



CITY OF KIRKLAND
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Joe Sanford, Fire Chief
Andreana Campbell, Management Analyst

Date: July 16, 2020

Subject: ORDINANCE O-4731 AUTHORIZING THE CITY TO PLACE A MEASURE ON THE NOVEMBER 3, 2020 BALLOT THAT LIFTS THE LEVY LIMIT ESTABLISHED IN RCW 84.55.010 IN ORDER TO FUND FIRE AND EMERGENCY MEDICAL SERVICES CAPITAL AND OPERATING INVESTMENTS.

RECOMMENDATION

Council consider updated Ordinance O-4731 (Attachment A) for final adoption. The ordinance authorizes placement of a permanent levy lid lift on the November 2020 ballot to fund fire and Emergency Medical Services (EMS) capital and operating investments. The July 21, 2020 Council meeting is the last meeting where the Council may take action to place the measure on the ballot. The final ordinance includes adjustments based on Council feedback at the July 7 Council meeting as well as an additional one cent adjustment to the levy rate to account for a potential drop in the City's 2021 assessed valuation as discussed later in the memo. A track changes version of the ordinance is provided as Attachment A(1).

BACKGROUND

At their July 7 Council meeting, Council received a presentation from staff on updates made to draft Ordinance O-4731 that incorporated Council's feedback from the previous Council meeting. Council also received two applications for the pro committee and one application for the con committee. The Council appointed all three and reauthorized the City Clerk to recruit for the remaining three positions.

Staff presented updates to Section 1 of the draft ordinance focused on accomplishing a balance between accountability and flexibility to achieve ballot measure investments. The Council direction was to ensure that voters are clear what the levy will deliver, and that the City will be transparent and accountable in delivering those commitments.

With the help of the City's Bond Counsel, the edits shown in this section of the memorandum were what was presented to Council. Focusing first on accountability, staff presented updated language in Section 1 requiring the proper officials at the City to produce an annual accountability report similar to the City's annual accountability report outlined in the parks and

streets levies in 2012. Second, staff presented a list of dedicated projects and staffing investments outlined in Section 1 of the ordinance. The chart below lists each project and staffing investment along with a brief description.

Commitments Listed in Section 1 of O-4731	Description
Acquire pandemic response equipment, including stockpiling personal protective equipment	Purchase of gowns, gloves, masks, thermometers, pulse oximeters, hepa filters, and other resources to replenish what has been used in response to COVID-19 to date, and to be able to continue responding to the current pandemic and future emergencies.
Acquire, construct, improve and equip a new Fire Station in Totem Lake, including the acquisition of land	Fire Station 27 is over 45 years old and nearing the end of its useful life. To improve response times and firefighter/EMT health and safety the City would build a new Fire Station 27 East of I-405 near Evergreen Hospital. It would house up to eight firefighter/EMTs, provide a negative pressure off gassing room for bunker gear, vehicle exhaust systems in the bay, and allow greater coverage to the Kingsgate and Totem Lake neighborhoods.
Modernize, improve, expand, and/or renovate existing Fire Stations for firefighter health and safety, including Fire Station 21 in Juanita, Fire Station 22 in Houghton and Fire Station 26 in Rose Hill	Fire Station 22 is nearly 45 years old and in need of major renovations to improve seismic resiliency and provide greater health and safety standards for firefighter/EMTs. Fire Stations 21 and 26 both require firefighter/EMT health and safety upgrades as they were constructed in the 1990s, just a few years before the NFPA standards were published. All three stations would be renovated to include seismic upgrades, dedicated room for medical gas storage, bunker storage, decontamination, furring and insulation to existing brick, and restroom reconfiguration to improve response times.
Facility seismic renovations and capacity expansion for Fire Station 21 in Juanita, Fire Station 22 in Houghton and Fire Station 26 in Rose Hill	All four fire stations built between 1972 and 1994 were constructed primarily of brick. While station 27 would be replaced entirely with a brand-new station that houses an increased number of firefighter/EMTs, the other three are also in need of increased capacity and seismic upgrades to protect firefighters and serve our growing community.
Hire approximately 20 additional full-time equivalent firefighter/emergency medical technicians (EMTs) and staff	To provide one additional full-time firefighter/EMT on duty 24 hours per day, 7 days per week, the Fire Department must hire five firefighter/EMTs. Staffing for four new full-time positions, requires hiring 20. These 20 would provide a dedicated aid car in the South at Station 22 (10), a third firefighter/EMT to cross staff new Station 24 (5), and one additional firefighter/EMT to improve response times (5) at either Station 21 or Station 26.

