>\$20,925,006</b>	<b>\$9,555,166</b>	<b>\$20,066,355</b>	<b>\$8,251,578</b>	
<b>Net after Expenses</b>	<b>-\$3,876,321</b>	<b>-\$1,123,852</b>	<b>-\$3,465,398</b>	<b>-\$1,044,604</b>	<b>-\$3,882,241</b>	<b>-\$962,997</b>	<b>-\$2,001,024</b>	<b>\$856,121</b>	
State Sales Tax Incentive (STI) <sup>10</sup>	\$3,064,708	\$2,990,000	\$3,092,290	\$3,016,910	\$3,290,197	\$3,209,992	\$3,510,640	\$3,425,062	
<b>Net</b>	<b>-\$811,613</b>	<b>\$0</b>	<b>-\$373,108</b>	<b>\$0</b>	<b>-\$592,044</b>	<b>\$0</b>	<b>\$0</b>	<b>\$856,121</b>	
STI funds unused & available <sup>11</sup>		\$1,866,148		\$1,972,306		\$2,246,995	\$1,509,616	\$3,425,062	

Comparison of NEWBA to SOBA  
Years 1 - 11 3 Year Amortization Analysis

EXHIBIT 2  
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Revenue Sources:	SOBA YEAR 5 2013	NEWBA YEAR 5 2013	SOBA YEAR 6 2014	NEWBA YEAR 6 2014	SOBA YEAR 7 2015	NEWBA YEAR 7 2015	SOBA YEAR 8 2016	NEWBA YEAR 8 2016
Unrestricted OP Revenue <sup>8</sup>	\$17,975,147	\$9,654,161	\$19,053,656	\$10,233,411	\$20,196,875	\$10,847,416	\$21,408,688	\$11,498,261
Dealership <sup>2</sup>	\$441,867	NA	\$468,379	NA	\$496,482	NA	\$526,271	NA
Card Room (11%) <sup>3</sup>	\$732,237	NA	\$776,171	NA	\$822,741	NA	\$872,106	NA
<b>Sub-total Revenues</b>	<b>\$19,149,251</b>	<b>\$9,654,161</b>	<b>\$20,298,206</b>	<b>\$10,233,411</b>	<b>\$21,516,098</b>	<b>\$10,847,416</b>	<b>\$22,807,064</b>	<b>\$11,498,261</b>
Operating Expenses per Nesbitt <sup>8</sup>	\$18,762,636	\$8,746,673	\$19,888,394	\$9,271,473	\$21,081,698	\$9,827,761	\$22,346,600	\$10,417,427
Fire and Police Expenses Adds <sup>5,8,12</sup>	\$2,307,980		\$2,469,539		\$2,642,406		\$2,827,375	
3 year Deficit Amortization Amount								
Norway Hill Deficit <sup>6</sup>	\$221,290		\$234,567		\$248,641		\$263,560	
<b>Sub-total Expenses</b>	<b>\$21,291,906</b>	<b>\$8,746,673</b>	<b>\$22,592,500</b>	<b>\$9,271,473</b>	<b>\$23,972,746</b>	<b>\$9,827,761</b>	<b>\$25,437,534</b>	<b>\$10,417,427</b>
<b>Net after Expenses</b>	<b>-\$2,142,655</b>	<b>\$907,489</b>	<b>-\$2,294,295</b>	<b>\$961,938</b>	<b>-\$2,456,648</b>	<b>\$1,019,654</b>	<b>-\$2,630,471</b>	<b>\$1,080,833</b>
State Sales Tax Incentive (STI) <sup>10</sup>	\$3,721,278	\$3,630,566	\$3,944,555	\$3,848,400	\$4,181,228	\$4,079,304	\$4,432,102	\$4,324,062
<b>Net</b>	<b>\$0</b>	<b>\$907,489</b>	<b>\$0</b>	<b>\$961,938</b>	<b>\$0</b>	<b>\$1,019,654</b>	<b>\$0</b>	<b>\$1,080,833</b>
<b>STI funds unused &amp; available<sup>11</sup></b>	<b>\$1,578,623</b>	<b>\$3,630,566</b>	<b>\$1,650,261</b>	<b>\$3,848,400</b>	<b>\$1,724,581</b>	<b>\$4,079,304</b>	<b>\$1,801,632</b>	<b>\$4,324,062</b>

Comparison of NEWBA to SOBA  
Years 1 - 11 3 Year Amortization Analysis

EXHIBIT 2  
2/4/2009 1:43 PM

Revenue Sources:	SOBA YEAR 9 2017	NEWBA YEAR 9 2017	SOBA YEAR 10 2018	NEWBA YEAR 10 2018	SOBA YEAR 11 2019	NEWBA YEAR 11 2019	SOBA YEAR 12 2020	NEWBA YEAR 12 2020
Unrestricted OP Revenue <sup>8</sup>	\$22,693,209	\$12,188,156	\$24,054,801	\$12,919,446	\$25,498,090	\$13,694,612	\$27,027,975	\$14,516,289
Dealership <sup>2</sup>	\$557,847	NA	\$591,318	NA	\$626,797	NA	\$664,404	NA
Card Room (11%) <sup>3</sup>	\$924,432	NA	\$979,898	NA	\$1,038,692	NA	\$1,101,013	NA
<b>Sub-total Revenues</b>	<b>\$24,175,488</b>	<b>\$12,188,156</b>	<b>\$25,626,017</b>	<b>\$12,919,446</b>	<b>\$27,163,578</b>	<b>\$13,694,612</b>	<b>\$28,793,393</b>	<b>\$14,516,289</b>
Operating Expenses per Nesbitt <sup>8</sup>	\$23,687,396	\$11,042,473	\$25,108,639	\$11,705,021	\$26,615,158	\$12,407,322	\$28,212,067	\$13,151,762
Fire and Police Expenses Adds <sup>5,8,12</sup>	\$3,025,291		\$3,237,062		\$3,463,656		\$3,706,112	
3 year Deficit Amortization Amount								
Norway Hill Deficit <sup>6</sup>	\$279,373		\$296,136		\$313,904		\$332,738	
<b>Sub-total Expenses</b>	<b>\$26,992,060</b>	<b>\$11,042,473</b>	<b>\$28,641,837</b>	<b>\$11,705,021</b>	<b>\$30,392,717</b>	<b>\$12,407,322</b>	<b>\$32,250,917</b>	<b>\$13,151,762</b>
<b>Net after Expenses</b>	<b>-\$2,816,573</b>	<b>\$1,145,683</b>	<b>-\$3,015,820</b>	<b>\$1,214,425</b>	<b>-\$3,229,140</b>	<b>\$1,287,290</b>	<b>-\$3,457,525</b>	<b>\$1,364,527</b>
State Sales Tax Incentive (STI) <sup>10</sup>	\$4,698,028	\$4,583,506	\$4,979,910	\$4,858,516	\$0	\$0	\$0	\$0
<b>Net</b>	<b>\$0</b>	<b>\$1,145,683</b>	<b>\$0</b>	<b>\$1,214,425</b>	<b>-\$3,229,140</b>	<b>\$1,287,290</b>	<b>-\$3,457,525</b>	<b>\$1,364,527</b>
STI funds unused & available <sup>11</sup>	\$1,881,456	\$4,583,506	\$1,964,090	\$4,858,516	\$0	\$0	\$0	\$0

SOBA Revenues / Expenses  
10 year Amortization Analysis

EXHIBIT 2  
2/4/2009 1:44 PM

Revenue Sources:	Unrestricted Op Revenues as per Nesbitt Study	OP Rev	OP Rev + Sales Tax Incentive	OP Rev + Sales Tax Incentive + Dealership - Norway Hill	Op Revs + Sales Tax Incentive + Dealership + Card Room - Norway Hill	YEAR 1 2009	YEAR 2 2010	YEAR 3 2011	YEAR 4 2012	Comparison of Year 1 SOBA to NEWBA	
										SOBA YEAR 1 2009	NEWBA YEAR 1 2009
Unrestricted OP Revenue <sup>8</sup>	\$14,238,000	\$14,238,000	\$14,238,000	\$14,238,000	\$14,238,000	\$15,092,280	\$15,997,817	\$16,957,686		\$14,238,000	\$7,647,000
Dealership <sup>2</sup>				\$350,000	\$350,000	\$371,000	\$393,260	\$416,856		\$350,000	NA
Card Room (11%) <sup>3</sup>					\$580,000	\$614,800	\$651,688	\$690,789		\$580,000	NA
<b>Sub-total Revenues</b>	<b>\$14,238,000</b>	<b>\$14,238,000</b>	<b>\$14,238,000</b>	<b>\$14,588,000</b>	<b>\$15,168,000</b>	<b>\$16,078,080</b>	<b>\$17,042,765</b>	<b>\$18,065,331</b>		<b>\$15,168,000</b>	<b>\$7,647,000</b>
Operating Expenses per Nesbitt <sup>8</sup>	\$14,613,000	\$14,613,000	\$14,613,000	\$14,613,000	\$14,613,000	\$15,470,000	\$16,708,500	\$17,700,600		\$14,613,000	\$7,034,852
Fire and Police Expense Adds <sup>5,8,12</sup>			\$2,252,359	\$2,252,359	\$2,252,359	\$1,883,999	\$2,015,879	\$2,156,991		\$2,252,359	
10 year Deficit Amortization Amount <sup>7</sup>		\$751,380	\$751,380	\$751,380	\$751,380	\$751,380	\$751,380	\$751,380		\$751,380	\$651,000
Norway Hill Deficit <sup>6</sup>				\$175,282	\$175,282	\$185,799	\$196,947	\$208,764		\$175,282	\$0
<b>Sub-total Expenses</b>	<b>\$14,613,000</b>	<b>\$15,364,380</b>	<b>\$17,616,739</b>	<b>\$17,792,021</b>	<b>\$17,792,021</b>	<b>\$18,291,178</b>	<b>\$19,672,706</b>	<b>\$20,817,734</b>		<b>\$17,792,021</b>	<b>\$7,685,852</b>
<b>Net after Expenses</b>	<b>-\$375,000</b>	<b>-\$1,126,380</b>	<b>-\$3,378,739</b>	<b>-\$3,204,021</b>	<b>-\$2,624,021</b>	<b>-\$2,213,098</b>	<b>-\$2,629,941</b>	<b>-\$2,752,404</b>		<b>-\$2,624,021</b>	<b>-\$38,852</b>
State Sales Tax Incentive (STI) <sup>10</sup>			\$3,064,708	\$3,064,708	\$3,064,708	\$3,092,290	\$3,290,197	\$3,510,640		\$3,064,708	\$2,990,000
<b>Net after utilizing STI funding</b>	<b>-\$375,000</b>	<b>-\$1,126,380</b>	<b>-\$314,031</b>	<b>-\$139,313</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>		<b>\$0</b>	<b>\$0</b>
<b>STI funds unused &amp; available<sup>11</sup></b>					<b>\$440,687</b>	<b>\$879,192</b>	<b>\$660,256</b>	<b>\$758,236</b>		<b>\$440,687</b>	<b>\$2,951,148</b>

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SOBA Revenues / Expenses  
10 year Amortization Analysis

EXHIBIT 2  
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<sup>1</sup> Not used

<sup>2</sup> Dealership relocation expected to generate between \$200,000 and \$500,000; used estimate of \$350,000

<sup>3</sup> City currently bans card rooms. Options might include Interlocal Agreement with King County or pre-annexation agreement with operator

<sup>4</sup> Not used

<sup>5</sup> Fire and Police Expense Adds recommended by Chiefs

<sup>6</sup> Norway Hills - reflects Waynita net Revenue of \$76,500 and Brickyard deficit of -\$233,100, for net negative figure of -\$156,600. Then updated to 2009 figure of -\$175,282

<sup>7</sup> Nesbitt Study amortization amount did not include interest. Applied simple interest at 4%.

<sup>8</sup> Multiplier of 1.06 percent applied to revenues. Multiplier applied to Expenses based on Puget Sound Economic Forecaster

<sup>9</sup> NEWBA Operating Expenses \$6,332,000 (Nesbitt crosswalk) were increased by 1.111% to adjust for inflation to become \$7,034,852

<sup>10</sup> STI funds for SOBA Year 1 - 2009 reflect \$2,714,000 for current city boundary plus \$350,708 for the annexed area. Puget Sound Economic Forecaster was used to account subsequent years' changes.

<sup>11</sup> STI funds unused are available only towards increased/unforeseen annexation-related expenses

<sup>12</sup> Fire and Police Adds for Years 2-12 do not include one-time expenses, and do include the multiplier of 1.07 percent

King County offered Kirkland a one-time payment of \$2,500,000 as incentive to annex this area. These monies may be dedicated to future needs. The agreement between King County and Kirkland has expired.

