

**2005 Fiscal Analysis of Kirkland's Potential Annexation Area**  
*Finn Hill, Juanita, and Kingsgate*

Prepared by

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## **Executive Summary**

### ***Background & Purpose***

In 2000, the City contracted with Henderson, Young & Company to prepare an analysis of the fiscal impacts of annexing the Finn Hill, Juanita, and Kingsgate neighborhoods, which comprise the City's potential annexation area (PAA). Since then there have been a number of significant revenue changes (in terms of new revenues, new rates, and lost or diminished revenues) and staffing/program changes that render the previous analysis out of date. In addition, the prior study generated a number of questions regarding the projected operating costs and staffing needed to service Finn Hill, Juanita, and Kingsgate. Accordingly, during the 2005-2006 budget process, the City Council directed staff to prepare a more detailed annexation fiscal analysis in 2005. To accomplish this, staff engaged in a "mini-budget" process detailing out projected revenues, additional staffing needed, and the cost of extending current service levels to the three annexation sub-areas.

### ***Description of Potential Annexation Area***

A map of Kirkland's PAA is included on the following page. It encompasses almost all of the unincorporated area to the north of Kirkland, to the south of Kenmore, Bothell, and Woodinville, to the east of Lake Washington, and to the west of the Burlington Northern railroad right-of-way and Woodinville. Key 2004 statistics for the PAA and Kirkland are presented in Table 1 below:

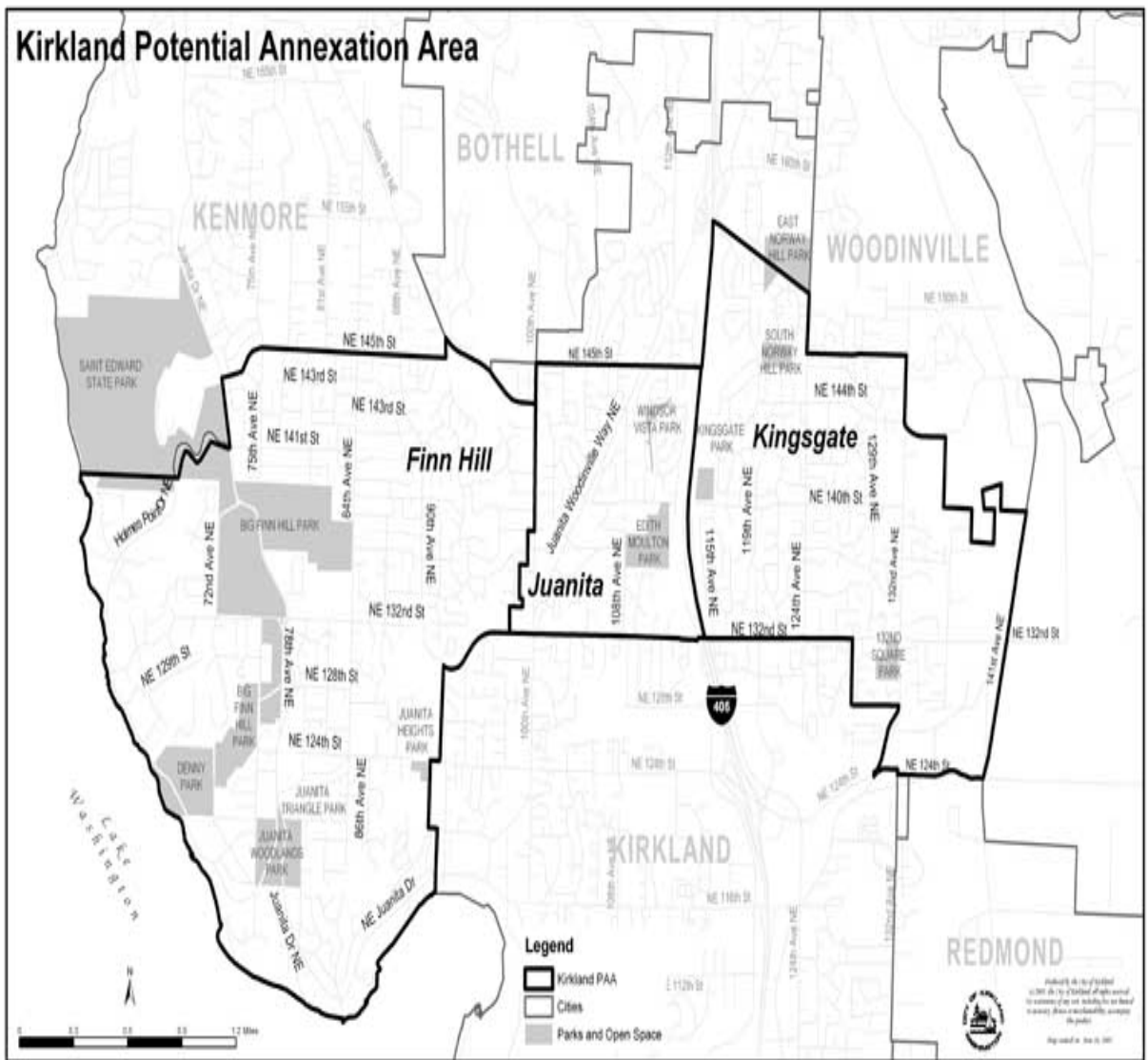
**Table 1: Key 2004 Statistics for Annexation Sub-Areas and Kirkland**

<b>Area</b>	<b>Population</b>	<b>Square Miles</b>	<b>Population Density</b>	<b>Taxable Assessed Value</b>	<b>Housing Units</b>	<b>Businesses</b>
Finn Hill	15,300	4.08	3,750/sq mi	\$2.23 billion	5,945	173
Juanita	5,600	.97	5,773/sq mi	\$.49 billion	2,078	88
Kingsgate	11,700	1.95	6,000/sq mi	\$1.14 billion	3,924	202
<b>Total PAA</b>	<b>32,600</b>	<b>7.00</b>	<b>4,657/sq mi</b>	<b>\$3.86 billion</b>	<b>11,947</b>	<b>463</b>
<b>Kirkland</b>	<b>45,800</b>	<b>11.00</b>	<b>4,164/sq mi</b>	<b>\$7.87 billion</b>	<b>22,524</b>	<b>3,414</b>

The key 1999 statistics used in the prior fiscal analysis prepared by Henderson, Young & Company are summarized in Table 2 below:

**Table 2: Key 1999 Statistics for Annexation Sub-Areas and Kirkland**

Area	Population	Square Miles	Population Density	Taxable Assessed Value (1998)	Housing Units	Businesses
Finn Hill	15,900	4.08	3,897/sq mi	\$1.20 billion	5,900	34
Juanita	5,800	.97	5,979/sq mi	\$.29 billion	2,150	59
Kingsgate	12,600	1.95	6,462/sq mi	\$.66 billion	4,800	131
<b>Total PAA</b>	<b>34,300</b>	<b>7.00</b>	<b>4,900/sq mi</b>	<b>\$2.15 billion</b>	<b>12,850</b>	<b>224</b>
<b>Kirkland</b>	<b>44,860</b>	<b>11.00</b>	<b>4,078/sq mi</b>	<b>\$4.78 billion</b>	<b>22,289</b>	<b>3,100</b>



Noteworthy differences between Table 1 and Table 2 include the following:

- The PAA population used in the prior fiscal analysis was 34,300 compared to 32,600 in the current fiscal analysis. King County didn't have the geographical information system capability back in 2000 that it has now. The population used by Henderson, Young & Company was an estimate provided by King County. The population figure used in this fiscal analysis is a more refined estimate that is used by King County and the Washington State Department of Revenue.
- The taxable assessed valuation for the PAA and Kirkland increased 80 percent and 65 percent respectively from 1998 to 2004. That means that property values in the PAA and Kirkland increased about 10 percent and 9 percent respectively each year during this timeframe. Because the 2004 assessed valuation of the PAA is higher than expected, staff has asked the Assessor's Office to verify the figure provided by the King County Budget Office. No confirmation has been received yet.
- The number of businesses domiciled in the PAA was estimated to be 224 in the prior fiscal analysis compared to 463 in the current fiscal analysis. Most of this change is believed to be related to King County's improved geographical information system capability.