<p>Modernize and upgrade technology and public safety facilities and equipment</p>	<p>All four stations would be provided with upgraded fire suppression and fire notification systems, source capture exhaust for vehicles and heaters in the bays, and HVAC systems would be replaced.</p>
<p>Fund additional operating, maintenance, vehicle and capital expenses to provide enhanced public safety services</p>	<p>Stations 21, 22, and 26 will need general long-term maintenance such as replacement flooring, paint, roof repairs, insulation, and replacement counters. This levy would also help fund the replacement of fire engines, and aid cars as they reach the end of their useful lives.</p>
<p>Other public safety operations, maintenance, improvements, equipment and services as determined by the Council should anticipated investments become infeasible or City public safety needs significantly change</p>	<p>As this is proposed to be a permanent levy, the services provided by the Fire Department and the equipment necessary may evolve over time. This language allows future Councils to adapt to any necessary changes. In addition, some facility investments may prove infeasible or prohibitively expensive. This language allows future Councils to adjust facility investments in these unlikely scenarios.</p>

Ordinance O-4731 is proposed to be a permanent levy. It is difficult to anticipate how the services provided by the Fire Department and the equipment necessary may change over the coming decades. The ordinance provides flexibility for future Councils to adapt to any necessary changes once the initial commitments have been achieved. In addition, some facility investments may prove infeasible or prohibitively expensive. Future Councils may need to adjust facility investments in response to these unforeseen conditions. Updated language in Section 1 provides future Councils flexibility to adapt to these scenarios.

Council also requested that staff update Section 1 to reduce ambiguity around the phrase, "and other uses of levy proceeds." New language is included in Ordinance O-4731 and the edits may be viewed in Attachment A(1).

Council also reviewed an updated ballot title incorporating edits from their June 16 meeting. That draft ballot title included updates on the overall maximum tax rate, and language incorporating the property tax exemption RCW 84.36 as requested by Council. Below with edits shown, is the final proposed ballot measure title included in Ordinance O-4731 (Attachment A) that staff is recommending for Council's adoption at the July 21 Council meeting. The proposed language includes an additional one cent levy rate adjustment to offset potential loss of assessed value as described in more detail later in the memo.

CITY OF KIRKLAND PROPOSITION NO. 1
LEVY LID LIFT FOR
FIRE AND EMERGENCY MEDICAL SERVICES AND FACILITIES

The City Council of the City of Kirkland adopted Ordinance No. O-4731 concerning funding for fire and emergency medical services and facilities. This proposition would fund public safety, including stockpiling pandemic personal protective equipment, constructing a new fire station, seismically renovating existing stations, ~~acquiring equipment~~, and hiring ~~additional~~ new firefighters/EMTs to improve response times by increasing the City's regular property tax by ~~approximately~~ $\$0.232513/\$1,000$ to a maximum rate of $\$1.221951/\$1,000$ assessed valuation for collection in 2021. The 2021 levy amount will be the basis to calculate subsequent levies, per RCW 84.55. Qualifying seniors, ~~disabled~~ veterans, and others would be exempt, per RCW 84.36.

POTENTIAL 2021 REDUCTION IN ASSESSED VALUE (AV)

At a King County City Manager/City Administrator's virtual meeting in early July, Assessor John Arthur Wilson mentioned that current information is AV trends are showing a slight decrease in the high value areas on the Eastside, while south King County is increasing. In follow up conversations with the Assessor's Office, more detailed data on specific jurisdiction trends will not be available until the Fall. If the AV in Kirkland decreases in 2021, the levy will not collect the projected revenue needed to fully fund the ballot measure investments on the current timeframe expected by voters. Options to respond to lower revenues include reducing the

investments paid for by the levy or extending the timeframe over which the investments are made.

To help quantify the potential level of concern, Financial Planning staff researched the last time assessed values decreased, which occurred during the Great Recession. The first chart on the following page depicts the impact the Great Recession had on Kirkland’s assessed valuation in the years 2010 and 2011 and the percent change year to year. Assessed valuation fell 13.7% in 2010 and another 5.3% in 2011. The relatively strong residential real estate market makes such significant AV drops highly unlikely. Therefore, staff has conservatively used a 5% drop in assessed value as a potential “worst case scenario” when considering levy adjustments. An additional one cent added to the levy rate would offset a 5% reduction in AV.

