CITY OF KIRKLAND
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Tracey Dunlap, Deputy City Manager
Michael Olson, Director of Finance & Administration
George Dugdale, Financial Planning Manager
Kevin Pelstring, Financial Planning Supervisor
Kevin Raymond, City Attorney
Adam Weinstein, Director of Planning & Building
Allison Zike, Deputy Director of Planning & Building

Date: July 21, 2022

Subject: Tax Increment Financing Strategy for NE 85th Street Station Area - Introduction

RECOMMENDATION:

Council receives background information and a presentation regarding tax increment financing and strategy considerations for applying the tool to construct infrastructure in the NE 85th Street Station Area to support and promote redevelopment consistent with the adopted NE 85th Street Station Area Plan.

BACKGROUND DISCUSSION:

On June 28, 2022, the City Council adopted the NE 85th Street Station Area Plan establishing the following vision for the area:

> *The Station Area is a thriving, transit-oriented, new walkable district with high tech and family wage jobs, plentiful affordable housing, sustainable buildings, park amenities, and commercial and retail services. The vibrant, mixed use environment is a model of innovation. With an outstanding quality of life and unmatched mobility choices, the Station Area is eco-friendly, a place to connect, and deeply rooted in the history of the land, the people, and the culture of this special crossroads in Kirkland. The highly visible integration of ecological systems within an urban setting set the Station Area apart while tying the unique sub-area districts together with existing open space and active living opportunities.*

Before adopting the Station Area Plan, the City Council requested additional analysis that included the Fiscal Impact and Community Benefits (FICB) Analysis of the NE 85th Street Station Area which was completed in October 2021. One of the key questions addressed by the FICB was whether Kirkland can afford the investments necessary to address increased demand on public services, especially schools, parks and open spaces, transportation, and utilities, and avoid a reduction in service for existing residents and businesses. The report found that the answer is yes, so long as the City employs a variety of strategies to balance the City's overall budget and needs generated by Station Area growth. In fact, much like the rest of Kirkland and many suburban communities, the City will face significant capital investments and demands for services if the area continues to develop under current trends. By embracing the vision of concentrated transit-growth in the Station Area, the City will be able to serve concentrated growth more efficiently and access more tools for investment in public infrastructure and City operations.

One of the recommendations in the FICB was to further study the use of Tax Increment Financing (TIF) as a mechanism to construct required infrastructure. TIF is a tool approved for use in Washington in the 2021 legislative session (HB 1189) to help support and promote economic development. TIF allows a jurisdiction to capture the future value of public investments and catalyze growth, by designating a geographic area in which public investment is needed and issuing bonds against a likely increase in assessed values catalyzed by those investments. This tool is a good opportunity for the Station Area as it can be used to finance improvements that are unlikely to happen through typical CIP or developer mitigation but are critical to make desired development possible. The tool also allows the City to leverage the increased assessed valuation created by the redevelopment by allowing the incremental revenue to include selected County and Port levies to be used toward the improvements.

Earlier in 2022, consultant Stowe Development & Strategies (teamed with ECONorthwest) was hired through a competitive procurement process to assist the City with evaluating Tax Increment Financing and supporting the process defined by the authorizing legislation, should the City choose to proceed. Given the adoption of the Station Area Plan and recent guidance from the Department of Revenue on June 29, 2022, the evaluation is now sufficiently advanced to begin discussing options with the City Council. The Stowe scope of work identified two project steps: (1) TIF Strategy and (2) TIF Implementation & Report. Step 1 is now complete and staff and the consultant will introduce the topic and policy choices for Council consideration at the August 3 City Council meeting. This discussion will provide background on the concept, identify potential strategies to apply the tool, and discuss the process and timeline to move forward.

The consultant's technical memorandum (Attachment A) summarizing Step 1 is organized to provide:

- Background on TIF and how the tool works in Washington,
- Recap of the NE 85th Street Station Area Plan and why it is a candidate for TIF,
- Description of Candidate Projects for TIF
    - NE 85th St and I-405 Sewer Main Capacity Enhancements - Estimated Cost $16 million
    - Forbes Lake Park Development - Estimated Cost $12 million
    - 124th Ave NE Roadway Widening: NE 85th St to NE 90th St. - Estimated Cost $30 million
- Identification of Potential TIF Boundaries and Associated Revenues,
- Strategy considerations including potential risk mitigation,
- Timeline if Council direction is to proceed with the Implementation process as defined by statute.

The purpose of this study session is to provide an introduction to the key concepts to build understanding and support policy guidance as Step 2 proceeds on the following:

1. Understanding the relationship between cash flows, debt service and debt sizing since the revenues are restricted to the funding the project list (and nothing else).
2. Incremental Tax Increment Area (TIA) revenues – where does the new money come from
3. The sources of the financial risk:
    a. Development assumptions (what gets built and when)
    b. Incremental assessed value (how new development will generate new AV – valuation risks, including what happens when values drop in actual or relative terms)
    c. Debt sizing

The key questions on which staff is seeking Council questions and feedback at the study session include:

- Do the TIA boundary options presented seem reasonable to support the TIF?
- Does it make sense to save some capacity for an additional TIA in the future?
- Are the candidate projects for TIF reasonable? If these projects are selected, additional scoping work will be needed to further refine estimates.
- Are the risk mitigation strategies reasonable to develop further?
- Is there additional information that Council requires to proceed with the next step of the study (Implementation & Report)?
- Is the timetable reasonable to bring the TIF forward for Council action?