Comparison of NEWBA to SOBA  
Years 1 - 11 and 10 Year Deficit Amortization

EXHIBIT 2  
2/4/2009 1:45 PM

Revenue Sources:	Op Revs + Sales Tax Incentive + Dealership + Card Room - Norway Hill								
	SOBA YEAR 1 2009	NEWBA YEAR 1 2009	SOBA YEAR 2 2010	NEWBA YEAR 2 2010	SOBA YEAR 3 2011	NEWBA YEAR 3 2011	SOBA YEAR 4 2012	NEWBA YEAR 4 2012	
Unrestricted OP Revenue <sup>8</sup>	\$14,238,000	\$7,647,000	\$15,092,280	\$8,105,820	\$15,997,817	\$8,592,169	\$16,957,686	\$9,107,699	
Dealership <sup>2</sup>	\$350,000	NA	\$371,000	NA	\$393,260	NA	\$416,856	NA	
Card Room (11%) <sup>3</sup>	\$580,000	NA	\$614,800	NA	\$651,688	NA	\$690,789	NA	
<b>Sub-total Revenues</b>	<b>\$15,168,000</b>	<b>\$7,647,000</b>	<b>\$16,078,080</b>	<b>\$8,105,820</b>	<b>\$17,042,765</b>	<b>\$8,592,169</b>	<b>\$18,065,331</b>	<b>\$9,107,699</b>	
Operating Expenses per Nesbitt <sup>8</sup>	\$14,613,000	\$7,034,852	\$15,470,000	\$7,414,424	\$16,708,500	\$7,819,166	\$17,700,600	\$8,251,578	
Fire and Police Expenses Adds <sup>5,8,12</sup>	\$2,252,359		\$1,883,999		\$2,015,879		\$2,156,991		
10 year Deficit Amortization Amount <sup>13</sup>	\$751,380	\$651,000	\$751,380	\$651,000	\$751,380	\$651,000	\$751,380	\$651,000	
Norway Hill Deficit <sup>6</sup>	\$175,282		\$185,799		\$196,947		\$208,764		
<b>Sub-total Expenses</b>	<b>\$17,792,021</b>	<b>\$7,685,852</b>	<b>\$18,291,178</b>	<b>\$8,065,424</b>	<b>\$19,672,706</b>	<b>\$8,470,166</b>	<b>\$20,817,735</b>	<b>\$8,902,578</b>	
<b>Net after Expenses</b>	<b>-\$2,624,021</b>	<b>-\$38,852</b>	<b>-\$2,213,098</b>	<b>\$40,396</b>	<b>-\$2,629,941</b>	<b>\$122,003</b>	<b>-\$2,752,404</b>	<b>\$205,121</b>	
State Sales Tax Incentive (STI) <sup>10</sup>	\$3,064,708	\$2,990,000	\$3,092,290	\$3,016,910	\$3,290,197	\$3,209,992	\$3,510,640	\$3,425,062	
<b>Net</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$40,396</b>	<b>\$0</b>	<b>\$122,003</b>	<b>\$0</b>	<b>\$205,121</b>	
STI funds unused & available <sup>11</sup>	\$440,687	\$2,951,148	\$879,192	\$3,016,910	\$660,256	\$3,209,992	\$758,236	\$3,425,062	

Comparison of NEWBA to SOBA  
Years 1 - 11 and 10 Year Deficit Amortization

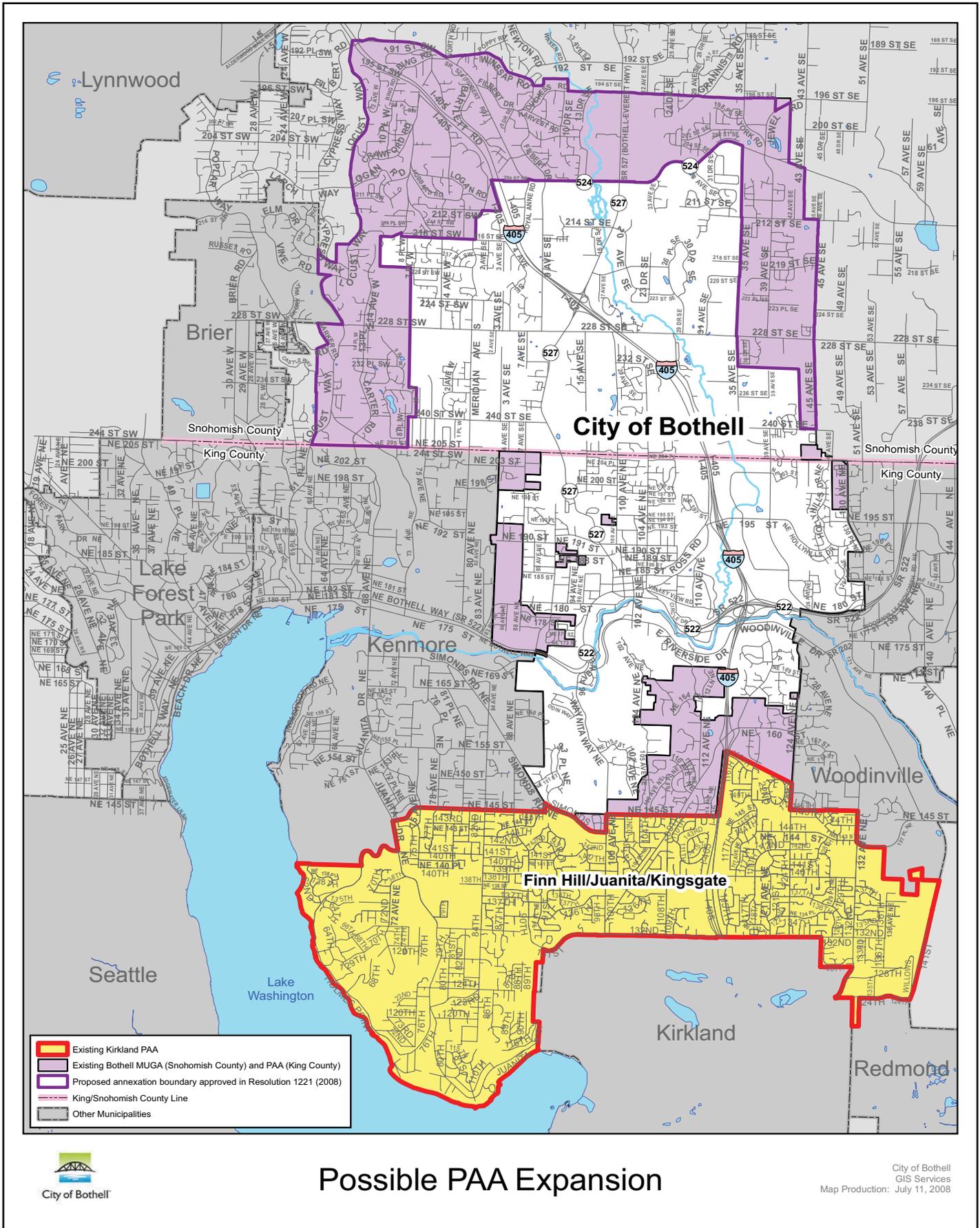
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Revenue Sources:	SOBA YEAR 5 2013	NEWBA YEAR 5 2013	SOBA YEAR 6 2014	NEWBA YEAR 6 2014	SOBA YEAR 7 2015	NEWBA YEAR 7 2015	SOBA YEAR 8 2016	NEWBA YEAR 8 2016
Unrestricted OP Revenue <sup>8</sup>	\$17,975,147	\$9,654,161	\$19,053,656	\$10,233,411	\$20,196,875	\$10,847,416	\$21,408,688	\$11,498,261
Dealership <sup>2</sup>	\$441,867	NA	\$468,379	NA	\$496,482	NA	\$526,271	NA
Card Room (11%) <sup>3</sup>	\$732,237	NA	\$776,171	NA	\$822,741	NA	\$872,106	NA
<b>Sub-total Revenues</b>	<b>\$19,149,251</b>	<b>\$9,654,161</b>	<b>\$20,298,206</b>	<b>\$10,233,411</b>	<b>\$21,516,098</b>	<b>\$10,847,416</b>	<b>\$22,807,064</b>	<b>\$11,498,261</b>
Operating Expenses per Nesbitt <sup>8</sup>	\$18,762,636	\$8,746,673	\$19,888,394	\$9,271,473	\$21,081,698	\$9,827,761	\$22,346,600	\$10,417,427
Fire and Police Expenses Adds <sup>5,8,12</sup>	\$2,307,980		\$2,469,539		\$2,642,406		\$2,827,375	
10 year Deficit Amortization Amount	\$751,380	\$651,000	\$751,380	\$651,000	\$751,380	\$651,000	\$751,380	\$651,000
Norway Hill Deficit <sup>6</sup>	\$221,290		\$234,567		\$248,641		\$263,560	
<b>Sub-total Expenses</b>	<b>\$22,043,286</b>	<b>\$9,397,673</b>	<b>\$23,343,880</b>	<b>\$9,922,473</b>	<b>\$24,724,126</b>	<b>\$10,478,761</b>	<b>\$26,188,914</b>	<b>\$11,068,427</b>
<b>Net after Expenses</b>	<b>-\$2,894,035</b>	<b>\$256,489</b>	<b>-\$3,045,675</b>	<b>\$310,938</b>	<b>-\$3,208,028</b>	<b>\$368,654</b>	<b>-\$3,381,851</b>	<b>\$429,833</b>
State Sales Tax Incentive (STI) <sup>10</sup>	\$3,721,278	\$3,630,566	\$3,944,555	\$3,848,400	\$4,181,228	\$4,079,304	\$4,432,102	\$4,324,062
<b>Net</b>	<b>\$0</b>	<b>\$256,489</b>	<b>\$0</b>	<b>\$310,938</b>	<b>\$0</b>	<b>\$368,654</b>	<b>\$0</b>	<b>\$429,833</b>
STI funds unused & available <sup>11</sup>	\$827,243	\$3,630,566	\$898,881	\$3,848,400	\$973,201	\$4,079,304	\$1,050,252	\$4,324,062

Comparison of NEWBA to SOBA  
Years 1 - 11 and 10 Year Deficit Amortization

EXHIBIT 2  
2/4/2009 1:45 PM

Revenue Sources:	SOBA YEAR 9 2017	NEWBA YEAR 9 2017	SOBA YEAR 10 2018	NEWBA YEAR 10 2018	SOBA YEAR 11 2019	NEWBA YEAR 11 2019	SOBA YEAR 12 2020	NEWBA YEAR 12 2020
Unrestricted OP Revenue <sup>8</sup>	\$22,693,209	\$12,188,156	\$24,054,801	\$12,919,446	\$25,498,090	\$13,694,612	\$27,027,975	\$14,516,289
Dealership <sup>2</sup>	\$557,847	NA	\$591,318	NA	\$626,797	NA	\$664,404	NA
Card Room (11%) <sup>3</sup>	\$924,432	NA	\$979,898	NA	\$1,038,692	NA	\$1,101,013	NA
<b>Sub-total Revenues</b>	<b>\$24,175,488</b>	<b>\$12,188,156</b>	<b>\$25,626,017</b>	<b>\$12,919,446</b>	<b>\$27,163,578</b>	<b>\$13,694,612</b>	<b>\$28,793,393</b>	<b>\$14,516,289</b>
Operating Expenses per Nesbitt <sup>8</sup>	\$23,687,396	\$11,042,473	\$25,108,639	\$11,705,021	\$26,615,158	\$12,407,322	\$28,212,067	\$13,151,762
Fire and Police Expenses Adds <sup>5,8,12</sup>	\$3,025,291		\$3,237,062		\$3,463,656		\$3,706,112	
10 year Deficit Amortization Amount	\$751,380	\$651,000	\$751,380	\$651,000				
Norway Hill Deficit <sup>6</sup>	\$279,373		\$296,136		\$313,904		\$332,738	
<b>Sub-total Expenses</b>	<b>\$27,743,440</b>	<b>\$11,693,473</b>	<b>\$29,393,217</b>	<b>\$12,356,021</b>	<b>\$30,392,717</b>	<b>\$12,407,322</b>	<b>\$32,250,917</b>	<b>\$13,151,762</b>
<b>Net after Expenses</b>	<b>-\$3,567,953</b>	<b>\$494,683</b>	<b>-\$3,767,200</b>	<b>\$563,425</b>	<b>-\$3,229,140</b>	<b>\$1,287,290</b>	<b>-\$3,457,525</b>	<b>\$1,364,527</b>
State Sales Tax Incentive (STI) <sup>10</sup>	\$4,698,028	\$4,583,506	\$4,979,910	\$4,858,516	\$0	\$0	\$0	\$0
<b>Net</b>	<b>\$0</b>	<b>\$494,683</b>	<b>\$0</b>	<b>\$563,425</b>	<b>-\$3,229,140</b>	<b>\$1,287,290</b>	<b>-\$3,457,525</b>	<b>\$1,364,527</b>
STI funds unused & available <sup>11</sup>	\$1,130,076	\$4,583,506	\$1,212,710	\$4,858,516	\$0	\$0	\$0	\$0



**Possible PAA Expansion**

City of Bothell  
GIS Services  
Map Production: July 11, 2008

**CITY OF KIRKLAND**

City Manager's Office

123 Fifth Avenue, Kirkland, WA 98033 425.587.3001

www.ci.kirkland.wa.us

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**MEMORANDUM**

**To:** Dave Ramsay, City Manager

**From:** Marilynne Beard, Assistant City Manager  
Eric Shields, Director of Planning and Community Development

**Date:** March 17, 2009

**Subject:** ANNEXATION PROCESS AND TIMELINE

The following memo outlines the process and timelines related to two methods of annexation. The City of Kirkland is a non-charter code city and, therefore, subject to Chapter 35A of the Revised Code of Washington in matters related to annexation. Excerpts from the Municipal Research and Services Center are attached for reference and a fuller discussion of each step of both methods. These methods are discussed within the context of the deadlines established for eligibility for state funding ("commence" annexation by January 1, 2010).

**Election Method, Initiated by Resolution (RCW 35A.14)****Step One:** Approve a Resolution of Intent

The City Council may initiate annexation by approving a resolution of intent that must:

1. Call for an election on the question of annexation to be submitted to the voters;
2. Describe the boundaries of the area (Note: the boundaries must be stated in terms of the specific legal descriptions for parcels and subdivisions bordering the proposed annexation area. The legal descriptions would be contracted out to an engineering firm specializing preparing legal descriptions of this nature).
3. State the number of voters in the area to be annexed;
4. State that the city will pay for the cost of the election.

In addition to these required elements, the City Council may:

1. Ask voters to assume outstanding debt (Note: Requires 60% approval and 40% validation);
2. Ask voters to approve simultaneous adoption of proposed zoning regulations;
3. Ask voters to include the area in an existing community council area or establish a new community council (Note: This would be like the Houghton Community Council);

### Step Two: File Resolution of Intent with the County Legislative Authority and the Boundary Review Board

The City must file a certified copy of the resolution of intent with the County and the Boundary Review Board along with a completed BRB proposal. The required contents of the proposal are discussed later in this memo. Typically, the BRB proposal is assembled over a period of time in anticipation of a resolution of intent being approved by Council.

Two optional steps are possible with the BRB and the County at this time. The BRB requests a preliminary letter of intent from the City alerting the BRB of the pending resolution and proposal. King County requests an opportunity to review the legal description contained in the BRB proposal before it is submitted as this will facilitate the BRB's review.

### Step Three: Boundary Review Board Considers and Acts on Proposal

All annexations must be reviewed by the Boundary Review Board. The process starts with the filing of a Notice of Intention (NOI) by the city proposing the annexation. Once the NOI is determined to be complete, the annexation will be reviewed by the BRB within 45 days unless BRB jurisdiction is invoked. A request invoke BRB jurisdiction may be filed by the city proposing the annexation, other affected jurisdictions (e.g. cities and special purpose districts) or by a petition of 5% or more of the registered voters within or within 5one quarter mile of the annexation area. Once jurisdiction is invoked, the BRB has 120 days to act on the proposal, during which time a public hearing is typically held.

Consequently, the length of the BRB process depends on whether BRB jurisdiction is invoked and when it is invoked. If jurisdiction is not invoked, the process will be completed in 45 days. However, if jurisdiction is invoked 44 days after the NOI is submitted, the process will take 164 days. If the city anticipates that another party will ask for BRB jurisdiction to be invoked, the most expeditious process would be for the City to ask for jurisdiction to be invoked at the time we file the NOI. This would assure that the process will not exceed 120 days.