Year	Assessed Value	Percent Change from Prior Year
2009	\$ 13,108,188,338	
2010	\$ 11,313,599,319	-13.7%
2011	\$ 10,709,950,883	-5.3%

The next chart shows the estimated decrease in assessed valuations on four different scenarios (2%, 3%, 5%, 13.7%) for the year 2021. The first two columns depict the projected assessed valuations (including the impact of RCW 84.36.381) and the percentage change year after year. The next six columns show estimated revenue generation in relation to Kirkland’s assessed valuation for tax rates of \$0.22513/\$1,000AV, \$0.23013/\$1,000AV and \$0.23513/\$1,000AV respectively. Scenario B adds a half cent increase in the levy rate. Scenario C includes a full one cent increase. The chart demonstrates that an additional half cent is will offset a 2-3% reduction in AV, and a full one cent addition is needed to approximately offset a 5% reduction in AV.

Change in Assessed Valuation	Assessed Value (AV) including tax exemption in RCW 84.36.381	Scenario A: \$0.22513 cents		Scenario B: \$0.23013 cents		Scenario C: \$0.23513 cents	
		Estimated Revenue from Levy Rate of \$0.225/\$1,000 AV	Difference Compared to Expected Revenue of \$7,011,140	Estimated Revenue from Levy Rate of \$0.23/\$1,000 AV	Difference Compared to Expected Revenue of \$7,011,140	Estimated Revenue from Levy Rate of \$0.235/\$1,000 AV	Difference Compared to Expected Revenue of \$7,011,140
Same as 2020	\$31,160,621,400	\$ 7,015,191	\$ -	\$ 7,170,994	\$ 155,803	\$ 7,326,797	\$ 311,606
-2.0%	\$30,537,408,972	\$ 6,874,887	\$ (140,304)	\$ 7,027,574	\$ 12,383	\$ 7,180,261	\$ 165,070
-3.0%	\$30,225,802,758	\$ 6,804,735	\$ (210,456)	\$ 6,955,864	\$ (59,327)	\$ 7,106,993	\$ 91,802
-5.0%	\$29,602,590,330	\$ 6,664,431	\$ (350,760)	\$ 6,812,444	\$ (202,747)	\$ 6,960,457	\$ (54,734)
-13.7%	\$26,894,546,825	\$ 6,054,769	\$ (960,421)	\$ 6,189,242	\$ (825,949)	\$ 6,323,715	\$ (691,476)

ECONOMIC ENVIRONMENT

Financial Planning staff have also spent the past week attempting to quantify how likely a 2021 recession scenario may be that could lead to a decrease in assessed valuation. At the May 29th Council Retreat, staff shared two potential economic recovery models from the Government Finance Officers Association (GFOA) used to develop Kirkland's long-term forecast:

1. "V-shaped" Recovery – indicating a shallower drop in revenues but a slow and gradual recovery.
2. "Big V" Recovery – indicating a steeper and deeper drop in revenues but a quicker recovery.

Those recovery models were based on initial data and anecdotal information gathered by various economic forecasters through April 2020. Although we now have more data, the ability to forecast an accurate recovery has not increased. In fact, the Washington State Economic and Revenue Forecast Council's (ERFC) June 17, 2020 report states, "The level of uncertainty in the baseline forecast is substantial." The report also noted the following:

- As a result of COVID-19 and efforts to contain it, the economic forecast is substantially worse than in February
- The longest economic expansion is over as the U.S. economy entered a recession in 2020 Q1

The Puget Sound Economic Forecaster's (PSEF) June 2020 report (Attachment B) states that the "future is uncertain" and "the unknowns are staggering at the moment." The report also includes this sobering comment about their leading index, stating the index:

"may monitor increasing economic activity and call for expansion again, a secondary outbreak could quickly curtail any recovery. While the disaster-based recession analogy holds when your town is hit by a storm, we have few-to-no examples of a world on fire."

The June 4, 2020 presentation of the 2020 King County Economic and Revenue Forecast noted that, "COVID-19 is a hugely significant human health and economic shock, with increasing impacts as each day passes." The report highlighted the following county-wide trends:

- Consumer spending has fallen dramatically in 2020.
- The strong post-Great Recession job market added more than 250,000 jobs through March, but we lost almost all of it in April 2020.