Based on feedback received on August 3, staff will either return with additional information requested or authorize the consultants to proceed with the next step for Council consideration. While a few other jurisdictions in Washington are further along in the process of forming a TIA (most notably the Ports of Pasco and Vancouver), interpretation and application of the statutory language is still evolving. The next step includes significant coordination with other agencies. Staff has already met with the King County Assessor's Office to initiate the discussion. Subsequent meetings are being planned with the Assessor's Office and King County Treasurer's Office, given that Kirkland is the first jurisdiction in King County to approach the County on implementation of this tool. In addition, the City's bond counsel, Pacifica, will be involved in structuring potential bond issues and ensuring compliance with that statutory framework.

Attachment A: Kirkland Tax Increment Financing Strategy Report

Attachment A

July 21, 2022

MEMORANDUM

TO: Tracey Dunlap, Deputy City Manager, City of Kirkland

FROM: Bob Stowe, Stowe Development & Strategies

SUBJECT: **KIRKLAND TAX INCREMENT FINANCING (TIF) STRATEGY**

In February 2022, the City of Kirkland selected Stowe Development & Strategies in association with ECONorthwest (SDS/ECO team) to conduct a tax increment financing analysis for the purpose of spurring viable development supporting the NE 85th Street Station Area Plan (Station Area) within the City of Kirkland.

Our workplan includes a two-step approach designed to provide a predicable sequence of actions delivering a targeted and high value TIF Strategy and Implementation Plan. The two-step approach was also planned to coincide with the development and adoption of the City's Station Area Plan. Below are the key elements of the two-step approach.

Step 1: TIF Strategy	Step 2: TIF Implemention & Report
Goals:	**Goals:**
• Identify and assess potential targeted TIF infrastructure improvements with the City's Consultant, Mithun. • Evaluate several potential TIF boundaries leading to preliminary TIF boundary. • Prepare a preliminary analysis of TIF revenues available to support the City's identified targeted public improvements.	• Prepare and submit the Project Analysis Report to the Office of the State Treasurer including a comparison of scenarios with the proposed public improvements and without the proposed public improvements - The But For Analysis. • Recommend potential refinements to TIF boundary as needed. • Refine TIF Revenues. • Prepare potential financing plan based on selected targeted improvements and thirty percent design level cost estimates. • Create and manage the Public Briefings, including potentially reaching out to impacted taxing districts. • Create the TIF Ordinance for Council Consideration.

The purpose of this memorandum is to summarize Step 1 actions, address any questions, and affirm or modify the recommended TIF Strategy before proceeding to Step 2.

Introduction/Summary

A Steering Committee, comprised of various City Staff and consultants, led by Deputy City Manager Tracey Dunlap, held several meetings with the SDS/ECO team and Bond Counsel (Pacifica) to provide direction to create the best strategy moving forward when considering a TIF for the Station Area.

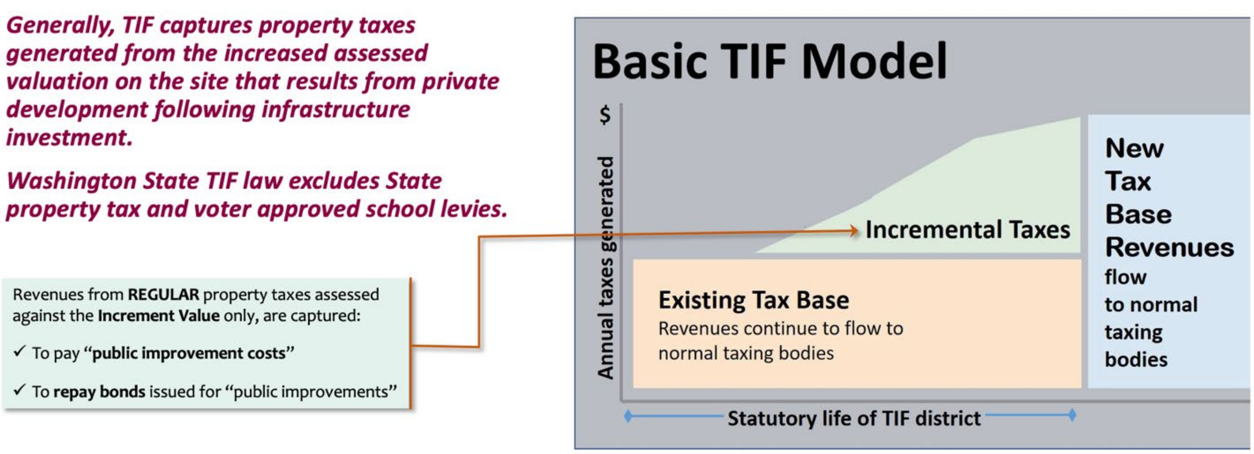
At a special meeting on June 28, 2022, the Kirkland City Council adopted a plan for the Station Area. The adoption of the plan, along with related legislative amendments, paves the way for a walkable, equitable, sustainable, and complete transit-oriented neighborhood.

Tax Increment Financing (TIF) is a powerful economic development tool and was adopted into law in Washington State in 2021. The Washington State Legislature created the TIF authority through House Bill 1189 for a city, county, or port to create a tax increment area (TIA). TIFs are used throughout the United States to promote economic development.

In general, our State's TIF is a financing option that allows a public agency (city, county, or port) to fund publicly-owned infrastructure determined necessary to encourage the envisioned private development within a TIA designated by the public agency. As private development occurs (as a result of the public agencies investment in the identified public improvements), property values rise, and the public agency uses the property tax generated by that development in the TIA to pay for the public improvement projects. After the project costs are paid, the public agency retires the TIA.

