



Frequently Asked Questions—City Finances

Since 2006, the Kirkland City Council has been carefully studying the annexation of the Finn Hill, North Juanita and Kingsgate neighborhoods, known as Kirkland's Potential Annexation Area (PAA). Throughout the City's analysis of the potential annexation, the City Council has endeavored to meet the intent of the Growth Management Act, evaluate financial impacts of annexation and provide public participation opportunities for those impacted should annexation occur.

The annexation process is guided by a series of strict events. In April 2009, the City Council initiated the annexation process by declaring its intent to hold an election in November. In June, the City presented its annexation proposal to the Washington State Boundary Review Board for King County which was approved. Following several public meetings, the City Council adopted zoning regulations in July for the PAA that define land use designations, identify allowed uses within each zone and regulate such things as building height and setbacks.

The purpose of this Frequently Asked Question (FAQ) handout is to address questions and concerns the City has heard from current City and PAA residents about the impact of the annexation on City finances.

Several financial studies were completed as part of the Annexation Study. The studies compared short- and long-term financial projections for the City with and without annexation. The analyses were designed to estimate the long-term fiscal impacts of annexation under different development, cost, and revenue scenarios.

How is the City of Kirkland impacted by the economic downturn?

Like many cities and other government agencies, Kirkland is feeling the squeeze of the current economic downturn. Sales tax generated from transactions in the City helps to fund essential services such as police, fire, emergency medical and road maintenance. Sales tax revenue has been declining since early 2008. At the same time, the City's cost of doing business increases with inflation.

The continuing decline in revenues and simultaneous increases in costs posed a challenge for the City in balancing its 2009-2010 Budget. In order to address the budget challenge, the City Council put the Annexation Study on hold last spring. To balance the budget, the City Council approved expenditure reductions, utility tax and business license fee increases, and the use of reserves.

Can the City afford to annex now?

The results of the financial analysis completed in February 2009 show that the 2009-2010 budget decisions, particularly the increase in utility taxes, have improved the financial results in the PAA. This is based, in part, on the fact that utility taxes are a much larger share of the revenues in the PAA than they are in the existing City.

The detailed financial analysis studied multiple fiscal scenarios starting with a "base case" and modeling a variety of contingencies such as slower growth in sales tax, potential gambling taxes, facilities expansion alternatives (with and without a separate public safety building) and lower utility tax rates.



For annexation information, go to www.ci.kirkland.wa.us/annexation.

- [Subscribe to receive email updates](#)
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Email: annexation@ci.kirkland.wa.us

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This evaluation revealed that the contingencies generally improve the PAA's fiscal outlook in the near-term, especially the change in facilities alternatives and the inclusion of gambling tax revenue from social card games. Long-term projections are still somewhat worse because of the expected slowdown in sales tax revenue and anticipated increases in jail costs. However, these factors apply both to the existing City and the PAA. The shortfall projected for the PAA is smaller than that for the existing City, so the actions taken to balance the existing City will also balance the PAA.

The results of the financial analysis completed in February 2009 showed that the inclusion of new potential gambling tax revenue from social card games (which are currently prohibited in the City of Kirkland), at the King County gambling tax rate of 11%, balances PAA finances in the first five years after annexation (assuming use of the state sales tax credit toward projected shortfalls).

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Will annexation be financially self-supporting?

With or without annexation, the City Council needs to maintain a balanced budget. Financial analysis conducted to date projects a shortfall of approximately \$3.3 million, before application of the State sales tax credit. State law allows for a credit to the City of up to 0.2% of the State's portion of sales tax revenues; this payment is estimated to provide an average of up to \$4.4 million per year for ten years to help offset the cost of annexation. The sales tax credit is only available up to the amount needed to offset shortfalls due to annexation and can only be spent on services for the annexation area. The state sales tax credit more than offsets the \$3.3 million shortfall anticipated in the first full year of the proposed annexation and the long-term financial analysis assumes that facilities expansion debt will be retired close to the time the sales tax credit ceases. If the gambling tax revenues are not available, the sales tax credit will offset most of the shortfall and the remainder is less than the shortfall in the existing City's forecast.

Will casinos/card rooms in the PAA be allowed to continue to operate?

State legislation (ESSB 5321) adopted in May, 2009 provides the option for the City Council to allow existing licensed casinos in the PAA to continue to operate. In July 2009, the City Council adopted non-binding legislation (Resolution 4766) which expressed the City Council's intent to allow the continued operation of existing card rooms in the PAA if any such license qualified at that time.