The King County economist also noted that it is unclear how long it will take the economy to recover from the current recession. The longest prior recovery was 26 quarters following the Dot Com Bust in 2001. Several Kirkland-specific measures tell a similar story:

- Unemployment rate in Kirkland increased from 2.2% in February 2020 to 12.3% in April 2020.
- Permit activity through June 2020 has decreased 20% compared to same period in 2019.

The Financial Planning staff has concluded that there is a valid reason to be concerned about a decrease in assessed valuation based on current economic information, combined with the uncertain recovery path. All indicators point to caution in building our revenue forecasts. The City's General Fund forecast will be updated as part of the budget preparation process and

presented to Council during budget discussions. Staff will continue highlighting relevant economic information as it is received in dashboards, and other monthly reports like the Sales Tax memo.

ASSESSED VALUATION HOLDS STEADY OR INCREASES

It is also possible that assessed valuations will hold steady or even increase in 2021. In that scenario, the additional one cent added to the levy rate will collect more revenue than is projected to deliver the investments outlined in the ballot measure ordinance. Should this occur, the Council will have the option in 2021 to either invest the additional revenue or not collect the additional revenue.

Any additional revenue generated by the levy must also comply with the categories outlined in the enacting ordinance. This means that additional revenue may only be spent on “fire and EMS services and facilities” as defined in Section 1 by the ordinance. These revenues may be invested in facilities, vehicles or operations. This includes enhancing any current or proposed services such as fire and EMS response related programs, mental health support services authorized by the Medic One levy, fire prevention or additional staffing.

The chart below shows the impact of rounding up the levy tax rate an additional \$0.005/\$1,000AV and \$0.01/\$1,000AV from \$0.22513/\$1,000AV. The chart assumes the assessed valuation in 2020 of \$31,160,621,400 (which includes RCW 84.36.381) holds steady. Every \$0.005/\$1,000AV added to the levy generates roughly an additional \$156,000 annually and increases the estimated annual impact to the median valued (\$730,000) home by \$3.65.

2020	\$0.22513/ \$1,000AV	\$0.23013/ \$1,000AV	Difference compared to expected revenue of \$6,870,917	\$0.23513/ \$1,000AV	Difference compared to expected revenue of \$6,870,917
Est. Annual Rev	\$7,015,191	\$7,170,994	\$155,803	\$7,326,797	\$311,606
Est. Impact to Median-Valued Home	\$164.34	\$167.99	\$3.65	\$171.64	\$7.30

The Council also has the option of not collecting the full levy amount. The City Council adopts the tax levy annually each December. Under state law, the Council may set the annual rate to collect less than the levy rate authorized by voters but cannot set it higher. One important consideration is that the revenue generated by the initial rate in the first year becomes the base for all future years. The 2021 total amount is then subject to the 1% property tax cap going forward. The Council cannot raise the rate back up in future years without voter approval.

The staff recommendation is not to decide whether to invest or return any potential additional revenues until the first quarter of 2021. Waiting provides the Council with more data to make a more informed choice. The Council will be able to see the final 2021 assessed valuation and

learn what will happen to City revenues and the economy during the budget process. Once the City has this additional information, the Council can deliberate options to either invest or not collect the revenue in Q1 of 2021. If the Council elects to lower the tax rate, it may still do so in December of 2021.

RECOMMENDED UPDATES TO BALLOT ORDINANCE

Given the assessed valuation concerns expressed by the King County Assessor's Office, and Financial Planning's concerns about the economic forecast, staff has provided the Council with an updated ordinance (Attachment A) that proposes a one cent levy rate increase as identified in Scenario C of the chart under the potential 2021 reduction in AV section of this memorandum. The changes to the ordinance described below can be seen in track changes in Attachment A(1).

Levy Rate:

Consistent with the City's conservative fiscal policies, staff recommends adoption of Ordinance O-4731 which includes using Scenario C's \$0.23513/\$1,000AV as the levy rate. Adding an additional cent from \$0.22513/\$1,000AV to \$0.23513/\$1,000AV provides a prudent buffer to offset up to a 5% decrease in assessed valuation projected for 2021, the year the rate is set. The additional one cent would allow the City to complete the projects and staffing investments listed in Section 1 above with no additional delay as long as assessed values did not drop by more than 5%.