Figure 1: Basic TIF Model
Source: Stowe Development & Strategies, 2022

There are several key limitations to TIF in this State which include the following:

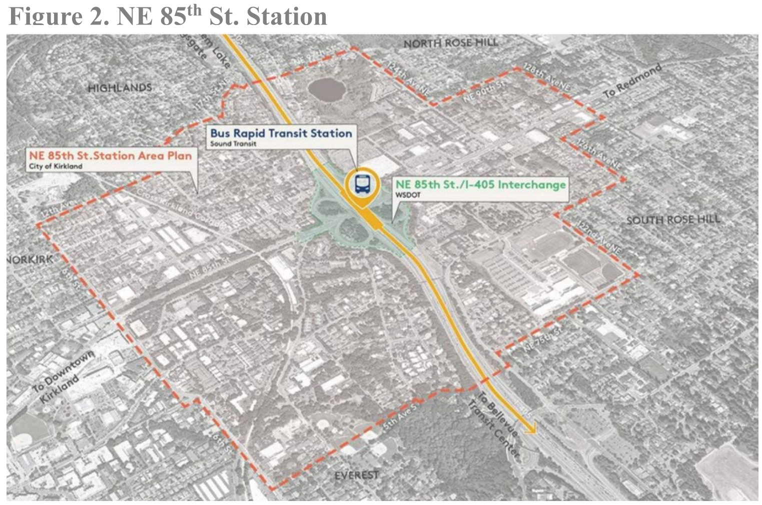


- No more than two active increment areas per sponsoring jurisdiction and they may not overlap.
- Increment areas may not total more than $200 million in assessed valuation, or more than 20% of the total assessed valuation of the sponsoring jurisdiction, whichever is less.
- Cannot add additional public improvements or change the boundary of the increment area once adopted.
- Must include a deadline of 5 years following the TIF adoption ordinance by when construction of public improvements will begin (ability to extend for good cause).
- The local government may only receive TIF revenues for the period of time necessary to pay the costs of the public improvements.
- If the local government finances the public improvements, the increment area must be retired no more than 25 years after the adoption of the ordinance designating the increment area.

A key element and consideration when forming a TIA is to evaluate the risks associated with such an action along with the development of a mitigation plan. Using local property tax revenues to finance certain public improvements can encourage and generate the desired or envisioned private development; however, using TIF has risks. The largest risks are that: 1) the expected private development does not occur; occurs slower than expected; and/or, the type of development and its magnitude is less than expected, and, 2) the cost projected for the infrastructure improvements is higher than projected. These risks impact the expected revenues to be generated within the TIA or the costs for the identified public infrastructure improvements. If risks are not mitigated, a local government must then use other sources of revenue to pay for the public improvements. Other related risks include over-investment of infrastructure funding by TIF which can waste limited tax dollars for other uses. Local governments can guard against and potentially avoid the over-investing and under-investing by carefully evaluating the local market conditions and performing the analysis associated with the But-For-Requirement identified in this memorandum. When TIF is used correctly, the growth and development pay for the infrastructure investments that encouraged it.

A risk and mitigation plan will be developed during Step 2 along with other analysis identified in the Next Steps at the conclusion of this memorandum. This plan will also examine other anticipated revenues from the projected private development (e.g., sales tax on construction, on-going sales tax and utility taxes) and the potential to sequence the appropriate infrastructure improvements with multiple bond issues over time (e.g. 5-year period) to better manage potential development and revenue risks.

Figure 2. NE 85th St. Station



Source: City of Kirkland, 2022

The City of Kirkland has been planning for land use and public improvements in the Station Area for the last several years. Voter-approved transit funding package Sound Transit 3 (ST3) is bringing a once-in-a-generation transit investment to Kirkland with a new reconfigured interchange and Bus Rapid Transit (BRT) Stride station at NE 85th St and I-405 by 2026. The BRT Station and planned Stride BRT line (Burien to Lynnwood), developed by Sound Transit and the Washington State Department of Transportation (WSDOT), is designed to connect Kirkland to Link Light Rail service at stations in Downtown Bellevue and the Lynnwood Transit Center with frequent bus service every 10-15 minutes.

The City of Kirkland's Station Area Plan (SAP) considers changes to policies, regulations and zoning to proactively plan for potential growth over the next 20+ years and encourage transit-oriented development near the BRT station to leverage this regional investment and create the most value and quality of life for Kirkland. The Plan goals build on the 2035 Comprehensive Plan; the Highlands, Everest, Norkirk, Moss Bay, and Rose Hill Neighborhood Plans; and the Sustainability Master Plan. It includes a Form-Based Code and a Planned Action.

The Plan's Vision

Figure 3. NE 85th Street Vision

The Station Area is a thriving, transit-oriented, new walkable district with high tech and family wage jobs, plentiful affordable housing, sustainable buildings, park amenities, and commercial and retail services. The vibrant, mixed use environment is a model of innovation. With an outstanding quality of life and unmatched mobility choices, the Station Area is eco-friendly, a place to connect, and deeply rooted in the history of the land, the people, and the culture of this special crossroads in Kirkland. The highly visible integration of ecological systems within an urban setting set the Station Area apart while tying the unique sub-area districts together with existing open space and active living opportunities.

Source: City of Kirkland, 2022

The City's Objective

Leverage the BRT station regional transit investment. Maximize transit-oriented development and create the most:

- Opportunity and Inclusion
- Value for the City
- Community Benefits, including:
  - Plentiful affordable housing
  - Sustainability measures
  - Park amenities
  - Solutions for school capacity
  - Active transportation improvements
- Quality of life

Figure 4. NE 85th Street Vision

Source: City of Kirkland, 2022

But-For-Requirement

Washington State's TIF law requires its local government sponsor to make the following findings:

(i) The public improvements proposed to be paid or financed with tax allocation revenues are expected to encourage private development within the increment area and to increase the assessed value of real property within the increment area;

(ii) Private development that is anticipated to occur within the increment area as a result of the proposed public improvements will be permitted consistent with the permitting jurisdiction's applicable zoning and development standards;

(iii) The private development would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future without the proposed public improvements; and,

(iv) The increased assessed value within the increment area that could reasonably be expected to occur without the proposed public improvements would be less than the increase in the assessed value estimated to result from the proposed development with the proposed public improvements.