### ***Assumptions***

Underlying the development of this annexation budget were the following assumptions:

- The annexation area will be **primarily considered as a whole, though an approximate allocation by sub-area** (i.e. Finn Hill, Juanita, and Kingsgate) will be provided.
- The focus of this budget process will be on the **operations and maintenance impact, not on the capital improvement program (CIP) needs**, with the exception of new facilities costs related to annexation staff.
- **Current staffing and service deficiencies reflected in Kirkland's adopted 2005 budget will not be addressed** in this annexation fiscal analysis. In other words, staffing and service levels in the annexation area will mirror the City's current service levels.
- **No impact on the Northshore Utility District and, therefore, on Kirkland's water/sewer utility** is assumed for purposes of this budget process.
- **Only the City's governmental funds (i.e. General Fund, Street Operating Fund, etc.) will be considered in this analysis.** All utility funds (i.e. water/sewer, surface water, and solid waste) are excluded from this analysis, because their operations are fully supported by user charges.

- The annexation budget will be **based on 2005 costs and 2005 budgeted revenues**. In addition, the recent water, sewer, surface water, and solid waste utility tax rate increases adopted by the Kirkland City Council in June 2005 (increasing them to 7.5 percent) to fund a partial implementation of the police strategic plan are reflected in the 2005 revenue estimates.

### ***Budget Process***

In approaching the development of the annexation budget, the City's services were divided into "**direct service**" and "**internal support**" functions. The direct service functions, which represent the services delivered to Kirkland's citizens and businesses, include the following:

- Fire & Building
- Municipal Court (including prosecution and public defense)
- Parks & Community Services
- Planning & Community Development
- Police
- Public Works (including street maintenance but excluding facilities maintenance and fleet)

The internal support functions, which primarily support the direct service functions or provide organization-wide oversight, consist of the following:

- City Attorney's Office
- City Manager's Office
- Facilities Maintenance
- Finance & Administration (excluding the Municipal Court)
- Human Resources
- Fleet
- Information Technology

The internal budget development process was essentially divided into three phases:

1. The **first phase** focused on the following:
  - **Gathering annexation area data**, in terms of general demographic information (e.g. population, number of businesses, and number of dwelling units), activity levels (e.g. crime statistics, and types and number of development permits processed), infrastructure inventory (e.g. centerline street miles, number of signalized intersections, and number of feet of sidewalks), and infrastructure condition. The direct service functions worked through Karen Reed, the consultant contracted by King County to deal with annexation issues and information requests, to gather the relevant data from King County. The development services related departments (i.e. Public Works, Planning & Community Development, and Fire & Building) worked

together during this phase to ensure that each department used the same projected activity levels in the annexation area.

- **Developing 2004 service metrics**, in which approved 2004 staffing levels for each program or functional area were related to a specific 2004 activity level (e.g. calls for service, permits processed, and acres of parks maintained) or to another meaningful measure (e.g. population, square miles, and number of households). The purpose of these metrics is to reflect the current service levels provided by the City's direct service and internal support functions. Metrics for 2004 were used for the most part, since that is the most recently completed year.

2. The **second phase** primarily involved the **preparation of the annexation budget by the direct service departments**. This phase also included the following:

- Preparation of certain 2005 revenue estimates by the direct service departments.
- Preparation of all other 2005 revenue estimates by King County and the City's financial planning staff.

Using the annexation area data and their 2004 service metrics, each direct service function prepared annexation service packages for each of its program or functional areas for the annexation area as a whole. In addition, a sub-area allocation summary was prepared so that a phased approach to annexation could be considered. This sub-area allocation is not intended to be definitive, but rather instructive as to the approximate cost of servicing Finn Hill, Juanita, and Kingsgate. After the budgets for the direct service functions were prepared, they were reviewed first by the financial planning staff and then by the Finance and Administration Director and Assistant City Manager during a series of budget review meetings.

3. The **third phase** focused on the **preparation of the annexation budget by the internal support functions**, whose operations are primarily driven by the direct service functions. This phase began after the budget review meetings with the direct service functions were completed. The primary drivers of the internal support function budgets included the number and type of staffing, number of computers, and number and type of vehicles requested by the direct service functions. Using this information along with their 2004 service metrics, each internal service function prepared annexation service packages for each of its program or functional areas for the annexation area as a whole and prepared a sub-area allocation summary as well. Finally, the internal support functions were subjected to the same review process as the direct service functions.

This phase also included an **assessment of the facilities space needs** of the direct service and internal support functions, encompassing the cost of land,

building construction, and parking. The total capital outlay associated with the new facilities space was incorporated into this analysis by determining the annual debt service cost over a 30 year term assuming a 5 percent rate of interest. In addition, the financial planning staff estimated the **non-departmental and general liability insurance costs** associated with annexing the three sub-areas. All of these costs were treated as overhead layers.

Finally, the 2005 projected expenditures of the direct service and internal support functions were compared to the 2005 projected revenues. In addition, these 2005 projected costs and revenues were compared to the previous annexation fiscal analysis by Henderson, Young & Company.

Because of the complexities surrounding special districts, of which there are two in Kirkland's PAA, the City contracted with Berk and Associates, a Seattle-based consulting firm, to work through the annexation impacts on the City and the special districts. The questions that Berk and Associates was hired to answer primarily relate to the following:

- If the City opted to do a partial annexation, how would Fire District #41 be impacted (i.e. would the district still be financially viable?) and how would the contract change? In addition, what would be the impacts on Fire District #36 and #34, which both partly serve the Kingsgate area?
- What if the City opted to annex into the Fire District #41 instead? What would be the impact?
- How would the Finn Hill Park District be impacted by the annexation?

### ***Summary of Analysis***

Table 3 on the next page summarizes the ongoing revenues, ongoing costs, and staffing associated with annexing Kirkland's entire PAA. In addition, Table 3 also compares the results of the current fiscal analysis to the prior one prepared by Henderson, Young & Company, answering the following question: **What would be the ongoing impact of annexing the entire PAA at once?**

**Table 3: Summary Comparison of Current vs. Prior Analysis of Annexing Entire PAA**

<b>Ongoing Revenues/Costs &amp; Staffing Needed</b>	<b>Current Analysis (2005)</b>	<b>Prior Analysis (1999)</b>	<b>Difference</b>
Revenues (Net of Fire District #41 Payment)	12,521,852	9,265,000	3,256,852
Less Cost of Services (Direct & Indirect)	17,300,808	12,710,000	4,590,808
<b>Operating Deficit</b>	<b>-4,778,956</b>	<b>-3,445,000</b>	<b>-1,333,956</b>
<b>Staffing Needed</b>	<b>151.96</b>	<b>116.45</b>	<b>35.51</b>
<b>Operating Deficit Per Capita</b>	<b>\$147</b>	<b>\$100</b>	<b>\$47</b>

Overall, the **estimated operating deficit increased significantly from \$3.45 million in 1999 (per the prior study) to \$4.78 million in 2005 (per the current analysis)**. In addition, the 2005 annexation budget developed by staff consists of **about 151 employees, or 35 employees more than was estimated by Henderson, Young & Company**. Accordingly, **the operating deficit per capita has grown from \$100 to \$147**. These significant differences from the prior study can be primarily attributed to the following:

- King County didn't have the geographical information system capability back in 2000 that it has now. As a result, staff was able to get significantly more (and better) data from King County regarding the annexation area's demographics, service activity levels, and infrastructure inventory. This data was a primary driver of the annexation budgets that were prepared by staff. A prime example of the budgetary impact of having good data available was the street-related inventory information, which was very incomplete back in 2000. Based on that incomplete data, Henderson, Young & Company estimated that 7 employees were needed for street maintenance and operations. Using vastly improved data for the current fiscal analysis, Public Works staff estimated that about 11 employees were needed instead to maintain current service levels.
- The City's service levels haven't remained static since 2000. There have been service level increases in development services, police support, emergency services, and information technology during the past six years.
- The annexation fiscal analysis prepared by staff represents a detailed budget development effort; whereas, the 2000 fiscal analysis was really a feasibility study. No one service area demonstrates the resulting difference more than police. The previous annexation study estimated that almost 55 employees were needed to serve Finn Hill, Juanita, and Kingsgate. According to the Police Department, almost 78 employees (or 23 more) are required to maintain Kirkland's current level of service. While police service levels have increased since 1999, much of this annexation staffing increase relates to (or is driven by)



patrol services. There were a number of key factors that were not taken into consideration in the prior study that the police command staff used in putting the patrol budget together. Those factors included a street network comprised of few arterials and many dead-end streets (especially in Finn Hill), higher population density in Juanita (5,773 residents per square mile) and Kingsgate (6,000 residents per square mile) than in Kirkland (4,164 residents per square mile), two junior high schools and five elementary schools, and anecdotal information from the King County Sheriff's Office regarding criminal activity in certain pockets of the PAA.

- The growth in costs has outpaced the growth in revenues from 1999 to 2005. More specifically, personnel costs, which make up about two-thirds of the City's General Fund budget, have risen significantly because of double-digit healthcare cost increases, cost of living adjustments, and market adjustments to employee wages that were necessary to maintain the City's compensation policy of paying at the mid-point of comparable cities in the region. As for revenues, property tax initiatives and the recent economic recession have significantly curbed their growth during this period.
- The cost of land acquisition and building construction has increased significantly since 1999 driving up the cost of adding office space. The annexation-related capital facilities costs were based on the assumption that City Hall and the Maintenance Center would be expanded and that a new Public Safety building would be constructed. These costs were incorporated into the current fiscal analysis as an annual debt service cost of \$1.67 million (based on the issuance of 30 year bonds at a 5 percent rate of interest). It should be noted that the \$1.67 million represents the portion of the total annual debt service cost attributable to the PAA only (based on square footage needed for additional staff).

Specifically excluded from the costs presented in Table 3 are those of a one-time nature, such as the purchase of vehicles, computers, furniture, and equipment. For the 2005 annexation budget that was developed, this totaled \$6.81 million. Also, it bears repeating that the infrastructure needs of the PAA were excluded from this analysis, with the exception of the new facilities space required to house the additional staffing.

The "mini-budget" process that staff went through also considered the following question: **What would be the ongoing impact of annexing only one sub-area?** Table 4 on the following page addresses that question.

**Table 4: Summary Comparison of Annexing Only One Sub-Area**

<b>Ongoing Revenues/Costs &amp; Staffing Needed</b>	<b>Finn Hill Only</b>	<b>Juanita Only</b>	<b>Kingsgate Only</b>
Revenues (Net of Fire District #41 Payment)	5,553,611	2,086,279	4,881,962
Less Cost of Services (Direct & Indirect)	8,761,256	3,725,690	7,408,931
<b>Operating Deficit</b>	<b>-3,207,645</b>	<b>-1,639,414</b>	<b>-2,526,969</b>
<b>Staffing Needed</b>	<b>76.87</b>	<b>32.73</b>	<b>65.15</b>
<b>Operating Deficit Per Capita</b>	<b>\$210</b>	<b>\$293</b>	<b>\$216</b>

While the revenues for each sub-area tie to the total revenues generated by the PAA, the costs and staffing across all three sub-areas don't correspond to the totals in Table 3 above. Simply put, there are scaling efficiencies achieved by annexing all three sub-areas at once. Further, consideration was given to the likelihood of being able to hire qualified part-time staff for certain positions (e.g. police officers). In some cases, annexing just one sub-area triggers the need for a certain number of staff that can't be hired in increments. Department estimates for staffing based on annexing one area at a time resulted in a scaling variance in excess of 30 percent. Finance staff, in consultation with the City Manager, reduced that scaling factor by half (to 15 percent). Accordingly, a scaling factor of 15 percent was applied to the staffing and cost estimates for each sub-area.

From highest to lowest, **the projected operating deficits are \$3.21 million in Finn Hill, \$2.53 million in Kingsgate, and \$1.64 million in Juanita**, assuming that only one sub-area is annexed instead of all three at once. **On a per capita basis, Finn Hill has the lowest operating deficit at \$210, which is significantly higher than the \$147 operating deficit per capita if all three sub-areas are annexed at once.**

Two special reports were prepared by Berk and Associates relative to the impact of annexation on special districts currently serving the PAA. Fire services are provided by Fire District #41 (through a contract with the City of Kirkland), Fire District #36 (Woodinville Fire and Life Safety) serving a part of Kingsgate and Fire District #34 (through a contract with the City of Redmond) serving a smaller part of Kingsgate. The Finn Hill Park District was formed in 2002 to provide maintenance services to local parks. The district currently maintains O.O. Denny Park and is expected to take ownership of three additional parks in the area from King County.

*Fire District*

The special report on the fire district impact evaluated the varying impacts of annexing the PAA in stages versus in its entirety. Fire District #41 is essentially within Kirkland's PAA. When a City annexes fire district property, the properties cease to be part of the fire district and become part of the incorporated city. Depending on the amount of the

fire district assumed by the city, an asset transfer occurs between the two entities. The Berk report details the laws governing the annexation of fire districts and the asset transfers that would take place. In reality, asset transfers are negotiated transactions between fire districts and the annexing city and can involve exchanges of cash, properties, equipment and/or services.

For Finn Hill and Juanita, the ongoing impact to the city is essentially the loss of fire district revenue paid to the city. In exchange, the city's taxing base is extended to the area to compensate for the fire district's levy. Because there are three different fire districts serving Kingsgate, the scenario is more complicated. Fire District #36 currently has a fire station located in Kingsgate and serves an area that includes part of Fire District #41. The service is provided on an automatic aid basis and there is no payment from one fire district to the other for services. It should be noted that Kirkland Fire responds into Fire District #36 from station 27 so there is a reciprocal service. However, District #36 is considering moving the station located in Kingsgate to another location which will impact fire service to the area. This is a pending issue that may have significant financial implications for annexing the Kingsgate area.

The Berk report also discusses the feasibility of Kirkland annexing to Fire District #41. In this scenario, the citizens of Kirkland would have to vote to annex to the district which would authorize an additional property tax levy of \$1.20. This would nearly double the current City levy of \$1.30. Unless the City of Kirkland reduced its own operating levy by the \$1.20 (reducing the City levy to \$.10), it is unlikely that voters would approve a tax for a service they are already receiving.

### *Park District*

The Finn Hill Park District currently levies \$.07 per \$1,000 assessed valuation to raise money for maintenance of local parks within the area. Unlike the fire district, the park district can continue to exist within the incorporated boundaries of Kirkland. Three post-annexation scenarios are presented:

1. The district continues to levy its tax, operates the parks within its area and contracts for maintenance.
2. The district continues to levy its tax and operates the parks within its area but contracts with the City of Kirkland to maintain the parks at a level of service negotiated between the City and the district.
3. The district dissolves upon annexation and the City assumes maintenance and operations of all parks in the area within the City's tax base.