WHEREAS Update:

Staff incorporated an additional WHEREAS documenting why the additional \$0.01/\$1,000 is recommended.

WHEREAS, the King County Assessor has cautioned that Eastside assessed valuations may decrease in 2021. Should that occur, the ballot measure will not generate sufficient revenue to accomplish the commitments set forth in Section 1 below on the projected timeframe expected by voters. Consistent with the City's conservative fiscal policies, the levy rate has been increased from \$0.22513/\$1,000AV to \$0.23513/\$1,000AV to offset an up to five percent drop in assessed valuations in 2021; and

Section 1 Update:

To limit the ambiguity around the phrase, "and other uses of levy proceeds," staff included the following language in consultation with Bond Counsel. As a reminder, track changes and edits can be seen in Attachment A(1).

The City Council shall determine the timing, order and manner of funding the Fire and EMS Services and uses of levy proceeds. The cost of all compensation, benefits, training, support services, equipment, vehicles, infrastructure, facilities, real property, and/or administrative expenses and other costs incurred in connection with the Fire and EMS Services shall be deemed a part of the costs of such Fire and EMS Services. The Council may alter, make substitutions to, and amend such components as it determines are in the best interests of the City and consistent with the general public safety descriptions provided herein. The proper officials at the City shall produce an annual accountability report documenting use of levy proceeds, actions and program status of Fire and EMS Services.

Ballot Title Update:

The title is now exactly 75 words, including the tax exemption RCW 84.36, and the updated levy and maximum tax rates.

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The "clean" version of the ordinance, Attachment A, is recommended for adoption at the July 21 Council meeting. All track changes can be seen in Attachment A(1).

PRO AND CON COMMITTEE RECRUITMENT

The second round of recruitment for the pro and con committees is currently underway, and the deadline to apply is Friday, July 17 at 4:00p.m. The City Clerk will send application materials to the Council after the deadline has passed, but before the Council meeting. Depending on the applications received, Council can choose to appoint one member to the pro committee, and two members to the con committee at the July 21 meeting for a total of three members on each committee.

NEXT STEPS AND TIMELINE

At the March 17 meeting, Council received a preliminary update on the ComSAG's recommendation. At the April 7 meeting, Council received the full report along with the final fire and EMS community survey questions incorporating Council's feedback. At the April 21 meeting, Council accepted the ComSAG report by adopting Resolution R-5413. On May 19 staff received Council's feedback and direction after being presented the survey results from both EMC Research and the City's online version of the survey.

At the June 16 meeting, staff presented draft ordinances and draft ballot title language for the Council's consideration, and they chose to continue exploring the option of a combined measure. During the July 7 meeting, staff presented the next iteration of edits to the combined measure ordinance and ballot title. Two pro committee members and one con committee member were also appointed at the July 7 Council meeting, and Council reauthorized the City Clerk to recruit for the remaining three positions.

At the July 21st Council meeting, staff will bring the final revised version of Ordinance O-4731. The July 21st meeting will mark the last day for Council to take final action to place the measure on the November ballot.

Calendar	Item
March 17	Staff Presented Preliminary Update on ComSAG Recommendation to Council
April 7	Staff presented Final ComSAG Recommendation to Council
April 21	Council Adopted Resolution R-5413 Accepting Final ComSAG Report
April 22	EMC Research to Begin the Fire/EMS Community Survey
May	Staff to Receive Top Line Results from Survey
May 19	Council Received Survey Responses
June 16	Staff to Bring Draft Ordinance(s) and Draft Ballot Title Language to Council
June 16	Authorize Recruitment for Ballot Measure Voter Pamphlet Statement Pro/Con Committees
June 30	Deadline for Statements of Interest for Pro/Con Committee appointment
July 7	Staff to Bring Second Draft Ordinance and Ballot Title Language to Council for review
July 7	First Appointment of Ballot Measure Voter Pamphlet Statement Pro/Con Committees
July 21	Potential Council Adoption of Ordinance O-4731 Placing a Measure on the Nov 3, 2020 Ballot
July 21	Second Appointment of Ballot Measure Voter Pamphlet Statement Pro/Con Committees
August 4	Pro/Con Committee notice of appt due to King County Elections
August 4	Ballot Measure Filing due to King County Elections
August 7	Explanatory Statement due to King County Elections
August 11	Pro/Con Statements due to King County Elections
August 13	Pro/Con Rebuttal Statements due to King County Elections
November 3	General Election