These findings (specifically sections i, ii, and iv) are commonly referred to as the "But-For-Requirement". The name comes from the assertion that private development would not occur but-for the use of TIF. This requirement is a foundational element of TIF which directs public tax dollars generated by the development to only those public improvement projects necessary to support the proposed development. In the case of the Station Area, the October 2021 Fiscal Impact and Community Benefits (FICB) Analysis clearly showed incremental infrastructure needs to serve the redevelopment area that would not be built by developers and recommended the consideration of TIF funding to help meet those needs. Although TIF is new to Washington State governments, the But-For-Requirement and associated analysis is not. Many local governments that have invested in infrastructure as part of economic development projects have examined the public agency's return on its infrastructure investment from the generation of on-going tax revenues associated with new development. Additionally, for most local governments, infrastructure demand exceeds revenue capacity, forcing local governments to make priority decisions regarding infrastructure projects that get funded with tax dollars and determining which projects can be paid for by developers. The But-For-Requirement for TIF formalizes the analysis and requires the local government sponsoring TIF to provide convincing evidence showing that tax dollars from the TIA are necessary to make the development possible.

If proposed development would occur without TIF, public tax dollars should not be used because it will cost taxpayers more than it should for the resulting development or growth. However, if TIF is used to encourage a development that would not otherwise happen, the tax base can be increased. A larger tax base helps pay for needed services and can control the growth of new taxes. The But-For-Requirement is critical as a means to determining the proper use for public tax dollars.

The Station Area FICB analysis showed that some types of development could potentially accommodate public benefit contributions as part of an incentive zoning program (i.e., affordable housing, parks and open space, mobility, etc. above baseline infrastructure requirements) while other lower density development would not be feasible for redevelopment if substantial public benefits are also required as a condition of that redevelopment. Subsequently, the zoning code has codified the opportunity for substantial public benefits in more intense development for value capture within the City's land use categories.

If the cost of the proposed TIF infrastructure below (estimated at $58 million) were to be part of the City's baseline requirements, many parts of the TIA will be challenged to redevelop. Today's construction costs are likely significantly higher than what was modeled back in 2021. Based on the City's prior work, a sound argument can be made that the proposed TIF infrastructure improvements are necessary to support the NE 85th Street Station Area Plan and that only the highest intensity commercial uses from redevelopment are capable of generating sufficient revenue to support the required community benefits. If TIF improvements were required to be funded by private developers, it would likely mean that projects would not deliver on the same amount of public benefits or not develop as envisioned by the Station Area Plan.

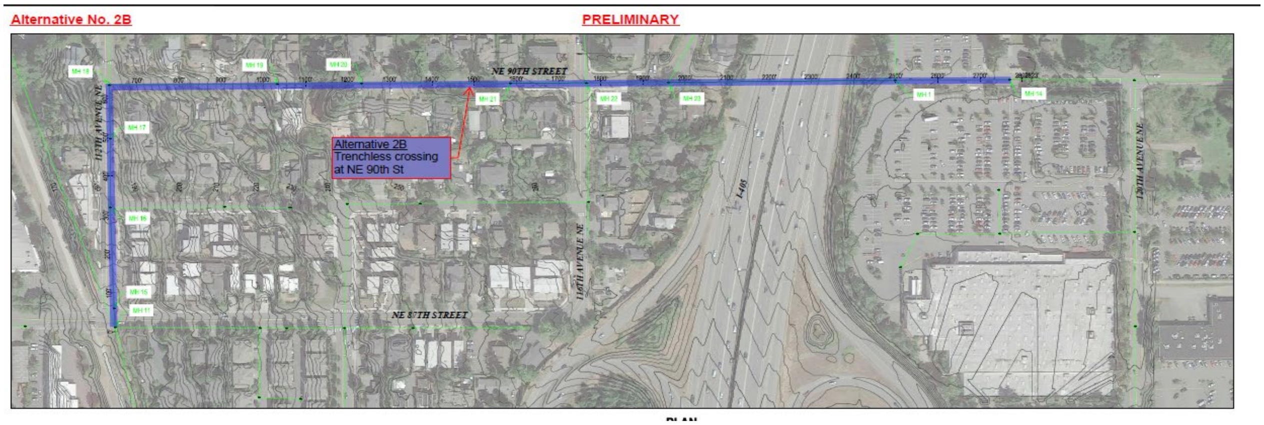
During Step 2, we will further examine the But-For-Requirement achieving compliance with State law.

Infrastructure Needs

The Plan's vision will require substantial infrastructure investment to support the underlying land use densities and community amenities that have recently been adopted by the City of Kirkland. The October 2021 Fiscal Impact and Community Benefits (FICB) Analysis identified infrastructure projects necessary to serve the increased development under the dense zoning contemplated in the Preferred Plan Direction. Many of these projects are likely to be built by developers, but a number of projects are unlikely to be built by a single developer and are necessary to serve the incremental density in the Station Area. The FICB also identified that the proposed development would generate revenues that could help support infrastructure projects. It further identified use of TIF as a mechanism to leverage those revenues. The three projects below were identified as candidates to be supported by TIF on the basis that they were unlikely to be built by any single development and that building them proactively would encourage and support redevelopment in the Station Area. Project costs have been updated from the FICB as noted.

NE 85th St and I-405 Sewer Main Capacity Enhancements | Estimated Cost $16 million.