The BRB may approve the proposal, modify the boundaries and approve the revised proposal or disapprove the proposal. If it is disapproved, the annexation cannot be resubmitted to the BRB for 12 months.

### Step Four: File BRB Decision with King County

Once the BRB decision is received, the City Council must indicate to the County auditor their preferred election date. Council action must take place at the next scheduled

regular meeting or at a special meeting within 30 days of receiving the BRB decision. The election date preference may be any of the special or regular election dates available and does not need to be within any specific period after the BRB decision.

#### Step Five: Prepare for and Hold Election

There are a number of steps and deadlines related to any ballot measure. The deadlines are established by King County (see attached summary of dates related to the 2009 General Election. Once the election is held, the results will be certified by King County elections and the results entered into the minutes by the King County Council. The election abstract is forwarded to the City Clerk.

#### Step Six: Approve Ordinance Accepting Annexation and Setting Effective Date

The City Clerk must transmit the election results to the City Council at their next regular meeting or as soon as possible thereafter. The City Council must then adopt an ordinance:

1. Providing for the annexation including an effective date;
2. Adopting the proposed zoning;
3. Providing for assumption of debt (if applicable); and
4. Establishing a community council (if applicable).

In addition to these basic steps, a number of other activities are occurring simultaneous to the BRB and/or the election process. The City must notify a number of state agencies and overlapping jurisdictions of the annexation and, in some cases, negotiate interlocal agreements for transition of services (e.g. with the County) and/or assets (e.g. with the fire district). To the extent that the City can initiate these conversations early, the annexation process may proceed more quickly.

#### **Alternative Unincorporated Island-Interlocal Agreement Method (35A.14.470(1)(c))**

An alternative method of annexation may be possible; however, staff is still in the process of researching the feasibility of this method for Kirkland. Under this method, the City Council would approve a resolution "commencing negotiations" with King County. The negotiations would continue for up to 180 days and could be extended by mutual agreement if no agreement is reached in the initial negotiations. In this case, there is no election; however, once an agreement is reached the annexation is subject to referendum.

In order for the annexation to be eligible for this method, certain thresholds must be met. Most notably, at least 60% of the boundary of the area to be annexed must be contiguous to an incorporated city (not necessarily Kirkland, but any incorporated city). Our initial estimate from GIS measured 59.35% however there are at least two

outstanding issues. First, it is not clear how to count the lake. Second, there is some question about whether one small area is within Bothell's PAA or Kirkland's. Staff is attempting to find answers to these questions should the Council be interested in pursuing this option.

Step One: Pass Resolution Calling for Negotiation

The City Council would pass a resolution calling for negotiation with King County. The resolution must state the boundaries (legal description) of the area to be annexed. Clearly, the County has to agree to negotiate with the City in order for this method to be a feasible option.

Step Two: Commence Negotiations

The two primary parties are the City and the County. This step lasts for 180 days. If no agreement is reached within this time, the negotiations may be extended if a public hearing is held and another resolution is passed.

Step Three: Execute an Agreement

Assuming the negotiations were successful, an interlocal agreement is prepared describing the territory to be annexed (there is an alternate procedure if the City and County do not reach agreement).

Step Four: Hold a Public Hearing

Before executing the agreement, both the City and the County must each hold a public hearing on the agreement.

Step Five: Approve Ordinance Providing for Annexation and Publish

Following the public hearing and adoption of the interlocal agreement, the City Council adopts an ordinance annexing the territory and establishing an effective date. The ordinance may also provide for the assumption of indebtedness and adoption of a specific zoning code. Notice must be published for two weeks after passage of the ordinance.

Step Six: File a Notice of Intent to Annex with the Boundary Review Board

At this point, the Boundary Review Board process begins and is much the same as the process noted in the election method.

POSSIBLE Step Seven: Referendum

The annexation ordinance under this process is subject to referendum. Within 45 days of approval of the ordinance (step 5), a referendum petition representing not less than 15% of the registered voters that voted in the last general election can be submitted to the County. If the petition has sufficient signatures, the annexation automatically goes to a vote within 90 days of filing the petition. Only the voters in the annexed area vote in this election.

For the purposes of eligibility for state funding, we would presume that "commence" annexation would be the resolution calling for the negotiations.

## **Deadlines**

The attached diagram depicts the activities and major deadlines associated with the election method of annexation. Based on the 2009 published election deadlines and the length of the BRB process, the earliest possible election date is November 3, 2009 (the general election). In order to meet this election date, the City Council will need to approve a resolution of intent no later than April 7 and submit a completed application to the BRB by April 8. The BRB application must include a signed copy of the resolution and the minutes of the meeting where the resolution was approved. As a practical matter, minutes are not approved until the next regular Council meeting following the meeting where action was taken. If the City Council were interested in pursuing this timeline, staff recommends holding a special meeting on April 6 to take action on the resolution of intent and approve the minutes at the following night's meeting (on April 7) so that the completed application can be submitted April 8. City staff met with BRB staff and they have been very helpful. The BRB meets once per month on the second Tuesday of the month (in April, however, they will meet on April 16). The City's application would need to have initial action taken by the BRB at their April meeting in order to meet the filing deadlines for the general election (on August 11). Although April 8 is somewhat later than they would normally accept an application for their April meeting, they have indicated a willingness to work with us to get the application before the BRB in April.

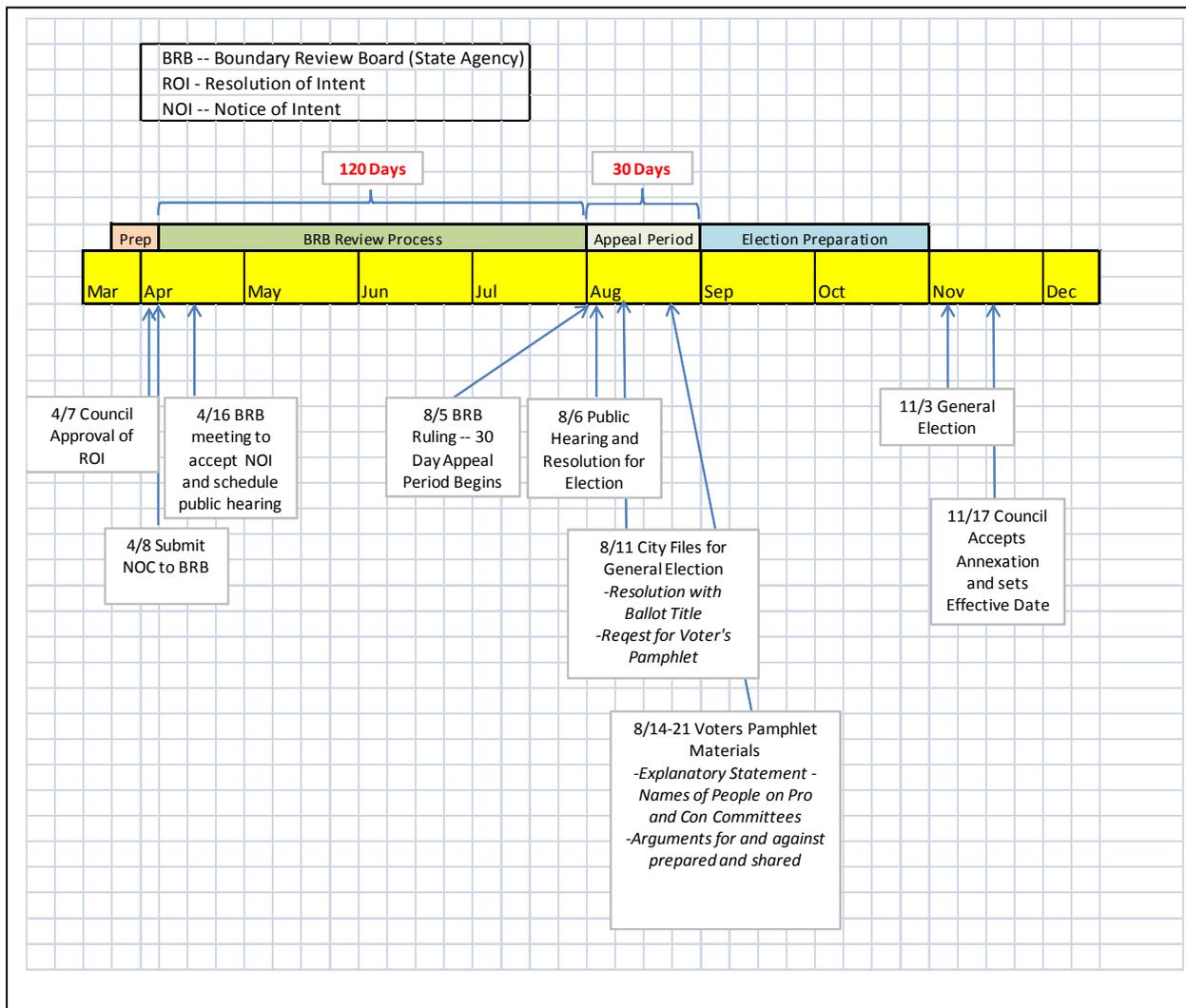
## **Notice of Intention – Contents**

The Notice of Intention includes a number of elements in order to be complete. A complete list of requirements is provided as an attachment. General categories and contents are described briefly below.

1. **Background and Maps** – Includes a discussion about the reason for the annexation, a signed and certified copy of the Council's approved resolution of intent and meeting minutes and a legal description of the boundaries in the area to be annexed. The legal descriptions must be as accurate as possible. County assessor maps must be produced showing the boundaries of the area, a vicinity map, major physical features, streets and boundaries of all special purpose districts.

2. Evaluation Criteria – Includes a general overview of the area (e.g. population, assessed value, population density), existing and proposed land use, conformance with GMA and countywide planning policies, zoning information and regulations. This section also includes a comprehensive discussion of existing franchises and interlocal agreements, background on the City’s comprehensive plan, estimated revenues and expenses, a description of services currently provided to the area and how this compares with proposed service levels.
  
3. Objectives – Discussion of the objectives that the proposed annexation is intended to achieve such as incorporation of urban unincorporated areas, preservation of neighborhoods, etc.

The notice of intention must be complete in order for the proposal to be accepted for review by the BRB.



## Attachment A

**Excerpts from MRSC Annexation Handbook Updated 2008****1. II. Election Method, Initiated by Resolution**

The annexation of contiguous, unincorporated territory may also be initiated by city council resolution. After the annexation is properly initiated by resolution, the election procedures under this method are identical to those used in the election method initiated by the ten percent petition.

**A. Legislative Determination (RCW 35A.14.015)**

Initially, the city council must determine that the best interests and general welfare of the city would be served by the annexation.

**B. Contents of Resolution****1. Mandatory Provisions (RCW 35A.14.015)**

The resolution must:

- a. Call for an election to be held to submit the annexation proposal to the voters in the territory proposed to be annexed;
- b. Describe the boundaries of the area to be annexed;
- c. State the number of voters in the area to be annexed as nearly as possible; and
- d. State that the city will pay the cost of the election.

A formal public hearing is optional.

**2. Optional Provisions (RCW 35A.14.015)**

The city council should also decide whether any of the following optional provisions will be included in the resolution:

- a. Requiring the voters in the area to vote on the assumption of all or any portion of existing city indebtedness.
- b. Requiring the simultaneous adoption of proposed zoning regulations,

prepared under RCW 35A.14.340, upon approval of the annexation.

c. Requiring simultaneous inclusion of the area in a named existing community municipal corporation upon annexation. This proposition must be submitted to the voters as part of the annexation proposition, not separately. RCW 35.13.015.

d. If there is no existing community municipal corporation, a community municipal corporation may be created simultaneously upon annexation, if the resolution calls for its creation and the election of community council members as provided in chapter 35.14 RCW. RCW 35A.14.025. (See Chapter Five, Section IV. of this publication.) This proposition may be submitted to the voters as part of the annexation proposition, or separately.

**C. Filing of Resolution with County Legislative Authority and Applicable Review Board (RCW 35A.14.015); Notice, where applicable, to Fire District and Library District (RCW 35A.14.801)**

A certified copy of the resolution is to be filed with:

3. The legislative authority of the county in which the proposed annexation is located; and
4. The boundary review board if one has been established; or
5. If a boundary review board has not been established, with the county annexation review board for code cities, unless the annexation is not subject to review under RCW 35A.14.220 (i.e. less than 50 acres or less than \$2 million in assessed valuation). RCW 35A.14.015

Cities in counties that have a boundary review board and that propose to annex territory of a fire district and/or library district must provide notice (i.e., copy of the resolution) to such district(s) of the proposed annexation simultaneously when a certified copy of the resolution is provided to the boundary review board. RCW 35A.14.801.

**D. Limitations on Consideration of Conflicting Petitions and Resolutions (RCW 35A.14.231, 35.02.155)**

See Section I.E. of this chapter.

**E. Decision of Review Board (RCW 35A.14.050)**

The review board, whether a boundary review board or county annexation review board, has the following options with respect to an annexation proposal:

1. Approve the proposal as submitted;
2. Modify the boundaries of the proposal and approve as modified (there are different limitations on boundary modification, depending upon the review board; see Chapter Eight); or

3. Disapprove the proposal.

If the review board disapproves the proposal, no further action may be taken on the proposal and no other proposal for annexation of the same or substantially the same territory (as determined by the board) may be initiated or considered for 12 months.

**F. Decisions Filed with County Legislative Authority (RCW 35A.14.050)**

Upon review board approval (with or without modification), the city council must indicate to the county auditor its preference for a special election date for submitting the proposal (with any modifications made by the review board) to the voters of the territory proposed to be annexed. The city council must indicate that preference at its next regular meeting, if that meeting is to be held within 30 days of its receipt of the review board decision, or at a special meeting to be held within that 30-day period. The county legislative authority must set the election date on the date indicated by the city.

**G. Election, Canvass of Vote, Effective Date, Notice, Etc.**

For information on the election process, canvassing of the vote, effective date of annexation, and the required notice, see discussion in Sections I.H. to I.M. of this chapter.

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**VIII. Alternative Unincorporated Island-Interlocal Method of Annexation**

The 2003 legislature adopted SHB 1755 (Chapter 299, Laws of 2003), creating an alternative method of annexing islands of unincorporated territory through the use of interlocal agreements. However, this "island-interlocal" method of annexation is only available to cities and towns located in counties that are subject to the "buildable lands" review and evaluation program (RCW 36.70A.215) under the Growth Management Act (GMA). RCW 35A.14.460(1). These counties are Clark, King, Kitsap, Pierce, Snohomish, and Thurston.