One of the key policy issues in this report relates to varying service levels within the City. Under option 1 (or even option 2), the park district can opt for a lower level of maintenance than the standard that Kirkland uses for its own parks. Having two different service levels within the City is potentially problematic if residents of the annexed area request a comparable level of service.

Another interesting and unique aspect of the park district report relates to O.O. Denny Park which is owned by the City of Seattle and maintained by the park district (this property was formerly maintained by King County). The property was willed to the City of Seattle with the stipulation that it be used only as a park property. A full explanation of the restrictions on this property is included in the Berk report.

## Revenue Estimates

This section of the report is organized into the following sub-sections: Summary Comparison, Revenue Estimation Methodology, Sub-Area Revenue Allocation, and Potential Revenue Sources.

### **Summary Comparison**

A comparison of each revenue estimate for the entire PAA in 2005 and 1999 is provided in Table 5 below.

**Table 5: Detailed Comparison of Current (2005) vs. Prior (1999) Revenue Estimates**

Revenue	Current Analysis (2005)	Prior Analysis (1999)	Difference	Percent Change
<b>Taxes:</b>				
Property Tax	5,039,612	3,573,000	1,466,612	41.0%
Sales Tax (General)	1,125,000	1,066,000	59,000	5.5%
Sales Tax (Criminal Justice)	643,162	651,000	-7,838	-1.2%
Hotel/Motel Tax	0	0	0	N/A
Electric Utility Tax	1,421,657	1,131,000	290,657	25.7%
Gas Utility Tax	408,905	264,000	144,905	54.9%
Telephone Utility Tax	915,726	1,175,000	-259,274	-22.1%
Garbage Utility Tax	648,853	261,000	387,853	148.6%
Surface Water Utility Tax	103,726	0	103,726	N/A
TV Cable Utility Tax	367,537	255,000	112,537	44.1%
Admissions Tax	20,000	20,000	0	0.0%
Gambling Tax	132,749	36,000	96,749	268.7%
Revenue Generating Regulatory Fee	226,725	0	226,725	N/A
<b>Total Taxes</b>	<b>11,053,651</b>	<b>8,432,000</b>	<b>2,621,651</b>	<b>31.1%</b>
<b>Licenses, Permits &amp; Charges for Service:</b>				
Business License Fee	41,500	18,000	23,500	130.6%
Cable TV Franchise Fee	306,281	240,000	66,281	27.6%
Water/Sewer Franchise Fees	955,047	0	955,047	N/A
Development & Building Fees	1,126,231	898,000	228,231	25.4%
Recreation Fees	132,988	0	132,988	N/A
<b>Total Lics, Permits &amp; Chgs for Service</b>	<b>2,562,047</b>	<b>1,156,000</b>	<b>1,406,047</b>	<b>121.6%</b>
<b>Intergovernmental:</b>				
Liquor Excise Tax & Control Board Profits	362,648	320,000	42,648	13.3%
Gas Tax	467,158	539,000	-71,842	-13.3%
Local Government Assistance	0	164,000	-164,000	-100.0%
Criminal Justice	30,970	46,000	-15,030	-32.7%
Traffic Safety Commission	13,168	0	13,168	N/A
DUI Distribution	5,480	0	5,480	N/A
EMS Levy	28,380	0	28,380	N/A
<b>Total Intergovernmental</b>	<b>907,804</b>	<b>1,069,000</b>	<b>-161,196</b>	<b>-15.1%</b>
<b>Fines, Forfeits &amp; Probation Charges</b>	<b>818,559</b>	<b>387,000</b>	<b>431,559</b>	<b>111.5%</b>
<b>Miscellaneous</b>	<b>50,000</b>	<b>50,000</b>	<b>0</b>	<b>0.0%</b>
<b>Total Revenues</b>	<b>15,392,061</b>	<b>11,094,000</b>	<b>4,298,061</b>	<b>38.7%</b>
Less Fire District #41 Payment	-2,870,209	-1,829,000	-1,041,209	56.9%
<b>Total Net Revenues</b>	<b>12,521,852</b>	<b>9,265,000</b>	<b>3,256,852</b>	<b>35.2%</b>

After subtracting out the payment from Fire District #41, total revenue increased by \$3.26 million, or 35.2 percent, compared to the prior fiscal analysis, which looked at 1999 revenues. Most of this increase can be attributed to the following over the intervening six year period:

- The taxable assessed valuation for the PAA increased about 80 percent from 1998 to 2004. That means that property values in the PAA increased about 10 percent annually during this timeframe. This more than offset the 21 percent drop in Kirkland's regular property tax levy rate from \$1.66 in 1999 to \$1.31 in 2005. As a result, the estimated property tax revenue increased by \$1.47 million, or 41 percent. As mentioned in the Executive Summary, staff is still waiting for a confirmation from the Assessor's Office that the 2004 assessed valuation for the PAA provided by the King County Budget Office is correct.
- Utility tax rates, with the exception of the TV cable utility, were increased twice from 1999 to 2005. The 22 percent drop in telephone utility tax relates to the highly competitive cellular and long distance telephone market, whose calling plans have steadily become cheaper.
- The following new revenues have been instituted:
  - Surface water utility tax (2002)
  - Water/sewer utility franchise fee, which is collected by the Northshore Utility District (2001)
  - Revenue generating regulatory license fee, which is a surcharge on top of the business license fee (2003)
- Business license fees were increased in 2003, and the licensing requirement was extended to all businesses that have activity in Kirkland regardless of their physical location.
- Fines, forfeits, and probation charges are up almost \$432,000 from the previous fiscal study primarily due to the Police Department's request for patrol officers to service the PAA and to the addition of in-house probation services that weren't offered back in 1999.
- Kirkland no longer receives local government assistance revenue from the state. This revenue was originally intended to partially backfill for the motor vehicle excise tax (MVET) revenue that cities lost when the legislature repealed the MVET (after the state supreme court found I-695 unconstitutional). When the recession took root, the state needed this money to help balance its own budget.
- The prior fiscal analysis assumed that annexing Finn Hill, Juanita, and Kingsgate would have no impact on recreation programs. Consequently, no revenue was estimated for recreation fees. After looking at who they currently serve, the Parks and Community Services Department staff determined that there would be an impact on recreation programs, resulting in about \$133,000 in revenue.

- The Seattle metropolitan area has experienced inflationary growth from April 1999 through April 2005 of about 17 percent (based on the Seattle CPI-U).

### **Revenue Estimation Methodology**

The methodology used for each revenue estimate is briefly described in Table 6 below.

**Table 6: Revenue Estimation Methodology**

<b>Revenue</b>	<b>2005 Estimate Methodology</b>
<b>Taxes:</b>	
Property Tax	\$3.86 billion AV in PAA / \$1,000 x \$1.305 COK regular levy rate
Sales Tax (General)	Per King County; based on known taxable retail sales in PAA and the allocation of receipts from certain industrial classifications (e.g. telecommunications and construction) according to various demographic factors.
Sales Tax (Criminal Justice)	Per King County; based on PAA population.
Hotel/Motel Tax	None assumed
Electric Utility Tax	Per King County; based on typical usage for an average household and 6.0% utility tax rate.
Gas Utility Tax	Per King County; based on typical usage for an average household and 6.0% utility tax rate.
Telephone Utility Tax	Per King County; based on typical usage for an average household and 6.0% utility tax rate.
Garbage Utility Tax	Per King County; based on typical usage for an average household and 7.5% utility tax rate.
Surface Water Utility Tax	Per King County; based on number of single family homes and commercial/multi-family impervious surface area, COK's current SWM fees, and 7.5% utility tax rate.
TV Cable Utility Tax	Per King County; based on typical usage for an average household.
Admissions Tax	Used same estimate as prior fiscal analysis.
Gambling Tax	Per King County; based on revenue generated by gambling establishments in PAA.
Revenue Generating Regulatory Fee	Per King County & COK Treasury Manager; based on number and types of businesses and number of employees in PAA.
<b>Licenses, Permits &amp; Charges for Service:</b>	
Business License Fee	Per King County & COK Treasury Manager; based on number of businesses in PAA.
Cable TV Franchise Fee	Per King County; based on records from KC Office of Cable Communications.
Water/Sewer Franchise Fees	Per King County & COK Financial Planning Manager; based on typical usage for an average household and 7.5% utility tax rate.
Development & Building Fees	Per King County & COK development services staff; based on building permit related activity in PAA.
Recreation Fees	Per COK recreation staff; based on PAA population, current customers, and proximity of other providers.