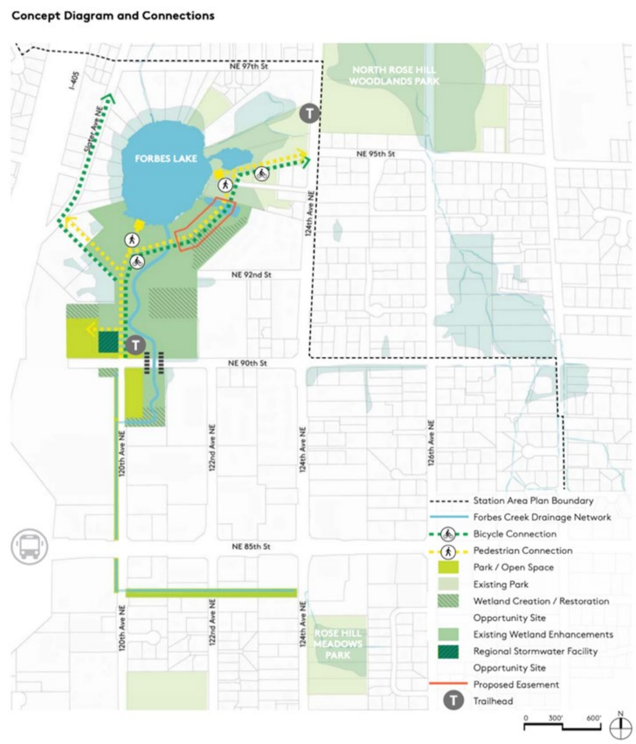
Sewer flows from the Station Area currently run through a number of pipe segments along the Slater Ave alignment and their existing capacities will be at or over the 80% cross section under buildout of June Alt B. This projection necessitates upsizing along Slater and/or under I-405. A new crossing in the proximity of the Station Area becomes a possible alternative because of the potential costs and constraints of the Slater alignment. Splitting flows between a Station Area crossing and the Slater alignment could extend the capacity of Slater for a time into the future. To address future sewer capacity issues, a sewer line crossing 1-405 along NE 90th Street by trenchless methods potentially with micro-tunnelling or directional drilling, is included in the funded Capital Improvement Program (CIP) (project number SSC08900) beginning in 2027. The project is listed as "funded through SAP mechanisms" in the preliminary CIP, with TIF considered a likely source of this funding.



Source: City of Kirkland, 2022

Forbes Lake Park Development | Estimated Cost $12 million

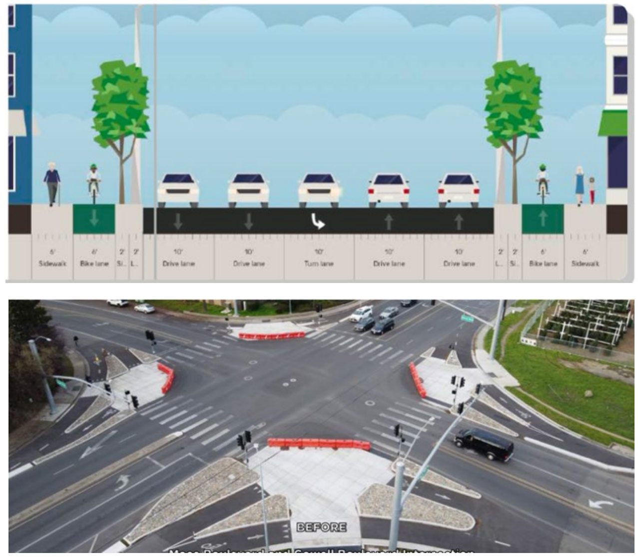
Forbes Lake Park is proposed to have a boardwalk with easy connections to North Rose Hill Woodlands Park as well as active transportation facilities nearby. A boardwalk would be a minimum of 10 feet wide to support two-way directional travel with open grate decking to reduce water quality and other ecological impacts. Opportunities for active and passive recreation are imagined. At the southwest corner of 120th Avenue and 90th Street where the parking lot exists, a stormwater retention and treatment may be integrated into open space. The proposed open space options have been selected to avoid and or minimize potential environmental impacts, as required for regulatory compliance and permitting by federal, state, and local agencies, as applicable. An unfunded project is included in the CIP (project number PKC05610) for Park Development ($7.7M in 2022 dollars), but is included here at $12M to reflect potential cost escalation for inflation as the project will likely be built in the next 5-7 years and there may be related property purchases (up to $2M) that may be funded as part of the new unfunded SAP Parks Acquisition/Opportunity project.



Source: City of Kirkland, 2022

124th Ave NE Roadway Widening: NE 85th St to NE 90th St. | Estimated Cost $30 million.

In order to support the full development of the NE 85th Street Station Area, 124th Avenue NE will be need to be widened to five lanes and provide raised (grade separated from the street) and protected bike lanes and improved sidewalks from NE 85th Street through the NE 90th Street intersection. This project also includes continuation of protected bike lanes south through the NE 85th St intersection to NE 84th Lane to connect to exiting on-street bike lanes. This profile is a bolder vision based on Council direction than that included in the FICB study and is included in the CIP (project number STC 11200) at $23.7 million 2021 dollars. Since the likely timing for the project is 2028-2029, the estimate has been escalated to $30M to recognize inflation.



Source: City of Kirkland, 2022

Tax Increment Area

The TIA includes a portion of the Station Area east of I-405 of approximately 52.5 acres. The assessed valuation of the TIA in 2022 is approximately $127,417,700, well below either the $200 million assessed valuation threshold or 20 percent of the City of Kirkland's total assessed valuation of $25,988,759,275 since the TIA is 0.49% of the total valuation. The TIA boundary was selected in part because it represents key areas that are expected to redevelop over time as the result of the infrastructure improvements funded by TIF and also reserves some capacity to form another TIA in the future provided that the assessed value of a second TIA is less than $72,582,300.