Unlike the other method of annexing unincorporated "islands" of territory, which is available to all cities and requires the proposed annexation area to have at least 80 percent of its boundaries contiguous to a single city (see RCW 35A.14.295), the proposed annexation area under the "island-interlocal" method need have only 60 percent of its boundaries contiguous to a city or to more than one city. As with all annexations in counties subject to the GMA, the proposed annexation area must be within an urban growth area (UGA). RCW 35A.14.460(1).

**A. Initiation by Resolution/Negotiation (RCW 35A.14.460(1), RCW 35A.14.470(1)(c))**

The process is begun by the legislative body of a qualifying city or county (see above) adopting a resolution "commencing negotiations" for an interlocal agreement with the county or a city, as the case may be, for annexation of territory described in the agreement that is within the city's UGA and that has at least 60 percent of its boundaries contiguous to the annexing city or the annexing city and one or more other cities.

After a resolution is adopted, the county and city are to negotiate and try to reach an agreement regarding the annexation. RCW 35A.14.470(1)(c) establishes a 180-day negotiation period, which begins with the date of the passage of the county resolution. The legislative body for either the county or city may, however, pass a resolution extending the negotiation period for one or more six-month periods if a public hearing is held and findings of fact are made prior to each extension. If the 180-day negotiation period expires, the county may initiate an annexation process with another city contiguous to the unincorporated island, as described in C below.

### **B. Agreement/Hearing (RCW 35A.14.460(3))**

Before executing the agreement, which must describe the boundaries of the territory to be annexed, the legislative bodies of the county and city must each hold a public hearing, which may be a joint hearing.

### **C. Alternate Procedure if County and City Do Not Reach Agreement (RCW 35A.14.470)**

The county may initiate the annexation process with another city, or more than one city, that has boundaries contiguous to the unincorporated island if:

1. the county initiated the annexation process by resolution, as above; and
2. the affected city rejected the proposed annexation or declined to enter into an agreement; or
3. 180 days have passed since the county adopted the resolution and no agreement has been reached and neither the county or the city have, after a public hearing, passed a resolution extending the negotiation period.

The process then goes on exactly as in the original process above, although in this case it is only the county that, by resolution, can initiate the process.

Under this alternate process, a city may annex territory that is within another city's urban growth area or within an "urban service area" or "potential annexation area" (authorized by RCW 36.70A.110) designated for another city. Some counties have previously designated such areas within urban growth areas that border more than one city. If the territory proposed for annexation under this alternate process has been designated as part of an "urban service area" or "potential annexation area" for a specific city (i.e., not the annexing city under this alternate process) or if it lies within another city's urban growth area, or if the urban growth area territory proposed for annexation has been designated in a written agreement between the county and a specific city for annexation to that city, the city that the county negotiates with under this alternate process may still annex that territory as long as that designation receives "full consideration" before the process is initiated. RCW 35A.14.460(2). What exactly may be necessary to satisfy this "full consideration" requirement remains to be seen.

Also, under this alternate process, a county may reach agreement with more than one city to annex the same unincorporated island, thereby throwing to the voters in that territory

the choice of which city, if any, to annex to. The ballot for this election is to provide voters with the choice of whether or not to annex to a city and, for those voters wanting to annex, the choice of which city to annex to. If a majority of voters choose annexation, the area will be annexed to the city receiving the most votes among those voting in favor of annexation. The rules governing this election are otherwise those for an annexation by the election method. See Chapter Seven, Section I.H. The county bears the cost of this election.

#### **D. Public Notice of Agreement/Hearing (RCW 35A.14.460(3))**

The county and city must, either separately or jointly, publish the text of the agreement at least once a week for two weeks before the date of the hearing(s) in one or more newspapers of general circulation in the area proposed for annexation. Presumably, these publications should also provide notice of the public hearing(s).

#### **E. Ordinance Providing for Annexation/Effective Date (RCW 35A.14.460(4))**

Following the public hearing(s) and adoption of the agreement between the county and city legislative bodies providing for the annexation of the unincorporated island, the city council adopts an ordinance annexing the territory as described in the agreement.

The ordinance may provide:

4. that the property owners in the annexed area will assume their share of the city's outstanding indebtedness, and/or
5. that a specific proposed zoning regulation is adopted for the area.

The ordinance must set the date that the annexation is effective, but that date must be 45 days or more following the date of ordinance adoption to accommodate a referendum procedure. The annexation will become effective upon that date, unless a sufficient referendum petition is filed under the procedure described below.

#### **F. Notice of Annexation (RCW 35A.14.460(4))**

The city council must publish notice of the effective date of the annexation at least once a week for two weeks after passage of the ordinance in one or more newspapers of general circulation in the area to be annexed. If the annexation ordinance provides for assumption of indebtedness or adoption of a proposed zoning regulation, the notice shall include a statement of the requirements.

For information on the notice that should be given to the county and to the state once an annexation has been approved, see discussion set out in Section I.M of this chapter.

#### **G. Boundary Review Board Review**

A notice of intent to annex must be filed with the boundary review board, if one has been established in the county and has not been disbanded pursuant to RCW 36.93.230. See Chapter 8, Section II.

#### **H. Referendum Procedure (RCW 35A.14.470(5))**

The annexation ordinance is subject to a referendum election if, within 45 days of adoption of the ordinance, a sufficient referendum petition is filed with the city council. A referendum petition is sufficient if it is signed by registered voters representing not less than 15 percent of the number of votes cast at the last state general election in the area to be annexed. If a sufficient petition is filed, an election on the annexation is to be held at a general election if it is within 90 days of the filing of the petition or at a special election that is 45 to 90 days after filing of the petition. The election is held only within the area subject to annexation and is decided by majority vote.

#### **I. Notice of Annexation**

For information on the notice that should be given to the county and to the state regarding an annexation, see discussion in Section I.M of this chapter.

Attachment B

BRB Notice of Intention Packet Requirements

May 12, 2006

SUBJECT: Notice of Intention Information Packet

Dear

In response to your recent request, we are enclosing a current Notice of Intention Information Packet for submittals to the Boundary Review Board. This packet includes:

- A Notice of Intention packet for new city incorporations and/or
- A Notice of Intention packet for annexations, mergers, assumptions, extensions, and similar actions

If you have questions about the Notice of Intention Information Packet or you would like additional information, please contact our office at 206-296-6800.

Sincerely,

Lenora Blauman  
Executive Secretary

## NOTICE OF INTENTION FORMAT

(Annexations, Mergers, Consolidations, Extensions of Service Outside Corporate Boundaries, and all other actions *except* Incorporations and Formations)

Revised and Adopted May 2006

As prescribed by Chapter 36.93 RCW, a legally complete Notice of Intention to the Boundary Review Board shall be provided for the following proposed actions:

- Creation, incorporation, or change in the boundary, other than a consolidation, of any city, town, or special purpose district;
- Consolidation of special purpose districts, but not including consolidation of cities and towns;
- Dissolution or disincorporation of any city, town, or special purpose district, except that a board may not review the dissolution or disincorporation of a special purpose district which was dissolved or disincorporated pursuant to the provisions of chapter 36.96 RCW: PROVIDED, That the change in the boundary of a city or town arising from the annexation of contiguous city or town owned property held for a public purpose shall be exempted from the requirements of this section;
- The assumption by any city or town of all or part of the assets, facilities, or indebtedness of a special purpose district which lies partially within such city or town;
- The establishment of or change in the boundaries of a mutual water and sewer system or separate sewer system by a water-sewer district pursuant to RCW 57.08.065 or RCW 57.40
- The extension of permanent water or sewer service outside of its existing service area by a city, town, or special purpose district. The service area of a city, town, or special purpose district shall include all of the area within its corporate boundaries plus, (a) for extensions of water service, the area outside of the corporate boundaries which it is designated to serve pursuant to a coordinated water system plan approved in accordance with RCW 70.116.050; and (b) for extensions of sewer service, the area outside of the corporate boundaries which it is designated to serve pursuant to a comprehensive sewerage plan approved in accordance with chapter 36.94 RCW and RCW 90.48.110.

A legally complete Notice of Intention to the Boundary Review Board shall include the documentation outlined below, along with the \$50 filing fee required by state law (RCW 36.93.120). Eight copies of the Notice of Intention are required, assembled together in eight complete sets and all on 8 1/2 by 11 inch paper. Items submitted should be numbered in accordance with this format.

Please provide the name, title, and address of one person to whom notices, processes and other communications regarding this proposal should be directed. This person will assume the responsibility of distributing appropriate copies to all of initiator's interested parties.

### I. ADVANCE COURTESY NOTIFICATION

In order to ensure that the Boundary Review Board will have adequate notification of a pending Notice of Intention, and in order for the Board to adequately inform stakeholders (e.g., government officials, community groups) of a pending Notice of Intention, the Boundary Review Board requests that all jurisdictions provide to the Board Advance Courtesy Notification of a pending action. This Advance Courtesy Notification package should include the following materials:

- A. A Letter of Intent to propose an action (e.g., annexation, assumption, merger). The letter should provide a brief description of the proposed action.
  - B. A preliminary Legal Description
  - C. A preliminary site Map/Vicinity Map
- II. BACKGROUND/MAPS ...(Standard existing Notice of Intention language follows from this point)
- A. Basic Information
    1. A brief description of and reason for seeking the proposed action. Include a statement of the method used to initiate the proposed action (i.e., petition or election method), and the complete RCW designation.
    2. A signed and certified copy of the action accepting the proposal as officially passed.  
**Important:** Please see NOTES on Page 7.
    3. Certification of any petitions for municipal annexation, as required by state law (RCW 35A.01.040 (4)).
    4. A copy of the State Environmental Policy Act (SEPA) Determination and current SEPA checklist with adequate explanations to answers, including Section D, Government Non-project Actions, when applicable, or Environmental Impact Statement (EIS) if prepared. (Not required for city annexations, which are exempt from SEPA)
    5. The legal description of the boundaries of the area involved in the proposed action. This must be legible, on a separate page from any other document, and in a form capable of reproduction by standard photocopiers.  
**Important:** Please see NOTES on Page 7.
  - B. Maps:  
**Important:** Please see NOTES on Page 7.
    1. Two copies or sets of King County Assessor's maps (only two rather than eight in case of assessor's maps) on which the boundary of the area involved in the proposal must be clearly indicated.
    2. Vicinity map(s) no larger than 8 1/2 x 11 inches displaying:
      - a. The boundary of the area involved in the proposal.
      - b. The entity corporate limits in relationship to the proposal.
        - i. Major physical features such as bodies of water, major streets and highways.
        - ii. The boundaries of all cities or special purpose districts (to include, if applicable, any water, sewer, fire, school, hospital or library district) having jurisdiction in or near the proposal. Include all utility districts whose comprehensive plans include all or any part of the proposal, even if only in a planning area.
      - c. Surrounding streets must be clearly identified and labeled.
      - d. County and municipal urban growth area boundaries established or proposed under the Growth Management Act (GMA).

- e. If a boundary service agreement has been formalized between two or more jurisdictions, that service line should be shown with the appropriate entity noted in each service area.
  - f. Tax lot(s) that will be divided by the proposed boundaries should be shown on an attached detailed map.
3. A map of the current corporate limits of the filing entity upon which the proposal has been delineated.
- Important:** Please see NOTES (Page 7).

### III. EVALUATION CRITERIA

Entities should respond to the following elements regarding this proposal with sufficient information to permit appropriate responses to the Board from staff of either the King County Council or King County Executive. These elements relate to the factors the Board must consider as outlined in RCW 36.93.170 (attached).

#### A. Overview

1. Population of proposal; what percentage is that to existing entity?
2. Territory (number of acres)
3. Population density
4. Assessed valuation

#### B. Land Use

1. Existing
2. Proposed: immediate or long-range

#### C. State Growth Management Act

1. Is the proposed action in conformance with the Growth Management Act (GMA)? What specific policies apply to this proposal?
2. King County Comprehensive Plan/Ordinances
  - a) How does County planning under the Growth Management Act (GMA) relate to this proposal?
  - b) What King County Comprehensive Plan policies specifically support this proposal?

**Note:** Notices of Intention for Municipal actions should reference, at a minimum, relevant policies from the following King County Comprehensive Plan Chapters: Chapter 1 - Regional Planning; Chapter 2 - Urban Communities (Section I; Section II); Chapter 7 - Utilities and Facilities.

Notices of Intention for Special Purpose District actions should reference, at a minimum, relevant policies from the following King County Comprehensive Plan Chapters: Chapter 1 - Regional Planning; Chapter 2 - Urban Communities (Section I; Section II); Chapter 7 - Utilities and Facilities.

- c) What King County/Countywide Planning Policies specifically support this proposal?

**Note:** Notices of Intention for Municipal actions should reference, at a minimum, relevant policies from the following King County/Countywide Policies Chapters: Chapter II - Critical Areas; Chapter III Land Use Patterns; Chapter IV - Transportation; Chapter V Section D - Community Character and Open Space; and Chapter VII - Contiguous Orderly Development and Provision of Urban Services.

Notices of Intention for Special Purpose District actions should reference, at a minimum, relevant policies from the following King County/Countywide Policies Chapters: Chapter II - Critical Areas; Chapter III - Land Use Patterns; and Chapter VII - Contiguous Orderly Development and Provision of Urban Services.

- d) What is the adopted plan classification/zoning? (Please include number of lots permitted under this classification.)
- e) Will city regulation(s) supplant King County regulations for the protection of sensitive areas, preservation of agricultural or other resource lands, preservation of landmarks or landmark districts, or surface water control? If so, describe the city regulations and how they compare to the County regulations.

## D. Jurisdictional Comprehensive Plan/Franchise (Applies to Cities and to Special Purpose Districts)

1. How does the jurisdiction's planning under the Growth Management Act (GMA) relate to this proposal?
2. Has the jurisdiction adopted a Potential Annexation Area (PAA) under the Growth Management Act? Have you negotiated PAA agreements with neighboring cities?
3. When was your Comprehensive Plan approved? Does this plan meet requirements set by the State of Washington? Does this plan meet requirements set by King County?
4. Is this proposal consistent with and specifically permitted in the jurisdiction's adopted Comprehensive Plan, or will a plan amendment be required? If so, when will that amendment be completed?

**Note:** The proponent is required to provide written confirmation that the jurisdiction's Comprehensive Plan is current and that the Plan confirms the jurisdiction's authority to change or create new boundaries.