**Table 6: Revenue Estimation Methodology (Cont'd)**

<b>Revenue</b>	<b>2005 Estimate Methodology</b>
<b>Intergovernmental:</b>	
Liquor Excise Tax & Control Board Profits	Per King County; based on PAA population.
Gas Tax	Based on \$14.33 per capita rate from MRSC's 2005 Budget Suggestions publication.
Local Government Assistance	Not distributed by the state anymore.
Criminal Justice	Based on \$.95 per capita rate from MRSC's 2005 Budget Suggestions publication.
Traffic Safety Commission	Per COK Financial Planning Manager; based on current ratio of 2005 budgeted revenue to population.
DUI Distribution	Per COK Financial Planning Manager; based on current ratio of 2005 budgeted revenue to population.
EMS Levy	Per COK Financial Planning Manager; based on per capita distribution relative to the portion of Kingsgate not in FD #41's boundaries.
<b>Fines, Forfeits &amp; Probation Charges</b>	2005 budgeted revenue, excluding parking infraction penalties / 45,800 COK pop x 32,600 PAA pop
<b>Miscellaneous</b>	Per COK Financial Planning Manager; based on current ratio of 2005 budgeted revenue to population.

Most of the revenue estimates were provided by Chris Haugen, an economist with the King County Office of Budget, who is responsible for analyzing and preparing revenue estimates in the unincorporated areas of King County. He oversaw the geo-coding of the parcels (and their assessed values) and the businesses located in the PAA. Also, he utilized an econometric model for certain revenues (e.g. utility taxes) that are directly related to household consumption, demographics, and other factors.

***Sub-Area Revenue Allocation***

Each revenue source generated by the PAA is broken down by sub-area in Table 7 on the next page. The revenues that couldn't be specifically associated with a particular sub-area were allocated based on a variety of factors, such as population, number of households, and square miles. It should be noted that the revenue allocation is at best an approximation. In addition, property tax, sales tax, and total net revenues for each sub-area are divided by their respective populations (15,300 in Finn Hill, 5,600 in Juanita, and 11,700 in Kingsgate) and presented on a per capita basis in Table 8.



**Table 7: 2005 Annexation Revenue Estimates By Sub-Area**

Revenue	Finn Hill	Juanita	Kingsgate	Total PAA
<b>Taxes:</b>				
Property Tax	2,910,926	633,782	1,494,904	5,039,612
Sales Tax (General & Criminal Justice)	670,047	401,868	696,247	1,768,162
Utility Taxes	1,917,942	673,197	1,275,265	3,866,404
Other Taxes (Gambling & Admissions)	1,582	25,363	125,804	152,749
Revenue Generating Regulatory Fee	34,200	51,075	141,450	226,725
<b>Total Taxes</b>	<b>5,534,698</b>	<b>1,785,285</b>	<b>3,733,669</b>	<b>11,053,651</b>
<b>Licenses, Permits &amp; Charges for Service:</b>				
Business License Fee	13,800	8,000	19,700	41,500
Franchise Fees (Cable & Water/Sewer)	627,655	219,389	414,284	1,261,328
Development & Building Fees	528,569	193,463	404,199	1,126,231
Recreation Fees	64,165	22,278	46,545	132,988
<b>Total Lics, Permits &amp; Chgs for Service</b>	<b>1,234,189</b>	<b>443,130</b>	<b>884,728</b>	<b>2,562,047</b>
<b>Intergovernmental:</b>				
Liquor Related Revenues	180,459	63,077	119,112	362,648
Gas Tax	219,249	80,248	167,661	467,158
EMS Levy	0	0	28,380	28,380
Other Intergovernmental Revenues	23,287	8,523	17,808	49,618
<b>Total Intergovernmental</b>	<b>422,995</b>	<b>151,848</b>	<b>332,961</b>	<b>907,804</b>
<b>Fines, Forfeits &amp; Probation Charges</b>	<b>384,170</b>	<b>140,611</b>	<b>293,777</b>	<b>818,559</b>
<b>Miscellaneous</b>	<b>20,000</b>	<b>10,000</b>	<b>20,000</b>	<b>50,000</b>
<b>Total Revenues</b>	<b>7,596,052</b>	<b>2,530,874</b>	<b>5,265,135</b>	<b>15,392,061</b>
Less Fire District #41 Payment	-2,042,441	-444,595	-383,173	-2,870,209
<b>Total Net Revenues</b>	<b>5,553,611</b>	<b>2,086,279</b>	<b>4,881,962</b>	<b>12,521,852</b>

**Table 8: 2005 Annexation Revenue Per Capita Estimates By Sub-Area**

Revenue Per Capita	Finn Hill	Juanita	Kingsgate	Total PAA
Property Tax	\$190	\$113	\$128	\$155
Sales Tax	\$44	\$72	\$60	\$54
<b>Total Net Revenues</b>	<b>\$363</b>	<b>\$373</b>	<b>\$417</b>	<b>\$384</b>

Analyzing revenues by sub-area, the following are worth noting:

- Kingsgate generates the most revenue per capita at \$417 compared to \$373 and \$363 for Juanita and Finn Hill respectively. This can be primarily attributed to the commercial/industrial sector located in the southeast corner of Kingsgate.
- Looking at property tax revenue, Finn Hill, Kingsgate, and Juanita generate \$190, \$128, and \$113 per capita respectively. Finn Hill has a larger share of the PAA's total assessed valuation relative to the population in each sub-area.

- Development is significantly stronger in Finn Hill and Kingsgate than in Juanita according to the development and building fee projections.

### ***Potential Revenue Sources***

Though not reflected in this analysis, there are three potential revenue sources that could generate significant ongoing revenue in Kirkland's PAA:

- The Graham Steel property (along with another parcel adjacent to it), which is located in the southeast corner of Kingsgate, is being considered for an automobile dealership. Based on the average lot size of current dealerships in Kirkland (about 135,000 square feet), it is estimated that a new dealership would generate \$200,000 to \$400,000 annually in sales tax revenue on this property alone. Staff will look at the potential of re-developing other parcels along the NE 124<sup>th</sup> Street corridor into an "auto row" and present their analysis at the mid-year budget review meeting on June 27, 2005.
- Streamlined sales tax legislation, which wasn't passed in the 2005 legislative session, could provide up to \$500,000 annually in sales tax revenue per King County. The sticking point with this proposed legislation relates to the "sourcing" provision, which determines where the sale takes place (and thus who gets the tax revenue). An excerpt from the 2004 Budget Suggestions publication produced by the Municipal Research and Services Center of Washington (MRSC) follows:

"Currently, in Washington, the sale of an item is considered to have taken place in the jurisdiction in which the purchase was made and from which it is delivered.... [Accordingly],...that jurisdiction gets the sales tax. Under the Streamlined Sales and Use Tax Agreement, the source of the sale is considered to be the jurisdiction to which the item is delivered and that jurisdiction gets the sales tax."

- To provide an additional revenue source to cities contemplating annexation, a utility tax surcharge bill was introduced during the 2005 legislative session. While it passed the House, it didn't make it out of the Senate. If this legislation were to pass during the next legislative session, it could provide needed funding to greatly reduce (or perhaps eliminate) the projected gap between revenues and costs, if the voters in the PAA were to approve the surcharge.