Source: ECONorthwest, 2022

Tax Increment Revenue Projections

Overview of TIF Allocation Revenues

Following guidance issued by the Washington State Department of Revenue (June 29, 2022), the analysis estimates the apportionment of taxes to the TIA. These revenues are available to the sponsoring local jurisdiction for funding the identified public infrastructure projects (that are named in the ordinance). Under the TIF legislation, only certain regular levies are available to the TIA. Using 2022 levy rates in the Station Area TIA, only $3.42 of the $8.70 total levy, approximately 39%, would be available. This current analysis excludes certain King County levy lid lifts from the TIF allocation revenue analysis due to the uncertain future levels of these levies bringing the reference 2022 rate closer to $2.88, even though these levy lid lifts would be subject to TIF revenue allocation. Note: Step 2 will further evaluate these levies, as well as the Transportation and Bond levies with the King County Assessor.

Since these are regular levies, the taxes must conform with the constitutional 1% limit as well as the $5.90 aggregate limits. Both parts of the State School levy as well as local school district excess levies are excluded. In addition, any taxes levied by port districts for the purpose of making payment on bonds would be excluded.

Broadly, TIF in Washington allocates a portion of incremental property taxes to the TIA based on the amount of assessed value added to the TIA. This means that each taxing district in the TIA will receive that portion of its regular property taxes produced by the rate of tax levied by the taxing district based on the assessed value of real property located in the area for taxes imposed in the year that the TIA was created. This amount will flow to the member districts for the period that the TIA is in place. The local government that created the TIA will receive a portion of the regular property taxes levied by each taxing district based off the increment value within the increment area. For the local government that created the TIA, this includes their own portion of their regular levy. Property taxes from the TIA begin on the calendar year following the passage of the ordinance. The County Treasurer will distribute these funds to the agency that created the TIA. The table on the following page shows the Levy Rate Composition for 2022 Taxes.

Levy Code Area 1701	2022 Taxes Rates	Exempt: State Schools	Exempt: Excess and Other Levies	Available for TIF allocation
Total	$8.71224	$2.8170	$2.4661	$3.4292
State				
Part 1	$1.84810	$1.8481		$0.0000
Part 2	$0.96885	$0.9689		$0.0000
County				
Regular_Current Expense	$0.55836			$0.5584
Regular_Veterans Aid	$0.00468			$0.0047
Regular_Mental Health	$0.01050			$0.0105
LID Lift_Parks	$0.18584			$0.1858
LID Lift_Veterans/Families/Seniors	$0.09159			$0.0916
LID Lift_AFIS	$0.03187			$0.0319
LID Lift_Childrens/Justice Center	$0.00000			$0.0000
LID Lift_Radio Communications	$0.04911			$0.0491
LID Lift_Best Start for Kids	$0.19000			$0.1900
Transportation	$0.04419		$0.0442	$0.0000
Marine/Ferry	$0.00907			$0.0091
Conservation Futures	$0.03117			$0.0312
Bond Fund	$0.02189		$0.0219	$0.0000
Port				
General Fund	$0.05786			$0.0579
Bond Fund	$0.05747		$0.0575	$0.0000
Flood Control				
Regular Levy	$0.08146			$0.0815
RTA-Sound Transit				
Regular Levy	$0.18409			$0.1841
City of Kirkland				
Regular Levy	$1.12027			$1.1203
EMS				
Regular Levy	$0.24841			$0.2484
School				
#414 Enrichment	$0.82265		$0.8227	$0.0000
#414 Bond	$0.80200		$0.8020	$0.0000
#414 Capital	$0.71792		$0.7179	$0.0000
Fire District				
Regular Levy	$0.00000			$0.0000
Hospital District #2				
Regular Levy	$0.24732			$0.2473
Library District				
Regular Levy	$0.32757			$0.3276

Source: ECONorthwest, 2022

TIA Allocation Revenue Modeling

New incremental development in the TIA will drive future growth in incremental assessed value. These values will then be multiplied by the levy rate in the respective years to estimate the amount of TIA allocation revenues. To accomplish this, there are four separate analyses that must be completed.

- **Forecast incremental TIA assessed value**. Based on the development program, the future assessed value is estimated by assigning market-based improvement prices based on the land use and size of the proposed development.
- **Forecast jurisdiction assessed value**. Outside of growth in the incremental assessed value in the TIA, it is necessary to forecast growth in the City's overall assessed value (not counting the incremental growth in the TIA.
- **Forecast highest lawful levy.** For each taxing jurisdiction in the TIA, future levies must be estimated. To do so, the amount of new construction, other add-on value, 101% limit factor, total levy limit, and the maximum allowable levy must be taken into consideration. From that interplay, it is possible to estimate what the given levy will be for any respective jurisdiction in the future.

- **Forecast levy rates.** Once the levy and assessed value are known in future years, it is possible to calculate the levy rate (divide levy by thousands of assessed value). TIA allocations are made by multiplying the levy rate by the incremental TIF assessed value.

To model TIA allocation property tax revenues, a 25-year cash flow model was created to reflect development over time and applied the appropriate property tax base productivity and property tax rates to estimate the stream of future property tax revenues.

Private Development

Based on previous work done by the City (and including specifically the Fiscal Impacts and Community Benefits Analysis Technical Memo), the following three development program scenarios have been generated for purposes of the Phase 1 TIF analysis (note that some of the development assumptions have been updated since the FICB based on additional information available on specific potential developments):