A proponent representing a city shall ensure that the City Comprehensive Plan is on file with the Office of the King County Executive Office of Management and Budget (Elissa Benson) or shall provide a copy of the current Comprehensive Plan with the Notice of Intention.

A proponent representing a Special Purpose District shall ensure that the Special Purpose District Comprehensive Plan is on file with King County Natural Resources and Parks Department or shall provide a copy of the current Comprehensive Plan with the Notice of Intention.

5. Is a franchise required to provide service to this area? If so, is the area included within your current franchise?
6. Has this area been the subject of an Interlocal Agreement? If so, please enclose a signed copy of the agreement.
7. Has this area been the subject of a pre-Annexation Zoning Agreement? If so, please enclose a signed copy of the agreement.
8. What is the proposed land use designation in your adopted Comprehensive Plan? When were your proposed zoning regulations adopted?

## E. Revenues/Expenditures Planning Data (please respond to only those questions which are relevant to the proposal.)

1. Estimate City expenditures
2. Estimate City revenues to be gained
3. Estimate County revenues lost
4. Estimate County expenditure reduction
5. Estimate fire district revenue lost
6. Estimate fire district expenditure reduction

F. Services **Important:** Please see NOTES (Page 7).

State whether the territory that is the subject of this action is presently within the service area of any other political subdivision or presently being served by any other political subdivision?

If so, please identify the other political subdivision. Please provide written documentation confirming that:

- Notification of the proposed annexation, assumption, merger or other action has been provided to that political subdivision;
- The other subdivision has completed action to approve/consent or deny approval/consent for the withdrawal of this territory;
- Transfer of territory has been accomplished in accord with applicable state law (e.g., RCW 36.93, RCW 35A.14, RCW 35.14).

State whether the proposed action would result in a change in any of the following services. If so, provide the following detailed information both on current service and on service following the proposed action, in order to allow for comparison. If there would be no change, name current service providers.

1. Water
  - a) Directly or by contract?
  - b) Storage location(s), capacity?
  - c) Mains to serve the area (diameter; location)
  - d) Pressure station location and measured flow
  - e) Capacity available?
  - f) Water source (wells, Seattle, etc.)
  - g) Financing of proposed service (LID, ULID, Developer Extension, etc.)
  
2. Sewer Service
  - a) Directly or by contract?
  - b) Mains to service the area (diameter; location)
  - c) Gravity or Lift Station required?
  - d) Disposal (Metro; city or district treatment plant)?
  - e) Capacity available?
  
3. Fire service
  - a) Directly or by contract?
  - b) Nearest station(s)
  - c) Response time?
  - d) Are they fully manned? How many part time and full time personnel?
  - e) Major equipment at station location (including type and number of emergency vehicles)?
  - f) How many fully certified EMT/D-Fib personnel do you have?
  - g) What fire rating applies?
  - h) Source of dispatch?

G. General

1. In case of extensions of services, has an annexation agreement been required? If so, please attach a recorded copy of this agreement.
2. Describe the topography and natural boundaries of the proposal.
3. How much growth has been projected for this area during the next ten (10) year period? What source is the basis for this projection?
4. Describe any other municipal or community services relevant to this proposal.
5. Describe briefly any delay in implementing service delivery to the area.
6. Briefly state your evaluation of the present adequacy, cost, or rates of

service to the area and how you see future needs and costs increasing. Is there any other alternative source available for such service(s)?

III. OBJECTIVES

Please evaluate this proposal based upon the objectives listed in RCW 36.93.180. Describe and discuss the ways in which your proposal is related to and supports (or conflicts with) each of these objectives.

**NOTES**

1. Action documents: Action documents – ordinances or resolutions – may include a date for finalization of the annexation, merger or incorporation. When planning the date of finalization, you are encouraged to coordinate with the King County Office of Management and Budget (OMB). OMB staff is responsible for providing for transfer of public services from the County to the City. It is important that OMB have sufficient time to execute an orderly transition of services prior to finalization of the action in order to ensure protection of public health and safety.
2. Legal Description:  
Please be advised that:
  - All Notices of Intention must conform to the requirements prescribed by RCW 36.93.150 as follows: **“Review of proposed actions -- Actions and determinations of board -- Disapproval, effect.** The board, upon review of any proposed action, shall take such of the following actions as it deems necessary to best carry out the intent of this chapter: (1) Approve the proposal as submitted. (2) Subject to RCW 35.02.170, modify the proposal by adjusting boundaries to add or delete territory. . . . However, a board shall remove territory in the proposed incorporation that is located outside of an urban growth area or is annexed by a city or town . . . .”
  - All Notices of Intention must conform to the requirements prescribed by RCW 36.93.157 as follows: **“Decisions to be consistent with growth management act.** The decisions of a boundary review board located in a county that is required or chooses to plan under RCW 36.70A.040 must be consistent with RCW 36.70A.020, 36.70A.110, and 36.70A.210. ”
  - **All Notices of Intention must be based upon boundaries which conform to the Urban Growth Area Boundaries.** For detailed information concerning the Urban Growth Area boundaries please see King County website.
  - Submittal of legal description for checking with the King County Engineer prior to filing a notice of intention can save time because errors can then be corrected at that preliminary stage to avoid delays in processing the formal Notice of Intention. For assistance in this, please call the King County Road Services Division, (206) 296-3731.
3. Services: Proposed action(s) from those entities providing both sewer and water service must state clearly whether this proposal is for water service, sewer service, or both.
4. Vicinity Map: The scale on any vicinity map must be adequate to permit anyone to locate the proposal when driving to the area.
5. In cases of overlapping governmental jurisdictions, please prepare more than one map to indicate all affected units of government.

For example, a second map might be required to display sewer district boundaries, and a third map may display water district boundaries IF there is more than one purveyor within one-half mile of the proposal. If a proposal lies entirely within any service district, such as a school district, the map should so indicate.

All maps must be original documents that are clear, legible, and suitable for reproduction. All maps must be drawn at the same scale.

6. Assessor's Maps: Assessor's maps must be marked in a manner that ensures that details are legible and understandable to the general reader. The Board may accept a map other than an Assessor's map(s) if the use of Assessor's map(s) is impractical.
7. Mapping Alternatives: Any questions regarding maps, including alternatives to mapping requirements, should be directed to the Boundary Review Board staff.

THE BOUNDARY REVIEW BOARD WILL BE PLEASED TO ASSIST THE APPLICANT TO ENSURE THAT PROPOSALS ARE COMPLETE PRIOR TO OFFICIAL FILING.

THE BOARD CANNOT ACCEPT INSUFFICIENT PROPOSALS (E.G. PROPOSALS SUBMITTED WITH INCOMPLETE INFORMATION OR INADEQUATE MAPS). INCOMPLETE PROPOSALS MUST BE RETURNED TO THE SUBMITTING ENTITY.

## REFERENCE GUIDE

## REGULATIONS AND GUIDELINES FOR ANNEXATIONS, MERGERS AND INCORPORATIONS

As you prepare your Notice of Intention packet, we encourage you to consider all applicable state and local standards and to address those matters in your application materials. Following is a listing of policy guidelines and regulations which may be particularly relevant to your application:

- Growth Management Act (RCW 36.70A): Mandates extensive comprehensive planning effort to meet specific statewide goals. Requires land designations and planning implementation consistent with adopted comprehensive plan
- Boundary Review Board Act (RCW 36.93): Reviews growth and development in unincorporated areas of counties through decisions on city, town and special purpose district annexations, incorporations, mergers and extensions of water and sewer lines. Establishes requirements for applications and criteria for review of annexations, incorporations, mergers and extensions
- Cities and Towns (RCW 35 – Sections 35.01 – 35.30): Provides for clear and uniform processes for municipal incorporations, disincorporations and annexations for land areas. Also addresses some requirements for water and sewer districts (Also see RCW 57.24).
- Annexation by Code Cities (RCW 35A.14): Establishes authorities and processes for annexations by petition and annexations by election.
- Annexation of Territory – Water and Sewer Districts (RCW 57.24): Provides for clear and uniform processes for water and sewer district annexations. Establishes authorities and processes for annexations by petition and annexations by election. (Also see RCW – Chapter 35).
- State Environmental Policy Act (RCW 43.21C): SEPA is Washington’s fundamental environmental law and requires environmental analysis of actions for both physical and policy changes affecting the environment. SEPA may not be required for particular annexation or incorporation activities.
- King County Comprehensive Plan – King County Countywide Plan Policies: King County’s adopted comprehensive plan. Policies provided to meet specific statewide goals. Provides land designations and planning implementation policies within adopted comprehensive plan.

**KING COUNTY COUNCIL**

**MUNICIPAL ANNEXATION GUIDELINES**

THE KING COUNTY COUNCIL CLERK AND THE PROSECUTING ATTORNEY'S OFFICE HAVE PREPARED THE FOLLOWING MATERIALS TO GUIDE CITIES AND SPECIAL PURPOSE DISTRICTS THROUGH THE KING COUNTY COUNCIL REVIEW PROCESS FOR MUNICIPAL ANNEXATIONS.

FOR QUESTIONS – PLEASE CONTACT ANNE NORIS, COUNTY COUNCIL CLERK AT 206-296-1020

## MUNICIPAL ANNEXATIONS

On May 16, 2003 Governor Locke signed SSB 5409 which adopts a new petition method of annexation. The law is effective immediately.

The new petition method set forth in SSB 5409 is much like the previous method, which was struck down by the State Supreme Court in Grant Cty. Fire Protection Dist. v. City of Moses Lake. In the new method, an annexation petition must be signed by a majority of the property owners owning a majority of the area *and* a majority of the registered voters in an area. If the land is vacant (no registered voters), then a majority of the property owners is sufficient. School districts are permitted to submit a petition signed by the school board president. The new method specifies what kind of information (map, zoning, bonded indebtedness, legal description, state statute, etc.) must be contained in the petition

The County review process for municipal annexations by petition is described below. The Boundary Review Board must continue to review annexations, as prescribed by RCW 36.93.

The provisions of the new law apply to both non-code cities (RCW Chapter 35.13) and charter or non-charter code cities (RCW Chapter 35A.14)

1. A Notice of Intention is submitted to the City Council. This initial notice must be signed by 10% of the residents or owners of not less than 10% of the acreage of the area. Then:
  - The City Council decides whether to accept, reject or modify the annexation proposal. The Council must decide within 60 days of receipt of an annexation proposal.
  - If the City Council decides to move forward with an annexation, it must also determine what zoning will be implemented upon annexation and whether the annexed area will be required to assume its share of existing city indebtedness.
  - If the City decides to move forward, a petition is circulated. The petition must be signed by a majority of owners of a majority of the acreage and a majority of the registered voters.
  - Once the petition has been validated, the City Council passes an ordinance annexing the area and setting forth the effective date (date at which it transfers from county to city ownership).
2. The City files a certified copy of the ordinance with the County Council.
3. The City files a Notice of Intention with the Boundary Review Board (BRB).
4. The County Clerk's Office will receive a letter from BRB including the Notice of Intent package and assigning a file number.
5. The County Clerk's Office receives "notification of official filing" letter from BRB, which sets the 45-day period for BRB review.
6. The County Clerk's Office receives BRB closing letter.

7. The County Clerk's Office closes file.

**MUNICIPAL ANNEXATIONS BY ELECTION**

1. The City will pass a resolution which will call for an election to submit to the voters a proposal for annexation and may also direct that a Notice of Intention be filed with the Boundary Review Board (BRB). A certified copy of the Resolution must be filed with the King County Council (Clerk's Office) and the BRB. (RCW 35.A.14.015.)
2. The Clerk's Office will send an acknowledgment of receipt of the Resolution and also a copy of this Memorandum.
3. The Clerk's Office receives a letter from BRB including the Notice of Intention package and assigning a file number.
4. The Clerk's Office receives "notification of official filing" letter from BRB, which sets the 45-day period for BRB review.
5. During the 45-day review period, Council staff prepares draft ordinance (without date for election) and holds draft until city sets date for election, after BRB review is completed. No other Council action can take place during the 45-day review period.
6. Clerk's office receives BRB closing letter.
7. City passes a resolution indicating its preference for a special election date for the submission of the proposal, with any modifications made by the BRB. The City transmits the Resolution to the Council (RCW 35A.14.050[3]).  
  
After receipt of the Resolution, Council staff completes the draft of the proposed ordinance, including the preferred election date, obtains introduction slip, and monitors progress of the ordinance through the legislative process. Council will review and take action on the ordinance. These actions can take place during the 60-day waiting period following the completion of the BRB 45-day review period.
8. Clerk's Office transmits effective ordinance to Elections Department.
9. Election is held in accordance with the ordinance.
10. After Clerk's Office receives Certification of Election, the Council enters a finding on the results of the election and sends a certified copy of the minutes at which the finding was made, together with a copy of abstract of the vote (Certification of Election) to the City.
11. The County Clerk's Office closes file.