Because none of these potential revenue sources are a given, they weren't included in the projected revenues for the PAA.

## **Cost Estimates & Staffing Needed**

This section of the report is organized into the following sub-sections: Direct Service Functions, Internal Support Functions, and Overhead.

### ***Direct Service Functions***

The direct service functions, which represent the services delivered to Kirkland's citizens and businesses, include the following:

- Fire & Building
- Municipal Court (including prosecution and public defense)
- Parks & Community Services
- Planning & Community Development
- Police
- Public Works (including street maintenance but excluding facilities maintenance and fleet)

A summary of the one-time and ongoing costs and the staffing (expressed as full-time equivalents) associated with each direct service function if the entire PAA is annexed is provided in Table 9 below. Because the prior fiscal analysis by Henderson, Young & Company included the internal support function and overhead costs within the direct service functions, a cost comparison by function between the two fiscal analyses can't be provided. However, a staffing comparison is included in Table 9.

**Table 9: Summary of Direct Service Function Costs and Staffing for Entire PAA**

Direct Service Function	Current Analysis (2005)			Prior Analysis (1999)
	One-Time Costs	Ongoing Costs	Staffing (FTEs)	Staffing (FTEs)
Fire & Building	141,430	863,431	10.00	8.94
Municipal Court	128,727	937,952	8.24	4.71
Parks & Community Services	436,039	1,006,861	6.93	4.26
Planning & Community Devel.	234,373	985,464	9.50	11.27
Police	2,687,238	8,158,195	77.50	54.38
Public Works	954,380	2,048,101	17.24	12.80
<b>Total</b>	<b>4,582,187</b>	<b>14,000,004</b>	<b>129.41</b>	<b>96.36</b>

Across all direct service functions, the number of staff needed is about 33 employees more than the prior study identified. This significant difference can be primarily attributed to the following:

- To maintain current service levels, the Police Department identified the need for 77.5 employees, or 23 more than was identified in the prior study. While police service levels have increased since 1999, much of this annexation staffing increase relates to (or is driven by) patrol services. There were a number of key factors that were not taken into consideration in the prior study that the police command staff used in putting the patrol budget together. Those factors included a street network comprised of few arterials and many dead-end streets (especially in Finn Hill), higher population density in Juanita (5,773 residents per square mile) and Kingsgate (6,000 residents per square mile) than in Kirkland (4,164 residents per square mile), two junior high schools and five elementary schools, and anecdotal information from the King County Sheriff's Office regarding criminal activity in certain pockets of the PAA.

Based on these factors, the Police Department broke down the PAA into five patrol districts served by 36 patrol officers, which is how the City is currently broken down and served. If, instead, the number of patrol officers needed were tied exclusively to the PAA's population, then only 26 patrol officers (36 current officers / 45,800 COK population x 32,600 PAA population) would have been requested. The additional 10 patrol officers are needed in the professional judgment of the police command staff because of the factors noted above. Also worth noting is the fact that the number of police support staff needed is driven by the number of patrol officers recommended. As a result, these 10 additional officers have a support staffing ripple effect.

Pre-hire costs for all commissioned officers were ignored for simplicity's sake. In reality, it would take three years to ramp up to full staffing levels due to Police Academy class size constraints. The ongoing personnel costs were based on the assumption that all of the newly commissioned officers were fully trained.

- Similar to the police support staff, the Municipal Court staffing is driven by the number of patrol officers requested as well. This, along with the fact that the City now provides in-house probation services (which it didn't when the prior fiscal study was prepared), explains why the Municipal Court's staffing request grew by 3.5 employees compared to the prior study.
- Public Works requested about 17 employees, which is over 4 more than was estimated back in 2000 by Henderson, Young & Company. The difference is entirely related to street maintenance and operations, for which service activity level and infrastructure inventory information was very incomplete back in 2000. Based on that incomplete data, Henderson, Young & Company estimated that 7 employees were needed for street maintenance and operations. Using vastly improved data from King County for this fiscal analysis and taking into account service level changes since 1999, Public Works staff estimated that about 11

employees were needed to maintain current service levels. Additional responsibilities added to the street maintenance function since 1999 relate to addressing environmentally sensitive areas (ESA) requirements and moving the public grounds function from the Parks & Community Services Department.

- Parks & Community Services requested almost 3 more employees than was identified in the previous study. This relates to parks maintenance, recreation, and senior services. The parks maintenance budget was based on a much more detailed analysis of the park acreage in the PAA than was done last time, resulting in almost one more employee being requested. The balance of the staffing increase reflects the estimated impact on recreation and senior services, both of which were assumed to have no impact in the prior analysis (except for a part-time van driver for the seniors). After looking closely at their current customers in terms of where they live, the Parks and Community Services Department staff determined that there would be an impact on their recreation and senior programs.

Also noted in Table 9 above are the one-time, start-up costs primarily for vehicles, computers, furniture, and equipment, which amount to \$4.58 million. This figure doesn't include any capital infrastructure costs. Again, the primary focus of this analysis is on the ongoing impact of annexation.

Table 10 below illustrates the ongoing costs and staffing associated with each direct service function if only one sub-area is annexed.

**Table 10: Summary of Direct Service Function Costs and Staffing for Each Sub-Area**

Direct Service Function	Finn Hill Only		Juanita Only		Kingsgate Only	
	Ongoing Costs	Staffing (FTEs)	Ongoing Costs	Staffing (FTEs)	Ongoing Costs	Staffing (FTEs)
Fire & Building	466,685	5.41	133,056	1.50	393,205	4.60
Municipal Court	505,164	4.44	186,079	1.63	387,402	3.40
Parks & Community Services	358,169	2.20	282,441	1.97	517,280	3.81
Planning & Community Devel.	566,607	5.46	192,658	2.01	374,018	3.45
Police	3,915,229	37.28	1,810,276	17.16	3,656,419	34.68
Public Works	1,192,526	9.98	439,965	3.90	722,826	5.95
<b>Total</b>	<b>7,004,380</b>	<b>64.77</b>	<b>3,044,475</b>	<b>28.17</b>	<b>6,051,150</b>	<b>55.89</b>

Finn Hill, which is the largest of the three sub-areas, would cost the most to annex at \$7.00 million in terms of direct services. Not far behind at \$6.05 million is Kingsgate, which is the next largest sub-area and which has a significant commercial/industrial sector. Juanita, which is the smallest sub-area, would cost \$3.04 million. The costs and staffing across all three sub-areas don't correspond to the totals in Table 9 above.

There are scaling efficiencies that are lost when only one sub-area is annexed rather than all three sub-areas at once (as described in the Executive Summary).

A summary listing of the service packages recommended by the direct service functions is included in Table 11 below. The service package forms are included in the Appendix.