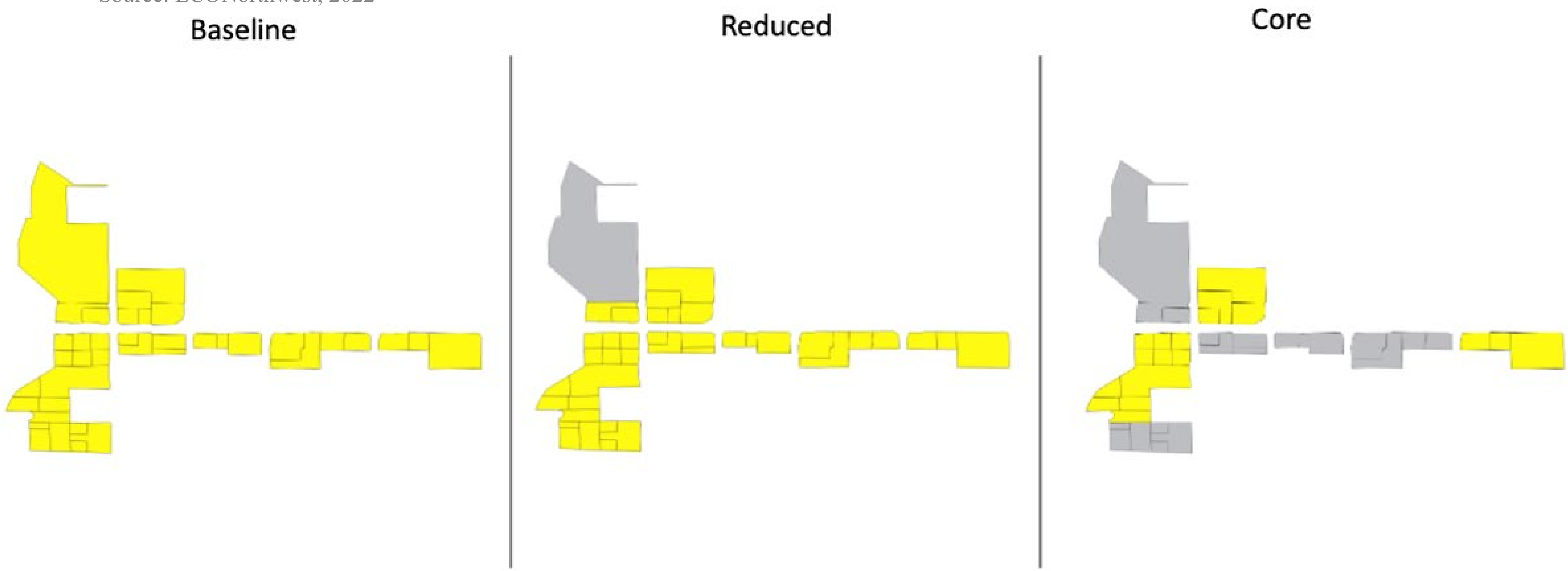
Baseline: Represents the full development (most aggressive) that is likely to occur in the TIA.

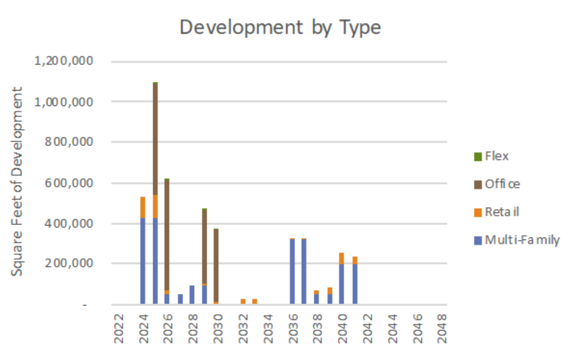
Reduced: Includes Core development below plus one-half of the development potential of the Baseline development, excluding the Costco site.

Core: Includes only the development of the 4 most likely developable parcels.

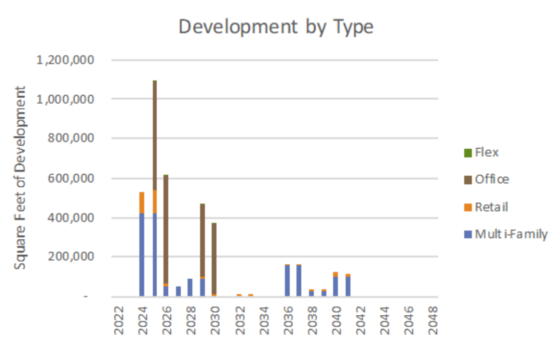
These scenarios have been developed to help assess potential risk based on different levels of development within the TIA. Understanding and accepting a certain level of risk is important as the City will be obligated for the repayment of any bond debt that is issued for the infrastructure improvements, regardless if the projected private development and property tax materialize. Additional sensitivity analysis, including higher interest rates for debt issuance, will be conducted as part of Step 2 to further help assess the risks and provide for greater certainty that the City will have sufficient resources to pay for the proposed infrastructure improvements prior to the issuance of any bonds.

Figure 11. Map of Development Site Scenarios (shown in yellow)
Source: ECONorthwest, 2022

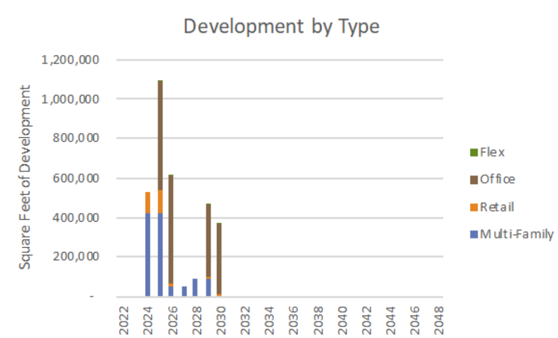




Office	4,637,792	square feet
Multi-family	2,682	housing units
Retail/Food & Bever	456,695	square feet
Flex	42,857	square feet



Office	2,181,244	square feet
Multi-family	2,014	housing units
Retail/Food & Bever	339,056	square feet
Flex	42,857	square feet



Office	1,812,492	square feet
Multi-family	1,346	housing units
Retail/Food & Bever	249,767	square feet
Flex	42,857	square feet

TIA Allocation Results

Assumptions on Incremental Assessed Value Growth

Using the assumptions identified in the three Development Program Scenarios, future assessed values of those improvements are estimated and serve as a foundation for the expected TIA allocation revenues.