ANNEXATION METHODS – COMPARISON

TOPIC	RCW 35A.14.460 Annexation of territory within urban growth areas - Interlocal agreement - Public hearing - Ordinance providing for annexation	ESSB 5808 – 2009 bill concerning the annexation of unincorporated areas served by fire protection districts (If passed, would be effective 90 days after adjournment of session, scheduled for 4/26/09.)
Interlocal Agreement	<ul style="list-style-type: none"> <li>• The legislative body of a county or code city may initiate an annexation process by adopting a resolution commencing negotiations for an interlocal agreement between a county and any code city within the county.</li> <li>• The territory proposed for annexation must meet the following criteria: (a) Be within the code city urban growth area, and (b) at least sixty percent of the boundaries of the territory proposed for annexation must be contiguous to the annexing code city or one or more cities or towns.</li> </ul>	<ul style="list-style-type: none"> <li>• A code city proposing to annex territory shall initiate the interlocal agreement process by sending notice to the fire protection district representative and county representative stating the code city's interest to enter into an interlocal agreement negotiation process.</li> <li>• The parties have 45 days to respond. A negative response must state the reasons the parties do not wish to participate in an interlocal agreement negotiation. A failure to respond within the 45 day period is deemed an affirmative response and the interlocal agreement negotiation process may proceed.</li> <li>• The interlocal agreement process may not proceed if any negative responses are received within the forty-five day period.</li> </ul>
Ordinance	Following adoption and execution of an interlocal agreement by legislative bodies of county and city, the city legislative body shall adopt an ordinance providing for the annexation of the territory described in the agreement	Following adoption and execution of an interlocal agreement by legislative bodies of county and city (and fire district), the city legislative body shall adopt an ordinance providing for the annexation of the territory described in the agreement
Referendum	<ul style="list-style-type: none"> <li>• Subject to referendum 45 days after passage (RCW 35A.14.470)</li> <li>• Referendum petition must be signed by at least <b>15 percent</b> of registered voters participating in the last general state election in the area to be annexed</li> <li>• The question of annexation shall be submitted to the voters of the area in a general election if one is to be held within ninety days or at a special election called for that purpose</li> <li>• The annexation shall be deemed approved by the voters unless a majority of the votes cast on the proposition are in opposition to the annexation</li> </ul>	<ul style="list-style-type: none"> <li>• Not subject to referendum if the fire protection district, annexing code city, and county reach an agreement on the enumerated goals</li> <li>• If no agreement from fire protection district, subject to referendum for 45 days after passage</li> <li>• Referendum petition must be signed by at least <b>10 percent</b> of registered voters participating in the last general state election in the area to be annexed</li> <li>• The question of annexation must be submitted to the voters of the area in a general election if one is to be held within ninety days or at a special election called for that purpose</li> <li>• The annexation must be deemed approved by the voters unless a majority of the votes cast on the proposition are in opposition</li> </ul>

TOPIC	RCW 35A.14.460 Annexation of territory within urban growth areas - Interlocal agreement - Public hearing - Ordinance providing for annexation	ESSB 5808 – 2009 bill concerning the annexation of unincorporated areas served by fire protection districts (If passed, would be effective 90 days after adjournment of session, scheduled for 4/26/09.)
Fire Protection & Emergency Medical Service	Not addressed	<p>The interlocal agreement must include the stated goal that level of service in annexed area must not be negatively impacted at least through the budget cycle in which annexation occurs.</p> <p>If any portion of a fire protection district is proposed for annexation both the fire protection district and the city must jointly inform the employees of the fire protection district about hires, separations, terminations, and any other changes in employment that are a direct consequence of annexation at the earliest reasonable opportunity.</p> <p>Upon transfer, unless an agreement for different terms of transfer is reached between the collective bargaining representatives of the transferring employees and the participating fire protection jurisdictions, an employee is entitled to the employee rights, benefits, and privileges to which that employee would have been entitled as an employee of the fire protection district, including rights to:</p> <ul style="list-style-type: none"> <li>• compensation at least equal to the level of compensation at the time of transfer, unless the employee's rank and duties have been reduced as a result of the transfer;</li> <li>• retirement, vacation, sick leave, and any other accrued benefit;</li> <li>• promotion and service time accrual; and</li> <li>• the length of terms of probationary periods, including no requirement for an additional probationary period if one had been completed before the transfer date.</li> </ul>

**NOTICE OF INTENTION  
FINN HILL, KINGSGATE AND NORTH JUANITA  
ANNEXATION TO CITY OF KIRKLAND**

**Filed on April 8, 2009**

**I. BACKGROUND/MAPS**

**A. Description of the proposed annexation and reason for proposing the annexation**

The City of Kirkland is proposing to annex an area of approximately seven square miles located predominantly north and west of the City's existing City limits (**See Exhibits 1 - 3**). There are three unincorporated neighborhoods included in the annexation - Finn Hill, Kingsgate and North Juanita. The annexation area has long been identified as Kirkland's Potential Annexation Area (PAA) and is designated as such in the King County Countywide Planning Policies. The annexation includes all remaining land within the City's PAA, exclusive of the Bridle View area near the southwest corner of the City. The purpose of the annexation is to finally bring the area into the City.

The annexation is proposed using the election method initiated by resolution under RCW 35A.14.015.

**B. Boundary Review Board Jurisdiction**

In submitting this Notice of Intention, the City of Kirkland is also asking that the Boundary Review Board invoke jurisdiction.

**C. Exhibits:**

1. Vicinity Map
2. Existing City Limits and Proposed Annexation Area
3. Overview
4. A signed and certified copy of the resolution passed by the City Council on \_\_\_\_ calling for an annexation election
5. The legal description of the boundaries of the proposed annexation area
6. Two copies or sets of King County Assessor's maps on which the boundary of the area involved in the proposed annexation area is indicated
7. Major physical features such as bodies of water, major streets and highways
8. The boundaries of all fire districts having jurisdiction in or near the proposed annexation
9. The boundaries of the Rural King County Library System in relationship to the proposed annexation
10. The boundaries of school districts having jurisdiction in the proposed annexation

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11. The boundaries of sanitary sewer districts having jurisdiction in the proposed annexation
12. The boundaries of water districts having jurisdiction in the proposed annexation
13. The boundaries hospital districts having jurisdiction in the proposed annexation
14. A map showing the Proposed Annexation and Kirkland Planning Area boundary as designated by the King County County-wide Policies pursuant to the Growth Management Act
15. A map showing properties divided by the boundaries of the proposed annexation
16. A close up of Area A showing properties divided by annexation
17. A close up of Area B showing properties divided by annexation
18. A close up of Area C showing properties divided by annexation
19. A close up of Area D showing properties divided by annexation
20. King County Comprehensive Plan and Land Use
21. King County Zoning
22. Fire Services Cost Analysis

**D. Information Not Applicable to Proposed Annexation**

The following application materials are not applicable to this proposed annexation and are not included in this Notice of Intention:

1. Certification of any petitions for municipal annexation, as required by state law (RCW 35A.01.040 (4)). This annexation is proposed using the election method.
2. A copy of the State Environmental Policy Act (SEPA) Determination and current SEPA checklist with adequate explanation to answers, including Section D, Government Non-project Actions, when applicable, or Environmental Impact Statement (EIS) if prepared. As an annexation to a City, this annexation is exempt from SEPA.
3. If a boundary service agreement has been formalized between two or more jurisdictions, that service line should be shown with the appropriate entity noted in each service area. This annexation does not involve a boundary service agreement.

**II. BOUNDARY REVIEW BOARD EVALUATION CRITERIA**

**A. Overview**

1. Population  
According to the 2008 King County Office of Management and Budget (OMB), the population of the Potential Annexation Area (PAA) is estimated at 33,800. Also, according to King County OMB, the City of Kirkland's population is estimated at 48,410. The PAA population is 69.8% of the City of Kirkland population.
2. Territory of annexation in acres

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The City of Kirkland GIS estimates that the PAA contains 4,587.66 acres. This information is based on 2009 King County Assessor's data and the revised PAA boundary. King County OMB and King County GIS estimate the PAA size at 4,437.85 acres.

3. Population density  
Based on City of Kirkland GIS estimates, the population density estimate in the PAA is 7.37 per acre. Using King County OMB and King County GIS data, the population density estimate is 7.62 per acre.
4. Assessed valuation  
Based on 2009 King County Assessor's data, the total assessed value of the PAA is \$5,709,157,950.00

### **B. Land Use**

1. Existing Land Use and Long Range Plan Map

The annexation area is an urban community that is substantially developed. It is composed of mostly single-family homes. There also are four relatively small commercial centers and nearby multi-family and small office developments. In addition, located in the southeast corner of the annexation is an industrial area is composed of industrial, office, wholesale and some retail uses. Public parks and schools are intermixed in the residential areas. The northwest corner of the annexation borders the Urban Growth Boundary and is designated by the Countywide Planning Policies and King County's Comprehensive Plan as a Greenbelt/Urban Separator. This area contains low density single family homes and some vacant property.

King County's Comprehensive Plan Map (See Exhibit 20) designates the residential areas into three classifications: Urban Residential Medium 4-12 dwelling units per acre, Urban Residential High at greater than 12 dwelling units per acre and Greenbelt/Urban Separator at 1 dwelling unit per acre. Public schools and parks are contained within the Urban Residential Medium designation. The King County zoning map (See Exhibit 21) designates two of the commercial areas as Community Business Centers and two areas as Neighborhood Community Centers. One small property is designated as Commercial Outside of Centers and contains a professional office use. The area containing industrial, office, and warehouse and retail uses is designated as Industrial.

2. Proposed Long Range Map

Prior to the annexation vote, the City of Kirkland will adopt a Comprehensive Plan Map that will incorporate similar land use designations to those found on the King County's Comprehensive Plan Map with some possible differences. The City will likely narrow the residential density ranges found on the County Map to be more consistent with the City's Comprehensive Plan Map as well as to reflect existing land uses. The County Urban Residential Medium designation would likely change from 4 to 12 dwelling units per acre to Low Density at 4 to 8 dwelling units per acre. Land now designated Urban Residential High with a density of greater than 12 units per acre would be designated as either Medium Density with a density of 8 to 14 dwelling units per acre or High Density with a density of 15 to 24 dwelling units per acre. The areas now designated commercial will likely have similar designations on the City's Comprehensive Plan Map with some possible minor changes to better reflect existing land uses and possible redevelopment opportunities.

### **C. State Growth Management Act**

1. Conformance with the Growth Management Act (GMA)

The proposed annexation is in compliance with the GMA. Specifically, it is consistent with RCW 36.70A.020 (1), encouraging development in urban areas where there are adequate public services; RCW 36.70.020 (11), which calls for Citizen participation and coordination; and RCW 36.70.020 (12), which calls for public services to be consistent with provisions of the GMA (e.g., RCW 36.70.A.210.3.b.calling for policies that promote of contiguous and orderly development and

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provision of urban services to such development).

2. King County Comprehensive Plan/Ordinances

a) County planning under the Growth Management Act in relationship to the proposed annexation

The proposed annexation is in compliance with King County Comprehensive Plan policies that call for contiguous and orderly growth. The annexation supports the County policy to rely primarily upon cities and special purpose districts as the providers of local facilities and services appropriate to serve those local needs, except where the county is the local service provider.

b) King County Comprehensive Plan policies specifically supporting the proposed annexation

The following King County Comprehensive Plan Policies specifically support this annexation:

Chapter 1 - Regional Planning Policies:

RP-202: King County shall implement the Countywide Planning Policies through its comprehensive plan and through Potential Annexation Area, preannexation and other interlocal agreements with the cities.

Chapter 2 - Urban Communities Policies:

U-107: Most population and employment growth should locate in the contiguous Urban Growth Area in western King County, especially in cities and their Potential Annexation Areas.

*Comment: The annexation area is within Kirkland's Potential Annexation Area (See Exhibit 14). The area will continue to grow through in-fill and redevelopment.*

U-112: Development standards for urban areas should emphasize ways to allow maximum permitted densities and uses of urban land while not compromising the function of critical environmental areas. Mitigating measures should serve multiple purposes, such as drainage control, groundwater recharge, stream protection, air quality, open space preservation, cultural and historic resource protection and landscaping preservation. When technically feasible, standards should be simple and measurable, so they can be implemented without lengthy review processes.

*Comment: The City of Kirkland will adopt a preannexation zoning map and ordinance with density/zoning comparable to classifications currently in affect in the annexation area. Development standards will provide similar protection as now available in King County.*

U-118: King County shall seek to achieve through future planning efforts over the next twenty years, an average zoning density of at least seven to eight homes per acre in the Urban Growth Area through a mix of densities and housing types. A lower density zone may be used to recognize existing subdivisions with little or no opportunity for infill or redevelopment

*Comment: Kirkland is adopting the County's comparable residential densities.*

U-181: King County should actively pursue designating urban separators in the unincorporated area and work with the cities to establish permanent urban separators within the unincorporated area that link with and enhance King County's urban separator corridors.

*Comment: Kirkland will continue designating the existing urban separator located in the NW section of the Kingsgate neighborhood of the annexation area as a Greenbelt / Urban Separator on the Comprehensive Plan Land Use Map.*

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U-201: In order to meet the Growth Management Act and the regionally adopted Countywide Planning Policies goal of becoming a regional service provider for all county residents and a local service provider in the Rural Area, King County shall encourage annexation of the remaining urban unincorporated area. The county may also act as a contract service provider where mutually beneficial.

U-202: To help create an environment that is supportive of annexations, King County shall work with cities and with Unincorporated Area Councils, neighborhood groups, local business organizations, public service providers and other stakeholders on annexation-related activities. King County will also seek changes at the state level that would facilitate annexation of urban unincorporated areas.

*Comment: The State property tax incentive for cities to annex unincorporated areas in King County is helping to create an opportunity supportive of this annexation. Kirkland intends to take advantage of the one-time state disbursement to cities that initiate annexation by December 31, 2009.*

U-204: King County shall support annexation proposals that are consistent with the Countywide Planning Policies and the Washington State Growth Management Act, and when the area proposed for annexation is wholly within the annexing city's officially adopted PAA, and is not part of a contested area.

*Comment The annexation area is within Kirkland's Potential Annexation Area*

Chapter 8 - Services, Facilities and Utilities

F-101: King County, the cities, special purpose districts and/or local service providers shall plan as partners. King County's planning will focus on unclaimed urban unincorporated areas and cities' Potential Annexation Areas.

F-102: King County shall work with cities, special purpose districts, other local service providers and citizens to identify and distinguish local and countywide services. Over time, cities will assume primary responsibility for coordinating the provision of local services delivery. The county will assume primary responsibility for coordinating the provision of countywide services, including countywide services that must be delivered within city boundaries. The county will also work with cities, special purpose districts, and other counties to identify regional service and facility needs and develop strategies to provide them.

*Comment: Kirkland will provide most urban services within the annexation area. A few will be provided by special purpose districts, for example water and sewer service for most of the area will continue to be provided by the Northshore Utility District.*

c) King County Countywide Planning Policies specifically supporting the proposed annexation  
The proposed annexation is consistent with the Countywide Planning Policies, in particular the following:

Chapter II – Critical Areas

FW-4: Jurisdictions shall protect and enhance the natural ecosystems through comprehensive plans and develop regulations.

Chapter III – Land Use Pattern

FW – 13: Cities are the appropriate providers of local urban services to Urban Areas.

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- LU – 32: The County should encourage cities to annex territory within their designated potential annexation area.
- LU – 34: Unincorporated Urban Areas already urbanized and within a city’s potential annexation area are encouraged to annex in order to receive urban services.
- LU-37: Jurisdictions shall cooperate in developing comprehensive plans consistent with those of adjacent jurisdictions and with the Countywide Planning Policies.
- LU-66: Jurisdictions shall ensure efficient use of the land within the Urban Growth Area, provide for housing opportunities, and support efficient use of infrastructure.
- LU-69: Jurisdictions shall develop neighborhood planning and design processes.

Chapter VII - Contiguous Orderly Development and Provision of Urban Services

- CO – 1: Jurisdictions shall identify and plan for providing a full range of urban services.
- CO – 3: Service provision shall be coordinated to protect and preserve rural and urban lands.