**Table 11: Summary Listing of Direct Service Function Service Packages**

Direct Service Function	One-Time Costs	Ongoing Costs	Staffing (FTEs)
<b>Fire &amp; Building:</b>			
Administration	6,179	66,470	1.00
Fire Prevention Services	47,637	295,732	3.00
Building Services	87,614	501,229	6.00
<b>Total Fire &amp; Building</b>	<b>141,430</b>	<b>863,431</b>	<b>10.00</b>
<b>Municipal Court:</b>			
Court Services	19,495	406,669	5.74
Probation Services	9,778	144,326	2.00
Judicial Services	3,454	79,757	0.50
Public Safety Legal Services	96,000	307,200	-
<b>Total Municipal Court</b>	<b>128,727</b>	<b>937,952</b>	<b>8.24</b>
<b>Parks &amp; Community Services:</b>			
Parks Maintenance	349,555	489,243	4.25
Human Services	-	277,594	0.18
Youth Services	3,100	16,137	-
Recreation Services (Current Capacity)	7,410	132,559	1.50
Senior Services (Current Capacity)	75,974	91,328	1.00
<b>Total Parks &amp; Community Services</b>	<b>436,039</b>	<b>1,006,861</b>	<b>6.93</b>
<b>Planning &amp; Community Development:</b>			
Administration	59,613	116,058	1.50
Land Use Management	42,670	487,745	5.00
Policy and Planning	132,090	381,661	3.00
<b>Total Planning &amp; Community Development</b>	<b>234,373</b>	<b>985,464</b>	<b>9.50</b>
<b>Police:</b>			
Police Command & Administration	161,547	448,103	3.00
Police Training & Travel	1,280	82,397	-
Police Investigations	249,787	674,596	6.00
Police Patrol	1,062,102	3,787,979	36.00
Police Canine Handler & Service Dog	65,228	123,114	1.00
Police Traffic Enforcement & Education	156,983	446,364	4.00
Police Community Services	110,468	280,532	2.50
Police Communications and Dispatch	555,457	937,976	12.00
Police Records & Support Services	45,821	554,619	8.00
Police Detention & Corrections (Current Facility)	278,565	822,515	5.00
<b>Total Police</b>	<b>2,687,238</b>	<b>8,158,195</b>	<b>77.50</b>
<b>Public Works:</b>			
Development Engineering	72,868	337,227	4.00
GIS Engineering	-	31,961	0.36
Transportation Engineering	5,235	144,167	1.50
Street Operations	876,277	1,534,746	11.38
<b>Total Public Works</b>	<b>954,380</b>	<b>2,048,101</b>	<b>17.24</b>
<b>Total Direct Service Functions</b>	<b>4,582,187</b>	<b>14,000,004</b>	<b>129.41</b>

In addition to the service packages noted above, four contingency packages were prepared by three different departments to determine the costs associated with four “what if” scenarios. They are listed in Table 12 below, which reflects the additional costs over and above what was included in their “base” service packages. **None of the contingency packages are incorporated within the annexation revenue and expenditure estimates that form the basis for the \$4.8 million operating deficit.**

**Table 12: Summary Listing of Direct Service Function Contingency Service Packages**

Direct Service Function (Contingency)	One-Time Costs	Ongoing Costs	Staffing (FTEs)
<b>Fire &amp; Building:</b>			
Emergency Services (Woodinville Station)	747,300	1,181,459	12.00
<b>Parks &amp; Community Services:</b>			
Recreation Services (Additional Cost--Expanded Capacity)	35,283	472,900	2.50
Senior Services (Additional Cost--Expanded Capacity)	7,189	112,141	1.50
<b>Police:</b>			
Detention & Corrections (Cost Savings--Expanded Facility)	-	(262,286)	-
<b>Total Contingency Service Packages</b>	<b>789,772</b>	<b>1,504,214</b>	<b>16.00</b>

The four “what if” scenarios are as follows:

- The Woodinville Fire & Life Safety District (#36), which owns and operates Station #34 in Kingsgate, has indicated that they plan on closing and relocating Station #34 in the near future in order to better serve the citizens and businesses located in their district. Accordingly, this service package reflects the cost of staffing and equipping a fire station in this area. However, it doesn’t include the cost to build a new station or purchase/remodel the Station #34 property.
- Based on current recreation facility/space usage, Kirkland doesn’t have enough capacity to serve the PAA. According to the City’s Parks Comprehensive Plan, 22,400 square feet of non-athletic space and 16,000 square feet of athletic space would be needed to accommodate the PAA. This service package includes the staffing and other program costs, as well as the revenue, associated with fully serving the PAA, but it doesn’t include the cost of acquiring land and building another recreation center.
- The Senior Center is currently at capacity for 90 percent of its programs. It is estimated that annexing Finn Hill, Juanita, and Kingsgate would increase the number of seniors served by 60 percent. The staffing and other program costs needed to meet this increased demand are included in this service package; however, the related facilities costs, whether it be through leasing additional space or expanding the current Senior Center, aren’t included.
- The Detention and Corrections contingency service package reflects the assumption that the current jail is expanded from a 15 to a 40 bed facility. Such an expansion would serve two purposes. One, it would provide sufficient

capacity to house prisoners from the PAA at a lower cost than at the King County or another jurisdiction's jail. Two, it would enable the City to generate revenue by providing housing and transport services to other cities when beds are available. Again, like the other contingency packages, only the service costs are included, not the capital cost of expanding the jail.

The service package forms for these four contingencies are included in the Appendix. They reflect the full costs (i.e. "base" service package plus additional costs) net of any revenue or expenditure savings.

### ***Internal Support Functions***

The internal support functions, which primarily support the direct service functions or provide organization-wide oversight, consist of the following:

- City Attorney's Office
- City Manager's Office
- Facilities Maintenance
- Finance & Administration (excluding the Municipal Court)
- Human Resources
- Fleet
- Information Technology

A summary of the one-time and ongoing costs for each function and the staffing needed (expressed as full-time equivalents) is provided in Table 13 on the following page. As noted in the Direct Service Functions sub-section above, a cost comparison by function between the current and the prior fiscal analysis can't be provided. However, a staffing comparison is included in Table 13. It should be noted that the Information Technology and Fleet functions are supported via internal charges to customers, and, therefore, their ongoing costs are reflected within the budgets developed by the direct service and other internal support functions. Hence, ongoing costs are specifically excluded for Information Technology and Fleet.



**Table 13: Summary of Internal Support Function Costs and Staffing for Entire PAA**

Internal Support Function	Current Analysis (2005)			Prior Analysis (1999)
	One-Time Costs	Ongoing Costs	Staffing (FTEs)	Staffing (FTEs)
City Attorney's Office	9,410	138,844	1.50	1.20
City Manager's Office	54,650	167,323	1.50	1.54
Facilities Maintenance	53,358	418,633	1.50	1.37
Finance & Administration	19,712	333,873	5.05	7.69
Human Resources	91,132	242,131	2.00	2.00
Fleet	10,000	N/A	2.50	2.22
Information Technology	1,994,140	N/A	8.50	4.06
<b>Total</b>	<b>2,232,402</b>	<b>1,300,804</b>	<b>22.55</b>	<b>20.08</b>

Overall, the recommended staffing for the internal support functions is almost 2.5 employees more than the prior fiscal analysis, which isn't significant considering the staffing additions to some of these functions since 1999. However, looking at each internal support function, the following differences are worth noting:

- Finance & Administration requested almost 3 fewer employees than was identified in the prior study. This can be mostly attributed to re-organizations of internal support functions.
- Information Technology requested 8.5 employees, which is over 4 more than was identified in the last study. This difference is directly related to the transformation of Information Technology from a division to a department with significant staffing increases in geographical information systems (GIS), applications, and network and operations.

Also of significance is the almost \$2 million in one-time costs for Information Technology, which seems high at first glance. These costs primarily encompass the purchase of additional software licenses for the City's various systems (especially the police system), the training of new police staff on the police system, and the development of new GIS layers. As mentioned previously though, the primary focus of this analysis is on the ongoing impact of annexation.

The ongoing costs and staffing associated with each internal support function if only one sub-area is annexed are illustrated below in Table 14.