TIA Allocation Revenues

The following tables summarizes the discounted value of 25 years of TIA allocation revenues that would flow to the Station Area TIA created by the City of Kirkland (first year of revenues is 2024) based on the three development program scenarios identified above of Baseline, Reduced, and Core. The revenues are discounted at a rate of 4.5% to approximate the City's cost of capital (debt and issuance costs). They are also shown at two different levels of a debt service coverage ratio. The debt-service coverage ratio (DSCR) is a measure of the cash flow available to pay any debt obligations. In this sense, DSCR levels illustrate a way to view the certainty of the cashflows in terms of the debt that can be supported. The Baseline development scenario supported by TIF could generate between $66 and $83 million in TIF allocation revenues (25-year PV at 4.5%). The Reduced and Core development scenarios could generate between $50 and $62 million and $44 million and $54 million respectively.

Figure 12. Summary TIF Allocation Revenues

DSCR 1.0	Baseline	Reduced	Core
City	$34,880,000	$26,150,000	$22,930,000
County/Port/Special Districts	$47,780,000	$35,840,000	$31,430,000
Total	**$82,660,000**	**$61,990,000**	**$54,360,000**

DSCR 1.25	Baseline	Reduced	Core
City	$27,904,000	$20,920,000	$18,344,000
County/Port/Special Districts	$38,224,000	$28,672,000	$25,144,000
Total	**$66,128,000**	**$49,592,000**	**$43,488,000**

Source: ECONorthwest, 2022

NEXT STEPS

Based on the City's direction, we are prepared to proceed to Step 2: Implementation and Report, which will: (i) refine the information in this memorandum; (ii) prepare the Project Analysis Report required to be submitted to the Office of the State Treasurer for comment; (iii) conduct public and tax districts outreach; and, (iv) prepare the TIA Ordinance for Council consideration.

Listed below are some of the key elements that will be conducted as part of Step 2 – Implementation & Report. A TIA can only be adopted prior to June of each year. We estimate that we can complete the Project Analysis of Step 2 and submit it to the Office of the State Treasurer (OST) in October-November of 2022. Following the OST's 90-day review period and any necessary modifications to the Project Analysis, holding two public briefings of the proposed TIA, an ordinance forming the TIA will be presented for Council consideration in February and March 2023 allowing the TIA to be authorized before June 1, 2023 so that property tax revenues from private development could be received beginning in the 2024. Establishing a TIA at the next available date (June 2023) will allow the City to utilize TIF revenues from any private development that may occur in anticipation of the infrastructure improvements and the ability to use those TIF revenues to assist with both design and construction of the proposed public improvements. Establishing the TIA sooner, rather than later, also locks in the base assessed value of the TIA, avoiding likely increases that will reduce the overall capacity of a future TIA because increment areas cannot exceed a combined total of $200 million in assessed value. A proposed timeline is included below.

Step 2 Elements

- Timing of Debt Issuance
- Debt Service Payments and Coverage
- Development and TIF Revenue Sensitivity Testing (e.g., scope and timing of development, debt interest rates)
- But-For-Requirement Analysis
- Identify Other Incremental Taxes
- Tax Base Productivity Assumptions
- Jobs Analysis
  - Construction Employment
  - On-Going Employment
- Impact Assessment and Mitigation
  - Affordable Housing
  - Local Business Community
  - Local School Districts
  - Local Fire Service
- Financing Plan/Duration of TIA
- Debt Capacity
- Early Outreach to Impacted Taxing Districts
- Risk Assessment and Mitigation Plan (e.g., other revenues from development, multiple/split debt issuance to coincide with development progress/needs)
- Findings |Bottom Line

Timeline

Kirkland TIF Project Schedule - Updated

TODAY

2022

Step	Activity/Actions	Start Month	Duration Months
Step 1	**Project Startup and Project Management**		
	Review Project Reports/Finalize Scope of Work	1	2
	Kick-Off Meeting	3	1
	Check-In Meetings	4	13
	Project Management	2	15
	Identify and Assess Targeted Infrastructure, Potential TIF Boundaries, & Preliminary Revenues		
	Public Infrastrucure Need		
	‣ Review Gap Analysis and Provide TIF Nexus Recommendations	5	4
	District Boundaries		
	‣ Identify & Create 2-3 Boundaries for Evaluation	3	5
	‣ Select Preferred Boundary	3	5
	‣ Project Preliminary TIF Revenues	4	4
Step 2	**Prepare Project Analysis Report**		
	Pepare Draft Report for City Review	9	3
	Finalize Report for State Treasurer Review		
	State Treasurer 90 Day Review Period (OST 90-Day Review)	12	3
	Refine TIF Boundary		
	Refine Boundary based on But-For Analysis & Cost Updates	9	1
	Refine TIF Revenues and other Required Analyses		
	Estimate Future Development Potential	9	1
	Refine TIF Revenues	9	1
	Estimate Future Job Creation	9	1
	Ensure Compliance with New Law	9	1
	Prepare Financing Plan		
	Assist City in Determing Debt Term, Size, and Type Most Beneficial	10	2
	Evaluate who is Best/Willing to Design and Construct Improvements	10	2
	Create and Manage Public Briefing		
	Prepare Presentation and Conduct Public Briefings	15	1
	Early Outreach to Affected Tax Districts	8	2
	Mitigation Support		
	Develop Mitigation Agreements as needed	12	3
	Prepare TIF Formation Ordinance		
	Prepare Draft Ordinance and TIF Pack for City Staff Review	14	1
	Present TIF Ordinance to City Council for Consideration	16	1
	Code and Economic Analysis - City & Habile	2	6

Month	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Date	12/1	1/1	2/1	3/1	4/1	5/1	6/1	7/1	8/1	9/1	10/1	11/1	12/1	1/1	2/1	3/1	4/1	5/1
No.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18

PROJECT END