How much revenue will the casinos/cardrooms generate for the City if annexation occurs?

Based on the financial analysis completed in February 2009 and based on the one existing casino at the time of the analysis, gambling tax revenue is estimated at \$800,000 per year (assuming King County's tax rate of 11%.)

Is the City raising the private utility tax?

On August 4, the City Council approved placing a proposed 1.5% increase to the tax rate paid for telephone, electricity, and natural gas on the November 3 General Election ballot. If approved, the City Council intends to apply the same increase in the tax rate to cable services.

If annexation passes, to whom will I pay property taxes?

You will continue to pay all of your property taxes to the King County Assessor's Office. King County distributes your property tax payments to all of the taxing districts serving your area.

Will I still receive property tax exemptions?

Annexation will not impact an owner's ability to qualify for property tax exemptions. Note that property tax exemption programs are administered by the King County Assessor's Office. Please visit <http://www.kingcounty.gov/Assessor/Exemptions.aspx> for additional information.

Would the amount of my property taxes change upon annexation?

Your property's Assessed Valuation (AV) is determined by the King County Assessor's Office. Assessed Valuation is based on the appraisal of your real and personal property at 100 percent of its true and fair market value. The 2009 Tax Comparison table compares the estimated taxes the owner of a \$495,000 home in the PAA would pay (prior to annexation) compared to the owner of a similar home in the City of Kirkland. The estimated taxes include acceptance of bonded indebtedness by PAA voters.

What is bonded indebtedness?

Bonded indebtedness is debt that has been incurred by a taxing district when the district issues bonds for major capital improvements. The bonds are repaid over twenty or thirty years from property taxes. For example, Kirkland residents voted to approve bonds that were issued for improvements to parks (such as Juanita Beach Park) and a new fire station.

How much would annexation area residents have pay to assume an equal share of Kirkland's existing debt?

The assumption of debt by annexation area residents is subject to voter approval as part of the annexation election. Since annexation area residents would benefit from facilities paid for by the bonds, the City is asking the residents of the annexation area to assume a prorated share of the outstanding debt. In this case, the total tax base supporting the debt would increase so the average taxes for a home in Kirkland would decrease by about \$13 and homeowners in the annexation area would pay about \$32 per year. Even with the additional property tax for debt, the total taxes and fees for the average homeowner in the PAA are still lower in Kirkland than in King County.

See attached 2009 Tax Comparison.

2009 Tax Comparison

King County (Area served by FD #41) vs. Kirkland

Property Tax Comparison			
Rate per \$1,000 of Assessed Valuation			
King County		City of Kirkland	
County Road Levy (Levy Code 7337)	\$1.59	Regular Levy	\$1.03
Fire District #41	0.90	Debt*	0.11
Consolidated (State, Port, County)	3.26	Consolidated (State, Port, County)	3.26
Finn Hill Park District**	0.05	Finn Hill Park District**	0.05
EMS	0.27	EMS	0.27
Lake Washington School	2.23	Lake Washington School	2.23
Hospital District	0.40	Hospital District	0.40
Library District	0.42	Library District	0.40
Flood Control Zone District	0.09	Flood Control Zone District	0.09
Ferry District	0.05	Ferry District	0.05
Total County Levy	\$9.26	Total City Levy	\$7.89
Property Tax on \$495,000 home	\$4,583	Property Tax on \$495,000 home	\$3,906
		Difference City to County	\$(678)
		Rate Difference	\$(1.37)

* Includes fire protection facilities.

** Finn Hill Park District levy only applies to residents within the Finn Hill Park District boundary.

Total Tax Comparison			
Rate per \$1,000 of Assessed Valuation			
	King County	City of Kirkland	Annual Increase or (Decrease)
Property Tax Rate	\$9.26	\$7.89	\$(1.37)
Average Property Tax Paid^	\$4,583	\$3,906	\$(678)
Utility Tax^^/Franchise Fee	\$0	\$409	\$409
Surface Water Fees	\$111	\$170	\$59
Total	\$4,694	\$4,485	\$(210)

^ These figures are based on an average home value of \$495,000 and assume that residents in the PAA would assume Kirkland's outstanding debt; actual property tax rates vary within different areas of the PAA.

^^ Based on current tax rate. Actual utility taxes for PAA residents may be more or less depending on the utility usage. Potential utility tax increase would add \$72 per year to total taxes and fees.