**Table 14: Summary of Internal Support Function Costs and Staffing for Each Sub-Area**

Internal Support Function	Finn Hill Only		Juanita Only		Kingsgate Only	
	Ongoing Costs	Staffing (FTEs)	Ongoing Costs	Staffing (FTEs)	Ongoing Costs	Staffing (FTEs)
City Attorney's Office	74,934	.81	27,431	.29	57,306	.63
City Manager's Office	152,864	1.04	15,823	.25	23,735	.44
Facilities Maintenance	211,789	.76	90,168	.32	179,472	.64
Finance & Administration	177,070	2.67	65,950	1.00	140,934	2.14
Human Resources	128,506	1.06	51,072	.43	98,874	.82
Fleet	N/A	1.29	N/A	.52	N/A	1.07
Information Technology	N/A	4.50	N/A	1.76	N/A	3.52
<b>Total</b>	<b>745,163</b>	<b>12.13</b>	<b>250,444</b>	<b>4.57</b>	<b>500,321</b>	<b>9.26</b>

Like the direct service functions, Finn Hill would cost the most to annex at \$.75 million, followed by Kingsgate at \$.50 million and Juanita at \$.25 million. Also, the 15 percent scaling factor applied to the direct service functions was similarly applied to the internal support functions to determine the staffing and cost impact of annexing only one sub-area.

A summary listing of the service packages recommended by the internal support functions is included in Table 15 on the next page. The service package forms are included in the Appendix.

**Table 15: Summary Listing of Internal Support Function Service Packages**

Internal Support Function	One-Time Costs	Ongoing Costs	Staffing (FTEs)
<b>City Attorney's Office:</b>			
City Attorney's Office	9,410	138,844	1.50
<b>Total City Attorney's Office</b>	<b>9,410</b>	<b>138,844</b>	<b>1.50</b>
<b>City Manager's Office:</b>			
City Manager's Office	54,650	167,323	1.50
<b>Total City Manager's Office</b>	<b>54,650</b>	<b>167,323</b>	<b>1.50</b>
<b>Facilities:</b>			
Facilities Administration	53,358	113,529	1.50
City Hall	-	88,286	-
Maintenance Center	-	21,595	-
Public Safety	-	195,223	-
<b>Total Facilities</b>	<b>53,358</b>	<b>418,633</b>	<b>1.50</b>
<b>Finance &amp; Administration:</b>			
Financial Operations	10,504	141,084	2.00
Financial Planning	4,250	75,291	1.00
Treasury Division	-	29,463	0.50
Records and City Council Support	3,554	57,149	1.00
Mail Services	1,404	30,886	0.55
<b>Total Finance &amp; Administration</b>	<b>19,712</b>	<b>333,873</b>	<b>5.05</b>
<b>Human Resources:</b>			
Human Resources	91,132	242,131	2.00
<b>Total Human Resources</b>	<b>91,132</b>	<b>242,131</b>	<b>2.00</b>
<b>Fleet:</b>			
Fleet Management	10,000	N/A	2.50
<b>Total Fleet</b>	<b>10,000</b>	<b>-</b>	<b>2.50</b>
<b>Information Technology:</b>			
Applications	973,987	N/A	3.00
GIS	573,364	N/A	2.00
Networks & Operations	284,488	N/A	2.00
Nondivisional	75,989	N/A	0.50
Multimedia Services	86,312	N/A	1.00
<b>Total Information Technology</b>	<b>1,994,140</b>	<b>-</b>	<b>8.50</b>
<b>Total Internal Support Functions</b>	<b>2,232,402</b>	<b>1,300,804</b>	<b>22.55</b>

### **Overhead**

The remaining costs that were determined as part of this fiscal analysis were treated as overhead layers. They are non-departmental costs, general liability insurance costs, and facilities costs (expressed as an annual debt service cost). How each cost layer was calculated is briefly described below.

#### *Non-Departmental Costs*

Non-Departmental costs represent those supplies and services that can't be associated with a specific department. They were derived for the PAA by relating the current 2005 non-departmental budget (excluding operating transfers to other funds, funding for outside agencies, intergovernmental professional services, and reserves) to the current

number of general governmental employees (i.e. excluding utilities). **The projected non-departmental cost for the PAA is \$60,000** as calculated below:

\$147,125	2005 Adjusted Kirkland Non-Departmental Budget
<u>387.10</u>	Divided by # of General Governmental Employees
\$380	2005 Budget Per General Governmental Employee
<u>151.96</u>	Times Recommended Annexation Staffing
<b><u>\$60,000</u></b>	<b>2005 PAA Non-Departmental Budget (Rounded)</b>

#### *General Liability Insurance Cost*

Determining the additional amount of general liability insurance applicable to the PAA is primarily based on the number and types of employees needed and Kirkland's historical claims experience. Using the current general liability insurance model, which isn't displayed below because of its size and complexity, **it is estimated that the City's insurance costs would increase by \$275,000.**

#### *Capital Facilities & Annual Debt Service Costs*

An assessment of the facilities space needs was made based on the number and types of staff recommended for the PAA and the current average square footage figures for each type of employee. Because of the difficulty in finding the right kind and amount of leased space in Kirkland for a government, it was assumed that the facilities costs would be based on expanding City Hall and the Maintenance Center and constructing a Public Safety building. It was further assumed that the Public Safety Building would house only police staff and that a jail would be excluded. Construction estimates of \$300 per square foot for a building, \$85 per square foot for a parking garage stall, and \$7 per square foot for a surface parking space were provided by Jim McLaren, the City's space consultant. He also provided the estimated land acquisition costs for a new Public Safety building. Ryan Dunham, a local realtor, was the source for the land acquisition costs for an expanded Maintenance Center. The total capital outlay associated with the new facilities space was incorporated into this fiscal analysis by determining the annual debt service cost over a 30 year term assuming a 5 percent rate of interest. A summary of the land acquisition costs, construction costs (for building and parking), and annual debt service is detailed out for each facility on the following page.

### City Hall Expansion

\$0	No land acquisition costs (City already owns adjacent parcels)
5,044,500	Total building construction cost (16,815 sf x \$300 per sf)
<u>1,547,000</u>	Total parking garage cost (52 stalls x 350 sf/stall x \$85 per sf)
<u>\$6,591,500</u>	Total expansion cost (for annexation staff only)

**\$430,000 Rounded annual debt service (30 year term @ 5%)**

### Maintenance Center Expansion

\$540,000	Total land acquisition cost (12,000 sf x \$45 per sf)
2,007,000	Total building construction cost (6,690 sf x \$300 per sf)
595,000	Total parking garage cost (20 stalls x 350 sf/stall x \$85 per sf)
<u>56,700</u>	Total vehicle storage cost (8,100 sf x \$7 per sf)
<u>\$3,198,700</u>	Total expansion cost (for annexation staff only)

**\$210,000 Rounded annual debt service (30 year term @ 5%)**

### New Public Safety Building

\$3,846,375	Allocated portion of total land acquisition cost (30,771 building sf needed / 40,000 total building sf x \$5.0M)
9,231,300	Total building construction cost (30,771 sf x \$300 per sf)
<u>2,677,500</u>	Total parking garage cost (90 stalls x 350 sf/stall x \$85 per sf)
<u>\$15,755,175</u>	Total cost (for annexation staff only)

**\$1,025,000 Rounded annual debt service (30 year term @ 5%)**

Across all three facilities, **the total annual debt service cost amounts to \$1.67 million.**

A sub-area allocation of these overhead costs, which was based on the number of employees needed if only one sub-area was annexed, is provided below in Table 16 below.

**Table 16: Sub-Area Allocation of Overhead Costs**

<b>Overhead Cost</b>	<b>Finn Hill</b>	<b>Juanita</b>	<b>Kingsgate</b>	<b>Total</b>
Non-Departmental costs	30,351	12,923	25,724	60,000
General liability insurance	139,111	59,231	117,901	275,000
City Hall expansion	217,518	92,616	184,354	430,000
Maintenance Center expansion	106,230	45,231	90,034	210,000
New Public Safety building	518,503	220,770	439,450	1,025,000
<b>Total</b>	<b>1,011,714</b>	<b>430,771</b>	<b>857,462</b>	<b>2,000,000</b>

**The total overhead costs related to the PAA equal \$2.0 million.**