Chapter X – Regional Finance and Governance

- RF-5: In order to transition governmental roles so that the cities become the provider of local urban services and the County becomes the regional government providing Countywide and rural services, unincorporated Urban Growth Areas are encouraged to annex or incorporate within the 20-year timeframe of these Policies. To achieve this goal, all cities that have identified potential annexation areas shall enter into interlocal agreements with King County that includes a plan for development standards and financing of capital and operating expenditures during the period prior to annexation.

d) Adopted plan classification/zoning

1) Existing Zoning Map

King County’s Zoning Map for the annexation area contains a range of zones (See Exhibit 21). Residential zones range from R-1 to R-48 (units per acre). Non-residential zones include commercial business, neighborhood business, office and industrial.

2) Proposed Zoning Map

Prior to the annexation vote, the City of Kirkland will adopt a Zoning Map for the annexation area. The adopted Zoning Map will be substantively similar to the current King County Zoning Map. The name of zoning districts, however, will be revised to reflect the terminology used in the Kirkland Zoning Code. In addition, ar zones as shown on the County Zoning Map.

3) Proposed Zoning Ordinance

Prior to the annexation vote, Kirkland will adopt a new zoning ordinance for the annexation area. The regulations will be similar in substance to existing County regulations, but will follow the format of the existing Kirkland Zoning Code and will be fully integrated into the Kirkland Code.

Several aspects of the Kirkland regulations will be somewhat different than existing County regulations:

- King County’s Zoning Code regulates permitted residential density in terms of “dwelling units per acre,” while Kirkland’s Code regulates “lot area per dwelling unit.” Kirkland would likely continue to use the County’s units per acre standard for single family zones

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rather than using the City's minimum lot size standard.

- The City would apply its Critical Area Ordinance to the residential density calculation for properties with critical areas in which only a portion of the critical area buffer is included in the density calculation. By contrast, the County zoning code allows the entire critical area to be included in the density calculation.
- For the R-1 zone (designated as a Greenbelt/Urban Separator in the Countywide Planning Policies), the City would likely develop new zoning regulations, similar existing County regulations, that preserve the area as an urban separator.
- The City would likely amend its Zoning Code to generally incorporate the King County's Ordinance 13576 dated July 12, 1999 and subsequent amendments for the Holmes Point area in the Finn Hill neighborhood relating to retention of significant trees and minimum site disturbance standards.

In 2007, the Kirkland held several public meetings with property owners to discuss potential land use regulations. The differences between the County and City land use regulations were discussed. The majority of attendees favored applying the City's zoning regulations to the annexation.

- e) Proposed City regulations for the protection of sensitive areas, preservation of agricultural or other resource lands, preservation of landmarks or landmark districts, or surface water control

Sensitive Areas: The City will apply existing City regulations for streams and wetlands, geologically hazardous areas and surface water control to the annexation area.

Under the Kirkland Zoning Code, Chapter 90 for wetland and streams, the City uses the Washington State Wetlands Identification and Delineation Manual (Washington Department of Ecology, 1997). Wetland buffers range from 25 feet to 100 feet while stream buffers range from 25 feet to 75 feet, depending on classification of the critical area. The City permits a reduction in the buffer width of up to a one-third of the buffer if appropriate vegetative mitigation is provided and it can be shown that the functions of the critical area will not be impacted. The wetland and/or stream area is not included in the calculation of residential density, but a portion of the buffer area can be included. By 2011, the City will update its Critical Area Ordinance to reflect the most recent Western Washington Wetland Rating System and the Best Available Science (BAS) criteria.

Under the County Zoning Code, Chapter 21A.24, King County uses the Western Washington Wetland Rating System. The County regulations for wetland and streams have generally wider buffer width standards, but the buffer reduction standards appear more generous and provide for more opportunities for encroachment. The County permits all of the critical area to be included in residential density calculation that generally results in more intense development next to critical areas than the City.

Under Chapter 85 of the Kirkland Zoning Code, the City requires geotechnical reports for landslide, erosion and seismic hazardous areas to determine appropriate development standards for each site to protect property and persons. The County regulations, found in Sections 21A.24.220, .280 and .290 of the County Zoning Code, are similar to the City's regulations.

Storm Water: In August of 2009, the City will adopt new storm water design regulations that are equivalent to those contained in Appendix 1 of the Western Washington Phase II Municipal Stormwater Permit (the NPDES Permit). These regulations essentially adopt the 2005 *Ecology Stormwater Management Manual for Western Washington*. King County currently uses the 2009 *King County Surface Water Design Manual* which has been deemed equivalent to the 2005 Ecology

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manual. This means that the City and County will have similar regulations prior to annexation.

Landmarks and Agricultural Lands: Not applicable to this annexation.

**D. Jurisdictional Comprehensive Plan/Franchise**

1. Kirkland's planning under the Growth Management Act in relationship to the proposed annexation  
Kirkland's planning under the GMA supports the proposed annexation. The following Goals and Policies in the Kirkland Comprehensive Plan relate to this proposal, and in turn support the framework goals in the GMA:

Framework Goal FG-15 Solve regional problems that affect Kirkland through regional coordination and partnerships.

Goal GP-1 Cooperate and coordinate with all levels of government to achieve effective, efficient and responsive governance of Kirkland's citizens.

Policy GP-1.4 Acknowledge the King County Comprehensive Plan and the Northshore Community Plan as the plans currently governing Kirkland's Potential Annexation Area.

2. Potential Annexation Area (PAA) and PAA agreements with neighboring cities  
The area of the proposed annexation is within Kirkland's Potential Annexation Area as adopted in the City's Comprehensive Plan (**See Exhibit 14**). Although Kirkland does not have agreements with neighboring cities, Kirkland's PAA designation matches the PAA designation in the King County County-wide Planning Policies, which governs the annexation boundaries for all King County cities.
3. Approval of Kirkland's Comprehensive Plan and compliance with State and County requirements  
The Kirkland City Council adopted the original version of the current Comprehensive Plan in 1995, consistent with the requirements of the Growth Management Act. The 1995 Plan was updated in 2004. Since then annual plan updates have been adopted to bring the plan into consistency with new state legislation, to incorporate capital improvement plan updates into the capital facilities and transportation elements, and to consider private amendment requests. The most recent cycle of annual amendments was completed in December 2008. The Comprehensive Plan meets the requirements of the State and of King County. Prior to annexation, the City will adopt revisions to the Comprehensive Plan land use map to include the annexation area. Amendments to the text of the Comprehensive Plan will be made in the next annual update following annexation.
4. Consistency of the proposed annexation with Kirkland's adopted Comprehensive Plan  
The annexation corresponds to the Potential Annexation Area identified in Figure I-2 of the Kirkland Comprehensive Plan. (**Exhibit 14**).
5. Franchise requirements to provide service to this area?  
Franchise agreements with Puget Sound Energy, Comcast, Verizon, and Northshore Utility District are required and now exist. Kirkland's current franchise agreements with these companies allow for service within current Kirkland boundary or within an amended boundary in the event of annexation. A similar franchise will also be needed with the Woodinville Water District (WWD) since WWD will continue to provide water and sewer service after annexation. WWD currently has a franchise with King County and this will be used as the basis for the new franchise between WWD and the City. Kirkland has discussed the need for a franchise agreement with WWD and they have agreed that we should develop the agreement as the annexation process moves forward.

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### 6. Interlocal Agreements

Prior to the effective date of annexation, the City will negotiate an interlocal agreement with King County concerning the transfer of services from King County to Kirkland.

### 7. Pre-Annexation Zoning Agreement

The City does not have a pre-Annexation Zoning Agreement. Prior to the establishment of an annexation election, the City will adopt amendments to the Comprehensive Plan land use map and Zoning Code for the proposed annexation area. See Sections II.B and II.C of this report for further information.

## E. **Revenues/Expenditures Planning Data**

A fiscal analysis of the annexation area was prepared by the City's Finance and Administration Department in 2005, expanded in 2006, and updated most recently in early 2009. The most recent results show that the City would face a first year annual cost of \$20.46 million to serve the area. Additionally, it is estimated that the City would need to hire 124 full time equivalent positions to provide the City's current array of services in the proposed annexation area.

The following analysis identifies the General Fund and Street Fund revenues and costs in 2011 associated with annexing the potential annexation area (PAA) as it is currently developed. The analysis is based on the following assumptions:

- 3 Police districts in the annexation area
- No change in the private utility tax rate of 6.0%
- No separate public safety building to address space needs
- Includes cost of regional jail
- Includes gambling revenue from a social card game establishment in the PAA

The assumptions are based on the costs and revenues in the City's 2009-2010 adopted budget and City staff estimates of the resources required to service the area. The costs shown reflect the on-going costs of operations and facilities for the first full year of annexation, assumed to be 2011 for purposes of this analysis (the effective date for the annexation has not been set at this time). One-time mobilization costs are not included in the figures below and are assumed to occur prior to 2011.

### 1. Estimated City Expenditures

Department	FTE Positions	Costs in 2011
City Manager's Office (includes Municipal Court)	7.70	\$ 1,276,442
Human Resources	2.45	\$ 328,066
City Attorney	1.50	\$ 359,598
Parks & Community Services	12.50	\$ 1,591,343
Public Works (General Fund & Street Fund)	17.46	\$ 2,048,405
Finance & Administration	4.00	\$ 462,951
Planning & Community Development	8.00	\$ 1,116,283
Police*	44.50	\$ 7,983,413
Fire & Building	15.00	\$ 1,234,632
Information Technology	7.35	**
Facilities & Fleet	3.50	**
Fixed Overhead Share	-	\$ 384,420
Regional Jail Cost	-	\$ 358,860
Facilities Debt Service	-	\$ 3,315,761
<b>ESTIMATED TOTALS</b>	<b>123.96</b>	<b>\$ 20,460,173</b>

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\* Excludes 8.0 FTE of communications staff, assuming transition to regional service provider (NORCOM), the costs of which have been included.

\*\* Internal service funds – charges already included in department costs.

2. Estimated City Revenues

<b>Revenue Source</b>	<b>Estimated Revenues in 2011</b>
Sales Tax	\$ 1,574,201
Regular Property Tax	\$ 5,440,781
Utility Taxes	\$ 5,502,564
Gambling Tax (excluding card games)	\$ 53,240
Building Permits	\$ 307,733
Business Licenses and Permits	\$ 458,803
Planning and Plan Check Fees	\$ 468,942
Engineering Development Fees	\$ 172,890
All Other Revenue Sources	\$ 2,186,606
<b>Subtotal Excluding Gambling Tax from Card Games</b>	<b>\$ 16,165,760</b>
Gambling Tax from Card Games	\$ 950,028
<b>GRAND TOTAL ESTIMATED REVENUES (including all Gambling Tax Revenue)</b>	<b>\$ 17,115,788</b>

The estimated revenues assume the inclusion of gambling revenue from social card games in the PAA, which are currently prohibited in the City of Kirkland, at the King County gambling tax rate of 11%. Legislation is currently under consideration in Olympia to allow a social card room to continue to operate after an annexation without having to allow the activity elsewhere in the City. If this legislation does not pass, it result would in a reduction in revenues of as much as \$1 million, if the card room closes.

Note that the existing City will lose \$3.9 million dollars in revenue currently received from Fire District 41 for contract services, as described later in this section.

3. Estimated Net General Fund & Street Fund Fiscal Impact

The projected net fiscal impact is a shortfall of approximately \$3.3 million, before application of the State sales tax credit. The adoption of SSB 6686 which allows for a payment of sales tax up to 0.2% of the total of 6.5% State portion of sales tax revenues is estimated to provide an annual average of \$4.4 million in funds for a ten year period. Note that the sales tax credit is only available up to the amount needed to offset shortfalls due to annexation. The state sales tax more than offsets the shortfall anticipated in the first full year of the proposed annexation and the analysis assumes that incremental facilities costs will be funded in such a way that debt will be retired close to the time the sales tax credit ceases. If the gambling tax revenues are not available, the sales tax credit will offset most of the shortfall and the remainder is less than the shortfall in the forecast for the existing City, so it is expected to be balanced by the actions the City takes to balance its existing budget.

4. Estimated County Revenue Loss

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The estimated reduction of \$12.95 million in County revenues is based on the 2007 projection from 2006 actual results generated by the King County Office of Management and Budget in April 2007<sup>1</sup>. The table that follows summarizes the data from that document.

<b>Revenue Source</b>	<b>Estimated Revenues in 2007</b>
Property Tax	\$ 7,569,231
Real Estate Excise Tax	\$ 734,666
Sales Tax (General & Criminal Justice)	\$ 2,007,830
Leasehold Excise Tax	\$ 92
Gambling Taxes	\$ 694,412
Pet Licenses	\$ 78,522
Liquor Excise Taxes & Liquor Control Board Profits	\$ 161,543
Motor Vehicle Fuel Tax	\$ 1,342,386
Cable Franchise Fee	\$ 356,565
<b>TOTAL ESTIMATED REVENUE LOSS</b>	<b>\$ 12,945,247</b>

#### 5. Estimated County Reduction in Expenditures

The estimated reduction in County expenditures is anticipated to be proportional to the reduction in revenues from the annexation area. The County has indicated that it currently spends more in the area than it receives in revenues.

#### 6. Estimated Fire District Revenue Loss

The City of Kirkland's Fire Department currently provides fire and EMS services by contract with Fire District #41, which includes the Finn Hill and Juanita area and a large western portion of the Kingsgate area. In addition, parts of Kingsgate are served by Fire District #36 (Woodinville Fire & Life Safety District), and, in much smaller part, by Fire District #34 (operated by the City of Redmond Fire Department).

The proposed annexation would annex all of the Fire District #41 and consequently all fire district revenues would cease, including the contract revenue paid to the City of \$3.9 million<sup>2</sup>. Upon annexation of the PAA, the City would be able to collect property tax revenues from the area, with some share available for fire services. In 2005, the City commissioned a study of the financial and capital implications for fire services, which is provided as **Exhibit 22**. Fire District #41 would most likely be dissolved and all of the assets and liabilities of the District would have to be transferred to the City upon annexation.

When the City met with Fire District #36 (Woodinville Fire & Life Safety District) in 2008, the District estimated they would experience a revenue loss in excess of \$1 million, which would necessitate closing one fire station in their area. They advised the City that their plan is to close the Kingsgate Station and one other station in the district and consolidate the two stations to a new location that can better serve revised boundaries. If Kirkland does not annex that area, the district would renovate or rebuild the Kingsgate station. The City is currently in discussions with the District to determine the best course of action for addressing service area impacts and issues.

#### 7. Estimated Fire District Reduction in Expenditures

<sup>1</sup> Source: [http://your.kingcounty.gov/budget/revenue/2007\\_Unincorporated.pdf](http://your.kingcounty.gov/budget/revenue/2007_Unincorporated.pdf)

<sup>2</sup> 2009 Fire District 41 payment to City.

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As a result of the annexation the PAA, Fire District #41 will effectively dissolve and its costs will be completely absorbed by the City. For additional information regarding the impact on expenditures on the other two fire districts, Fire District #36, and, in much smaller part, by Fire District #34, see **Exhibit 22**. Discussions are underway with the Districts to update the assessment of the impacts of annexation and arrive at agreement on how those impacts will be addressed.

### F. Services

#### 1. Notification

Notification of the proposed annexation has been provided to each of the following political subdivisions presently providing services within the proposed annexation area:

- a) King County Fire District #41
- b) King County Fire District #34/ City of Redmond
- c) Fire District # 36 (Woodinville Fire and Life Safety)
- d) Northshore Utility District
- e) Woodinville Water District
- f) Finn Hill Park and Recreation District

#### 2. Services following annexation

- Services to the area now served by Fire District #41 will be provided directly by the City of Kirkland, rather than through an interlocal agreement, as is now the case.
- Fire and life safety services within the annexed portions of Fire District #36 and Fire District #34 will be provided by Kirkland. Arrangements for an orderly transfer of services and assets will be necessary and have begun.
- Woodinville Water District will continue to provide sewer and water services. Revisions to franchise agreements may be necessary.
- Park services will continue to be provided by Finn Hill Park and Recreation District after annexation.

#### 3. Water

Water service within the annexation area is provided by three separate suppliers. Approximately 80% of the area is served by Northshore Utility District (NUD); 15% of the area is served by Woodinville Water District (WWD); and the remaining 5% is served by the City of Redmond water system. The service areas would not change as a result of the proposed annexation.

##### a) Directly or by contract

NUD and WWD will continue to provide water service within their respective service areas for the foreseeable future. The City of Redmond can continue to provide water service to its service area, but because Redmond and Kirkland share the same water system in this area, both Cities have agreed in principle that the water customers would be better served if water service area were transferred to Kirkland shortly after the annexation is complete. Both Cities will begin working on the transfer of this water system to Kirkland directly after the Notice of Intent to Annex has been approved by the Board.

##### b) Storage location(s), capacity

Because the growth rate in the proposed annexation area is not expected to change as a result of annexation, each water purveyor should have the capacity to meet water demand generated by post-annexation development.

##### c) Mains to serve the area

Water service is available throughout the entire annexation area, through a detailed network of

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water mains. Existing water mains are adequate to provide water service to the annexation area.

- d) Pressure station location and measured flow  
Each Water Purveyor will continue to maintain its existing pressure stations and will measure flow accordingly.
  - e) Capacity available  
See (b) above.
  - f) Water source  
Both NUD and WWD receive water from Seattle. Redmond receives water from the Cascade Water Alliance (currently supplied by Seattle).
  - g) Financing of proposed service (LID, ULID, Developer Extension, etc.)  
Such improvements are typically financed by developers or normal water rates for existing and new residents.
4. Sewer Service  
Sewer service within the annexation area is provided by Northshore Utility District (NUD) and Woodinville Water District (WWD). Approximately 98% of the area is served by NUD and 2% is served by WWD. The service areas would not change as a result of the proposed annexation unless Kirkland and the district(s) agree upon a change at a later date.
- a) Directly or by contract  
NUD and WWD will continue to provide sewer service within their respective service areas for the foreseeable future.
  - b) Mains to service the area  
Sewer service is available throughout the entire annexation area through a detailed network of sewer mains. Existing sewer mains are adequate to provide sewer service to the annexation area.
  - c) Gravity or Lift Station required  
No known gravity or lift station improvements are required as a result of this annexation.
  - d) Disposal  
Sewage disposal is being provided through a mutually agreeable contract with King County – METRO.
  - e) Capacity available  
Northshore Utility District and Woodinville Water District both appear to have sufficient sewer capacity to accommodate build-out of the annexation area. The growth rate and resulting demand for sewer facilities are not expected to change as a result of annexation.
5. Fire Service
- a) Directly or by contract  
The City of Kirkland provides fire and life safety services to Fire District #41 through a contract between the City and District. The City has an automatic aid agreement with the Fire District #36 (Woodinville Fire and Life Safety), which now serves the eastern portion of the proposed

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annexation area, and with Fire District #34, which provides service through a contract with the City of Redmond to a small area in the southeast corner of the annexation.

After annexation, the City will continue providing fire and medical services to the entire area now served by Fire District #41. Service levels will not be affected. The City will also begin serving the newly annexed portions of the Woodinville Fire and Life Safety District and Fire District 34. Due to the very small size of the area now served by Fire District #34, service to that area would not be affected and there would be no negative impact to the City of Redmond's staffing. However, adjustments to staffing for the City of Kirkland and Woodinville Fire and Life Safety District would be necessary. For the Woodinville District, the reduced service area will likely result in the need to reduce or redeploy staff. On the other hand, Kirkland will add staffing, particularly at Station 27, located in the Totem lake area. Overall the level of service provided to the community will not be reduced.

b) Nearest station(s)

There are four fire stations within the proposed annexation area, three in Fire District #41 and one in Woodinville Fire and Life Safety District. Fire District #34 does not have a fire station within the annexation area. The closest fire station is located at 8450 161<sup>st</sup> Ave NE Redmond. The City of Kirkland would continue to staff the Fire District #41 stations and add staffing to Fire Station 27 located at 11210 NE 132<sup>nd</sup> when Woodinville vacates their fire station within the annexed area.

c) Repose time

Response time goals have been established for the City of Kirkland and Fire District #41 of 5 minutes for medical aid and 5 minutes and 30 seconds for fire. The City of Kirkland would be able to provide response times in the PAA consistent with current goals and results.

d) Part time and full time personnel

Three of the four fire stations in the PAA are staffed with 24 hours a day personnel. This would continue until Woodinville Fire and Life Safety vacates its station in the annexation area. At that time, Kirkland will add personnel to existing stations, primarily to Station 27 in the Totem Lake area, to maintain the level of service. One station located in Fire District #41 fire station is now staffed at night for 8-10 hours with reserve (volunteer) personnel to provide medical aid response. This will not change upon annexation

e) Major equipment at station location

<u>Fire Station</u>	<u>Apparatus/Equipment</u>
21 (Kirkland)	1-Medical Aid Unit, 1-Fire Engine & 1-Command Unit
22 (Kirkland)	1-Medical Aid Unit & 1-Fire Engine
26 (Kirkland)	1-Medical Aid Unit & 1-Fire Engine
24 (Dist. 41)	1-Medical Aid Unit
25 (Dist. 41)	1-Medical Aid Unit & 1-Fire Engine
27 (Dist. 41)	1-Medical Aid Unit, 1-Fire Engine, 1- Special Operations Unit
34 (Woodinville)	1-Medical Aid Unit & 1-Fire Engine

f) Fully certified EMT/D-Fib personnel

The City of Kirkland has 84 certified EMT/D-Fib personnel. With annexation, nine additional FTEs, would be added at Station 27.

g) Fire rating

The City of Kirkland has a Class 4 Washington State Survey and Rating Bureau rating

Appendix Dh) Source of dispatch

Currently the City of Kirkland Fire Department is provided dispatch services by the City of Bellevue. On July 1, 2009 a newly formed regional public safety agency, NORCOM, will begin providing dispatch services. NORCOM is expected to improve the dispatch services for Kirkland Fire Department.

6. Police Service To be added

a)

b)

**G. General**1. Annexation service extension agreements

There are no service extension agreements.

2. Topography and natural boundaries of the proposed annexation area

The PAA consists of three neighborhoods (west to east): Finn Hill, Juanita, and Kingsgate. Analysis of the topography was based on King County topographic information and shows that the topography within the PAA varies widely (**See Exhibit 7**). Generally, in the Finn Hill neighborhood, the highest elevations can be found near the center of the neighborhood with topography sloping downwards to the east and to the west towards Lake Washington. The perimeter of Finn Hill contains a number of ravines with very steep grades. The highest elevations (approximately 500') can be found in the southeast area of this neighborhood with the lowest elevation (0') along Lake Washington.

The topography in the Juanita neighborhood does not have the same topographic changes as the Finn Hill neighborhood. Bordered on the east by I-405 and to the north at NE 145<sup>th</sup> Street, the ground elevation at these areas is at approximately 200' with the low point of the neighborhood being in the southwest corner with an approximate elevation of 100'.

The Kingsgate neighborhood, bordered on the west by I-405, is at about elevation 250'. The highest elevations can be found in the northern section of this neighborhood with elevations around 400'. The topography drops steeply towards the east and southeastern area of this neighborhood where approaching the urban growth boundary which is at an elevation approximately 35'.

To the north, the PAA extends to the existing southern boundaries of the City of Kenmore, Bothell, and Woodinville. In the area where the PAA boundary adjoins the potential annexation area for the City of Bothell (Juanita Neighborhood), the boundary has been proposed along NE 145<sup>th</sup> Street (east/west), north along Interstate -405, and then east along the Tolt Pipeline trail. To the east, the PAA extends to the Woodinville city limits, the Burlington Northern right-of-way, and the Urban Growth Boundary.

To the south, the PAA extends to the Kirkland city limits, primarily along NE 132<sup>nd</sup> Street. To the west, in the Finn Hill Neighborhood, the PAA extends to Lake Washington. In general, the proposed boundary extends along City right-of-way corridors, utility/trail corridors, I-405, parcel lines, or Lake Washington.

3. Growth projected for the proposed annexation area during the next ten (10) year period

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According to Chandler Felt, Demographer in the King County Budget Office, as of 2007 the Kirkland Potential Annexation Area has the capacity for 1620 additional housing units and 930 additional jobs. From 2001 through 2007, permits were issued for an average of 75 new housing units per year. If this rate continues, the area will add another 750 houses over the next ten years.

Figures for job growth are not readily available. However, figures from the 2008 King County Annual Growth Report indicate that the annexation area had 9,502 jobs in 2007. If job growth occurs at the same rate projected for housing units, 430 jobs would be added over the next ten years.

4. Other municipal or community services relevant to this proposal.

NA

5. Implementing service delivery to the area.

The effective date of annexation has not yet been established. The City will be working with King County and other service providers to establish an effective date that will prevent any delay in service delivery. It is anticipated that service levels after annexation will be considerably higher than existing unincorporated levels, although service levels may need to be phased in over time for financial and logistical reasons. The City will assure that the levels of service on the effective date of annexation will meet or exceed existing levels.

6. Evaluation of the present adequacy, cost, or rates of service to the proposed annexation area and future needs and costs

The proposed annexation area is urbanized and nearly fully developed. King County currently provides a full range of services at lower levels of service than Kirkland provides within the city's existing boundaries. The City is committed to hiring staff to provide a significantly improved service level in the annexation area. As additional development occurs, demand for services will increase. It is assumed that the cost of such services will be largely offset by property taxes, service charges, and other revenues based on population. As noted above, if the City were to assume this annexation, it would have to subsidize the annexation at an estimated \$3.3 million for the first year (in 2011 dollars) and varying amounts thereafter. However, the passage of SSB 6686 and the fact that the population of the Proposed Annexation Area is greater than 20,000, the area qualifies for a sales and use tax credit of 0.2% to cover this deficit for a period of ten years. To qualify for this credit, the City has to commence annexation prior to January 1, 2010.

King County could continue to provide almost all services<sup>3</sup> that would be assumed by the City of Kirkland upon annexation, but has indicated that service levels would likely decline. The City of Bothell has evaluated annexation of the area (should Kirkland relinquish it) and projected comparable results to those identified by the City of Kirkland. If Bothell were to annex the area, the City of Kirkland would lose the contract revenues from Fire District #41 and incur significant costs associated with adjusting the service model to provide services only within the City limits (Fire District 41 and the City of Kirkland are planned and served as a single service area currently and station locations and staffing levels would change under this scenario). School district boundaries and services are not affected by annexation.

### III. OBJECTIVES

Evaluation of the proposed annexation based upon the objectives listed in RCW 36.93.180.

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<sup>3</sup> Parts of Kingsgate are served by Fire District 36, and, in much smaller part, by Fire District 34 (operated by the City of Redmond Fire Department).

Appendix D1. Preservation of natural neighborhoods and communities;

The proposed annexation currently consists of three neighborhoods: Finn Hill, Juanita, and Kingsgate. The proposed annexation preserves these neighborhoods. No detrimental impacts to these neighborhoods are anticipated as a result of the new boundaries. The annexation boundaries coincide with the existing and/or agreed upon future municipal boundaries of the cities of Kenmore, Bothell, Woodinville and Redmond.

2. Use of physical boundaries, including but not limited to bodies of water, highways, and land contours;

The northern annexation boundary corresponds with the existing Kenmore and Bothell city limits and potential annexation boundary of Bothell. The boundary is at or near the crest of hills. The eastern boundary extends to the Woodinville city limits and the Burlington Northern right-of-way. This boundary also corresponds to the western edge of the Sammamish Valley and corresponds to the Urban Growth Boundary. On the south, the PAA extends to the Kirkland and Redmond city limits, primarily along NE 132<sup>nd</sup> Street. On the west, the annexation extends to Lake Washington.

In general, the proposed annexation boundaries follow logical boundaries such as city limits of other cities, rights-of-way, utility/trail corridors, I-405, parcel lines and Lake Washington.

3. Creation and preservation of logical service areas;

The annexation will transfer from King County to Kirkland the responsibility for providing several municipal services. This will allow these services to be provided by an agency located much closer to those being served and should result in higher quality and more efficient service delivery.

4. Prevention of abnormally irregular boundaries;

The proposed boundaries do not create abnormally irregular boundaries. Where the boundaries appear to be irregular in the eastern portion of the area, it is due to the annexation boundary extending to the established Woodinville city limits.

5. Discouragement of multiple incorporations of small cities and encouragement of incorporation of cities in excess of ten thousand population in heavily populated urban areas;

Not applicable. The proposal would add to a city a currently unincorporated area with a population of 33,800 territory.

6. Dissolution of inactive special purpose districts;

Not applicable.

7. Adjustment of impractical boundaries;

The annexation does not seek to adjust impractical boundaries.

8. Incorporation as cities or towns or annexation to cities or towns of unincorporated areas which are urban in character;

Both the annexation area and City of Kirkland are well developed and urban in character.

9. Protection of agricultural and rural lands which are designated for long term productive agricultural and resource use by a comprehensive plan adopted by the county legislative authority.

There are no agricultural areas within the annexation.